AB 2996 FAIR Plan Stabilization Act

Bill Summary

To protect California insurance consumers and ensure financial stability of the Fair Access to Insurance Requirements (FAIR) Plan, AB 2996 would authorize the FAIR Plan to request the California Infrastructure and Economic Development Bank (IBank) to issue bonds if the FAIR Plan runs out of money in the event of a major catastrophic fire.

Current law authorizes the FAIR Plan to assess member insurers of the FAIR Plan to bail it out in the case it become insolvent. This would allow for a more gradual repayment process of the IBank loan over a period of time (normally 10 years). Without this bond option, insurers must pay FAIR Plan assessments within 30 days. Quick payment of the FAIR Plan assessment will bankrupt small insurance companies and impact larger insurers all leading to fewer insurance choices and higher insurance premiums for consumers.

AB 2996 has an urgency clause due to the current lack of insurance in the admitted insurance marketplace and the enormous increase in financial exposure of the FAIR Plan to catastrophic losses.

Problem

California insurance companies are leaving the condominium and homeowners insurance market for California homes, most acutely for coverage of condominiums. Condominiums, also known as attached communities, are having to turn to the "non-admitted" or "secondary market" (unregulated by the California Department of Insurance) as the only alternative for coverage, or in the case of single-family homes, they have to rely on the (FAIR Plan). Despite some single-family detached homeowners who can access FAIR Plan insurance as a last resort, most condominium associations are unable to utilize the FAIR Plan as it is currently structured to purchase insurance for their association policy. Without an increase to the "commercial" limits, the FAIR Plan is simply not available to those who need it most. (Condominium Associations need "commercial coverage" due to their collective size).

The inability to secure insurance coverage from the primary insurance market has resulted in the charging of excessive premiums in the unregulated non-admitted or secondary insurance market. **For example, association insurance premiums for a condominium association went from $40,000 per year for full coverage to a premium exceeding $2.5 million per year for less coverage, which would have resulted in Homeowners Association (HOA) dues increase of over $1,000 per month *for every homeowner*.** The association ultimately paid over $1 million for partial coverage, and **HOA dues increased by over $500 per month *for each homeowner*.** Millions of Californians stand to be negatively impacted due to insurance costs and these case studies show the gravity of the situation. California condominium and homeowners are facing an insurance crisis today.

This crisis is putting thousands of new condominium units on hold from being constructed throughout the state of California, until a more affordable and practical commercial insurance market can be created. Condominium homes are the most affordable and attainable first-time home buyer product in California.

Solution

To remedy the residential insurance crisis, there needs to be an immediate, short-term solution so those who are currently being priced out of the market can find a reasonable insurance option. In the long-term there needs to be a pathway to bring admitted insurers back to the market which is currently being undertaken by the California Department of Insurance (CDI). Below are the short-term solutions that will help solve this current insurance crisis while the CDI develops its new regulations:

Short-Term – Increase FAIR Plan "Commercial" Insurance Limits and expand the claims paying capacity of the FAIR Plan: Currently, the FAIR Plan only covers up to $20 million in individual commercial risks ***per location***, which means most condominium associations cannot use the FAIR Plan, as the coverage needed exceeds this cap. The FAIR Plan is now in the process of expanding the coverages in the FAIR Plan to be increased to at least ***$20 million per individual structure***. This increase in coverage should be done temporarily while admitted insurers work with the CDI on ways to provide insurance coverage, as adding coverages in the FAIR Plan increases the exposure to more losses in the FAIR Plan.

AB 2996 increases the financial tools available to offset the increase in exposure being added every day for all types of existing residential insurance coverages and by adding more coverages for condominiums and any potential large losses due to multiple smaller fires or one large fire similar to those that occurred in 2017-2021.

AB 2996 allows for the state to issue bonds from the California Infrastructure and Economic Development Bank (IBank). Without AB 2996, under current California law there is no mechanism for the FAIR Plan, the CDI, or insurers to immediately address these assessments, and their only option for insurers is to reduce exposure by non-renew existing policies.

Because there is an affordability and availability crisis in the current admitted insurance market AB 2996 has an urgency clause to ensure that one large fire in the fall of 2024 (like the ones California faced annually from 2017-2021) does not collapse the FAIR Plan and then cascade down to the entire homeowners and condominium owners' insurance market. This would have a crushing impact on the entire insurance market.

Support

California Building Industry Association

For More Information

Vincenzo Caporale, Senior Assistant
Assemblymember David Alvarez, District 80
Office: 916-319-2080
Vincenzo.Caporale@asm.ca.gov