

Date of Hearing: June 26, 2024

ASSEMBLY COMMITTEE ON INSURANCE

Lisa Calderon, Chair

SB 370 (Gonzalez) – As Amended June 10, 2024

SENATE VOTE: Vote not relevant

SUBJECT: California FAIR Plan Association

SUMMARY: Requires an agent or broker to provide a person seeking basic property insurance coverage with information regarding the California Department of Insurance (CDI) Home Insurance Finder.

EXISTING LAW:

- 1) States that the Fair Access to Insurance Requirements (FAIR) Plan was established to assure stability, to assure the availability, to encourage maximum use, and to provide for equitable distribution among admitted insurers of the responsibility for insuring qualified property for which basic property insurance cannot be obtained through the normal insurance market. (Insurance (Ins) Code, Section 10090)
- 2) Specifies that rates for the FAIR Plan shall not be excessive, inadequate, or unfairly discriminatory, and shall be actuarially sound so that premiums are adequate to cover expected losses, expenses and taxes, and shall reflect investment income of the plan. (Ins. Code, Section 10100.2)
- 3) Requires the Insurance Commissioner to establish the California Home Insurance Finder on CDI's website. The purpose of the finder is to connect homeowners in need of insurance assistance to an insurance agent or broker to assist in finding residential property insurance. (Ins. Code, Section 10095.7)
- 4) Requires an insurance agent or broker transacting basic property insurance to assist a person in obtaining basic property insurance coverage by any one of the following methods:
 - a) Making an application for insurance through the plan by submitting an application at the person's request; or,
 - b) Providing the person with the FAIR Plan's Internet Web site address and the toll-free telephone number; or,
 - c) Making an application for insurance, at the person's request, and placing that person with or through an insurer that offers, or a surplus line broker that procures basic property insurance coverage. (Ins. Code, Section 10095.5)

FISCAL EFFECT: Unknown

COMMENTS:

- 1) *Purpose:* According to the author: “As California’s insurance market continues to bear the severe impacts of extreme weather and wildfire destruction across the state, homeowners must be aware of all the tools at their disposal to help get the insurance coverage they need. SB 370 enhances the public’s awareness of available insurance coverage options by requiring insurance agents and brokers to provide homeowners with information on the existing California Home Insurance Finder Tool when they provide information about the FAIR Plan. By bridging this gap of information, SB 370 will help ensure homeowners are empowered to make better-informed decisions to meet their insurance needs.”
- 2) *Background:* The FAIR Plan is an “association” of all licensed insurance companies by CDI that provides basic property insurance in California. It was created in 1968, following urban disturbances, notably the Watts Riots in Los Angeles.

Simply stated, the purpose of the FAIR Plan is to be the “insurer of last resort” for “basic” property insurance in the event of a market failure. At inception, that was essentially urban commercial property. Ultimately, it has expanded to include homeowners’ insurance anywhere in the state, provided that the insurance “cannot be obtained” in the normal manner in the market. The FAIR Plan is not intended to compete with the voluntary market.

The FAIR Plan was established to ensure that urban property owners, mostly businesses, would have “fair access” to the property insurance necessary to continue to operate in a market that insurers viewed as too risky to cover. That risk evaluation resulted in a substantial market withdrawal by insurers from the urban property market. Despite its initial creation as an urban/business “insurer of last resort,” the FAIR Plan expanded to provide coverage in “designated” brush fire regions of the state. It operated fairly well in this manner until the mid-1990’s, when, as a consequence of the genuine homeowners’ insurance crisis that followed the Northridge earthquake in 1994, the entire state was designated as the appropriate FAIR Plan coverage region.

By statute, the FAIR Plan policy is not as broad as traditional homeowners’ policies, it is nonetheless a fully sound and guaranteed policy that satisfies lenders’ security requirements and protects the property against the primary risk factor faced by homeowners, which is fire. Other coverages are readily available in the market (typically through the purchase of a “difference-in-conditions” or “DIC” policy), which provides wraparound coverage that, coupled with a FAIR Plan policy, results in the same protection provided by a standard homeowner’s policy. Because the FAIR plan’s role is to provide coverage when the regular market won’t, it is not the role of the FAIR Plan to provide DIC policies when there is a healthy market for those policies.

- 3) *California Home Insurance Finder Tool:* The Home Insurance Finder Tool was created via statute in 2018 (AB 1875 Wood). The measure tasked CDI with creating and maintaining this consumer tool. In response to increasing reports of homeowners being declined coverage or not having their existing coverage renewed, more attention has been focused on how to connect homeowners with insurers offering coverage in their area. The insurance finder tool was inspired by a group in Placer County that built an online database of insurers offering coverage to homes in their area to help local homeowners find coverage without conducting

their own search. The home insurance finder is intended to help homeowners navigate a changing insurance market.

- 4) *Related Legislation:* AB 1844 (Calderon) This bill requires the Speaker of the Assembly and the Chairperson of the Senate Committee on Rules to serve as nonvoting, ex officio members of the governing committee, and would authorize each to name a designee to serve in their place. Pending before the Senate Insurance Committee.

AB 2260 (Calderon) This bill requires the FAIR Plan, until December 31, 2027, to quarterly provide specified information about policies and clearinghouse program progress to the relevant policy committees of the Legislature and to post the information on the association's public internet website. Pending before the Senate Insurance Committee.

- 5) *Previous Legislation:* AB 1875 (Wood) (Chaptered by Secretary of State, Chapter 629, Statutes of 2018) Required CDI to develop a homeowner's insurance finder tool.

SB 1302 (McGuire) (Chaptered by Secretary of State. Chapter 543, Statutes of 2016) Required insurers admitted to sell property insurance in the state to provide the FAIR Plan Internet Web site address and statewide toll-free telephone number to an applicant for insurance who is denied coverage, or a policyholder whose policy is canceled or non-renewed; required the FAIR Plan to establish and maintain an Internet Web site through which a person may receive information and assistance in applying for insurance; required an insurance agent or broker transacting basic property insurance to assist a person in making an application for insurance through the FAIR Plan, another insurer offering coverage, or provide the person with the FAIR Plan Web site and phone number.

- 6) *Gut and amend:* This measure was substantially amended on June 10, 2024 and the contents are now in the purview of the Assembly Insurance Committee. Should the contents evolve further, the committee retains the right to call the bill back.

REGISTERED SUPPORT / OPPOSITION:

Support

None on file.

Opposition

None on file.

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