California FAIR Plan Update

March 2024

Presented by Victoria Roach, President

CALIFORNIA FAIR PLAN PROPERTY INSURANCE

California FAIR Plan, Insurer of Last Resort

- Purposes of the FAIR Plan (CA 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.

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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
- Funded primarily through the policies it sells to customers

FAIR Plan Demand Surge

- Ensuring access to basic property coverage
- Meeting increasing consumer needs
- Supporting a fragile insurance market
- Collaborating with CDI, Legislature and other stakeholders to stabilize the market and, ultimately, depopulate the FAIR Plan

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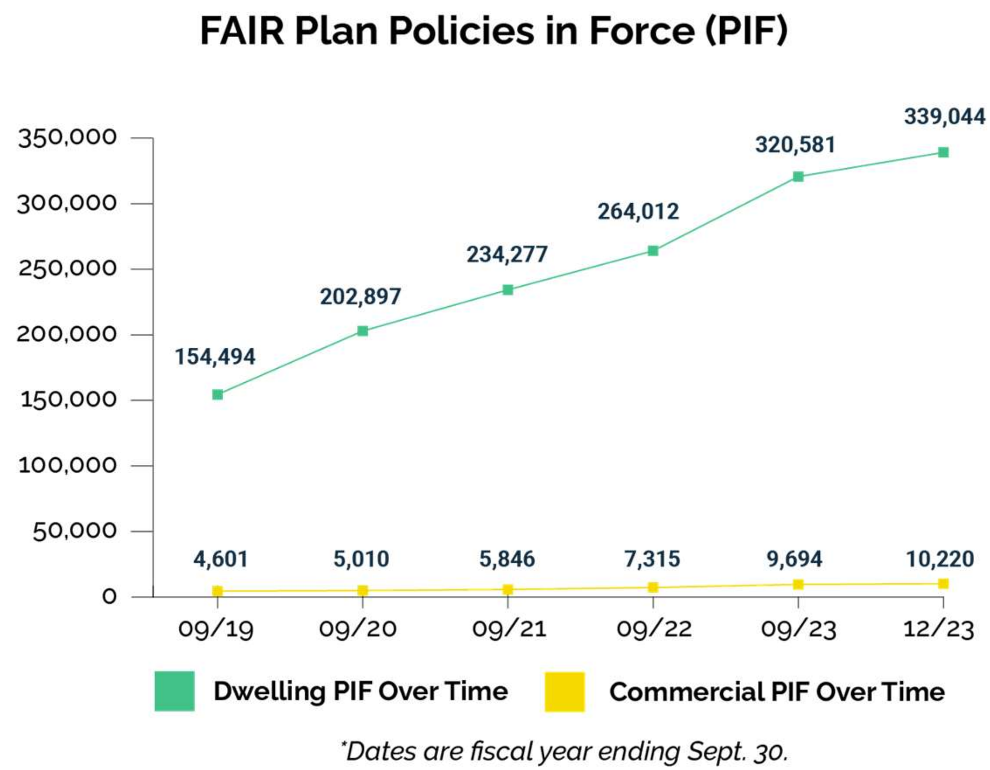
FAIR Plan Growth

- Now one of the primary property insurers in California
- **More than 350,000** Policies in Force (PIF), a 22% increase in 2023
- Receiving **nearly 1,000** applications a day
- Registered agents, brokers and other contacts increased from 9,000 to **more than 54,000**
- Increased underwriting and customer service staff



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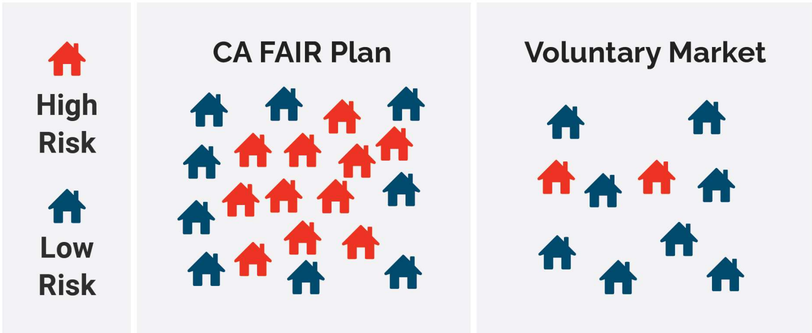
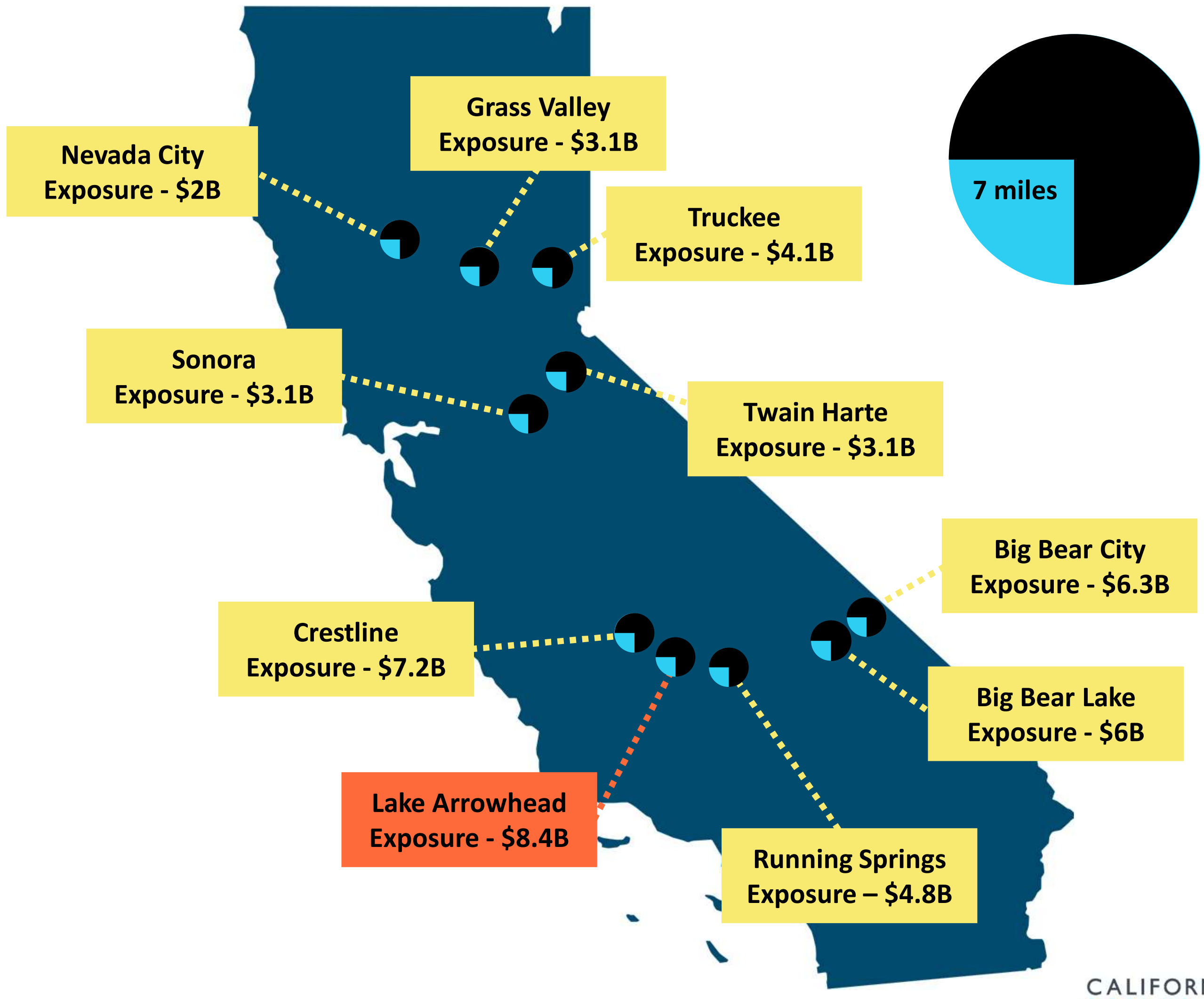
Growing Pool and High Concentration of Risk

- More Californians have turned to the FAIR Plan for the basic property coverage they need, in part due to:
  - Risk of climate-driven wildfires
  - Difficulty procuring insurance in the voluntary market
- The FAIR Plan covers a significantly higher concentration of high-fire risk properties than voluntary insurers
- The FAIR Plan's total risk exposure was over **$311 billion** as of December 2023; it was **$50 billion in 2018**



FAIR Plan Highest Wildfire Exposures

- Top 5 Wildfire Exposure Concentrations in Northern and Southern California each
- Lake Arrowhead exposure has grown by over 13% since 2022
- Truckee exposure has grown by 42% since 2022
- Each exposure area represents a 7-mile quarter circle



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Data as of 12/31/2022

FAIR Plan Rates and Reinsurance

- **FAIR Plan rates, by statute, must be actuarially sound**
  - ***This includes expected cost of claims and losses as well as the FAIR Plan's operating expenses***
- The FAIR Plan proposes rates based on risk exposure, as determined by a certified actuary, administrative expenses and the net cost of reinsurance
- California Insurance Code Section 10095 (b) authorizes the FAIR Plan to purchase reinsurance

Legislature Addresses FAIR Plan Rates, Assessments, Subsidizing High Risk Areas (1996)

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."***

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FAIR Plan Evolution (first resort) and Market Ramification

FAIR Plan Stabilization	FAIR Plan Expansion	Market Ramification
AB 1754 (Knowles) 1996 • FAIR Plan actuarial sound rates (mitigate assessment of private market) **AB 3012 (Wood/Daly) 2020 and SB 505 (Rubio) 2023** • Intended to depopulate the FAIR Plan by establishing a clearinghouse to help transition FAIR Plan policies to the voluntary market **CDI Sustainable Insurance Strategy 2024 (pending)** • Depopulate FAIR Plan • Actuarial rates, reinsurance, and catastrophic modeling etc.	**SB 11 (Rubio) 2021** • Expand FAIR Plan to cover farms **(completed)** • Extend and increase dwelling coverage limits to $3 million **2022 (completed)** • Increase commercial coverage limit to $20 million per location **2023 (completed)** • Expand FAIR Plan to full homeowner's insurance (**pending litigation**) • $20 million per building **(pending)**	**Assessment Factors:** • Inadequate FAIR Plan Rates (lack of actuarial rates, net cost of reinsurance, catastrophic modeling) • Catastrophic event (e.g., Arrowhead) • Oversaturation of FAIR Plan What happens to the private market and policyholders after a substantial assessment?

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Meeting Evolving Consumer Needs

- Launched new application technology system
- Hosting and participating in educational webinars, town hall meetings and events for brokers, agents, consumers and other stakeholders
- Increased staff and enhancing training and resources
- Implemented ZestyAI's wildfire risk analytics product, as approved by the CDI, when setting rates
- Launched additional policyholder payment options
- Implemented online credit card payment option

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Partnering to Address Insurance Market Issues

Collaborating with the California Department of Insurance on its Sustainable Insurance Strategy

- Depopulation of the FAIR Plan (includes clearinghouse AB 3012 and SB 505)
- Adequate rates and reinsurance
- Catastrophic Modeling
- FAIR Plan sustainability


Thank you
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