

California FAIR Plan Helping Consumers Obtain Coverage They Need

Assembly Insurance Committee

March 8, 2023



CALIFORNIA
FAIR PLAN
PROPERTY INSURANCE

California FAIR Plan, Insurer of Last Resort

- Purposes of the FAIR Plan (Insurance Code Section 10090)
 - To assure stability in the property insurance market for property located in the State of California.
 - To assure the availability of *basic property insurance* as defined by this chapter.
 - To encourage maximum use, in obtaining basic property insurance, of the normal insurance market provided brokers *by admitted insurers and licensed surplus line brokers.*
- To provide for the equitable distribution among admitted insurers of the responsibility for insuring qualified property....



California FAIR Plan, Insurer of Last Resort

- Not a state agency and not state- or taxpayer-funded
- Not for profit
- Not subject to Prop 103
- Accepts properties regardless of wildfire exposure



FAIR Plan Today

- Ensuring access to basic property coverage
- Meeting increasing consumer needs
- Supporting a fragile insurance market
- Navigating financial instability

Growth By the Numbers	
Year	Total FAIR Plan Policies
2018	126,709
2019	160,302
2020	209,874
2021	242,318
2022	272,846

FAIR Plan Evolving as Insurer of “First” Resort

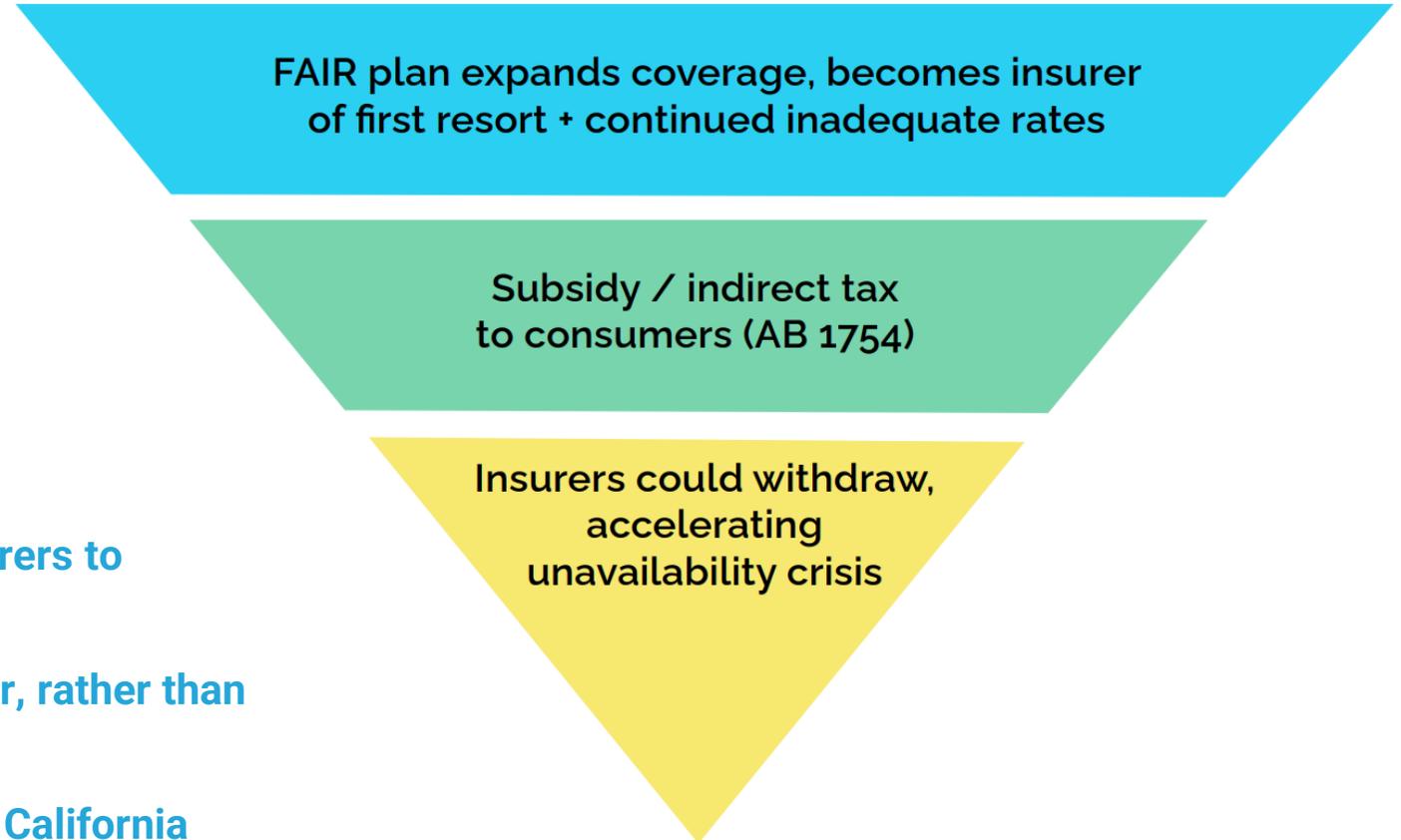
- Offer extending dwelling coverage
- Increased dwelling and commercial coverage limits
- Implemented online credit card payment options
- Extending coverage to farm risks and wineries, SB 11 (Rubio)
- Implementing new home hardening discounts for policyholders (2023, pending CDI approval)
- Launching a monthly payment option to help ease financial burdens on policyholders (2023)

FAIR Plan Evolving as Insurer of “First” Resort

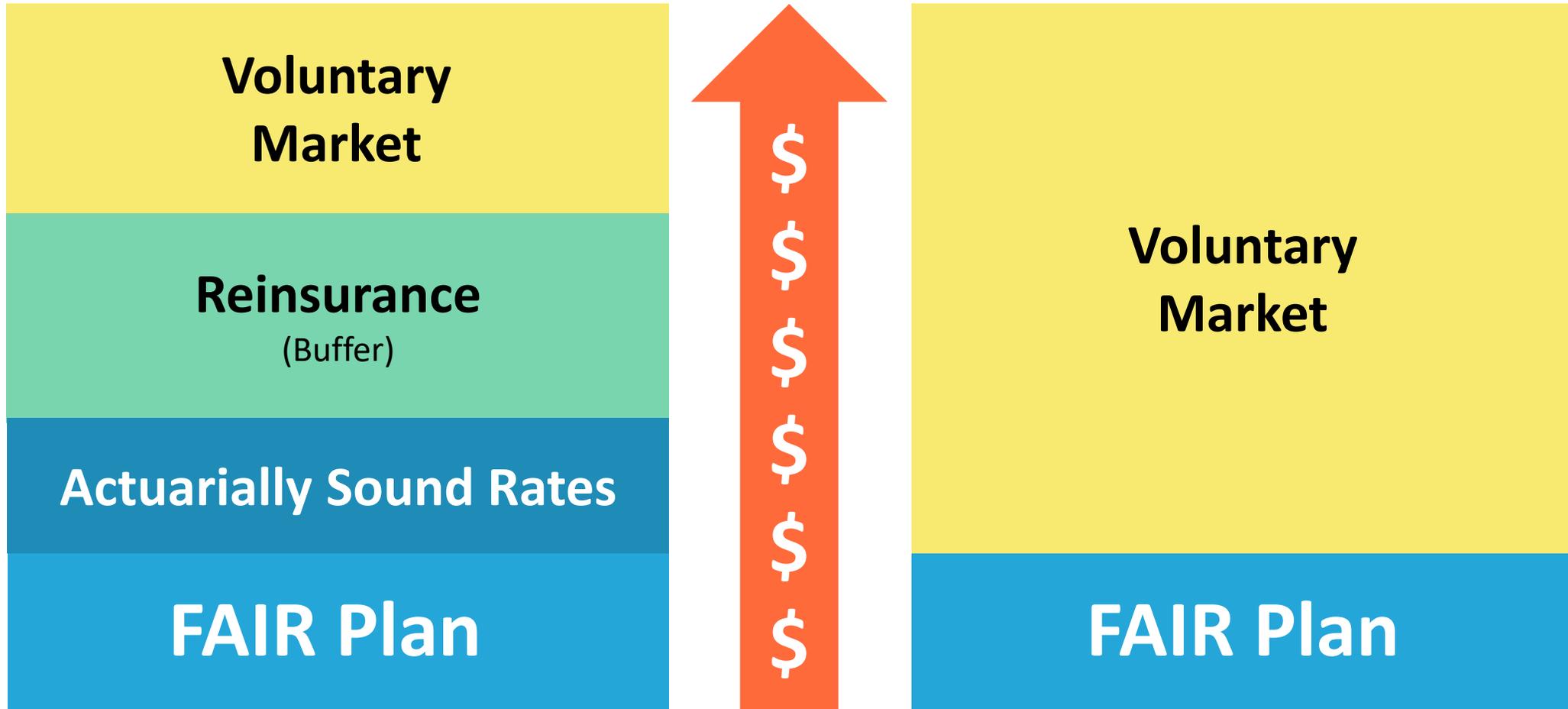
- CDI ordered FAIR Plan to sell homeowners policies rather than basic property insurance
- 2023 Legislative and CDI Proposals for which reinsurance is not currently available
 - **HOA Coverage \$20 million per structure**
 - **Cannabis Coverage AB 741 (Jones Sawyer)**

Ramifications of FAIR Plan as Insurer of “First” Resort

- Becoming the insurer of “first” resort:
 - **Expansion of limits (HOA)**
 - **Expansion of coverage (Farms and Cannabis)**
 - **Inadequate rates**
- Potential consequences:
 - **Indirect tax on consumers**
 - **Risk of assessment may force more insurers to withdraw from the market**
 - **Positioning the FAIR Plan as a competitor, rather than a stabilizer, of the voluntary market**
 - **Current conditions are trending toward a California unavailability crisis for consumers**



The Reinsurance Buffer for Managing Losses



Legislature Addresses FAIR Plan Rates, Assessments, Subsidizing High Risk Areas

AB 1754: Assembly Floor Analysis on why actuarially sound rates are necessary for the FAIR Plan

“The author believes that the rates currently charged by the FAIR Plan are not actuarially sound and these unsound rates have resulted in the inability of the FAIR Plan to cover losses on its policies. According to the author, these shortfalls have resulted in \$260 million in assessments on property insurance companies in the past four years. **The author further states that these assessments have resulted in the subsidy of FAIR Plan policies by every homeowner and commercial property insurance policyholder in California. The author believes that this bill is necessary to protect the solvency of the FAIR Plan and to remove what is in effect an indirect tax on property owners by making FAIR Plan rates actuarially sound and by capping the exposure of the FAIR Plan.**”

FAIR Plan 10 Highest Wildfire Exposures

- 5 Highest Wildfire Exposure Concentrations in Northern and Southern California
- Lake Arrowhead exposure has grown by almost \$2B in 15 months
- Each exposure area represents a 7-mile quarter circle



California FAIR Plan Sustainability and Unintended Consequences



20 million
*HOA
Coverage*



220 billion
2023 Exposure Total



AB 741
*Cannabis
Coverage?*

Reinsurance

Rates

Voluntary Market

Fewer insurance options
for all consumers

Higher costs for all
homeowners & businesses

FAIR Plan Sustainability

- Help stabilize FAIR Plan rates
 - **Approve actuarially sound rates per AB 1754 to help address solvency issues**
 - **Approve net cost of reinsurance, as authorized by existing law to mitigate solvency issues**
 - **Consider use of wildfire models in ratemaking, just like the CEA uses models for earthquakes**
- Help simplify filing process for FAIR Plan
 - **Consider File and Use approach in California**
 - **Keep objections related to rate filing to speed up the rate filing approval time**
- Allow catastrophe modeling in ratemaking process



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