
ASSEMBLY INSURANCE COMMITTEE

MAY 28, 2025

# California FAIR Plan Update

## PRESENTED BY VICTORIA ROACH, PRESIDENT

# Understanding the FAIR Plan

- Established in 1968 following the riots and brush fires of the 1960s to become California's insurer of last resort
- Provides equitable distribution of responsibility among admitted insurers for **insuring qualified property**

- Purposes of the FAIR Plan (CA Insurance Code Section 10090)
  - To assure **stability in California's property insurance market**
  - To assure the **availability of basic property insurance**
  - To **encourage maximum use** of the voluntary insurance market

**1968**

**FAIR Plan is established by statute (California Insurance Code sections 10090 et seq.).**

**1996**

**Legislature passes AB 1754 to address FAIR Plan rates, assessments and subsidizing high risk areas.**

**2018**

**The Camp fire becomes most destructive in California history. FAIR Plan statewide risk exposure is $50B.**

**2025**

**The Eaton and Palisade fires become the second and third most destructive fires in California history. FAIR Plan statewide risk exposure is $599B.**

CALIFORNIA FAIR PLAN PROPERTY INSURANCE

First option for property insurance should be the admitted market

# 118 admitted insurers

Second option should be surplus lines

# 132 surplus lines

The FAIR Plan is intended to be the option of last resort for consumers unable to get property insurance through the admitted market or surplus lines

# 1 FAIR Plan

# Understanding the FAIR Plan

- **Not** a state agency and **not** state- or taxpayer-funded
- **Not** for profit
- **Not** subject to Prop 103
- Accepts properties **regardless of wildfire exposure**
- Intended to be funded primarily **through the policies it sells** to customers
- Serves as a **temporary safety** net
- **Not intended to compete with or replace** insurers in the voluntary market
- Rates, by statute, must be **actuarially sound**

CALIFORNIA FAIR PLAN PROPERTY INSURANCE

# Understanding the FAIR Plan: Who's Eligible & What's Covered

- The FAIR Plan does not require customers to purchase any particular amount or type of insurance.
- A broker will work with a property owner to determine eligibility for coverage from the FAIR Plan.
- Policy Types:
  - **Dwelling Fire Policy**
  - **Commercial Fire Policy**
- Current coverage limits:
  - **Commercial - $20M per location (increasing to $100M effective 7/26)**
  - **Dwelling - $3M**
- Fair Rental Value (FRV) coverage, which customers can purchase in the amount they choose, provides covered policyholders assistance with temporary housing.
  - **Policyholders can elect to use up to 10% of their dwelling coverage limit and up to 10% of their extended dwelling coverage limit for additional Fair Rental Value, whether they have elected Fair Rental Value coverage or not.**
- Discounts are available to policyholders that reduce wildfire risk.

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# Understanding the FAIR Plan

- The FAIR Plan is established by statute.
- The FAIR Plan is an involuntary association of its member companies.
- All licensed property insurers in California are required to participate.
- The Plan of Operation is the governing document.
- California Department of Insurance (CDI) regulates the FAIR Plan.

CALIFORNIA FAIR PLAN
PROPERTY INSURANCE

# Evolution of FAIR Plan as First Option for Many

# Evolution of FAIR Plan as First Option for Many

| FAIR Plan Stabilization | FAIR Plan Expansion | Potential Expansion |
|---|---|---|
| **AB 1754 (Knowles) 1996**<br>• FAIR Plan actuarial sound rates (mitigate assessment of private market)<br><br>**AB 3012 (Wood/Daly) 2020 and SB 505 (Rubio) 2023**<br>• Intended to depopulate the FAIR Plan by establishing a clearinghouse to help transition FAIR Plan policies to the voluntary market<br><br>**CDI Sustainable Insurance Strategy 2024**<br>• Intended to depopulate FAIR Plan<br>• Actuarial rates, reinsurance and catastrophe modeling etc. | **SB 11 (Rubio) 2021**<br>• Expand FAIR Plan to cover farms **(completed)**<br><br>**CDI-FAIR Plan Stipulations**<br>• Extend and increase dwelling coverage limits to $3 million **(completed in 2022)**<br>• Increase commercial coverage limit to $20 million per location **(completed in 2023)**<br>• $100 million per location **(2024 pending)**<br><br>**CDI Order**<br>• Expand FAIR Plan to add more of the coverages included in a full homeowner’s policy **(pending)** | **AB 290 (Bauer-Kahan) 2025**<br>• Would extend grace period to renewals<br><br>**SB 525 (Jones) 2025**<br>• Would add replacement cost coverage for manufactured and mobile homes |

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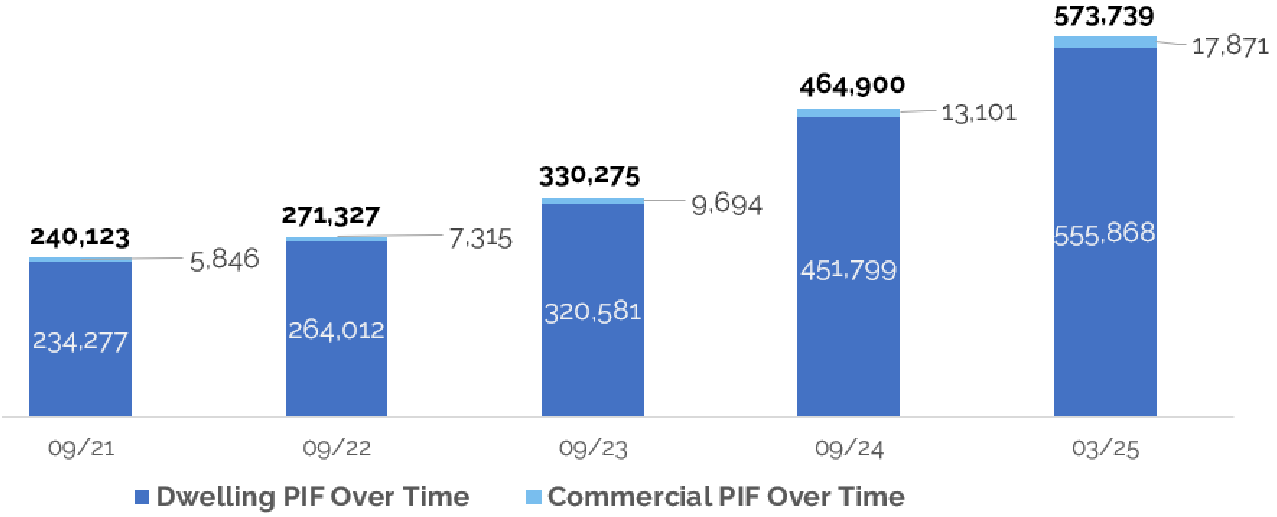
# Tracking Growth: FAIR Plan's Expansion Over Time

## The FAIR Plan covers a significantly higher concentration of high-fire risk properties than voluntary insurers and is now one of the primary insurers in California.

- FAIR Plan's total exposure is **$599 billion** *(March 2025)*
  - **31% increase** since Sep. 2024 *(Fiscal Year End 2024)*
  - **259% increase** since Sep. 2021 *(Fiscal Year End 2021)*
- FAIR Plan's total PIF is **573,739** *(March 2025)*
  - **23% increase** since Sep. 2024 *(Fiscal Year End 2024)*
  - **139% increase** since Sep. 2021 *(Fiscal Year End 2021)*
- More Californians have turned to the FAIR Plan due to:
  - Increase in **climate-driven wildfires**
  - **Difficulty procuring insurance** in the voluntary market




*Data from March 2025

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# Factors Affecting FAIR Plan Depopulation

1. Collaborating with CDI on Sustainable Insurance Strategy (SIS)
2. Adequate rates (includes net cost of reinsurance, and catastrophe modeling)
3. Clearinghouse (ties with SIS, agent and broker driven process AB 3012 and SB 505)
4. AB 290 (Bauer-Kahan) Would extend grace period to renewals
5. SB 525 (Jones) Would add replacement cost coverage for manufactured and mobile homes

# Importance of Actuarially Sound Rates

- FAIR Plan rates by statute – AB 1754 (1996) – must be actuarially sound and include **expected cost of claims and losses plus the FAIR Plan's operating expenses**.
- Actuarially sound rates are crucial for financial stability and long-term sustainability.
- Ensures enough money is available to pay claims.
- Premiums must accurately reflect the level of risk associated with insured properties.
  - The FAIR Plan proposes **rates based on risk exposure, as determined by a certified actuary, administrative expenses and the net cost of reinsurance**.
- Rate increases are incrementally **implemented** to ease consumer impact, with a clear timeline and communication plan to keep policyholders informed.

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# Market Ramifications of FAIR Plan Expansion: Assessments

- By statute, the FAIR Plan, with the approval of the California Insurance Commissioner, has the **right to assess all admitted insurers licensed to sell and selling property insurance in California to help pay for FAIR Plan losses**.
- Assessments are issued when the FAIR Plan's ability to pay ongoing claims is at risk.
- Once the California Insurance Commissioner approves the request, the FAIR Plan will notify each admitted market insurer of their assessment responsibility.
    - Assessments are based on an insurer's market share of dwelling and commercial policies in place from two years ago.
    - Member companies are notified of their share of the assessment, broken down between the pool years and by line of business.
    - Insurers have up to 30 days to remit payment to the FAIR Plan.
- The FAIR Plan **does not assess its own customers and does not have a role in determining how or if admitted insurers may recoup their share of the FAIR Plan assessment from their customers**.

# Mechanisms to Pay Claims : Assessments

- The FAIR Plan has issued assessments in the past to help cover losses:
  - **$1B in 2025** following the Palisades and Eaton fires
  - **$150M in 1993**, following fires in Altadena and Malibu.
  - **$60M in 1994** and **$50M in 1995**, following the Northridge Earthquake.

# Mechanisms to Pay Claims: Reinsurance

- Reinsurance operates as “insurance for insurance companies.”
- Common and prudent business practice that supports responsible management of insurers’ financial risk.
- Insurance code section 10095 (b) authorizes the FAIR Plan to purchase reinsurance.

| Loss Amount (up to) | Reinsurance Pays | CFP / Industry Pays |
|---|---|---|
| 7,100,000,000 | 3,456,637,000 | 3,643,363,000 |
| 6,000,000,000 | 2,935,600,000 | 3,064,400,000 |
| 4,900,000,000 | 2,501,530,000 | 2,398,470,000 |
| 3,900,000,000 | 2,184,630,000 | 1,715,370,000 |
| 3,000,000,000 | 1,590,000,000 | 1,410,000,000 |
| 2,200,000,000 | 950,000,000 | 1,250,000,000 |
| 1,650,000,000 | 400,000,000 | 1,250,000,000 |
| 1,250,000,000 | - | 1,250,000,000 |

# Mechanisms to Pay Claims: AB 226

- AB 226 (Calderon and Alvarez) seeks to provide an **additional funding source and mechanism** to support the FAIR Plan's ability to pay claims.
- Allows the FAIR Plan to **access bonds**, with approval of the California Department of Insurance.
- Enables the FAIR Plan to **secure a line of credit,** with approval of the California Department of Insurance.

CALIFORNIA LEGISLATURE— 2025–2026 REGULAR SESSION

**ASSEMBLY BILL** **NO. 226**

**Introduced by Assembly Members Calderon and Alvarez**
**(Principal coauthors: Assembly Members *Bryan,* Harabedian, Irwin, Schiavo, *Schultz,* and Zbur)**
***(Coauthors: Assembly Members Addis, Berman, Connolly, Elhawary, Ortega, Pellerin, Ransom, Sharp-Collins, and Stefani)***

**January 09, 2025**

An act to add Section 63087.5 to, and to add Article 11 (commencing with Section 63049.75) to Chapter 2 of Division 1 of Title 6.7 of, the Government Code, and to add Section 10100.3 to the Insurance Code, relating to insurance, making an appropriation therefor, and declaring the urgency thereof, to take effect immediately.

LEGISLATIVE COUNSEL'S DIGEST

AB 226, as introduced, Calderon. California FAIR Plan Association.

The California FAIR Plan Association is a joint reinsurance association in which all insurers licensed to write basic property insurance participate in administering a program for the equitable apportionment of basic property insurance for persons who are unable to obtain that coverage through normal channels. Existing law requires the association's plan of operation and any amendment to the plan to be approved by the Insurance Commissioner. Existing law establishes the California Infrastructure and Economic Development Bank and authorizes it to issue bonds to provide funds for the payment of costs of a project for a participating party or upon request by a state entity.

# Handling Smoke-Related Claims: FAIR Plan's Policy

- The FAIR Plan **pays all covered claims, including smoke claims, consistent with California law** and its policy forms.
- The FAIR Plan's policy **requires direct physical loss** for coverage.
- **Independent adjusters are expected to make recommendations based on what they perceive at a loss location** in accordance with the California Unfair Practices Act, the Fair Claims Settlement Practices Regulations and all laws relating to property and casualty insurance claims handling.

# Responding to Crisis: LA Fire Claims Update

- The FAIR Plan has received **5,542 claims (as of 5/22/25) for damage** caused by the Palisades and Eaton fires, with **almost half reporting total losses**.
  - Palisades Fire – approx. 3,987 claims
  - Eaton Fire – approx. 1,555 claims
- **$2.75 billion in claims paid** for the Palisades and Eaton fires (as of May 9), with an **anticipated total loss of close to $4 billion**.
- Current Claims Status:
  - Open – 2,473 claims
  - Closed – 3,069 claims

# Response to LA Fire Disaster

- Expanded claims staffing by more than 200 desk and field examiners.
- Extended customer service to Saturdays in January and February.
- Participated in workshops led by the California Department of Insurance and other state and community leaders.
- Conducted daily broker webinars.
- Participated in the Palisades and Eaton FEMA disaster recovery centers and regional townhalls.

# Commitment to Transparency

**The FAIR Plan is working to ensure an open line of communication and access to information for the public.**

Links to California Insurance Code Statute (sections 10090-10100.2)

FAIR Plan's Plan of Operation

Governing Committee Member Company List

Product Forms

Financial Reports & Information

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# Questions & Discussion

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# Thank You