PIFC

Date: February 27, 2025

To: Honorable Lisa Calderon
Honorable David J. Tangipa
Members, Assembly Insurance Committee

From: Rex D. Frazier, President
Seren Taylor, Vice President
Allison Adey, Legislative Advocate

Re: AB 226 (Calderon) California FAIR Plan Association.

PIFC Position: Support

The Personal Insurance Federation of California (PIFC) is a statewide trade association that represents twelve of the nation's largest property and casualty insurance companies. These companies include State Farm, Farmers, Liberty Mutual Insurance, Progressive, Mercury, Nationwide, Allstate, CONNECT by American Family Insurance, Kemper, CSAA Insurance Group, Interinsurance Exchange of the Automobile Club (Automobile Club of Southern California), and GEICO as well as associate members NAMIC and CHUBB. Collectively, these insurance companies write the majority of personal lines auto and home insurance in California.

AB 226 authorizes the California FAIR Plan Association (CFP) to request the California Infrastructure and Economic Development Bank (IBank) to issue bonds, and authorizes the IBank to issue those bonds, which would be secured by revenue from an assessment on all insurers licensed to write basic property insurance or any component of basic property insurance in multiperil policies.

The CFP exists to provide insurance to Californians who cannot find coverage in the admitted market through no fault of their own. The FAIR Plan serves as a temporary safety net for property owners until traditional insurance coverage becomes available.

As the insurance availability crisis in California persists, more Californians have turned to the CFP for the basic property coverage they need. The CFP has grown from 127, 000 policies in force in 2018 to more than 450,000 total policies in 2024. At the same time, CFP rates have not kept pace with the growing catastrophe exposure.

As the CFP exposure growth has increased from $50 billion in 2018 to over $450 billion in 2024, the association continues to operate with a low level of capital and liquidity, and reinsurance coverage that is far below that of similar entities. If the CFP does not collect sufficient premiums to cover losses resulting from property damage claims or catastrophes, admitted market insurers are assessed to fund liquidity needs and cover those losses.

On February 11, 2025, the Commissioner approved the FAIR Plan's request for a $1 billion assessment against its member insurers to provide the FAIR Plan with sufficient funds to maintain operations and promptly pay claims associated with the tragic wildfires in Los Angeles. The Commissioner also urged California legislators to take action to improve the financial standing of the FAIR Plan and prevent this situation from recurring, including allowing the FAIR Plan to access credit lines and catastrophe bonds.

Insurers have become increasingly concerned about exposure to a massive assessment to fund CFP losses that could be many billions of dollars. The potential disruption to the insurance market from a massive CFP assessment that financially impairs voluntary insurer operations is a serious threat.

In an important step to protect California consumers and address the pressing insurance market challenges, Insurance Commissioner Lara introduced the state's Sustainable Insurance Strategy. This ambitious strategy aims to:

- Provide accessible and affordable insurance, particularly in high-risk climate areas.
- Create a resilient insurance market.
- Protect communities from climate change impacts like wildfires and disasters.

AB 226 provides the CFP and traditional insurers with additional tools to be more financially resilient in the face of potentially catastrophic wildfire events, until the Sustainable Insurance Strategy is fully implemented, and insurance availability and reliability is restored to the admitted insurance market which will lead to a broader depopulation of the CFP.

Allowing the CFP to secure bond funds from the IBank can help small and large insurers better manage a potentially massive CFP assessment that would deplete their reserves, impair their solvency, and potentially bankrupt insurers. It would also help reduce the financial impact on consumers when insurers seek recoupment of any such assessment by means of collecting temporary supplemental fees from the member insurer's policyholders, AB 226 will provide the opportunity for a more gradual repayment process of the IBank loan over a period of time, which can mitigate the consequences of a large CFP assessment.

For this reason, **PIFC supports AB 226.** If you have any questions regarding PIFC's position, please contact Seren Taylor at (916) 346-9427 or staylor@pifc.org.

Sincerely,

Seren Taylor
Vice President
Personal Insurance Federation of California

Cc:

Assemblymember Lisa Calderon, Author
Kathleen O'Malley, Chief Consultant, Assembly Insurance Committee
Brady Borcherding, Deputy Legislative Secretary, Office of the Governor
Josephine Figueroa, Deputy Commissioner and Legislative Director, California Department of Insurance