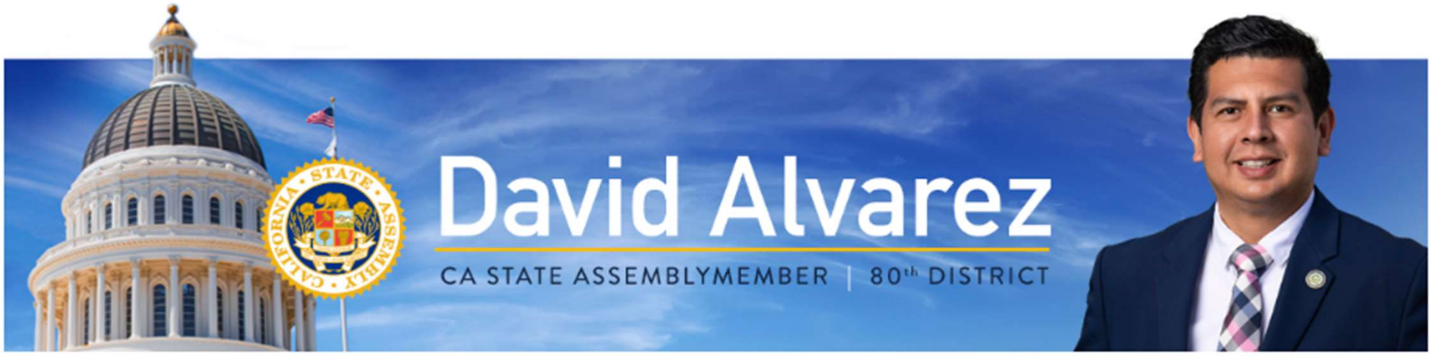


AB 226 FAIR Plan Stabilization Act

Bill Summary

To protect California insurance consumers and ensure financial stability of the Fair Access to Insurance Requirements (FAIR) Plan, AB 226 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 catastrophe.

Problem

Due to the insurance crisis, countless Californians are either seeing their premiums skyrocket or are unable to find affordable coverage in the admitted market.

As a result, many are turning 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]. However, the FAIR Plan's coverage is limited to only $20 million per location, which excludes affordable home buying options such as condominiums. This crisis is putting thousands of new condominium units on hold from being constructed throughout the state of California, including a mix-use project in my district, the 5,000 unit Southwest Village project in Otay Mesa. Countless units, ready to be built, are being stalled, in a moment when we need to be building far more housing at a much quicker pace.

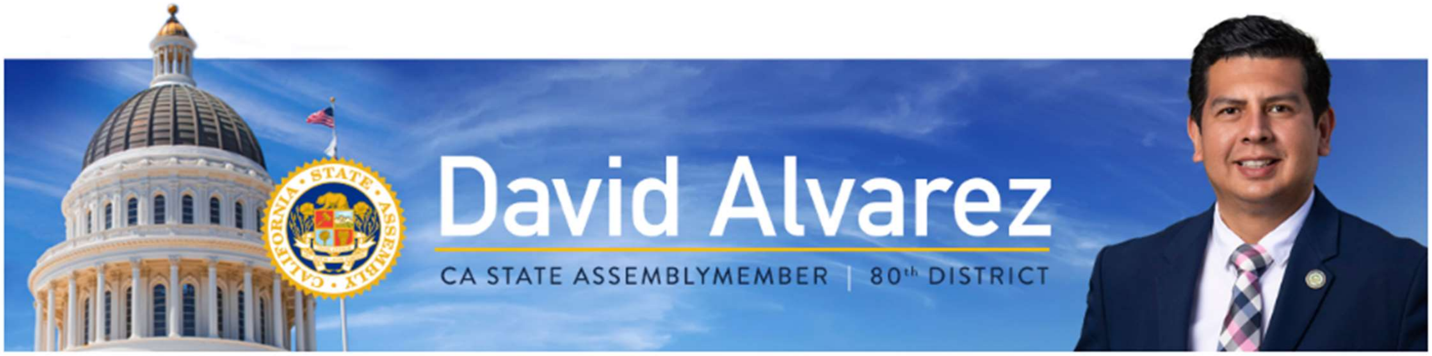
To address this, the Insurance Commissioner has announced that he would expand FAIR Plan coverage from $20 million per location to per structure. A necessary step, but one that puts an already over-exposed FAIR Plan at higher risk of an assessment. According to the FAIR Plan, they have more than 450,000 policies in force, a 63% increase in 2024 with a risk exposure of $450 billion as of September 2024, up from $50 billion in 2018.

Current law authorizes the FAIR Plan to assess member insurers of the FAIR Plan to bail it out in the case it become insolvent. Current law also requires insurers must pay FAIR Plan assessments within 30 days. Quick payment of the FAIR Plan assessment threaten the solvency of small insurance companies and impact larger insurers, all leading to fewer insurance choices and higher insurance premiums for consumers. This means that we are one significant fire or disaster away from the FAIR Plan assessing the admitted market.

Solution

AB 226 increases the financial tools available to offset the increase in exposure the FAIR Plan is taking on. Through the bond option that AB 226 establishes, it ensures that in the case of a catastrophe the admitted market is able to absorb the costs of an assessment by giving the admitted market a much longer runway to pay off the debts of the FAIR Plan.

Because there is an affordability and availability crisis in the current admitted insurance market AB 226 has an urgency clause to ensure that one large fire (like the recent devastating fires in Los Angeles) 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
Insurance Commissioner Ricardo Lara

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