

AB 1797 (Levine) Annual Policy Reassessment

Bill Summary

AB 1797 would require all insurers that write residential property plans to provide an estimate of replacement cost on all new business and also update those estimates during the annual renewal process. For those policies already in existence, an insurer would be required to update a replacement cost estimate at the next policy renewal after this law goes into effect.

Existing Law

Currently, California Code of Regulations Section 2695.183, require that if an insurer communicates a replacement cost estimate to a consumer or applicant, the estimate must be complete and current.

Background

In 2017, California suffered the most deadly and damaging fires in state history. In December, the Department of Insurance announced that the North Bay fires claimed the lives of 44 people and accounted for \$9 billion in residential and commercial losses. These losses account for over 17,000 damaged homes including over 5,000 homes that were completely destroyed in the North Bay alone.

After each major wildfire, insurance related issues arise during the recovery process that negatively impact survivors attempting to rebuild their homes and property. The most common consumer complaint after every major wildfire is underinsurance. Underinsurance is caused when policy limits are not sufficient for disaster victims to rebuild their damaged or destroyed home. This issue is often caused by inaccurate or outdated replacement costs.

As noted above, if an insurer communicates a replacement cost estimate to a consumer, the estimate must be complete and current. However, these regulations do not require an insurance company to conduct a replacement cost estimate or to update those estimates on a

regular basis to keep up with inflation and rising costs over the life of an insurance policy.

Many insurers create replacement cost estimates on new business, but usually only add an inflation factor to those estimates in order to adjust coverage changes for renewing policies.

The Solution

AB 1797 would require all insurance companies that offer residential property coverage to provide an estimated replacement value on all new business and annually thereafter for all renewed insurance policies.

Additionally, for all insurance policies already in effect this bill would require an insurer to provide an estimated replacement value at its next renewal. If an insurer offers this updated replacement value and the policy holder refuses, the insurer will not be held liable after a loss if the policy limits are not sufficient to rebuild the covered property.

This bill would not limit an insurer from agreeing to provide coverage for a policy limit that is greater than or less than an estimate of the replacement value provided in accordance with this bill.

For More Information

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