California FAIR Plan Residential Clearinghouse Hearing Testimony
Assembly Insurance Committee – Outcome Review of AB 3012

Chair and Members of the Committee, thank you for the opportunity to testify today. My name is Mark Sektnan and I am Vice President of State Government Relations for the American Property Casualty Association. APCIA is the leading national trade association representing over 1200 companies who write all lines of property and casualty insurance.

I. Context: Growth of the California FAIR Plan
California's FAIR Plan was designed as an insurer of last resort—a temporary safety net for property owners who cannot obtain coverage in the voluntary market. In recent years, however, the FAIR Plan has experienced extraordinary growth. That growth raises concerns not only for the Plan itself, but for the broader insurance market and ultimately for consumers.

A growing residual market concentrates risk, increases assessment exposure for insurers, and signals stress in the admitted market. The Legislature recognized this risk when it enacted **AB 3012 in 2020**, creating a residential clearinghouse intended to reconnect FAIR Plan policyholders with the private market. That was an appropriate policy objective.

The key question before this Committee today is whether California's clearinghouse, as implemented, is working in practice.

II. Insurer Perspectives on California's Clearinghouse Program
From an insurer perspective, California's clearinghouse remains largely **voluntary, manual, and constrained by market realities**.

The clearinghouse allows admitted insurers to review FAIR Plan risks and make voluntary offers through the agent or broker of record. Broker participation, while encouraged, is difficult to enforce and can create operational friction. The program does not permit forced transfers, and insurer participation is voluntary—which we support—because sustainable depopulation depends on insurers assuming risks they can prudently underwrite, price, and retain over time. Voluntary participation ensures that take-out decisions are aligned with underwriting standards, capital capacity, and long-term risk appetite.

Since it's establishment, the clearinghouse has been expanded and refined through additional legislation and regulatory actions, including its extension to commercial lines. However, insurers report that these expansions have not meaningfully increased depopulation because they do not address the binding constraints that determine whether insurers can responsibly assume risk. Those constraints include persistent rate adequacy relative to underlying risk and limits on underwriting capacity driven by capital and reinsurance considerations. In this context, the issue is not a lack of interest in

depopulation, but the absence of conditions necessary for sustained private-market participation.

III. Lessons from Other States: What Actually Keeps Residual Markets Small
Other states offer a clear lesson: clearinghouses can help, but they are not the primary driver of depopulation. Residual markets shrink when entry is constrained, premiums are appropriate, and private coverage is meaningfully favored.

States that have kept their FAIR Plans small rely on a consistent set of guardrails:
- Eligibility tied to the absence of private market options;
- Premium differentials that prevent the residual market from underpricing risk;
- Mandatory acceptance of reasonable private offers; and
- Structural limits on coverage, even as policy forms evolve.

Florida and Louisiana illustrate different applications of these principles. Florida pairs a clearinghouse with mandatory movement and rate discipline. Louisiana relies more heavily on pricing and eligibility controls, accepting slower depopulation.

Florida demonstrates how depopulation accelerates when market signals are clear and rules are enforceable. Louisiana offers a contrasting example, emphasizing pricing discipline and incentives over speed.

Texas and other states avoid formal depopulation altogether by enforcing strict eligibility and limited coverage. The common thread is not program design, but market signals.

IV. Key Obstacles in California's Clearinghouse
From an insurer perspective, California's clearinghouse remains constrained by three practical realities.

- First, **rate adequacy**: when FAIR Plan premiums are materially lower than actuarially sound admitted-market rates, policyholders have little economic incentive to leave the FAIR Plan for more expensive private coverage, even when insurers are willing to make offers. In that circumstance, depopulation will stall.
- Second, **operational friction**: insurers receive limited underwriting data through the clearinghouse and must coordinate through brokers, slowing decisions and limiting scalability.
- Third, **misaligned incentives**: brokers play a central role but receive no compensation for clearinghouse activity.

The result has been limited and episodic policy movement—not because insurers oppose depopulation, but because the current structural underpricing and process constraints limit both insurer offers and policyholder acceptance.

VI. Agent Appointments and Compensation
Florida's experience also underscores the importance of aligned agent incentives. As depopulation accelerated, agents risked losing customers and renewal commissions when policies were assumed by insurers that did not appoint them. Florida addressed this by allowing limited appointments so the agent of record could continue servicing the policy[i].

California already requires clearinghouse activity to occur through the broker of record. While Florida's depopulation framework demonstrates that aligned incentives and clear rules can produce meaningful policy movement, California's market structure differs in ways that warrant caution before importing Florida's approach wholesale. Florida's take-out market has historically been supported by state-based or regional insurers operating primarily through independent agents and mono-line property writers, which facilitates limited appointments and agent-driven transfers. [ii]

By contrast, California's homeowners market is dominated by large, national, multi-line insurers that operate through exclusive or tightly controlled agency systems and manage risk on a portfolio-wide basis.[iii] In that environment, mechanisms designed for a broker-centric, mono-line market may not translate cleanly and could introduce operational and distribution conflicts without producing the same depopulation results. The issue is not whether Florida's model "works," but whether its structural assumptions align with California's market realities. For that reason, our members support learning from Florida's experience, but believe California's clearinghouse should be evaluated and refined based on its own market composition rather than by direct replication.

VII. Closing Observations
In closing, experience across states demonstrates a consistent lesson: clearinghouses can help reconnect policyholders to the private market, but they cannot compensate for upstream policy choices that drive residual market growth.

California's challenge is not whether clearinghouses work, but whether its clearinghouse is supported by:

- **Actuarially sound FAIR Plan rates**, so policyholders have a meaningful incentive to transition back to the private market;
- **Clear and predictable clearinghouse mechanics**, including pricing alignment, data availability, and voluntary participation rules that allow insurers to responsibly assume and retain risk;
- **Aligned incentives for insurers, agents, and brokers**, so participation is operationally feasible at scale; and
- **A policy and regulatory environment that supports private market participation**, and avoids changes that inadvertently expand reliance on the FAIR Plan.

The most effective path to depopulation is restoring a healthy, competitive private market. California has taken important steps in that direction. Now it is essential to give those

reforms time to work, evaluate where they fall short, and avoid actions that inadvertently expand the residual market further.

Thank you for the opportunity to share these perspectives. I look forward to your questions.

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[i] **Limited agent appointment requirement for take-out insurers.** Florida law authorizes and governs the participation of agents in Citizens depopulation and clearinghouse programs, including provisions addressing agent relationships and appointments in connection with take-out offers. See *Fla. Stat. § 627.3518(4), (7)(c)–(d)*; *Citizens Property Insurance Corporation, Depopulation and Clearinghouse Program materials*. These provisions permit take-out insurers to enter into **limited agency appointments** to allow continued servicing of assumed policies.

[ii] **Distribution model differences and exclusive agency systems.** Industry analyses of the California property insurance market describe a distribution landscape in which many leading carriers rely on exclusive or highly restricted agency relationships, limiting the feasibility of Florida-style limited-appointment mechanisms without broader market engagement. See *Actuarial Review Magazine, "State of the California Property Market"* (Feb. 29, 2024). https://ar.casact.org/state-of-the-california-property-market/

Appendix A: Florida Citizens Depopulation Program

Overview

Florida operates the largest and most active residual-market depopulation program in the country through Citizens Property Insurance Corporation. The program is structured, rules-based, and supported by explicit statutory authority.

Key Structural Features

- Mandatory movement: When a private insurer offers comparable coverage within a defined premium threshold - authorized private insurer offers comparable coverage at a premium no more than 20% higher than the Citizens renewal premium
- Automatic placement: If the policyholder does not affirmatively decline the take-out offer within the specified response period, the policy may be automatically assumed by the approved private insurer.
- Required consumer disclosures: Requires written notice to policyholders selected for depopulation, including information on the assuming insurer, coverage comparisons, premium estimates, deadlines, and the effect of failing to respond. These disclosure requirements are reflected in Citizens' depopulation packets and public guidance.
- Strong agent involvement, including limited appointment authority: Requires take-out insurers to work through the policyholder's agent of record and provides for limited agency appointments so agents may continue servicing depopulated policies and receive commissions.

Results

- Citizens' policy count peaked at approximately 1.41 million policies in late 2023.
- By early 2026, policies in force declined by roughly 70–75 percent, to approximately 330,000–395,000 policies—the lowest level in more than a decade.
- Citizens has subsequently filed and received approval for statewide average homeowners rate decreases approaching 9 percent, reflecting reduced residual-market exposure and increased private-market competition.

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Sources

- Fla. Stat. § 627.351(6)(c); § 627.3518
- Citizens Property Insurance Corporation, Depopulation Plan and Clearinghouse materials
- Florida Office of Insurance Regulation filings
- Florida Daily (Jan. 12, 2026); WGCU Public Media (Jan. 12, 2026); Citizens press releases

Appendix B: Louisiana Citizens Depopulation Framework

Overview

Louisiana has operated a formal, statutorily authorized depopulation framework through Louisiana Citizens Property Insurance Corporation since **2008**, with explicit legislative direction toward the **"ultimate depopulation"** of its residual market plans. The program is implemented through **discrete, recurring depopulation rounds**, rather than continuous or automated transfers.

Public data show that this framework supported **steady depopulation between 2008 and 2019**, prior to more recent market disruptions.[1] [2]

Key Structural Features

Louisiana's depopulation framework emphasizes **procedural safeguards** designed to protect consumers and ensure insurer solvency, including:

- Financial strength requirements for take-out insurers: Includes minimum rating and capital standards;[3]
- Rate filing and approval: Prior to policy assumption;[4] and
- Mandatory involvement of the policyholder's agent of record: No policy assumed absent agent authorization.[5]

These features preserve consumer awareness and agent accountability, but they also introduce additional friction that can slow the pace and scale of depopulation.

Complementary Policy Levers to Limit Residual-Market Growth

In addition to its take-out framework, Louisiana relies on **pricing and incentive-based mechanisms** to constrain the growth of Louisiana Citizens, including:

- Statutory rate differentials: Requires Citizens' rates to exceed private-market rates by at least 10 percent, reinforcing its role as an insurer of last resort;[6]
- Insurer incentive programs: Insure Louisiana Incentive Program is designed to encourage voluntary-market participation and reduce Citizens' exposure;[7] and
- Regulatory and legislative efforts: Expands voluntary-market capacity, particularly following periods of insurer withdrawal or insolvency.[8]

Observed Outcomes and Policy Implications

Louisiana's experience demonstrates that pricing discipline and market incentives can effectively limit residual-market growth, even when depopulation occurs more gradually. However, the program also illustrates that the speed and scale of depopulation are highly sensitive to process design and incentive

alignment, particularly where agent authorization and pre-assumption review requirements are central to the framework.

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Sources

1. Louisiana Citizens Property Insurance Corporation, *Depopulation Program materials* (program inception and recurring depopulation rounds).
2. La. Rev. Stat. § 22:2314(A)–(B) (legislative intent and annual depopulation authority).
3. La. Rev. Stat. § 22:2314(C)(1) (financial strength and capacity requirements).
4. La. Rev. Stat. § 22:2314(C)(2) (rate approval prior to assumption).
5. La. Rev. Stat. § 22:2314(B)(2) (agent of record authorization requirement).
6. La. Rev. Stat. § 22:2303(A)(1) (10% rate differential requirement).
7. Louisiana Department of Insurance, *Insure Louisiana Incentive Program* (Act 754 of 2022).
8. Louisiana Department of Insurance, market-stabilization and capacity-expansion materials.

Appendix C: Eligibility-Based Residual Market Models (Texas and Other States)

Overview

Several states manage residual-market size primarily through **strict eligibility controls, limited coverage, and last-resort pricing**, rather than through formal clearinghouse or take-out depopulation programs.

These models emphasize **preventing excessive residual-market growth at entry**, reducing the need for large-scale depopulation after the fact.

Texas

Texas does not operate a formal clearinghouse or take-out program for its FAIR Plan. Instead, the Texas FAIR Plan Association relies on **eligibility screening and coverage limitations** to ensure it functions as an insurer of last resort.

Key features include:

- Applicants must demonstrate **documented declinations from at least two admitted insurers** actively writing property insurance in Texas;
- Coverage is **unavailable** if a current policy, renewal offer, or **comparable private-market offer** exists; and
- Policyholders must **periodically re-test eligibility**, including **reapplication to the voluntary market at least every two years**.

In addition, coverage available through the Texas FAIR Plan is **more limited than standard homeowners policies** and is not designed to compete with the voluntary market. This structure reduces residual-market growth by discouraging voluntary reliance on the FAIR Plan when private coverage is available.

Other Eligibility-Based States

Several other states employ similar guardrails to constrain their residual markets without relying on clearinghouse-driven depopulation, including:

- **New York**: Eligibility for the New York Property Insurance Underwriting Association (NYPIUA) requires documented inability to obtain coverage in the voluntary market, and coverage is unavailable when comparable private insurance is reasonably obtainable. The program emphasizes last-resort access rather than policy transfers.

- **North Carolina**: The North Carolina Joint Underwriting Association (NCJUA) operates under explicit statutory intent that the FAIR Plan **not serve as a first market of choice**, relying on eligibility restrictions and **limited coverage forms** to manage exposure.
- **New Jersey**: The New Jersey Insurance Underwriting Association (NJIUA) limits eligibility to applicants unable to secure coverage in the voluntary market and offers **restricted policy forms**, using eligibility screening and non-competitive terms rather than structured depopulation programs to contain residual-market size.

Policy Implications

These eligibility-based models demonstrate that **residual markets can be kept relatively small** through disciplined entry standards, pricing signals, and coverage limitations. However, they also illustrate a tradeoff: when market conditions deteriorate, residual-market growth can occur rapidly, and the absence of a depopulation mechanism may limit the speed of recovery once voluntary-market capacity returns.

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Sources

- Texas FAIR Plan Association, *Coverage & Eligibility* materials
- Texas Insurance Code, ch. 2211
- New York Insurance Law, Art. 54; New York Property Insurance Underwriting Association materials
- N.C. Gen. Stat. § 58-46-1 et seq.; NCJUA materials
- N.J. Stat. Ann. § 17:29A-1 et seq.; NJIUA Plan of Operation

[iii] **California market concentration among national carriers.** NAIC market-share data show that California's property insurance market is heavily concentrated among large national carrier groups and other multi-state insurers, reflecting a fundamentally different market structure from Florida's historical take-out participants. See *NAIC Property/Casualty Market Share Reports (2024–2025)*. https://content.naic.org/sites/default/files/publication-msr-pb-property-casualty.pdf