[Wildfires Likely to Boost California Surplus Lines Homeowners Share; FAIR Plan Expansion Questioned](https://uphelp.org/wildfires-likely-to-boost-california-surplus-lines-homeowners-share-fair-plan-expansion-questioned/)

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Wildfires Likely to Boost California Surplus Lines Homeowners Share; FAIR Plan Expansion Questioned Premium volume from homeowners polices written by California's surplus lines industry, although still small, has doubled over the past four years, seemingly pushed by an increase in wildfires in the state. Some experts believe that the surplus lines share of homeowners should be growing even more than it is but some agents and brokers who deal largely with personal lines may not be familiar with the option since the market writes mostly commercial business. California's homeowners surplus lines market will likely increase meaningfully in the next few years, according to a recent analysis by Keefe, Bruyette & Woods, Inc., an investment banking firm headquartered in New York City that specializes in the financial services sector. The KBW analysis is based on figures from the 2019 Property Insurance Report National Conference showing 81 rate increase filings in California for 2019 thus far this year versus only 34 rate increase requests in 2016. "Rate increases reflect higher average catastrophe loss adjustment loads (based on a minimum average of twenty years of history required in California) that have doubled for many insurers based on the 2017/2018 California wildfires that caused significant industry-wide insured losses," the analysis states. The most recent figures from the California Department of Insurance as of 2018 show that 1.4% of state's homeowners market is going to surplus lines, and 1% is going to the FAIR plan. The remainder is in the admitted market. According to the Surplus Line Association of California, homeowners premiums and policy counts have been rising steadily as more wildfires erupt throughout the state each year. SLA-Cal figures show premiums were $136.9 million as of the first nine months of 2019, up from $97.7 million for the first nine months of 2018. The numbers have been rising steadily in the last few years: $81.8 million in 2017; $76.6 million in 2016; $65.9 million in 2015. Ben McKay, the group's executive director, was asked if wildfires are causing the rise in homeowners premium volume in the surplus market. "We think so, yes," McKay replied. "We've seen that the increase corresponds to the increase in wildfires we've seen in California." He said he has spoken with agents in the market to get a feel for what they are seeing, and he's examined some of the policies being sold. "We've noticed that a lot of the new homeowners policies are in the wildfire areas," McKay said. In fact, surplus homeowners premium figures should be even higher by his estimate. California Insurance Code 10094 mandates that retail agents must first try to find an admitted policy for clients, and that they then must test the surplus lines market before putting a client in the Fair Plan. "A lot of people don't realize that," McKay said. He believes many retail agents who deal solely with personal lines many not even know how to access the surplus lines market, which is largely where commercial insurance is placed. FAIR Plan This rise in the surplus lines market is happening as California Commissioner Ricardo Lara is pursuing the controversial step of ordering California's property insurer of last resort, the FAIR Plan, to begin offering a comprehensive homeowners (HO-3) coverage, in addition to its current dwelling fire-only coverage, by June 1, 2020. The comprehensive policy would include traditional homeowner insurance features such as coverage for personal liability, water damage and theft. The CDI has said a growing lack of availability of homeowners and fire insurance has touched virtually every county in the state and threatens home values, real estate transactions, tax revenues, emergency services, and the integrity of California communities. Lara also ordered the FAIR Plan to increase coverage limits on its current dwelling policies from $1.5 million to $3 million and allow for policyholders to pay monthly and by credit card. The insurance industry, including FAIR Plan officials, is not fully embracing Lara's plan. FAIR Plan officials have warned the move could have unintended consequences and ultimately hurt consumers, while agents say adding the homeowners coverage is unnecessary. Anneliese Jivan, president of the California FAIR Plan Association, in a statement issued this week said that wraparound coverages such as Difference in Conditions products that complement a FAIR Plan policy are readily available in California from numerous companies. The CDI publishes a list of insurers that offer these products, so consumers who buy both have the same or similar coverage as a traditional homeowners HO-3 policy, according to Jivan. "The FAIR Plan has experienced an increase in new policyholders over the last year and is prepared to accept additional customers in need of basic property coverage," the statement reads. Jivan said the FAIR Plan has already committed to increase coverage limits and supported legislation to encourage more insurance companies in the voluntary market to provide coverage in the parts of the state most at risk of wildfire. "Forcing the FAIR Plan to offer comprehensive HO-3 homeowners insurance would not help consumers save money and would be counter to the FAIR Plan's role as a stabilizing force in the insurance marketplace," the statement reads. Agents and Brokers Stephen Young, senior vice president and general counsel for the Independent Insurance Agents & Brokers of California, said the group's members may not be supportive of all parts of Lara's plan. He has been speaking to members about their experience in finding the DIC coverages. "I will say, it's our sense that there's no real problem finding DIC coverages," Young said. While he believes that part of Lara's plan may be unnecessary, Young's group does support increasing the limits from $1.5 million to $3 million. "If anything, we'd love to see those limits higher," Young said. The FAIR Plan fills a temporary need, as many policyholders leave the plan after just four months into their policies because they are able to find coverage in the private market, which demonstrates that the insurance market is working, according to Mark Sektnan, vice president for the American Property Casualty Insurance Association. "The FAIR Plan was never intended to replace the private insurance market. Insurance Commissioner Lara's move to expand the FAIR Plan's policies to a full HO3 policy could have unintended consequences, potentially contributing to a further compacting of the market and fewer choices for consumers," Sektnan said in a statement. "Wildfires are an ongoing risk in California, and it is vital that all homeowners, businesses, renters, policymakers, and insurers work together for viable solutions and remain vigilant in preparing for and mitigating against this threat." Related: California's Fair Plan Balks at State's 'Misguided' Order to Expand Coverage California Commissioner Orders FAIR Plan to Increase Homeowners Coverage Options PURE Programs Launches California High Wildfire Risk Homeowners Program