

Introduction

Welcome to **Brokers and the FAIR Plan**. This course is designed for California brokers to understand the FAIR Plan, its products, and its role within the California insurance market.

Course Objectives

After completion of this course, learners will:

- 1 Understand the purpose, history and funding of the California FAIR Plan.
- 2 Understand the unique relationship between the FAIR Plan, the insured, and the broker including the importance of a diligent search.
- 3 Understand eligibility requirements.
- 4 Have a working knowledge of the key provisions of FAIR Plan insurance products.
- 5 Be able to recognize and apply key coverage provisions to common claim scenarios.

Lesson 2 of 4

Overview of the FAIR Plan



History & Purpose of the FAIR Plan

Following the brush fires and riots of the 1960s, California's FAIR Plan was established by state law on July 15, 1968, under sections 10090 et seq. of the California Insurance Code. **The FAIR Plan was written to ensure basic insurance coverage is available to qualified applicants who are unable to secure insurance for their home or business in the standard market, through no fault of their own.**

Initially, the only areas eligible for coverage under the FAIR Plan were properties located in urban areas and brush hazard areas as designated by the Insurance Services Office (ISO), in direct response to the 1965 Watts Riots and the 1961 Bel Air Fire. In 2001, the California Commissioner of Insurance expanded FAIR Plan eligibility to include any property within the state of California.

The California FAIR Plan Association commenced operations on August 15, 1968, one month after the FAIR Plan was established by state law. The California FAIR Plan Association, sometimes referred to as the FAIR Plan, is a unique partnership between the state of California and the property insurance industry of California, enacted for a purpose other than profit. **The FAIR Plan serves as a temporary safety net for homeowners, established to ensure all homeowners have access to basic property insurance when other insurers won't provide it.**

The FAIR Plan strives to:

- 1 provide insurance to the residual property market,
- 2 do so with courtesy, timeliness, quality and efficiency,
- 3 be fair and equitable in all underwriting decisions and loss settlements, and
- 4 prevent abuse of the program for unjust enrichment of the irresponsible, ineligible, unethical, or dishonest.

Conducting business with the FAIR Plan is mandatory for all companies authorized to transact basic property insurance in California. The FAIR Plan issues policies on behalf of its member companies. Each member company participates in the profits, losses, and expenses of the Plan in direct proportion to its market share of business written in the state. The FAIR Plan also has a team of corporate employees, focused on overseeing FAIR Plan coverage, directing applicants to participating brokers, and assisting interested home or business owners with questions.

There are currently over 30 states with FAIR Plans or their equivalent in place. While the California FAIR Plan Association frequently handles cases related to the state's increasing wildfires, other state's FAIR Plans focus on perils more common to their region.

Though business has increased for the California FAIR Plan over its lifespan, the association's goal is not to take more market share. Instead, **the FAIR Plan endeavors to ensure that basic insurance coverage is available to all qualified property owners as the law outlines.**

States that offer FAIR Plan or equivalent insurance ■



More information regarding the FAIR Plan can be found on their website at cfpnet.com.

Provisions of the Statute

The statute contains certain provisions that govern the operation of the FAIR Plan.

Click through the tabs below to learn more about these provisions.

FUNDING

AVAILABILITY

BASIC INSURANCE

SAFETY NET

The FAIR Plan is not supported by federal, state, or local funds. The FAIR Plan's rates are required by statute to be actuarially sound. If the FAIR Plan would otherwise be unable to meet its obligations, it can obtain additional necessary funding from all insurers writing property and casualty policies in California.



FUNDING

AVAILABILITY

BASIC INSURANCE

SAFETY NET

Any location in California is eligible for CA FAIR Plan coverage, subject to limited underwriting guidelines including:

- The property must be in insurable condition
- The property cannot be vacant for more than a year
- No illegal activities can take place at property

The FAIR Plan will insure a property **regardless of its exposure to brush/wildfire.**



Provisions of the Statute

The statute contains certain provisions that govern the operation of the FAIR Plan.

Click through the tabs below to learn more about these provisions.

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|---------|--------------|------------------------|------------|
| FUNDING | AVAILABILITY | BASIC INSURANCE | SAFETY NET |
|---------|--------------|------------------------|------------|

The FAIR Plan writes a basic dwelling policy for homeowners and others with a financial interest in property who cannot obtain coverage from a traditional insurance carrier.

The policy is a named peril policy (we will discuss the perils in more detail in a future lesson). It is up to the broker to work with the policyholder to determine the perils and coverage limits that the customer needs.

Traditional insurers provide **Difference in Conditions policies that complement FAIR Plan policies** and together create comprehensive homeowner's coverage.



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| FUNDING | AVAILABILITY | BASIC INSURANCE | SAFETY NET |
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The FAIR Plan serves as a temporary safety net for homeowners, established to ensure all homeowners have access to basic property insurance when other insurers won't provide it.



How is the FAIR Plan Funded?

Click to flip the cards below to learn how the FAIR Plan is funded.

Just like an insurance company, the FAIR Plan collects premiums and adjusts claims. Its financial solvency is backed by all of the insurance companies licensed to sell property insurance in California.



All insurance companies licensed to write basic property insurance in California, and that are writing that coverage, are required to participate in the FAIR Plan in order to do business in California.



Brokers' Responsibilities

This lesson will go over the role of brokers doing business with the FAIR Plan. This includes the statutory requirement of performing a diligent search.

Diligent Search

The FAIR Plan is an insurer of last resort, meaning that it only provides insurance to qualified applicants who are unable to secure insurance for their home or business in the standard market. Because the FAIR Plan is an insurer of last resort, the FAIR Plan requires that brokers do a diligent search to secure insurance in the standard market, if available.

Before we learn more about diligent searches, we will first discuss what is meant by the standard market. The California Insurance Code defines the standard market as both admitted and non-admitted insurers. Admitted insurers are insurers that are regulated by the state, whereas non-admitted insurers are not regulated by the state. Surplus lines brokers search for non-admitted insurers, also known as surplus lines carriers, which are specialized insurers covering risk not available within the admitted market.

Diligent Search

Risks should be submitted to the FAIR Plan for coverage only after a diligent search of the standard market has been made. A diligent search is mandated under [California Insurance Code section 10093\(a\)](#).

Impractical for Standard Market

Only properties that cannot practically be placed in the standard market after a diligent search may be placed with the FAIR Plan.

E-Certify

Brokers submitting applications to the FAIR Plan are required to e-certify that this diligent search was made as mandated by the California Insurance Code. The certification will appear at both the beginning and the end of the application as a means of confirming that the application is not being submitted before the necessary diligent search is made.

It is the Policyholder's Responsibility to...

Determine the type and amount of coverage

The FAIR Plan is not responsible for the adequacy of the coverages and limits provided to any policyholder. Instead, it issues the coverages requested on the application.

The FAIR Plan reminds policyholders annually that it is the policyholder's responsibility, along with the broker's guidance, to determine the adequacy of limits and coverages.

It is the Policyholder's Responsibility to...

Determine insurable interest

The policy is a contract between the named insured and the FAIR Plan. FAIR Plan policies do not provide coverage to any person or entity not named on the policy and do not insure the interest of any person or entity not named on the policy.

The FAIR Plan does not verify property ownership or otherwise take steps to determine the insurable interest of any applicant. Instead, it is the policyholder's responsibility to provide the adequate information on any insurable interest in the property.

Brokers should understand that the Policyholder must be the legal owner or be able to demonstrate an existing financial interest in the covered property, and should assist the policyholder to verify the information provided is correct.

Brokers doing business with the FAIR Plan

The following are guidelines for brokers to remember while conducting business with the FAIR Plan.

Hover over each number to learn more.



01

Insurance brokers are not agents or representatives of the FAIR Plan in any respect.

02

03

In transacting insurance with, but not on behalf of the FAIR Plan, all licensed insurance agents and brokers act as insurance brokers for applicants and policyholders, **NOT** as agents of the FAIR Plan.

04

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Brokers doing business with the FAIR Plan

The following are guidelines for brokers to remember while conducting business with the FAIR Plan.

Hover over each number to learn more.



01

The FAIR Plan does not issue policies without receiving the initial premium payment. Brokers are not authorized to issue binders, evidence of insurance forms or other documents that purport to verify the existence and limits of a FAIR Plan policy.

02

03

04

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A broker may not bind coverage on behalf of the FAIR Plan, and is not authorized to transact insurance coverage, or receive information from policyholders or others, on behalf of the FAIR Plan.

Brokers doing business with the FAIR Plan

The following are guidelines for brokers to remember while conducting business with the FAIR Plan.

Hover over each number to learn more.



01

02

03

04

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No endorsement may be validly issued by any person on behalf of the FAIR Plan.

Brokers **do not have the authority** to issue Evidence of Insurance (EOI) forms for FAIR Plan coverage **under any circumstances**.

Brokers doing business with the FAIR Plan

The following are guidelines for brokers to remember while conducting business with the FAIR Plan.

Hover over each number to learn more.



01

02

03

04

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California Code of Regulation Title 10, Section 2189.3(b) prohibits a broker-agent from charging any fee, directly or indirectly, for services related to procuring coverage from the California FAIR Plan.

The California Department of Insurance defines "services" to include any advice or assistance.

Brokers doing business with the FAIR Plan

The following are guidelines for brokers to remember while conducting business with the FAIR Plan.

Hover over each number to learn more.



01

Binder: a written agreement issued by a broker or insurance company that provides evidence of insurance temporarily, pending issue of a policy.

02

Endorsement: a change attached to a policy that modifies or adds to the policy provisions of the coverage form. Endorsements can broaden or restrict coverage and add parties or locations to the contract.

03

04

Initial Premium Payment: the amount paid at the inception of a policy term; the first payment on a new insurance policy.

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Commission rates and statements

The following applies to brokers conducting business with the FAIR Plan.

- New business commissions for all policies are 10%.
- Renewal commissions for all policies are 8%.
- Commissions paid on mid-term endorsements will be based on the commission rate in place for the current term of the policy. These changes apply to all lines of business and property locations.
- Commissions are paid monthly by the tenth (10th) day of every month and are paid on premiums paid. All premiums must be paid in the gross amount. Brokers may not deduct commissions from any premiums due if making a payment on behalf of an insured.

Eligibility and Submissions

Properties insured by the FAIR Plan must be in insurable condition. The FAIR Plan will generally obtain an inspection of all new business. In some cases, an inspection is required before a quotation will issue. In general, the inspectors are looking at the physical condition of the property, occupancy, and hazards related to the coverage provided under the policy. Inspectors do not inspect for adequacy of the coverages or limits selected.

Exterior Inspections

Some buildings may require an exterior observation inspection only. The inspector will not contact the insured prior to the observation inspection but both the insured and broker will receive a letter when the policy is issued advising that an observation inspection is being ordered.

Interior Inspections

Some buildings require an interior inspection. Should an interior inspection be required, the inspector will contact the insured or their representative to arrange a date and time to gain access during normal business hours. The insured's failure to cooperate in securing this inspection may result in cancellation or non-renewal of the policy.

Selected Eligibility Guidelines



The FAIR Plan insures properties everywhere in California and insures properties in areas at high risk of wildfire. Coverage is only declined because of conditions within the owner's control, or failure to meet eligibility requirements.

Existing Property Damage



Properties with existing damage will be evaluated and considered for coverage if a signed contract from a licensed contractor is submitted with the application. The contract must identify the scope of work needed to be done to repair the damage and indicate the projected start and completion date for the repairs.

Vacant Buildings/Vacancy



The FAIR Plan will not insure any property that has been vacant or unoccupied for more than one (1) year prior to the date the application was received in the FAIR Plan office. In addition, the FAIR Plan will not offer a renewal of a policy covering a vacant property.

All substantially vacant or unoccupied buildings potentially eligible for coverage are inspected. To be considered for coverage, substantially vacant or unoccupied buildings must be in good condition with all doors and windows secured and no broken windows.

There is no Vandalism or Malicious Mischief (VMM) coverage for properties vacant or unoccupied for more than 30 consecutive days. An applicant may purchase a vacancy permit to restore this coverage.

There is a higher premium applied to this coverage, since substantially vacant or unoccupied buildings are subject to a higher likelihood of loss.

Violation of Federal, State, or Local Law



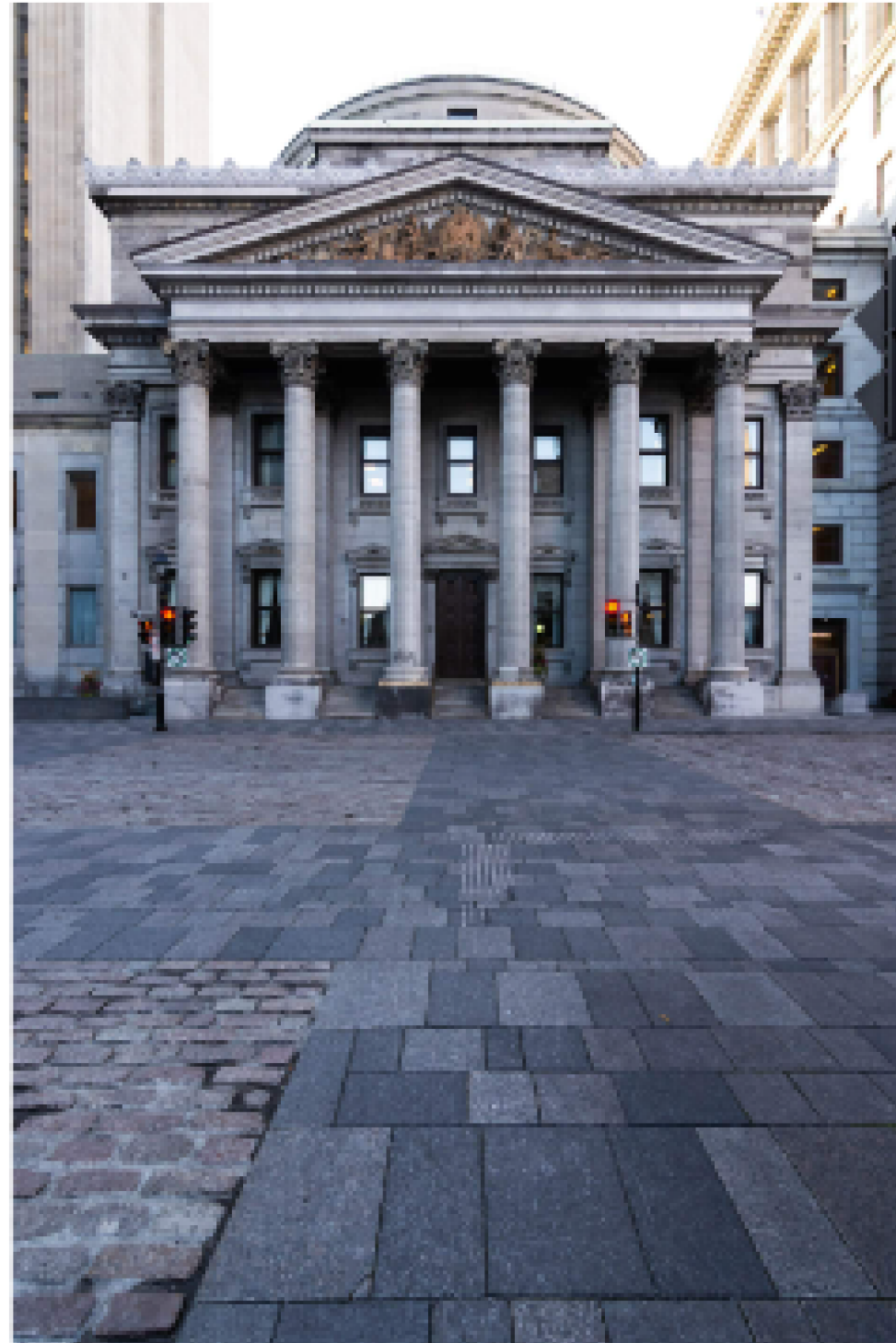
A property being used for any purpose in violation of federal, state, or local law is **NOT** eligible for coverage.

Properties intended to be demolished



Any property that is intended to be demolished is not eligible for coverage as there is no insurable value to a building that is going to be demolished.

Lender Owned Properties



Properties owned by a lender, whether or not as a result of foreclosure, are not eligible for coverage.

Farm Property



Farm property includes commercial farms, ranches, and wineries. Basic fire insurance is available for farm property, including buildings, equipment, finished product, and other business personal property under the Commercial fire program. Coverage does not include crops, livestock, animals, farming vehicles (such as tractors, combines, hay balers etc.), orchards, land, underground irrigation equipment, and field and pasture fences.

Move-Ons (mobile/manufactured homes)



Properties that have been moved from one location to another are not eligible for coverage until they have been permanently affixed to their new foundation and all access to the underfloor space has been closed.

Mobile Homes



Mobile homes are eligible for coverage under the Dwelling Fire policy, subject to its coverage terms and limits. The mobile home must be secured permanently to the foundation with no access to the underfloor space in order to qualify for coverage.