[What happens if CA FAIR Plan goes bankrupt? Here's how it could affect policyholders](#)

ABC 7 News

What happens if the California FAIR Plan goes under in the wake of the devastation in Los Angeles? And what impact could it have on the 8.7 million policyholders across the state?

"Why should people in San Francisco pay for a fire that was insured by a consortium of insurance companies that are legislatively mandated to pay for that fire?" said Jamie Court, president of Consumer Watchdog. "It's not fair."

Those are both key questions as we're learning the estimated insured losses are now expected to be around $30 billion, according to Wells Fargo and Goldman Sachs.

So if the California FAIR Plan goes bankrupt, what does that mean for the average consumer? And how likely is that to happen?

"You can bet that if the FAIR Plan goes bankrupt – and it's a good bet it will – the insurance companies will come after us to pay the debts that they owe," Court said.

The California FAIR Plan – the state's insurer of last resort – said this week that it has payment mechanisms in place to ensure all covered claims are paid. Yet over the last 48 hours, new questions are being raised about its financial stability.

"They only have about $300 million in the bank and $2.5 billion in reinsurance," said Court. "If Pacific Palisades was totally blown away and they're exposed for $6 billion there, they probably have full exposure."

Court says since 1968, when the FAIR Plan was created, the legislative assumption was that insurance companies are on the hook for the full cost of the damages. He says that changed this past June.

“The commissioner issued a bulletin at the end of July that says after companies pay another billion dollars to refill the FAIR Plan, if it goes under, then policyholders are on the hook for everything after that, which is just crazy,” said Court.

So what does that mean for the millions of policyholders across California?

“That is a big bill. Let’s say there’s $10 billion that the FAIR Plan needs repaid. Divided by 10 million policyholders, that comes out to $1,000 each,” Court said. “It would be outrageous, but nonetheless, this bulletin does exist.”

That figure is likely on the high end, and the truth is that we don’t know the full price tag the FAIR Plan will face. But there’s no question — there will be impacts.

Amy Bach with United Policyholders told 7 On Your Side the cost to California consumers is not set in stone and remains a remote possibility.

According to the bulletin, the insurers that make up the FAIR plan will need to request the Commissioner’s prior approval to pass on the cost to policyholders.

But some federal officials, including Rep. John Garamendi is concerned whether the bulletin is even legal.

“Absolutely terrible idea,” said Garamendi (D – Solano County). “It’s wrong. It is contrary to the intent of the law and may very well be contrary to the law itself.”

Garamendi added it’s subject to being overturned in court.”He simply ought to reverse it,” Garamendi told ABC7.

A big factor in the FAIR Plan’s financial future will be determined by the liability of the utility companies. We already know Edison is being blamed for the Eaton fire. If other utilities are blamed, insurance companies can recoup losses from the utility.

It’s important to note: if there’s an assessment because the FAIR Plan can’t pay its bill for residential policyholders, those costs will only be passed onto *residential* policyholders across the state. Same story if the bill is for *commercial* policyholders.

Admitted insurance companies must participate in the FAIR Plan by law if they want to continue doing business in the state. Their participation mirrors their market share. The larger their market share in the private market, the larger their potential assessment liability is.

“Again, we’ve never been here before,” said Amy Bach with United Policyholders. “So we don’t know exactly what that’s going to look like.”

The California FAIR Plan has seen an increase in demand since 2019 — accounting for roughly half a million policyholders in the state as of last June. It covers single family homes, condos, and renter’s fire insurance – even renters living in high-fire areas can cover their belongings under the FAIR Plan.