

What Insurers Need To Know About 2 New California Laws

By **Lucy Wang** (October 6, 2026, 5:56 PM EDT)

California's insurance market has spent the last several years adapting to a new reality. Catastrophic wildfires, larger and more complex claims, coverage availability concerns, and heightened scrutiny of insurer practices have prompted regulators and lawmakers to revisit how insurers prepare for, respond to and recover from major loss events.

Against that backdrop, Gov. Gavin Newsom recently signed two measures that address different aspects of the insurance regulatory framework. On Sept. 27, Newsom signed S.B. 876, the Disaster Recovery Reform Act. Three days later, he signed S.B. 1209, the Insurance Examination Compliance and Accountability Act.



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Although the bills address different subjects, both are aimed at a common objective: improving accountability within California's insurance system.

S.B. 876 focuses primarily on disaster preparedness and catastrophe claims handling. S.B. 1209 addresses what happens when the California Department of Insurance, or CDI, identifies violations through a financial or market conduct examination and directs an insurer to take corrective action. Together, the laws reflect a broader emphasis on preparation, transparency and remediation.

S.B. 876: Preparing for the Next Catastrophe

S.B. 876 grew out of concerns that surfaced after the January 2025 Los Angeles wildfires. Although, according to a May CDI press release, insurers paid over \$23 billion in claims as of March 3, many policyholders encountered the same issues: underinsurance, changing adjusters, inconsistent communications and a recovery process that often took longer than expected.

Rather than focusing on a single claims-handling issue, the legislation addresses what happens before, during and after a catastrophe claim. Most provisions take effect Jan. 1, 2028, giving insurers time to prepare.

Wildfire Disaster Plans

One of the more significant changes under S.B. 876 is the requirement that residential property insurers submit disaster response plans to the CDI. By April 1, 2028, insurers must file plans addressing staffing, policyholder communications, adjuster deployment, training, claims tracking and continuity of operations, and update them every two years.

For the first time, California law requires that catastrophe plans will now be documented and on file with regulators.

The requirement is also consistent with recent regulatory trends. California increasingly expects insurers to identify risks, develop plans to address them, and provide those plans to regulators before a crisis occurs. Whether the issue is solvency, climate risk or catastrophe response, regulators appear to be placing greater emphasis on demonstrating preparedness rather than evaluating it only after problems emerge.

Thus, when questions arise regarding claims delays, staffing shortages or communication breakdowns, insurers should expect regulators to compare what actually occurred against what the company's response plan contemplated. The most effective plan will not necessarily be the most ambitious one. It will be the one the insurer can realistically implement under catastrophe conditions.

Underinsurance and Communication Remain Central Concerns

The legislation also addresses two issues that repeatedly surfaced after last year's wildfire losses: underinsurance and policyholder communication.

To address underinsurance, insurers must offer extended replacement cost coverage and expanded additional living expense coverage in specified circumstances, and document when policyholders decline those options. The goal appears to be ensuring that coverage decisions are made before a loss occurs, rather than becoming a point of dispute afterward. For insurers, that makes documentation of offers and declinations particularly important.

The law also seeks to improve continuity during the claims process. Following a large catastrophe, insurers often need to reassign files and bring in additional adjusting resources. While that may be operationally necessary, policyholders frequently experience the process as fragmented when adjusters change and information does not follow the claim.

S.B. 876 does not prevent insurers from reallocating personnel. It does, however, require designated points of contact and additional status reporting in certain circumstances. The larger message is that continuity and communication are increasingly being viewed as core components of catastrophe response rather than customer service enhancements.

Increased Consequences for Claims-Handling Violations

S.B. 876 increases penalties for certain unfair claims settlement practices relating to declared emergencies and authorizes the insurance commissioner to order restitution in specified circumstances following an administrative proceeding. The law does not create a private right of action, but it does increase the potential consequences when regulators conclude that claims-handling violations have occurred.

For insurers, the significance may be less about the amount of any individual penalty than about the exposure that can arise when the same issue affects large numbers of claims during a declared emergency.

In regulatory matters involving claims practices, the question is often not whether a problem occurred in a particular claim file, but whether it reflects a broader pattern. A recurring communication problem, documentation issue or claims-handling practice can look very different when viewed across hundreds or thousands of catastrophe claims rather than in isolation.

The practical focus should therefore be on identifying and addressing issues early, before they develop into broader patterns.

The final legislation does reflect a degree of compromise. Insurer groups raised concerns regarding catastrophe-response obligations, claims-handling timelines, restitution authority and implementation burdens.

While not every concern was addressed, the Legislature narrowed certain provisions, retained administrative enforcement rather than creating new private causes of action, and delayed implementation until 2028. At this point, many of the unresolved issues have less to do with the text of the bill and more to do with how the CDI interprets and administers it going forward.

S.B. 1209: What Happens After an Exam

Market conduct and financial examinations are how the CDI determines whether insurers are complying with California law. The most significant findings are usually not technical reporting issues or administrative oversights. They are the findings that affect consumers.

Were claims underpaid? Were policyholders charged the wrong rate? Were people denied coverage or benefits to which they were entitled? Those are the issues regulators are most interested in correcting.

Historically, the examination process generally concluded when the CDI adopted the final report, after the insurer has had an opportunity to respond. Most insurers addressed examination findings voluntarily, and some examinations resulted in separate enforcement actions when regulators believed additional intervention was warranted.

S.B. 1209 is meant to ensure that corrective actions actually get completed and that the same issues do not keep showing up in future examinations.

Under the new law, insurers must take corrective action to address violations identified during an examination. If the corrective action is not completed within the time frame agreed upon with the CDI, the insurer may face penalties of up to \$20,000 for each failure to take corrective action, measured by category.

Insurers may request additional time for good cause, but the CDI may deny those requests if it concludes they were not made in good faith or there has not been a good faith effort to comply. Enforcement proceeds through an order-to-show-cause process and administrative hearing under the Administrative Procedure Act.

In many respects, the examination findings are still the examination findings. What changes under S.B. 1209 is the significance of what happens after the report is issued. Corrective action plans, implementation timelines and remediation efforts may now receive the same level of attention as the underlying findings themselves.

The examination response process takes on added importance as well, since it may be the insurer's best opportunity to challenge findings, narrow corrective action obligations or negotiate realistic implementation timelines before those findings become the basis for enforceable obligations.

Looking Ahead

What S.B. 876 and S.B. 1209 share is that they both address accountability.

S.B. 876 focuses on the life of a catastrophe claim, from disaster preparedness to policyholder communications and claims handling. S.B. 1209 focuses on what happens after regulators identify compliance concerns. Together, they reflect a similar theme: preparation before problems arise, transparency while they are being addressed, and meaningful remediation afterward.

As with many California insurance reforms, some of the most important questions are unlikely to be answered by the statutory language alone. Many will be resolved through implementation, guidance, examinations, and enforcement proceedings over the next several years.

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