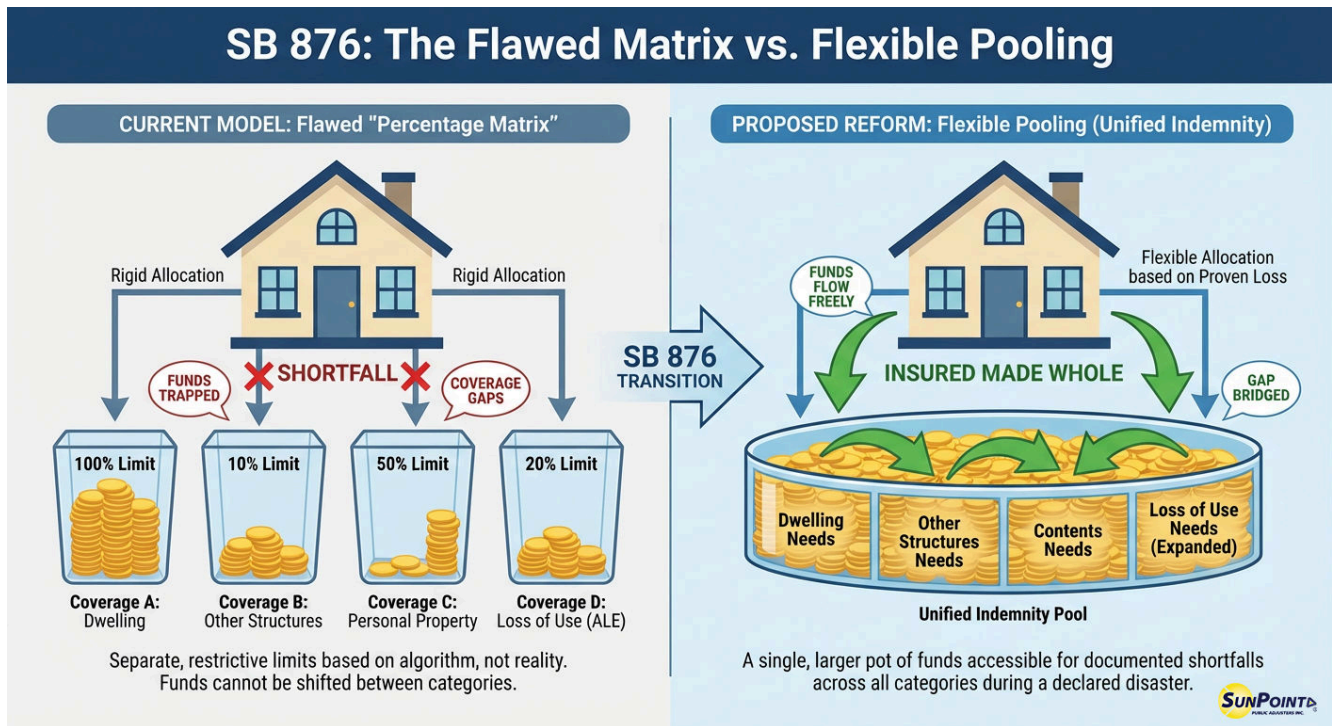


While we are in favor of Senate Bill 876, we think with some minor changes it can be strengthened.



## California Senate Bill 876 – 2026

### A Public Adjuster Clinical Analysis and Reform Framework

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March 2026

#### 1. Overview of Senate Bill 876

Senate Bill 876 represents a meaningful legislative effort to modernize disaster recovery standards within California's "Homeowner Insurance" framework. The bill seeks to

strengthen consumer protections following declared catastrophes by addressing payment timelines, Total loss coverage mandates, Additional Living Expense / Loss of Use (ALE /LOU) limits, coverage flexibility, and administrative continuity.

Key provisions of SB 876 as proposed include enhanced Loss of Use protections, improved insurance carrier adjuster continuity requirements, and structural reforms intended to prevent “delay tactics” in total-loss scenarios. The bill acknowledges the operational strain placed on both carriers, and policyholders during large-scale disasters.

While the proposed framework advances important consumer protections, further refinements can enhance its long-term viability – ensuring the legislation remains balanced, underwrite-able, and equitable for both the insured public and the insurance industry.

## **2. Where SB 876 is Structurally Strong**

- **Enhanced Additional Living Expense / Loss of Use Protections:** Expanding ALE/LOU limits both monetarily and in time, reduces potential financial leverage created by prolonged displacement from a potentially deliberate protracted adjustment process.
- **Recognition of Disaster-Specific Pressure:** The bill acknowledges that declared catastrophes create a fundamentally different claims environment requiring more “tailored” protections.
- **Administrative Accountability:** Adjuster continuity requirements limit “claim reset” tactics and protect prior agreed valuations.
- **Improved Payout Timeline Standards:** Establishing clearer release expectations for undisputed funds promotes recovery stability.

## **3. Clinical Analysis and Recommended Refinements**

Modern homeowners’ insurance is built upon an administrative “Percentage Matrix” - a series of coverage limits (e.g., 50% for contents, 10% for other structures) designed for underwriting efficiency rather than individual reality. While SB 876 makes significant strides toward consumer protection, the industry requires a deeper transition toward a **Unified Indemnity Model**. This assessment evaluates the bill’s provisions and proposes critical refinements to ensure that “the pot to draw from” truly makes the insured whole without becoming a tool for carrier-driven delay.

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## I. The Fallacy of the "Percentage Matrix"

Standard policies assign percentages to secondary coverages (Coverages B and C) as a baseline. However, this is a ceiling, not a valuation.

- **The Proof of Loss Standard:** We are **not** in favor of a mandatory 100% payout of contents (Coverage C) simply because a disaster has occurred. Such an automatic payout creates the potential for "profiting from a loss," which unintentionally drives up insurance costs for the entire risk pool. The burden of proof—a documented inventory—must remain to protect the integrity of the contract.
- **The Principle of Indemnity:** Fairness is a two-way street. A carrier should not pay **\$500,000** for a **\$2,000** sofa (avoiding profit from loss), but they should also not pocket premiums for an unused Coverage B limit when a homeowner has a documented shortfall in Coverage C.
- **Mandatory Disclosure:** To reach a fair resolution, policies must include a bold disclosure notifying policyholders that these limits are derived via algorithm, not appraisal.

## II. Functional Utility and the Disaster-Declared "Pooling" Option

While SB 876 addresses payment combinations, we must strike a balance between carrier risk and insured necessity.

- **Disaster-Specific Reallocation:** We suggest that the "pooling" or "merging" of coverage categories be reserved specifically for **declared disasters**.
- **Balancing the Burden:** On day-to-day claims, the standard division of coverage remains appropriate to prevent carriers from being unduly burdened with creating "blanket coverages" for every minor loss. However, after a disaster, the sheer volume of claims inevitably bottlenecks the recovery process. Implementing a mechanism to "pool" funds during these events allows the insured to bridge documented shortfalls in one category with surpluses in another—**based strictly on the proven value of the loss**—without increasing the carrier's total underwritten exposure.

## III. Strategic Agency and Non-Dictation of Funds

Once a loss is measured and the value of damage is established, the carrier's role as a "project manager" should end.

- **The Right to Reallocate:** As a project evolves, the insured must have the flexibility to shift funds between line items (e.g., prioritizing better roofing over interior trim) without the carrier "clawing back" funds.
- **The ACV/RCV Bridge:** The carrier must **pay based on the "full value" (RCV)** of the loss. **As long as the insured is rebuilding or**

**"replacing"** their life and property and incurring the cost to do so, the "pot" should be accessible to bridge the gap between initial payments and project completion.

#### **IV. "Phantom Costs" and the Insured's Timing Option**

Debris removal and code upgrades are volatile costs mandated by third parties. SB 876 applies code upgrades at the time of rebuild, but we propose a more flexible refinement.

- **The Timing Option:** The valuation for Mandatory Code Upgrades (Ordinance or Law) should be at the **sole option of the insured**. An insured should be able to elect a valuation based on the **Time of Loss** (for immediate negotiating liquidity) or the **Time of Rebuild/Replacement** (to protect against regulatory changes during construction).

#### **V. Leveraging Coverage D to Counteract Strategic Delay**

Time is often used as a weapon against displaced families. SB 876 correctly proposes doubling Additional Living Expense (ALE) limits during disasters.

- **Curbing Delay Tactics:** By doubling the financial exposure of the carrier the longer a claim remains open, we stop the clock on the "delay and wear down" tactic. If a carrier uses technicalities to stall a repair scope, the meter keeps running at 200% capacity on their end.

#### **VI. The 50% Mandatory Disaster Increase (Coverage A)**

To combat "Demand Surge"—the spike in costs after a catastrophe—we support a mandatory 50% increase in Coverage A following a declared disaster. This provides the essential safety net needed when market forces move faster than a standard policy's inflation guard.

#### **VII. Right-Sizing the "Bridge": ERC vs. GRC**

Guaranteed Replacement Cost (GRC) is a double-edged sword that exposes carriers to uncapped risk. To maintain a healthy insurance market, we must distinguish between standard and unique risks.

- **A. The 50–100% Extended Replacement Cost (ERC) Standard:** For the majority of "standard" or tract-style homes, the most equitable solution is a properly evaluated base coverage supplemented by a **50–100% Extended Replacement Cost** option.
- **B. The Disclosure of Choice:** To ensure "Informed Consent," carriers should provide a clear disclaimer:

**REPLACEMENT COST SELECTION NOTICE:** Please be advised that "Extended Replacement Cost" (up to 100% of your dwelling limit) is intended to provide a robust safety net for standard reconstruction. For unique, historic, or high-value architectural properties, a "Guaranteed Replacement Cost" option may be available at an additional premium. Selecting the correct bridge is vital to ensuring you are not over-paying for uncapped coverage that may not be necessary for your specific dwelling type.

- **C. Protecting the "Risk Pool":** By steering standard homes toward the 100% ERC model rather than GRC, the carrier can maintain a more predictable risk pool, preventing "premium creep" across the entire book of business.

## **VIII. Administrative Accountability and the Interest "Hammer"**

The doctrine is only as strong as its enforcement.

- **Adjuster Continuity:** We support the SB 876 mandate for a status report within **5 business days** of a new adjuster assignment. Any prior valuations established by the previous adjuster must remain binding to prevent "administrative reset" tactics.
- **The 30-Day Rule:** All undisputed ACV funds must be released within **30 days** of a total loss. Failure to do so should trigger a mandatory **20% interest penalty**, ensuring the recovery is funded in real-time.

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## **Conclusion**

True fairness in the insurance market requires moving away from rigid, one-size-fits-all compartments toward a system of **Informed Consent** and **Flexible Indemnification**. By merging coverage categories during disasters, granting policyholders the option on code valuation timing, and doubling ALE during catastrophes, we ensure that insurance remains a reliable backstop for Californians, not a maze of roadblocks.

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