

SENATE JUDICIARY COMMITTEE
Senator Thomas Umberg, Chair
2025-2026 Regular Session

SB 876 (Padilla)
Version: April 13, 2026
Hearing Date: April 21, 2026
Fiscal: Yes
Urgency: No
AM

SUBJECT

Fire and residential property insurance

DIGEST

This bill makes various changes to how insurers are to indemnify policyholders for covered losses as, provided. The bill also authorizes the Insurance Commissioner (Commissioner) to, in addition to other penalties, order a person who engages in an unfair method of competition or an unfair or deceptive act or practice to provide restitution and if the facts and equity permit, rescission for loss arising from their conduct. The bill also provides that a person who engages in certain unfair methods of competition or unfair or deceptive acts or practices relating to a state of emergency is subject to a civil penalty to be fixed by the Commissioner at no less than \$5,000 but not more than \$10,000 for each act; however, if the act is willful then the civil penalty can be no less than \$10,000 but no greater than \$20,000.

EXECUTIVE SUMMARY

This analysis will focus solely on the provisions of the bill that are in this Committee's jurisdiction, which are the provisions related to authorizing the Commissioner to order a person who engages in an unfair method of competition or an unfair or deceptive act or practice to provide restitution for loss arising from their conduct and the authorization to assess a new civil penalty for committing certain unfair methods of competition or unfair or deceptive acts or practices relating to a state of emergency.

This bill is sponsored by the Insurance Commissioner, Ricardo Lara and is brought to address various issues that have arisen in the wake of wildfires in the state. The bill is supported by several cities and advocacy organizations. The bill is opposed by several organizations representing the insurance industry and the Civil Justice Association of California. The bill passed the Senate Insurance Committee on a vote of 5 to 2. Should the bill pass this Committee, it will then be referred to the Senate Appropriations Committee.

PROPOSED CHANGES TO THE LAW

Existing law:

- 1) Establishes the California Department of Insurance (CDI), which is headed by the Commissioner, to regulate specified insurers and insurance practices in this state. (Ins. Code §§ 100 et. seq.)
- 2) Requires a person who solicits, negotiates, or effects contracts of insurance in this state to hold a valid license issued by the Commissioner, except as provided. (Ins. Code § 1631.)
 - a) Exempts surplus lines brokers from licensing requirements and provides for separate regulation of surplus lines activities (Ins. Code § 1634, §§ 1760-1780, & §§ 1780.50-1780.67.)
- 3) Authorizes the Commissioner to order a person to provide restitution for a loss arising from the person's conduct. If the facts and equity permit, with a restitution order, the Commissioner may issue an order of rescission enforceable on any person subject to the Commissioner's jurisdiction.
 - a) The restitution order must be ancillary to another proceeding authorized by the Insurance Code in which the Commissioner does both of the following:
 - i. determines the respondent violated this code or the standards of conduct applicable to persons acting in the capacity the respondent was acting in or purporting to act in when the loss occurred; and
 - ii. issues an order imposing a cease and desist order, an order for a monetary penalty, or another sanction with respect to the respondent's conduct.
 - b) A rescission or restitution order is subject to judicial review in the same manner and at the same time as the order to which it is ancillary.
 - c) A rescission or restitution order may be judicially enforced in an action brought by the Commissioner, the Attorney General, a district attorney, a city attorney, or any person owed restitution pursuant to the order. In that action, the court may award attorney's fees and court costs to a prevailing plaintiff.
 - d) These provisions do not apply to an insurer authorized to transact business in this state or to a placement of insurance with an insurer that was in compliance with certain non-admitted surplus lines broker requirements.
 - e) These provisions do not apply to a person with respect to acts within the scope of an insurance agent under Chapter 5 (commencing with Section 1621), an administrator under Chapter 5A (commencing with Section 1759), or a surplus lines broker under Chapter 6 (commencing with Section 1760) of Part 2 of the Insurance Code if the person holds that

license at the time of those acts or at the time an initial pleading seeking restitution is issued. (Ins. Code § 12928.7.)

- 4) Authorizes the Commissioner to bring an action in superior court in the name of the people to enjoin any person who the Commissioner believes is violating or is about to violate the Insurance Code, any order issued by the Commissioner, or any rule promulgated by the Commissioner. (Ins. Code § 12928.6.)
- 5) Makes a person who engages in any method of unfair competition or unfair or deceptive acts or practices liable for a civil penalty to be fixed by the Commissioner not to exceed \$5,000 for each act, or if the act or practice was willful, not to exceed \$10,000. (Ins. Code § 790.035.)
- 6) Defines certain acts or practices in the business of insurance as unfair methods of competition and unfair deceptive acts, including, among others, misrepresenting facts or insurance policy provisions relating to any coverage issue, failing to affirm or deny coverage of claims within a reasonable time after proof of loss, and failing to adopt and implement reasonable standards for the prompt investigation and processing of claims. (Ins. Code § 790.03.)

This bill:

- 1) Authorizes the Commissioner to, in addition to other penalties, order a person, including a licensee, who engages in an unfair method of competition or an unfair or deceptive act or practice to provide restitution for loss arising from their conduct.
- 2) Provides that a person who engages in certain unfair methods of competition or unfair or deceptive acts or practices relating to a state of emergency is subject to a civil penalty to be fixed by the Commissioner at no less than \$5,000 but not more than \$10,000 for each act; however, if the act is willful then the civil penalty can be no less than \$10,000 but not greater than \$20,000.
- 3) Requires an insurer under a fire insurance policy to pay the actual cash value associated with the primary structure and other insured structures, within 30 calendar days from the date of loss, or accrue interest payable to the insured when there is a total loss to the insured structure.
 - a) After an actual cash value payment is made, the insurer must pay the undisputed amount of replacement cost associated with the primary structure and other insured structures, up to policy limits, within 30 calendar days of the insured either: obtaining a contract with a licensed contractor to rebuild the insured structure at its original location or at another location, or the date when the insured enters into contract or escrow to purchase a replacement home at another location. If such payments are not made, interest will accrue payable to the insured.

- 4) Provides that in the case of a total loss, if the insured decides to rebuild at a new location or to purchase an already-built home at a new location, the amount of the building code upgrade cost payable under a policy includes all costs as if the insured structure been completely rebuilt at its original location.
- 5) Requires an insurer to provide, either electronically or in hardcopy, a written list of items that the insurer believes may be covered under the policy as additional living expenses if there is a loss under a homeowner's insurance policy for which the insured has made a claim for additional living expenses (ALE).
- 6) Clarifies that ALE coverage under a homeowners' insurance policy includes reimbursement for all reasonable additional expenses incurred by the insured to maintain a comparable standard of living while the insured dwelling cannot be lived in, up to policy limits.
 - a) These additional costs include temporary housing, furniture rental, food, transportation, storage, and boarding of pets.
- 7) Authorizes an insured to choose to collect the monthly fair rental value for the time the insured dwelling is not habitable, rather than seek reimbursement for itemized expenses under a covered loss ALE claim.
 - a) Fair rental value is the amount the furnished insured dwelling could have been rented for at the time of the loss.
- 8) Provides that under a covered total loss relating to a state of emergency, the policy limits for ALE are increased by 100 percent of the policy limits, and that ALE is to be provided both while the insured premises are uninhabitable, and also 15 calendar days beyond the time when the insured can return to the premises in order for them to make necessary arrangements to do so.
- 9) Requires all residential property insurers that provide replacement cost coverage, including the California FAIR Plan, to provide an estimate to the policyholder of the cost necessary to rebuild or replace the insured structure.
 - a) This estimate must be provided every other year at the time an offer to renew a policy of residential property insurance is made to the policyholder. Insurers that do not comply with this requirement will be liable for up to the full replacement cost of the insured property after a loss.
- 10) Makes various changes that apply during a state of emergency, including the following:
 - a) If a licensee receives a written or oral inquiry from CDI concerning a claim, they must immediately, but no more than 15 calendar days of receipt of that inquiry, provide a complete written response based on the

facts as then known, along with any documentation and claim or underwriting files requested.

- b) In the event of a covered total loss of a dwelling resulting from a state of emergency, insurers are required to offer 100 percent of the personal property policy coverage limit without an itemized claim from the policyholder. Payment must be made within 30 days from the date the insured property is determined to be a total loss, with interest accrued and payable to the insured if this timeline is not met.
- c) Allows an insured to combine claims payments for losses up to the policy limits for the primary dwelling, other structures, and contents (personal property) for any of the covered expenses reasonably necessary to rebuild or replace the damaged or destroyed dwelling, if the policy limits are insufficient.

COMMENTS

1. Stated need for the bill

The author writes:

In the aftermath of a disaster, we should all be coming together to figure out, “How can we help?” SB 876 reforms California’s insurance claims process so families can recover quickly and fairly after a disaster. The bill accelerates payments after a total loss, expands building code upgrade coverage, and doubles living expense limits in declared disasters. To hold insurance companies accountable, the bill increases penalties and restitution for claims handling violations during emergencies, and improves adjuster continuity by mandating status updates when adjusters change.

Together, these reforms create a more reliable, accountable insurance system that better supports Californians throughout disaster recovery.

The sponsor of the bill, Insurance Commissioner Ricardo Lara, writes:

[...] California’s wildfire season has become longer, more destructive, and more expensive, leaving thousands of families displaced each year. Many homeowners only discover after a total loss that their insurance coverage is far below the true cost to rebuild. Rising construction costs, and updated building codes have widened the gap between policy limits and actual rebuilding expenses. Survivors also frequently encounter delays in receiving claim payments, which prolongs displacement, increases financial strain, slows community recovery and deepens the long-term impacts of catastrophic events.

Last year, a series of 14 destructive wildfires affected the Los Angeles and San Diego County Regions. Most of the damage occurred because of the Eaton Fire in Altadena

and the Palisades Fire in Pacific Palisades, where more than 12,000 homes were destroyed or damaged. Unfortunately, although climate change has contributed to more severe wildfires and winter storms, decades-old insurance laws have not kept pace. A year later, wildfire survivors have continued to report on-going problems with accessing their insurance benefits with delays, denials, and miscommunication from insurance companies. Underinsurance has become widespread across California, leaving many families unable to rebuild after catastrophic loss.

Replacement cost estimates are frequently outdated or inaccurate, and homeowners are not consistently offered coverage options that reflect real rebuilding costs. Building code upgrades required during reconstruction are often not fully covered, creating unexpected financial gaps. Survivors also face delays and fragmented claim payments that slow recovery, increase out-of-pocket expenses, and prolong displacement. These systemic issues undermine the stability of families and communities following disasters.

SB 876 addresses these challenges by requiring insurers to provide accurate and regularly updated replacement cost estimates and to offer extended and guaranteed replacement cost coverage options that better reflect actual rebuilding costs. This bill strengthens building code upgrade coverage to ensure that homeowners can rebuild safely and in compliance with modern standards. It also establishes firm timelines for issuing actual cash value and replacement cost payments, improving transparency and consistency in claim handling. Together, these reforms reduce underinsurance, accelerate recovery, and support long-term community resilience. [...]

2. Restitution and rescission

In 2022, the Legislature enacted SB 1040 (Rubio, Ch. 540, Stats. 2022) to authorize the Commissioner to order an unlicensed person who violates the laws relating to transacting insurance in this state to provide restitution and, if the facts and equity permit, rescission for a loss arising out of that person's conduct. SB 1040 provided that the restitution order must be ancillary to another proceeding authorized by the Insurance Code in which the Commissioner does both of the following: (a) determines the respondent violated this code or the standards of conduct applicable to persons acting in the capacity the respondent was acting in or purporting to act in when the loss occurred; and (b) issues an order imposing a cease and desist order, an order for a monetary penalty, or another sanction with respect to the respondent's conduct. A rescission or restitution order is subject to judicial review in the same manner and at the same time as the order to which it is ancillary. Any such order is judicially enforceable in an action brought by the Commissioner, the Attorney General, a district attorney, a city attorney, or any person owed restitution pursuant to the order. A court may award attorney's fees and court costs to a prevailing plaintiff in such an action. SB 1040

specifically excluded licensed insurance agents, administrators, and surplus lines brokers from its provisions.

This bill would expand upon SB 1040, by authorizing the Commissioner to order a restitution order or rescission against a licensee that is found to have engaged in certain unfair methods of competition or unfair or deceptive acts or practices in addition to any other penalties that can be assessed against a licensee. The bill also provides that a person who engages in certain unfair methods of competition, or unfair or deceptive acts or practices relating to a state of emergency, is subject to a civil penalty to be fixed by the Commissioner at no less than \$5,000 but not more than \$10,000 for each act, except that if the act is willful then the civil penalty can be no less than \$10,000 but not greater than \$20,000.

3. Stakeholder statements

United Policyholders, a supporter of the bill, writes:

[...] This bill builds on previous efforts to prevent underinsurance - a problem that continues to impede rebuilding and rehousing after every California wildfire, despite previous legislative and regulatory reforms and extensive consumer outreach and education by United Policyholders, the CA Department of Insurance and other stakeholders.

While pre-2025 United Policyholders' R2R surveys showed that % of wildfire survivors found themselves without sufficient dwelling insurance limits to replace the home they had, that figure is even higher in the aftermath of the LA wildfires. Only 7% of the impacted households who completed UP's 12-month Roadmap to Recovery survey reported that they have enough insurance to replace what they lost. The problem is getting worse, not better.

Policyholders are not generally experts in construction costs, so they rely on insurance experts (insurers, agents and brokers) to recommend coverage that's adequate to the replacement cost value of their assets. By contrast - insurance companies pay claims all over the country on a regular basis, and are well aware of construction costs and the fact that inflation and other factors have caused materials and labor costs to jump. Insurers have the knowledge to calculate a home's replacement cost value and that responsibility should be on them. For a variety of reasons, they continue to direct their sales representatives to use replacement cost calculators that chronically set dwelling limits too low. We need to fix this chronic problem.

Requiring that all insurers selling home insurance (including the FAIR Plan) must prepare a complete dwelling replacement cost estimate (at the point of sale and every other year after that) should make a significant dent in the underinsurance problem.

Requiring that insurers offer a 50% Extended Replacement Cost Coverage endorsement at the point of sale will absolutely help prevent underinsurance. Requiring the offer to be made, while giving people outside wildfire-prone areas the chance to decline the offer and avoid paying for that extra protection is a fair compromise. We strongly support this provision. We are confident that the logistics of requiring that the endorsement to spring up automatically in the event of major loss even where the policyholder did not purchase the coverage will be reconciled during bill negotiations. (Section 9, Section 10103.2 (e).)

There have been (and continue to be) many wildfire survivors who find themselves underinsured because they relied on the professional expertise of an agent, broker and/or insurer. Some have initiated litigation to remedy their situation. Many have prevailed, but only in closed door settlement negotiations, so case law remains out of step with the reality of how insurance limits are actually being set.

SB876 bill clarifies that insurers must use their expertise to recommend adequate dwelling limits. It remains the consumer's right to reject higher limits if they so choose, but at a minimum they have the right to know what insurers know about construction costs and be able to rely on the expertise of insurance professionals to adequately protect what for most people is their most valuable asset.

This bill will also help prevent underinsurance by expressly allowing total loss disaster survivors to do what many are already doing: Apply some of their "Contents" (personal property) benefits toward their rebuilding budget. Current CA law allows disaster survivors to apply "Other Structures" coverage funds toward their dwelling rebuild. This bill will give them the clear additional right to also use Contents benefits for that purpose. Not the ideal, but a strategy many people need to be able to use when they find their dwelling underinsured. [...]

A coalition of organizations that represent the insurance industry (the trades) and the Civil Justice Association of California, write in opposition stating:

[...] Among the many notable aspects of SB 876 is a proposal to change the rules, again, regarding insurers' use of team-based adjusters to address massive workload increases. During catastrophes, insurers often receive years' worth of claims volume in a matter of months. In these circumstances, reassignment of claims personnel is not a sign of neglect, but a necessary tool to surge capacity, bring in specialized expertise, and prevent claim backlogs.

Penalizing reassignment or imposing rigid notice and reporting timelines during emergencies risks discouraging insurers from deploying additional resources when they are most needed. Ironically, these provisions could slow down claim resolution, reduce flexibility to respond to rapidly changing conditions, and ultimately harm the very consumers they are intended to protect.

SB 876 also substantially expands administrative penalties and restitution authority in ways that raise serious due process and market stability concerns. The bill automatically escalates penalties for alleged unfair practices during a declared state of emergency, regardless of whether the conduct caused actual consumer harm, and authorizes restitution untethered from demonstrated financial loss.

Taken together, these provisions transform emergency declarations into automatic penalty multipliers and risk converting technical or good-faith compliance issues into high-stakes enforcement actions. Expanding restitution authority without clear standards for causation, materiality, or harm effectively creates a parallel damages regime outside the courts, increasing litigation risk and uncertainty at precisely the moment when insurers are managing unprecedented claim volumes. When combined with expanded penalty authority, SB 876 risks turning routine catastrophe claims decisions into enforcement exposure.

At a time when the market is already unstable, the provisions of SB 876 significantly inflate claim severity, deplete cash reserves, reduce fraud controls, and impose outsized administrative penalties – breaking the connection between priced limits and actual exposure. By decoupling coverage from underwriting and rating, without any mechanism for expedited rate relief, the bill creates substantial retroactive exposure during catastrophes when capital is already strained. This risk is especially acute in wildfire-prone regions, where demand surge is extreme and reinsurance capacity is limited. Rather than improving affordability or access, the bill would make coverage more expensive for all Californians and deepen the challenges facing the private market. [...]

SUPPORT

Insurance Commissioner, Ricardo Lara (sponsor)

AARP

California Environmental Voters

City of Laguna Beach

City of Los Alamitos

City of Los Angeles

United Policyholders

OPPOSITION

American Property Casualty Insurance Association

Civil Justice Association of California

National Association of Mutual Insurance Companies

Pacific Association of Domestic Insurance Companies

Personal Insurance Federation of California

RELATED LEGISLATION

Pending Legislation: SB 1206 (Comm. on Insurance, 2026) makes various changes to the Insurance Code related to the regulation of the business of insurance. SB 1206 is currently pending in the Senate Insurance Committee.

Prior Legislation: SB 1040 (Rubio, Ch. 540, Stats. 2022) authorized the Commissioner to order an unlicensed person who violates the laws relating to transacting insurance in this state to provide restitution and, if the facts and equity permit, rescission for a loss arising out of that person's conduct, as provided. (See Comment 2)

PRIOR VOTES

Senate Insurance Committee (Ayes 5, Noes 2)
