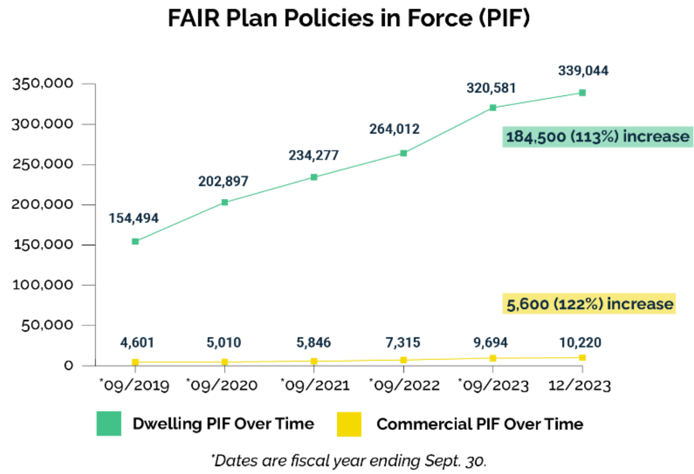
FAIR Plan Little Hoover Commission Questions and Responses

Written Responses to Commission Questions:

1) What is the policy count over the past 10 years?

a) The following chart demonstrates policy growth for the FAIR Plan for the past five years.



As of December 2023, the FAIR Plan has 339,044 dwelling policies in force and 10,220 commercial policies. 339,044 dwelling policies equal $296 billion in exposure for the Fair Plan.

Since 2019, dwelling policies have grown by over 184,500 and commercial policies have risen by over 5,600. The number of dwelling and commercial policies has each doubled since 2019.

2) What share of California's housing market is insured by the FAIR Plan? How has this changed over the past 10 years?

a) The FAIR Plan has experienced significant growth as more Californians turn to it for the coverage they need. The FAIR Plan is now one of the top five writers of insurance in the state and has more than doubled the number of policies since 2019. The FAIR Plan also covers a higher risk pool of properties over $320 billion in exposure state-wide. Writing record numbers of new policies over the past 9 months, the FAIR Plan is currently one of the largest writers of residential insurers in the state.

3) **How many insurers participate in the FAIR Plan? How has that number changed over the past 10 years?**

   a) The FAIR Plan is an association comprised of all admitted property insurers in California. The California Department of Insurance (CDI) maintains a full list of all the admitted insurers in the state.

4) **What is the average cost of a FAIR Plan policy? How has this changed over the past 10 years?**

   a) It is difficult to provide an average cost given the wide range of properties that are covered by the FAIR Plan, coverage limits that have increased over the past few years, and rate increases and discounts that have been approved by the CDI.

      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.

      The FAIR Plan continues to collaborate with the CDI to address FAIR Plan rate adequacy issues. This includes obtaining actuarial sound rates, inclusion of net cost of reinsurance and availability of catastrophe (CAT) modeling.

5) **Is it possible to share where FAIR Plan policyholders are located geographically?**

   a) FAIR Plan policyholders are located throughout the state. There is a concentration of FAIR Plan policyholders in high wildfire regions, and we have experienced growth in the number of policyholders that are not in areas at high risk of wildfire.

6) **Could you share the profitability figures for the FAIR plan for the last 10 years? (loss ratio, underwriting profit, profit on insurance transaction, return on net worth; similar to that of the National Association of Insurance Commissioners profitability line by state report)**

   a) The FAIR Plan is a not-for-profit and private organization. It does not make a profit or loss because it is permitted to return surplus funds to member companies and to assess member companies if the FAIR Plan requires funds to cover losses.

      The following map shows five areas with the highest wildfire exposure concentrations each in Northern and Southern California.

7) **Who serves on the governing board? What is the leadership structure? Are meetings open to the public?**

   a) The FAIR Plan's governing board consists of voting members, who are representatives from the insurance industry, and non-voting members who are appointed by the governor. The FAIR Plan is a private organization and is not supported by any taxpayer dollars, and its meetings are not open to the public.

8) **How the cost of reinsurance and recent expansions will impact the financial stability of the Plan.**

   a) Insurance works when insurance companies, or in this case our Association, can collect an adequate rate to be able to cover anticipated losses. By statute, FAIR Plan rates must be actuarially sound. The FAIR Plan does not have actuarially sound rates at this time.

   Reinsurance is a tool that insurance companies use to manage loss. By law, the FAIR Plan is authorized to purchase reinsurance, and it does so; however, the FAIR Plan is not currently permitted to include the net cost of reinsurance in our rates.

   CAT modeling is another tool that is used by insurance companies in all other states to better plan for risk, and the rates needed to cover that risk. In California, CAT modeling is not currently allowed to be factored into ratemaking.

   The growing demand for the FAIR Plan with continued expansion of coverage and without adequate rates, could result in an assessment of all admitted property insurance carriers in the California market. Assessments need to be approved by both the CDI and the FAIR Plan's governing committee.

9) **Describe the processes to depopulate the FAIR Plan and share any challenges or needed changes to improve efficiency.**

    a) The FAIR Plan remains committed to working with the CDI in support of the Insurance Commissioner's Sustainable Insurance Strategy, as well as the Legislature, Governor's Office, and stakeholders with the collective goal of strengthening California's insurance marketplace. This includes depopulating the FAIR Plan, which is one of the critical goals of the Insurance Commissioner's Sustainable Insurance Strategy.

       The FAIR Plan is also working closely with the CDI, the Legislature and industry stakeholders to ensure the Clearinghouse Program operates effectively and as intended, resulting in the opportunity for voluntary market and excess/surplus insurers to offer property insurance policies to FAIR Plan policyholders.

       It is important to note that by law, the FAIR Plan is merely a platform for the Clearinghouse Program (a program intended to depopulate the FAIR Plan). Interested parties who may want to move a policy out of the FAIR Plan must negotiate with the broker of record. The FAIR Plan is not a party to those negotiations.

10) **Any other thoughts on improving the long-term stability of the state's home insurance market. (For example, what may be needed to address the ongoing realities of our fire-prone state?)**

    a) At this point, California faces an unprecedented insurance crisis, and there is not one solution to address it, and may take a number of steps to address the ongoing issues. The FAIR Plan remains committed to working with the CDI in support of the Insurance Commissioner's Sustainable Insurance Strategy, as well as the Legislature, Governor's Office, and stakeholders with the collective goal of strengthening California's insurance marketplace. Specifically, for the FAIR Plan this includes depopulating the FAIR Plan, obtaining adequate rates, including reinsurance in our rates, and using CAT modeling, which are critical components in stabilizing the FAIR Plan.