California FAIR Plan Insurance: What You Need to Know

Investopedia

What Is California FAIR Plan Insurance?
The California FAIR Plan provides fire insurance for high-risk homes and businesses that private insurers won't cover. FAIR stands for Fair Access to Insurance Requirements.

The plan, established by state legislators in 1968, is a pool of all insurers licensed to sell property and casualty insurance in California. It's designed primarily to help California homeowners who can't find basic fire insurance in the traditional marketplace. Those numbers have been rising since the risk of wildfires has grown.

Why the California FAIR Plan Exists
Amid the rise in risks stemming from wildfires and insurance rate hikes, Californians now have fewer options for fire insurance. That's because more insurers have decided against offering new coverage or renewing current policies. Therefore, many Californians have been forced to rely on the FAIR Plan for basic fire coverage.

From September 2019 to June 2024, the number of FAIR Plan policies for California homes soared by 164%, the plan's data shows.

How California FAIR Plan Insurance Works
The plan is run by the California FAIR Plan Association, which is neither a state agency nor a public entity. The California Department of Insurance oversees the association, including approval of proposed rate changes.

Under the California FAIR Plan, insurers that do business in California share the financial burden of selling policies offering basic, temporary protection against financial losses due to home and business fires. The

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plan doesn’t receive taxpayer funding. Instead, funding comes primarily from the sale of policies.

The FAIR Plan has taken on greater importance as some insurers in California have paused issuing new property insurance policies or renewing existing policies. The state insurance commissioner has been working with insurers to ease these self-imposed restrictions.

Under a statewide proposition passed in 1988, insurers in California can legally pick where they do and do not want to provide coverage. As such, property insurers are focusing more on areas of California that are considered less risky. This mostly impacts homeowners and business owners in areas at high risk of wildfires where the FAIR Plan now may be the only option for insurance.

What Does the California FAIR Plan Cover?
A basic FAIR Plan policy covers just one thing: damage to a property or its contents caused by fire, lightning, smoke, or internal explosion. While a FAIR Plan policy fulfills a mortgage company’s requirement for property insurance, it doesn’t cover items like theft, vandalism, floods, hail, earthquakes, or personal liability.

The basic FAIR Plan policy provides up to $3 million in coverage for residential properties and $20 million for commercial properties. Aside from basic coverage, the FAIR Plan sells optional windstorm, hail, and vandalism coverage.

In addition, a California homeowner can buy what’s known as “difference in conditions” (DIC) coverage. This type of policy provides coverage that’s typically part of a standard home insurance policy but isn’t included in a FAIR Plan policy. For instance, a DIC policy can cover items like theft, water damage, and personal liability.

The FAIR Plan doesn’t sell DIC policies. Instead, you must shop for a DIC policy on your own or with help from an insurance agent or broker.

Eligibility Criteria for California FAIR Plan
The California-based United Policyholders consumer advocacy group states that any homeowner who “has made a diligent but unsuccessful effort” to purchase home insurance can turn to the FAIR Plan for basic fire coverage. The plan will insure a home, even one in an area at high risk of wildfires, if it meets the plan’s underwriting standards.

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Residential properties that qualify for FAIR Plan coverage are:

- **Owner-occupied homes:** This refers to one- to four-unit dwellings where the owner lives in at least one of the units.
- **Seasonal rentals:** These are dwellings that are rented for less than one year. This applies to part or all of a dwelling.
- **Long-term rentals:** These are one- to four-unit dwellings that are rented to a tenant for at least one year.
- **Condos:** The FAIR Plan covers personal property and improvement coverage for condominiums.
- **Renters' personal property:** A tenant of an apartment or single- or multi-unit dwelling can buy personal property coverage.

How to Get California FAIR Plan Insurance
Here are the steps for getting California FAIR Plan insurance:

1. **Determine your eligibility.** With help from an insurance agent or broker, you can figure out whether you qualify for FAIR Plan coverage. The main consideration is whether you've been unable to purchase coverage from a traditional insurer. In fact, you must prove that you've been rejected by at least two insurance companies.
2. **Shop for a policy.** An insurance broker or agent can help you find the right FAIR Plan coverage for your property.
3. **Pick your coverage.** Since the FAIR Plan only provides basic fire insurance, you may want to supplement it with policies that cover items such as earthquakes, theft, vandalism, and personal liability.
4. **Submit your application**. On the application, you'll supply information such as your home address, your preferred dollar amount for the deductible, and the name of your mortgage company.
5. **Pay your premium.** Premiums for FAIR Plan coverage tend to be higher than those for traditional property or fire insurance.
6. **Keep shopping.** Even after getting a FAIR Plan policy, you should continue hunting for coverage in the traditional market. You may be able to lower your premium by buying a regular policy afterward.

Frequently Asked Questions (FAQs)

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What Is a Difference in Conditions (DIC) Policy in California?

A difference in conditions (DIC) policy in California offers optional coverage that the FAIR Plan does not, such as insuring against water damage, theft, and liability coverage. A DIC policy is often coupled with a FAIR Plan policy to provide coverage similar to what you'd get with a traditional policy.

How Much Does California FAIR Plan Insurance Cost?

According to a California FAIR Plan spokesperson quoted by KCRA in 2022, the average premium costs about $3,200 a year.

What Are the Payment Options for the California FAIR Plan?

The plan accepts online premium payments from a checking account, savings account, or credit card.

How Much Coverage Do I Get Through a California FAIR Plan Policy?

A basic California FAIR Plan policy covers property damage caused by fire, lightning, smoke, or internal explosion. Coverage limits are $3 million for residential properties and $20 million for commercial properties.

How Long Can I Stay on a California FAIR Plan Policy?

A California FAIR Plan policy is supposed to offer temporary "last resort" coverage, but some policyholders have had FAIR Plan policies for a number of years. There is no formal limit on how long the coverage lasts. Applicants who cannot qualify for regular property insurance can continue buying California FAIR plan coverage.

What Are the Exclusions for the California FAIR Plan?

California FAIR Plan insurance features a number of exclusions. For instance, it doesn't cover theft, personal liability, or damage from falling objects, water, or freezing.

The Bottom Line

For some Californians, FAIR Plan coverage is the only option for insuring their home or business, especially those in areas at high risk of wildfires. This basic coverage applies primarily to fire damage, and it generally costs more than traditional property coverage. An insurance agent or broker can help you determine whether this last-resort policy is the best option to protect your property.

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