About the FAIR Plan

Ensuring Basic Property Coverage for All Californians

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. Basic property insurance covers specific perils, such as fire. A FAIR Plan policy can be supplemented with a Difference in Conditions policy available through the voluntary market, e.g., insurers who sell homeowners (HO-3) policies, to get coverage comparable to a comprehensive homeowners insurance product. The FAIR Plan was established in statute but is **not a state agency, not funded by taxpayers and is not subject to Proposition 103.** The FAIR Plan is funded primarily through the policies it sells to customers.

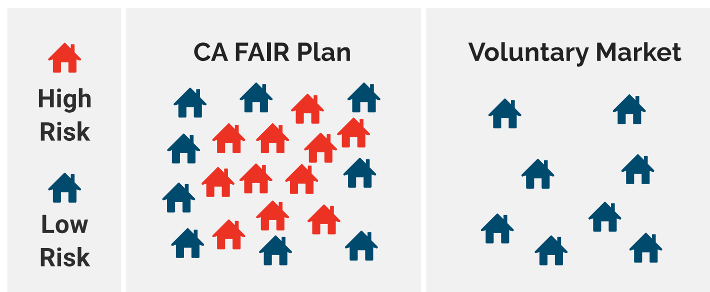
The FAIR Plan is a private association that exists to provide insurance to Californians who cannot find coverage through no fault of their own. The FAIR Plan serves as a temporary safety net for property owners until voluntary insurance coverage becomes available.

Insurer of Last Resort to Help Stabilize California's Property Insurance Market

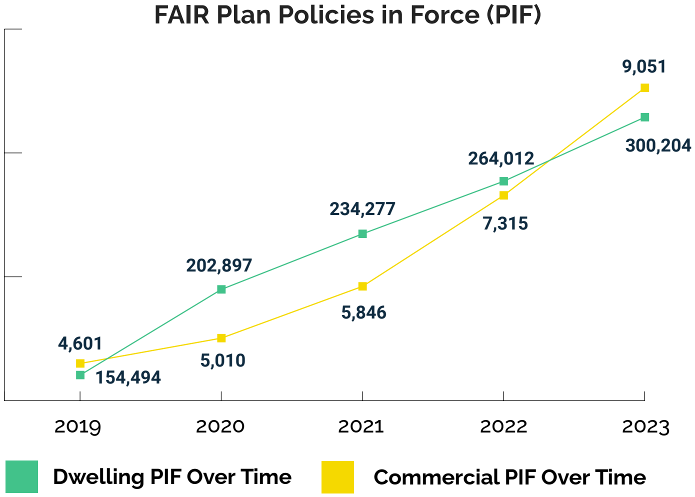
Consumers benefit from a competitive insurance market in which they have real choice. The FAIR Plan is not intended to compete with or replace insurers in the voluntary market. The FAIR Plan supports policy solutions that help to **stabilize the insurance market, strengthen consumer choice and provide the last option for coverage** when it is unavailable in the voluntary market.

FAIR Plan Becoming Insurer of First Resort

- Increasing risks due to climate-driven wildfires and a lack of adequate insurance rates have resulted in fewer coverage options available to consumers in the voluntary market.
- As more voluntary insurers have declined to provide new coverage or renew existing policies, more Californians have turned to the FAIR Plan for the basic property coverage they need.



FAIR Plan Policies in Force (PIF)



Growing Pool and High Concentration of Risk

- The FAIR Plan covers a significantly higher concentration of high-fire risk properties than voluntary insurers and typically has higher rates due to its elevated risk exposure. This high concentration of high-fire risk properties means the risk of a disaster affecting many policyholders at the same time is much higher for the FAIR Plan than voluntary insurers.
- The FAIR Plan's **risk exposure is $290 billion,** as of October 2023; it was $50 billion in 2018.
- The FAIR Plan has **more than 340,000 total policies in force,** as of October 2023; it had 126,709 total policies in force in 2018.

FAIR Plan Rates and the Net Cost of Reinsurance

FAIR Plan **rates, by statute, must be actuarially sound** – meaning sufficient to provide adequate funds to pay the expected cost of claims and losses submitted by consumers 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.

Reinsurance, referred to as "insurance for insurance companies," is a common and prudent business practice that helps insurers responsibly manage their financial risk by sharing it with other insurers. Insurance Code Section 10095 (b) authorizes the FAIR Plan to **purchase reinsurance.** The California Department of Insurance (CDI) reviews rate filings submitted by the FAIR Plan and regulates its rates.

Ramifications of Potential Assessments

Continuing the FAIR Plan's current rate of growth without actuarially sound rates could have **adverse effects on consumers and the voluntary insurance market.** By statute, and with the approval of CDI, the FAIR Plan has the right to assess all insurers licensed who sell property insurance in California to pay for FAIR Plan losses.

In the mid-1990s, the Legislature took action to address concerns about assessments on the voluntary market by passing AB 1754 which requires 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):**
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> "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."**

As noted by the Legislature, if the FAIR Plan does not have adequate rates to cover its policies and is forced to issue an assessment to cover losses, **California property insurance customers, regardless of where they live, could essentially subsidize FAIR Plan coverage** for property owners in high-fire risk areas. Assessments, in the near and long term, could also lead to more insurers withdrawing further from the California market, resulting in fewer insurance options for Californians. The FAIR Plan continues to work with the CDI to address its rate needs and inclusion of the net cost of reinsurance in ratemaking.

Meeting Evolving Consumer Needs

The FAIR Plan is committed to meeting the evolving needs of consumers and continues to innovate to identify and address those needs. Recent changes implemented by the FAIR Plan include:

- Launching a new technology system, Duck Creek, to improve the application process for brokers
- Hosting and participating in educational webinars, town hall meetings and events for brokers, agents, consumers and other stakeholders
- Increasing staff and enhancing training and resources to address historic increases in inquiries, applications and policies in force
- Implementing ZestyAI's wildfire risk analytics product, as approved by the CDI, when setting rates for dwelling policies to distribute rates more equitably statewide and ensure properties receive risk-appropriate rate adjustments
- Launching additional payment options to help ease financial burdens on policyholders
- Implementing online credit card payment option

Partnering with Stakeholders to Help Address California Insurance Market Issues

The FAIR Plan collaborates with the CDI, Legislature, Governor's Office and other stakeholders to help meet the needs of consumers and mitigate insurance unavailability issues:

- Establishing write-out credits to incentivize voluntary insurers to cover higher-risk properties (AB 1816 - Daly)
- Extending coverage to farms and wineries (SB 11 - Rubio)
- Establishing a clearinghouse to help transition FAIR Plan policies to the voluntary market for dwelling policies (AB 3012 - Wood/Daly) and commercial policies (SB 505 - Rubio)
- Implementing new home hardening discounts for dwelling and commercial policyholders
- Extending and increasing dwelling coverage limits to $3 million
- Increasing commercial coverage limit to $20 million per location