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Good afternoon. My name is Cliston Brown, and I am the vice president of public affairs for the Surplus Line Association of California.

I would like to thank the chair, Assembly Member Calderon; the vice chair, Assembly Member Essayli; and the members of the committee for this opportunity to brief you today regarding the state of the insurance market and the surplus lines industry's role in that market.

First, I would like to provide some brief background on who we are and what we do. The Surplus Line Association was created in 1937, and it was appointed in 1994 as the California Department of Insurance's surplus lines advisory organization. In this role, we review every surplus lines policy filed in the state of California to ensure compliance with all pertinent laws and regulations. In 2022, approximately 7,000 California-licensed surplus line brokers placed 913,113 policies, totaling more than $16.3 billion in premiums.

It is important to note up front that state law requires our members to perform a diligent search for an admitted carrier that will cover a risk before placing that policy in the surplus lines market, except in cases where the insurance commissioner has predetermined that the risk is unavailable in the admitted market. *[California Insurance Code Section 1763(a)].* The code considers three declinations from admitted carriers to be prima facie evidence that a diligent search has taken place. *[California Insurance Code Section 1763(b)].* In some instances, admitted insurers will make a business decision not to cover a particular risk or class of risks. These are usually in cases of distressed, new, complex, or high-capacity risks.

There are many reasons why an admitted carrier may reduce its insured concentration. For instance, it might find that it is too concentrated in a particular area, or the risk profile might have changed due to forces beyond its control, such as climate change or government action. In these cases, consumers need options, or they will be left without the insurance coverage they need. Per state statute, when an admitted carrier cannot be found to cover a risk, consumers and their agents have the option to turn to the surplus lines market. If neither an admitted carrier nor a surplus line insurer will cover a property risk, the consumer may turn to the FAIR Plan as the insurer of last resort. *[California Insurance Code Section 10094(a)].*

The overwhelming majority of risks that go into the surplus lines market are commercial risks. Very little personal lines business goes into the surplus lines market. Over the last five calendar years, homeowners' insurance has made up only 1.65% to 3.04% of total surplus lines premiums in California. Although we do not have data on the value of homes insured in the surplus lines marketplace, it is our sense, from the geographic locations with the highest concentration of surplus lines homeowners' policies, that most such homes are high-end dwellings with owners who need more coverage than the FAIR Plan can provide. It is not unusual for surplus line carriers to offer coverage over and above a basic FAIR Plan policy to ensure that homeowners are covered to the greatest degree possible.

In these cases, the surplus lines industry is filling a role that is no longer being served by the admitted market, which is exactly the role that the State of California has envisioned for our industry. Our purpose is not to supplant the admitted market. Rather, we are here to provide options to consumers who otherwise might not be able to obtain the level of insurance they want during a market dislocation like the one we are seeing now. But from time to time, surplus line insurers, like admitted carriers, will make a business decision to pull back on a particular coverage if they cannot underwrite the risk, and we have been seeing that happen in the homeowners' market.

When admitted carriers began pulling back on homeowners' coverage in the mid-2010s, the number of California homeowners' policies placed by surplus lines carriers surged to more than 60,000. While the number of homeowners' policies going into the surplus lines market increased for several years starting around 2015, we have begun to see those numbers decline considerably in more recent years, even as premiums have increased to meet the growing risk posed by wildfires. As you know, the ongoing challenges presented by climate change have led to more fires with increased severity, which means greater potential for losses.

One of the results of that increased risk has been a decline in appetite, by both admitted and surplus line insurers, for issuing homeowners' policies in vulnerable areas, such as wildland-urban interface (WUI) zones. Our data from the last few years shows a significant drop in the number of homeowners' policies that have been placed by California-licensed surplus line brokers. In 2018, brokers placed 42,198 new homeowners' policies and renewals, with totals dropping by approximately 5,000 to 6,000 filings per year for the next three years, then inching back up from 25,138 in 2021 to 29,556 in 2022. In short, tens of thousands of homeowners' policies that had previously been placed in the surplus lines marketplace either went back to the admitted market or into the FAIR Plan, or lapsed without replacement.

When fewer admitted or surplus line insurers are issuing homeowners' policies, the inevitable result is that demand for FAIR Plan policies will increase. That appears to be precisely what we are seeing in the marketplace today—the FAIR Plan is being inundated by consumers' demand for homeowners' policies that are no longer being written in the admitted or surplus lines marketplaces.

At this time, I would be glad to take any questions you may have. Thank you again for the opportunity to testify here today about our industry's role in ensuring a healthy, fair and competitive insurance market for California consumers.