CALIFORNIA FAIR PLAN PROPERTY INSURANCE

About the FAIR Plan

The California FAIR Plan Association (FAIR Plan) is **committed to ensuring all Californians have access to basic property coverage and the peace of mind** they deserve. While basic property insurance is not the same as comprehensive homeowners' insurance, per statute, Difference in Conditions policies fill the gap and are readily available through the voluntary market.

The FAIR Plan exists to provide insurance to Californians who cannot find coverage through no fault of their own. The FAIR Plan serves as a temporary safety net for property owners until traditional insurance coverage becomes available.

Supporting a Healthy Insurance Market

Consumers benefit from a competitive insurance market in which they have real choice. The FAIR Plan is **not intended to compete with or replace traditional insurers.** The FAIR Plan **supports policy solutions that strengthen consumer choice and expand competition** to help keep insurance rates as low as possible and mitigate the impending insurance unavailability crisis.

Growth By the Numbers

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

Insurer of Last Resort

The FAIR Plan, established after the riots and brush fires of the 1960s, **provides basic property insurance to consumers when coverage in the voluntary market is unavailable.** Roughly 44 percent of FAIR Plan policies cover properties in California's urban areas while the rest are in the wildland urban interface (WUI).

Climate-Driven Wildfires Prompt FAIR Plan Growth

- Worsening wildfires spurred by climate change and the lack of adequate insurance rates relative to increasing risk have led to cancellations by traditional insurers and, subsequently, **significant growth in the number and concentration of FAIR Plan policies.**
- Higher concentration of insured properties in high-fire risk areas means the **risk of a disaster affecting many policyholders at the same time is much higher for the FAIR Plan.**

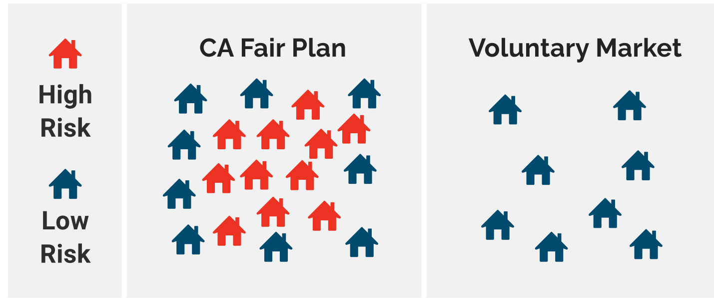
Working with the Legislature and CDI to Meet Consumer Needs

The FAIR Plan collaborates with the California Department of Insurance (CDI), the Legislature and stakeholders to meet the needs of consumers, including:

- Extending coverage to farm risks and wineries, SB 11 (Rubio)
- Establishing a clearinghouse to transition FAIR Plan policies to traditional insurers, AB 3012 (Wood/Daly)
- Establishing write-out credits to incentivize traditional insurers to cover higher-risk properties, AB 1816 (Daly)
- Extending dwelling coverages and increasing dwelling coverage and commercial coverage limits
- Implementing online credit card payment options
- 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 Policy Rates

FAIR Plan rates are usually higher because it covers a higher concentration of high-risk properties. California state law requires FAIR Plan **rates be actuarially sound** – meaning high enough to provide sufficient funds to pay the expected cost of claims, as determined by a certified actuary, and administrative expenses – **and include net cost of reinsurance** whereby insurers purchase policies from other insurers. Rates are reviewed and approved by the CDI.



Role of Reinsurance

The net cost of reinsurance must be part of the ratemaking process. The FAIR Plan purchases reinsurance to help stabilize the market by splitting risks and to avoid an assessment on insurers. Insurance Code Section 10095 (b) authorizes the FAIR Plan to purchase reinsurance.

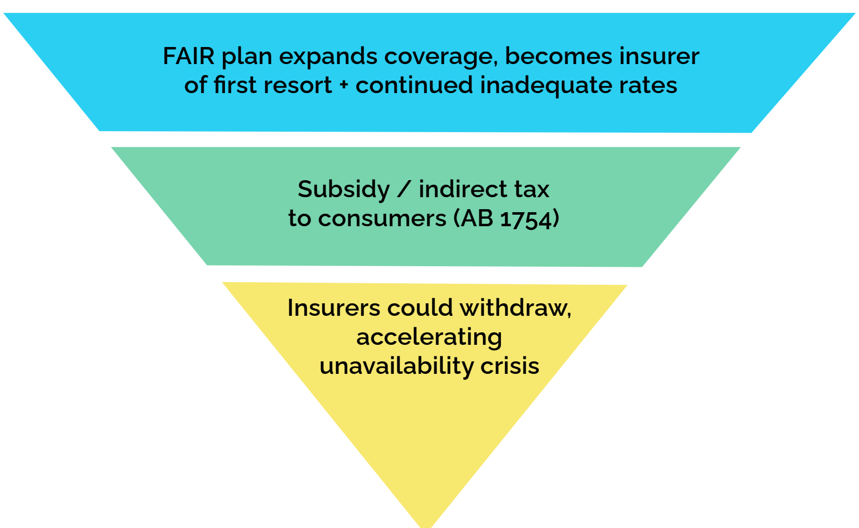
Legislature Addressed FAIR Plan Rates in 1996

In the mid-1990s, the Legislature, addressing concerns about assessments on traditional insurers, passed AB 1754 requiring FAIR Plan rates to be "actuarially sound so that premiums are adequate to cover expected losses, expenses and taxes" (Insurance Code Section 10100.2 (a)(1).)

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

"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... 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."**

Ramifications of FAIR Plan as Insurer of "First" Resort



The FAIR Plan is currently without adequate rates and precluded from including the net cost of reinsurance in ratemaking, while being positioned on a path toward becoming an insurer of "first" resort for many Californians. A continuation of this path would have **severe, adverse effects on consumers and the voluntary insurance market.**

The FAIR Plan is funded primarily through the policies it sells to customers. By statute, and with the approval of CDI, the FAIR Plan has the right to issue assessments requiring insurers in the voluntary market to pay for its losses. If the FAIR Plan does not have adequate rates to cover its policies and is forced to issue an assessment to cover losses, consumers *not* covered by the FAIR Plan, including those in low-income communities, would essentially subsidize FAIR Plan coverage in high-fire risk areas, including vacation homes. Assessments, in the near and long term, could lead traditional insurers to further withdraw from the California market, which would mean even fewer voluntary market insurance options for customers, a higher concentration of risk covered by the FAIR Plan, and an acceleration of the looming insurance unavailability crisis for many Californians regardless of where they reside.