On behalf of our Client, Independent Insurance Agents & Brokers of California, we are providing the background information set forth below relative to topics that will be discussed at the Assembly Insurance Committee informational hearing on the FAIR Plan Clearinghouse scheduled for Wednesday morning, March 18th at 10:00 am. It is anticipated that the discussion around this important issue could significantly affect both independent insurance agents and brokers, as well as homeowners in your district.

The FAIR Plan Depopulation Conundrum

California's property insurance crisis will not resolve itself until one central problem is addressed: the massive overpopulation of the California FAIR Plan Association.

Insurers that have curtailed or paused new writings will not meaningfully re-enter the market unless they can obtain timely regulatory decisions and rates that reflect real catastrophe risk. At the same time, the FAIR Plan's unprecedented concentration of exposure creates a powerful disincentive for insurers to expand in California, because they remain subject to potential post-event assessments for catastrophic wildfire losses.

In short, private market recovery and FAIR Plan depopulation are inseparable. Without restoring the Plan to its statutory role as the market of last resort, the broader market cannot stabilize.

The Core Economic Reality: Price Distortion

Depopulation will succeed only if two conditions are met:

1. **Viable private market alternatives**, and
2. **FAIR Plan rates that are actuarially sound and no longer artificially suppressed.**

California law requires FAIR Plan rates to be "actuarially sound" and adequate to cover expected losses, expenses, and taxes. Yet for years, rates have been restrained to soften the impact on homeowners forced into the Plan as admitted carriers withdrew. (See attached graph of FAIR Plan rate filings and Approvals)

The predictable result: the FAIR Plan became not merely available—but comparatively affordable. It is now often priced below private market options, including non-admitted carriers that are not subject to Proposition 103 rate constraints and charge what they believe to be actuarially appropriate wildfire rates.

The Plan itself recently testified that it requires roughly an 80% rate increase to achieve actuarial adequacy. Until FAIR Plan rates reflect true risk, homeowners will rationally remain in the Plan—and depopulation efforts will stall.

As insurers receive approvals under the Commissioner's Sustainable Insurance Strategy, their new rates will almost certainly exceed current FAIR Plan premiums. If the residual market remains the lowest-cost option, it will continue to function as the market leader rather than the market of last resort.

Market Recovery Will Take Time

The Insurance Commissioner has testified that only a small fraction of the more than 100 insurers writing homeowners insurance have received new rate approvals to date. While additional filings are pending, market participants widely recognize that restoring competition could take several more years.

Independent agents report that options remain extremely limited. The market is flat. Capacity is cautious. Non-admitted pricing remains high. Until supply meaningfully expands, depopulation mandates will struggle against economic reality.

Independent Agents Are Not the Cause—But Could Be Harmed by the Cure

Independent agents and brokers did not cause FAIR Plan overpopulation. Yet proposals that would open FAIR Plan policyholder data broadly to insurers could disproportionately harm them.

1. Who Withdrew from the Market?

The dramatic contraction of capacity came primarily from large market-share leaders—many of whom distribute through direct or captive channels rather than independent brokers.

Of the top 10 insurance companies representing roughly three-quarters of California's residential market for homeowners' insurance, only 3 of these companies distribute meaningfully through independent agents.

When major direct writers and captive agent companies—including USAA, Automobile Clubs, GEICO, State Farm, Farmers, and Allstate—reduced or limited homeowners' writings, their policyholders had nowhere to turn. Their agents typically had a single homeowners form and a single DIC option. When non-renewals occurred, many insureds flowed directly into the FAIR Plan.

By contrast, independent agents represent multiple carriers. When a client was non-renewed, independent brokers:

- Attempted placement in the admitted market.
- Then sought coverage in the non-admitted market.
- Only after exhausting those avenues placed risks into the FAIR Plan; and
- Often offered multiple DIC alternatives.

Independent agents own their businesses. Their client relationships and renewal rights are proprietary assets built over decades. Simply opening FAIR Plan data to competing insurance companies risk appropriating private business information, while doing little to solve the underlying pricing distortion.

Risks to Consumers from "Cherry-Picking"

Opening the FAIR Plan clearinghouse to unrestricted solicitation raises serious consumer concerns:

- **Non-admitted carriers** may offer materially different policy terms, including steep wildfire, landscape and water loss deductibles or exclusions not permitted in admitted policies. Non-Admitted insurers are prohibited by law from dealing directly with consumers in California so these policy differences could not be explained to the homeowner without the broker of record being involved in the transaction.
- Even among admitted carriers, consumers may be steered into policies with insurers aligned with underinsurance and claims handling issues as well as different coverage features or that do not alien with the homeowner's automobile insurance, umbrella or business insurance policies written through a different broker.

Depopulation must not come at the expense of coverage adequacy or financial security.

A Better Path to Depopulation

Before considering legislation that:

- Conflicts with California's insurance privacy protections,
- Exposes brokers' proprietary client information and work product to competitors, and
- Potentially channels consumers into less protective coverage,

Lawmakers should pursue more direct and economically coherent solutions.

1. Require Rewriting of Previously Non-Renewed Business

As part of insurers' obligations under the Sustainable Insurance Strategy to write substantial new business in wildfire-prone areas, carriers should be required—where actuarially justified—to first offer coverage to policyholders they previously non-renewed.

These insurers:

- Already underwrote the risk,
- Already possess property data,

- Most often continue writing the DIC or companion policies, and
- Already maintain the customer relationship.

Given that a relatively small number of large insurers control the majority of the residential market, even partial rewriting of prior books could materially reduce FAIR Plan enrollment.

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2. Establish a Time-Limited FAIR Plan Placement

If private coverage is available within a defined premium corridor—for example, within 20% of FAIR Plan pricing—homeowners' placement in the Plan should be temporary. This would preserve the Plan's residual function while preventing indefinite below-market retention.

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3. Allow Surplus Line Broker Access to the Clearinghouse

Current statutory language limits clearinghouse access in a way that may conflict with the Surplus Line Law. Surplus line companies cannot operate in the state directly. Most operate through insurance wholesalers which are licensed as Surplus Line Brokers. Surplus line brokers do not generally deal with the public but take business through licensed insurance agents and brokers. Allowing licensed surplus line brokers meaningful access could expand market alternatives without dismantling existing privacy protections.

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4. Improve Transparency for Voluntary Market Outreach

Rather than exposing individual broker client lists, the FAIR Plan could publish aggregated data identifying brokers with significant Plan enrollment in specific geographic areas or by zip code. Insurers seeking to expand could then market directly to the broker—without appropriating proprietary client information.

Conclusion: Fix the Economics First

Depopulation cannot be mandated into existence. It must be made economically rational.

Until FAIR Plan rates reflect true risk and meaningful private capacity returns, homeowners will remain where coverage is available and comparatively affordable. Independent agents should not bear disproportionate harm for a market contraction they did not cause.

If California wants a competitive property insurance market restored, it must first restore the FAIR Plan to its proper statutory role: the insurer of last resort—not the insurer of first choice.

NORWOOD
ASSOCIATES
Government Relations

Capitol Place · 915 L Street · Suite 1100 · Sacramento · CA · 95814
(916) 447.5053 · www.nalobby.net