

REPORT OF EXAMINATION
OF THE
CALIFORNIA FAIR PLAN ASSOCIATION
AS OF
SEPTEMBER 30, 2023

Insurance Commissioner

A handwritten signature in blue ink, appearing to read "D. DeLeon", is positioned above the "Filed on" text.

Filed on December 22, 2025

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Los Angeles, California
September 26, 2025

The Honorable Ricardo Lara
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Commissioner Lara:

Pursuant to your instructions, an examination was made of the

CALIFORNIA FAIR PLAN ASSOCIATION

(hereinafter also referred to as the FAIR Plan) with its home office located at 725 South Figueroa Street, Suite 3900, Los Angeles, California 90017.

SCOPE OF EXAMINATION

We have performed our single-state examination of the FAIR Plan. This examination covered the period from October 1, 2020 through September 30, 2023, and subsequent events. The previous examination of the FAIR Plan was as of September 30, 2020.

This examination was conducted in accordance with the National Association of Insurance Commissioners *Financial Condition Examiners Handbook* ("Handbook"). The Handbook requires the planning and performance of the examination to evaluate the FAIR Plan's financial condition, assess corporate governance, identify current and prospective risks, and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the FAIR Plan were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination, a material

adjustment is identified, the impact of such an adjustment will be reflected in the FAIR Plan's financial statements.

This examination report includes findings of fact and general information about the FAIR Plan and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), were not included within the examination report but separately communicated to the FAIR Plan.

MANAGEMENT AND CONTROL

California Insurance Code ("CIC") §10094 and the Plan of Operation as referenced in CIC §10095 requires that the Governing Committee of the FAIR Plan be comprised of nine voting members, who are elected annually from member companies, and who will serve for one year or until successors are elected. Not more than one participating insurer within a holding company may serve on the Governing Committee. Additionally, four non-voting members are to be appointed by the Governor for an indefinite term including one representative from insurance agents, one representative from insurance brokers, one representative from surplus line brokers, and one representative from the public. The Governing Committee members and principal officers serving as of September 30, 2023 are as follows:

<u>Voting Members</u>		
<u>Name</u>	<u>Company</u>	<u>Representing</u>
Cedric Snow, Chairperson ¹	CSAA Insurance Company	At-large Insurance Companies
Nathan Remmert, Vice-Chair ²	Allstate Insurance Company	Other Stock Insurers

¹ Jeff Huebner from CSAA replaced Cedric Snow in 2024 as an at-large member. Lorna Castillo replaced Mr. Huebner in 2025.

² Nathan Remmert replaced Mr. Snow in 2024 as Chairperson after he retired. Carl Chase from Allstate replaced Mr. Remmert in 2025.

<u>Name</u>	<u>Company</u>	<u>Representing</u>
Janine Graff ³	Liberty Mutual Insurance Company	At-large Insurance Companies
Jeff Sauls ⁴	Farmers Insurance Group	Other Non-Stock Insurers
Kelly Yates ⁵	TOPA Insurance Group	At-large Insurance Companies
Meggan Conner	The Hartford	At-large Insurance Companies
Michele Balady ⁶	Travelers Insurance	At-large Insurance Companies
Gaetano Harris, Secretary ⁷	Interinsurance Exchange of the Automobile Club	Other Non-Stock Insurers
Tisha Strand	State Farm Insurance	At-large Insurance Companies

Non-voting Members

<u>Name</u>	<u>Company</u>	<u>Representing</u>
Mark W. Buell ⁸	Public	Public
Irene Sabourin	Hub International	Insurance Agents
Donna Bacarti ⁹	AmWINS Access Insurance Services	Surplus Lines Insurers
Javier Rodriguez	RISCO Insurance Services, Inc.	Insurance Brokers

³ Kimberly Haza from Liberty Mutual replaced Janine Graff in 2024.

⁴ Jeff Sauls was named Vice-Chair in 2024 and replaced Mr. Remmert as Chairperson in 2025.

⁵ Charles Toney from Mercury Insurance replaced Kelly Yates in 2025 and was named Secretary replacing Gaetano Harris.

⁶ Michele Balady became Vice-Chair in 2025.

⁷ Eric Chandler replaced Mr. Harris in 2025.

⁸ Christy Bouma was appointed by Governor Gavin Newsom on January 25, 2025 replacing Mark W. Buell.

⁹ Donna Bacarti left the Governing Committee in 2025, and that position remains vacant.

Principal Officers

<u>Name</u>	<u>Title</u>
Victoria Roach	President
Elise Klein	Chief Legal Officer and General Counsel
Michael Schalk	Senior Vice President – Business Operations
Kornel Heard ¹⁰	Vice President – Operations
Pete Ducich ¹¹	Vice President – Underwriting and Product Management
Estee Natale	Vice President – Claims
Jinal Patel	Vice President – Finance

Designated liaisons for the California Department of Insurance for attendance at Governing Committee meetings are as follows:

<u>Name</u>	<u>Title</u>	<u>Branch</u>
Edward Cimini ¹²	Senior Casualty Actuary	Rate Regulation Branch
Melissa Wurster ¹³	Senior Staff Counsel	Legal Branch, Rate Enforcement Bureau

UPDATE TO THE 2022 OPERATIONAL ASSESSMENT REPORT

The California Department of Insurance (“CDI”) completed an operational assessment of the FAIR Plan in 2022 which identified 32 findings, recommendations, and best practices that the FAIR Plan should implement. The CDI concluded that the actions implemented by the FAIR Plan to comply with 15 of these items are satisfactory. Many of these items were addressed through underwriting and claims processing changes, including the purchase and implementation of Duck Creek’s policy administration, underwriting, and claims operating systems beginning October 1, 2023. Also, the FAIR Plan hired additional operational and technical staff to serve consumers and the general public and to better

¹⁰ Daphne Pavone replaced Kornel Heard as Vice President – Operations in 2025.

¹¹ Kyle Belvill replaced Pete Ducich as Vice President – Underwriting and Product Management in 2025.

¹² Edward Cimini represented the CDI’s Rate Regulation Bureau in 2023 at Governance Committee meetings. Tina Shaw is the current CDI representative for the Rate Regulation Bureau.

¹³ Melissa Wurster represented the CDI’s Legal Branch, Rate Enforcement Bureau in 2023 at Governance Committee meetings, and remains the CDI’s representative for the Legal Branch, Rate Enforcement Bureau.

align its resources with increased policies and claims. The FAIR Plan has also hired a General Counsel, established a legal department, and instituted an internal audit function by contracting with the accounting and auditing firm, Johnson Lambert. Further, the FAIR Plan has obtained a liquidity facility through a \$600 million line of credit from commercial banks, effective September 4, 2025.

The remaining 17 items have not been addressed, only partially addressed, or new issues have been identified. The number of items and categories include eight items in Governance, Plan of Operation and Enterprise Risk Management (“ERM”), one item in Capital and Liquidity Management, two items in Financial Reporting and Oversight, three items in Underwriting and Rating, two items in Claim Processing and Reserving, and one item in Reinsurance Adequacy. More specifically, those not implemented include the adoption of a strategic plan or ERM function, more robust property inspection reporting as required by the Plan of Operation, corporate governance transparency, a members’ equity management plan or a liquidity management plan, climate-related financial risk reporting, and remediation of accounting and financial reporting issues. The CDI expects that the FAIR Plan will continue its efforts to adopt the remaining recommendations as soon as practicable.

The following is a list of the 32 findings and recommendations contained in the 2022 Operational Assessment Report (with corresponding page numbers in the 2022 report), the current status of the finding/recommendation, and the FAIR Plan’s responses for those items that remain open:

Governance, Plan of Operation, and ERM Significant Findings and Recommendations

- **2022 Finding/Recommendation 1:** *The Governing Committee has not adopted a strategic or ERM plan. The FAIR Plan should develop a three-to-five-year strategic plan to address the FAIR Plan’s financial and operating goals and needs, providing the board and management with a defined strategy and direction to make decisions and allocate FAIR Plan resources. (Page 14)*

2025 Status: Finding/Recommendation remains open.

FAIR Plan Response: The FAIR Plan has been focused on operational improvements to the FAIR Plan including the adoption and implementation of a new claims and policy administration system and adding staff and contractual resources to meet demand growth and serve consumers. An internal audit function has been implemented. As noted in response to the 2022 Findings and Recommendations, the FAIR Plan cannot create a reliable three-to-five-year strategic plan to address its financial and operating goals and needs, because its role as the residual market requires it to be nimble, and able to adjust to the demands of the marketplace. For example, three years ago, the FAIR Plan could not have anticipated it would be asked to insure commercial high-value properties or to provide replacement cost coverage to mobile homes. The FAIR Plan could not have anticipated the deterioration of the voluntary marketplace, and cannot anticipate when or whether the CDI's Sustainable Insurance Strategy will reduce the demand on the FAIR Plan.

- **2022 Finding/Recommendation 2:** *The FAIR Plan has not adopted a formal environmental, social, and governance assessment. The FAIR Plan should establish transparent environmental, social, and governance criteria for its operations under the direction and ongoing monitoring of the Governance Committee, or a specifically-designated Subcommittee. Areas for focus, among others, could be enhancing customer and community resilience from the effects of climate change, encouraging and incentivizing fire prevention and risk mitigation, and advancing diversity, equity, and inclusion among its staff and vendors. (Page 14)*

2025 Status: Finding/Recommendation mostly remains open. Efforts have been made to incentivize fire prevention and risk mitigation, and to enhance diversity, equity and inclusion practices.

FAIR Plan Response: The FAIR Plan publishes a diversity and inclusion statement, conducts annual diversity leadership training, and includes a diversity report in its Governance Committee meetings. Further, the FAIR Plan has provided customers

with an annual wildfire preparedness flier and implemented wildfire hardening premium discounts as approved by the CDI, based on both policyholder mitigation and community efforts. The FAIR Plan is actively trying to minimize its use of paper and the U.S. Mail by transmitting and accepting payments electronically, and determining which communications can (with policyholder permission) be sent electronically. The FAIR Plan will continue to evaluate other areas that have an environmental, social, and governance impact.

- **2022 Finding/Recommendation 3:** *We did not see evidence that inspection reports were presented to the Governing Committee or provided to the CDI. Also, for the years 2018, 2019, and 2021, the Governing Committee minutes do not reflect approval of the Subcommittee charters. The FAIR Plan should ensure and monitor Governing Committee compliance with Plan of Operation requirements related to inspection reports, approval of Subcommittee charters, and general governance requirements.* (Page 14)

2025 Status: Finding/Recommendation mostly remains open. There have been some efforts to develop and implement processes for current and prospective policyholder property inspection reporting to the Governing Committee and the CDI as required by the Plan of Operation, although these efforts have been insufficient. The FAIR Plan is developing procedures for inspection reporting and plans to provide a report to the Governing Committee at some future date, and then annually after that.

FAIR Plan Response: The FAIR Plan has implemented a process to ensure that inspection reporting is presented annually at the Governing Committee meetings as required by the Plan of Operation with the initial reporting at its September 25, 2025 meeting.

Additional Recommendations: For the first time, at the September 25, 2025 Governing Committee meeting, the FAIR Plan briefly noted its inspection results indicating that “action rates were 4% for dwelling applications and 10% commercial applications.” The FAIR Plan should further report and discuss the number and extent of inspections

conducted, the period covered, specific findings identified, specific actions taken, and other useful information. Also, periodic communications of common findings and concerns should be reported to brokers and the public to drive improvements in the application process and related disclosures. Further, the FAIR Plan should report the results of its inspections and subsequent actions taken more frequently than annually to the Governing Committee and the CDI. The FAIR Plan states that its objective is to inspect, in some way, nearly all new properties within the first 60 days of coverage.

FAIR Plan Response: The FAIR Plan's reporting to the Governing Committee is consistent with its requirement to do so under the Plan of Operation. The Governing Committee did not request additional information, suggesting that it received the information it wanted. The FAIR Plan declines to provide additional communication about common findings and concerns to brokers and to the public since the FAIR Plan's general underwriting guidelines are available on the FAIR Plan's website.

- **2022 Finding/Recommendation 4:** *The FAIR Plan implemented an initial clearinghouse program in June 2021. The FAIR Plan should continue to enhance and expand the clearinghouse program to assist in depopulating risks as required by statute. It may be useful to consider other action steps to encourage the replacement of FAIR Plan coverage with voluntary market coverage, similar to actions contained in other states' residual market depopulation plans. For example, the FAIR Plan may consider a consumer education initiative presenting current market issues, the clearinghouse program, and its advantages to consumers. (Page 15)*

2025 Status: Finding/Recommendation partially remains open. The FAIR Plan expanded its clearinghouse to include commercial policies in July 2024, providing insurers with information to consider offering coverage to these policyholders, and assisting in depopulating the FAIR Plan if voluntary market options become available. In compliance with the Plan of Operation, on July 1, 2025, the FAIR Plan began identifying all residential and commercial policyholders included in the clearinghouses who have (a) completed one or more of the mandatory property-level mitigation efforts

or optional factors, or (b) obtained a policy for a property in an area that has received a community-level designation.

Since June 2021, when the residential clearinghouse was established through April 30, 2025, only 730 residential risks have been replaced with voluntary market coverage. The number of members participating in the residential clearinghouse has been generally static at 11 members throughout the period. The CDI understands that for member insurers to offer voluntary market coverage, the member insurer must honor any current relationship that the FAIR Plan policyholder has with the independent agent or broker. However, there is no such obligation when the policyholder has used member insurers' employee agents, or has not used a producer to assist in obtaining FAIR Plan coverage.

Additional Recommendations: The FAIR Plan Governing Committee should, in coordination with the CDI, consider ways to increase member participation in the clearinghouse programs and suggest changes that reduce consumer barriers in seeking coverage in the voluntary market. As part of the Commissioner's Sustainable Insurance Strategy, insurers that utilize catastrophe modeling and/or incorporate net reinsurance costs in their proposed rate filings subject to prior approval by the Commissioner are also mandated to depopulate the FAIR Plan by lifting policyholders out of the FAIR Plan and into the voluntary market. In coordination with the CDI, the FAIR Plan, the property insurance industry, and the producer community, should develop a workable strategy for this FAIR Plan depopulation element to work effectively via the existing FAIR Plan clearinghouse programs.

FAIR Plan Response: The FAIR Plan is very motivated to implement the clearinghouse programs but must comply with the relevant statute. The FAIR Plan has advised the CDI and legislators of the barrier presented by the statutory requirement that insurers potentially interested in offering coverage through the clearinghouse must do so through the existing broker. This is not an issue the FAIR Plan can help address without a statutory change. Instead, this must be addressed

through the voluntary market, the CDI and perhaps the Legislature. In addition, in many instances, the FAIR Plan's premium is less than would be charged by a voluntary market insurer which further impedes the ability to move policyholders back into the admitted market.

- **2022 Finding/Recommendation 5:** *Based on the governance issues identified herein, the FAIR Plan should hire a general counsel or senior legal staff, or contract with experienced legal staff to ensure compliance with the FAIR Plan's obligations under the Plan of Operation, and implementation of governance policies and procedures. (Page 15)*

2025 Status: The FAIR Plan has established a legal department and, in December 2023, hired a Chief Legal Officer and supporting staff to comply with the Finding/Recommendation.

- **2022 Finding/Recommendation 6:** *Based on some inaccurate financial information contained in the President's Report, the FAIR Plan should improve the accuracy of financial information contained within the President's Report related to the net capital position, which is more accurately a measure of short-term expected liquidity, rather than member equity (deficit). (Page 15)*

2025 Status: The FAIR Plan implemented procedures to comply with the Finding/Recommendation.

- **2022 Finding/Recommendation 7:** *Minutes of Executive Subcommittee meetings are not prepared. The FAIR Plan should establish a policy and practice to document all Executive Subcommittee meetings with appropriate meeting minutes. (Page 15)*

2025 Status: As appropriate, minutes of Executive Subcommittee meetings are made and presented to the Governing Committee and have been since January 2023 to comply with the 2022 Finding/Recommendation.

- **2022 Finding/Recommendation 8:** *The FAIR Plan’s Claim Subcommittee did not meet in 2020 or 2021. The FAIR Plan should ensure periodic and timely oversight by the Governing Committee and Subcommittees related to implementation of operational changes. If there are time constraints, it might be useful to reorganize the governance committees for efficiency and effectiveness. (Page 15)*

2025 Status: The Claim Subcommittee has met annually since 2022 to comply with the Finding/Recommendation.

- **2022 Finding/Recommendation 9:** *The FAIR Plan provides very little public information about its Governing Committee and Subcommittee meetings, financial results, operational and statistical data, reinsurance coverage, strategic and depopulation plans, and governance processes. The FAIR Plan should provide enhanced transparency and information to the general public to strengthen public awareness and accountability including the following:*
 - *FAIR Plan governance processes including Governing Committee and Subcommittee access, agendas, and minutes*
 - *Financial reporting and annual audited financial statements*
 - *Annual report discussing the year in review, governance updates, statutory authorities, reinsurance coverage, rate information, catastrophe response plans, strategic plans, depopulation efforts, and initiatives to enhance and improve policyholder service and related metrics*
 - *Reports filed with Property Insurance Plan Service Office, Inc. (“PIPSO”), such as the semi-annual Report of Property Insurance Plan Coverage, including new and renewal business statistics and claims statistics. (Page 15)*

2025 Status: The FAIR Plan has partially complied with the Finding/Recommendation. In late 2024, the FAIR Plan began disclosing policy in-force and total-insured-value (“TIV”) exposure information by zip code and by type of coverage. In compliance with the Commissioner’s Order 2024-2 (See Subsequent Events), issued on August 27, 2024, the FAIR Plan shall make a report by July 1, 2025, and quarterly thereafter, to the Commissioner, the Assembly Committee on Insurance, the Senate Committee on

Insurance, and the Governor, and shall post the report on the FAIR Plan's public website. This report requires information for dwelling policies by zip code and classified as owner-occupied single-family residential, tenant-occupied, renters, or condo unit-owners. Each category shall disclose the number of policies at each wildfire risk score, the total exposure or TIV, and the written premium. For commercial policies, the report requires classification by zip code, noting whether limits exceed \$20 million per location, and further classification as commercial habitational, retail, manufacturing, offices, or agricultural. Each category shall disclose the number of policies at each wildfire risk score, the total exposure or TIV, and the written premium.

The report also requires information about residential and commercial clearinghouse programs, including policy counts and total exposures at the beginning and end of the reporting period, and the percentage changes. Also, total written premium in specific distressed areas identified by the CDI shall be disclosed at the end of each calendar year.

Additionally, in May 2025, the FAIR Plan began disclosing on its website the Plan of Operation, the names of the member insurers serving on the FAIR Plan's Governing Committee, the audited financial statements for the years ended September 30, 2022 and 2023, the FAIR Plan's distribution and assessment history, a high-level summary of the reinsurance program's coverage layers for the period March 1, 2025 to February 28, 2026, a summary of dwelling and commercial hardening discounts, disclosure of the total cash and short-term receivables outstanding to pay claims and liabilities as of March 31, 2025, which is approximately \$1,577.0 million, and the members' deficit as of March 31, 2025, which is approximately \$800.0 million. The audited financial statements for the year ended September 30, 2024 were issued on August 22, 2025 and have been added to the FAIR Plan's website.

The FAIR Plan continues to provide the public with limited information about its Governing Committee and Subcommittee meetings, operational data, strategic plans, and governance processes. Additionally, it is again recommended that the FAIR Plan

provide enhanced transparency and information to the general public to strengthen public awareness and accountability, including the following:

- Governance processes including Governing Committee and Subcommittee access, agendas, and minutes.
- Annual report discussing the year in review, governance updates, premium rate information, catastrophe response plans, strategic plans, and initiatives to enhance and improve policyholder service and related metrics.

FAIR Plan Response: The FAIR Plan is a private organization and, as such, the Governance Committee meetings and minutes are not open or available to the public. The FAIR Plan conducted a review of other websites maintained by private residual markets to identify whether there is additional information that might be appropriate to disclose. As a result of that review, the names of member insurers serving on the Governing Committee, audited financial statements, recent financial results, and a high-level reinsurance summary were disclosed on the FAIR Plan's website in May 2025.

- **2022 Finding/Recommendation 10:** *The FAIR Plan should consider implementing an internal audit function, using either employee staff, or a contracted firm, or a combination, to independently assess and strengthen the key operational areas. In addition, independent quality assurance functions could be enhanced or established in these operational areas. (Page 16)*

2025 Status: Finding/Recommendation in process of adoption. The FAIR Plan has begun the process of developing an internal audit function by engaging a third-party accounting firm to conduct internal audit activities. However, the implementation process has been slow with the current efforts focused on documenting processes, systems, and controls. Therefore, no internal audit testing has yet occurred, and no reports have been issued. The FAIR Plan should expedite its execution of the internal audit plan with the most critical internal audits conducted and reported later in 2025.

FAIR Plan Response: The commencement of internal audits was delayed by unprecedented growth and the recent catastrophic fires earlier this year. Despite that, the Large Loss Audit has been completed, and other audits are anticipated to be completed later this year. The FAIR Plan states that this finding will continue to be a priority.

- **2022 Finding/Recommendation 11:** *The FAIR Plan should consider developing a staff ERM function to assist in identifying and quantifying longer-term prospective risks and mitigation efforts. (Page 16)*

2025 Status: Finding/Recommendation remains open.

FAIR Plan Response: The FAIR Plan notes that it is developing an internal audit function, which is expected to assist with ERM.

- **2022 Finding/Recommendation 12:** *The FAIR Plan should consider further developing and formalizing succession planning for executive and senior staff and establishing action steps for staff development, so that the staff is better prepared for potential higher-level roles. (Page 16)*

2025 Status: Finding/Recommendation in process of adoption. The FAIR Plan has conducted some succession planning; however, much of it is informal and does not involve Governing Committee review or approval. The FAIR Plan should continue to formalize and operationalize its succession planning for all executive levels.

FAIR Plan Response: The FAIR Plan has a succession planning process established for executive positions, and the FAIR Plan is expanding it to include key senior staff positions. Also, the FAIR Plan is implementing leadership and management development programs.

Capital and Liquidity Management Significant Findings and Recommendations

- **2022 Finding/Recommendation 13:** *The FAIR Plan does not have a formal capital management or liquidity management plan. The FAIR Plan should develop a formal capital and liquidity plan with quantitative and qualitative benchmarks of acceptable capital and liquidity levels, and actions to be taken when such levels are breached. Such levels and actions should reasonably ensure the matching of significant deficit pool years with related assessments. The capital and liquidity plan should be regularly monitored and consistently reported to the Accounting Subcommittee and the Governing Committee. The development and adherence to the capital and liquidity plan would provide important financial information and accountability to member companies, the Department, the public, and other stakeholders such as reinsurers, vendors, and producers. (Page 19)*

2025 Status: Finding/Recommendation remains open. The FAIR Plan has not adopted a members' equity management plan or a liquidity management plan. The FAIR Plan has operated on a cash basis for over 30 years. With no policy to maintain minimum members' equity levels, there are insufficient funds for reinsurance protection, as the FAIR Plan cannot afford to purchase reinsurance on the unsubscribed amounts due to its limited budget. Further, a lack of investment income on invested assets since 1995 has materially impacted the FAIR Plan's members' equity and prevented the investment income from providing a stronger financial position and/or other policyholder benefits. In addition, pursuant to its Plan of Operation, the FAIR Plan may not distribute any members' equity back to its members unless it receives the Commissioner's prior approval. The FAIR Plan should establish a members' equity management plan to ensure sufficient members' equity over a reasonable period to achieve an acceptable financial position. Also, the FAIR Plan should establish a liquidity management plan with quantitative guidelines and action steps to ensure sufficient liquidity to honor the FAIR Plan's contractual obligations.

FAIR Plan Response: The FAIR Plan currently does not have a policy to maintain minimum members' equity levels. Since the FAIR Plan is backed by its participating

insurers, it assesses member companies when there is a liquidity need, as occurred earlier this year. CIC §10095(c) has been interpreted to require the FAIR Plan to distribute surplus rather than to maintain a members' equity layer, with profits and losses shared with member companies, so the Plan of Operation (or the statute) would need to be amended to permit such a layer. The FAIR Plan discussed options for establishing a members' equity layer with the Governing Committee in September 2024 and plans to propose amending the Plan of Operation to permit the maintenance of a members' equity layer. The FAIR Plan is also planning to include the cost of members' equity in its rates to further support such a layer. The FAIR Plan's cash position is regularly monitored and reported to the Investment Subcommittee and Governing Committee at least three times per year and more frequently during catastrophes.

- **2022 Finding/Recommendation 14:** *The FAIR Plan does not have a third-party liquidity facility in the event that immediate funds are needed. The FAIR Plan should consider obtaining a third-party liquidity facility, similar to those of similarly-sized insurers, to assist in immediate payment of claims in the event of one or more catastrophes. This facility would partially mitigate the potential credit risk, legal dispute risk, or slow pay risk in collections from member companies, in the event that immediate funds are necessary to pay claims. (Page 19)*

2025 Status: The FAIR Plan complied with the Finding/Recommendation. The FAIR Plan and the CDI worked closely to provide the guidelines and protections for a lender to provide a liquidity facility or bond facility. On September 3, 2025, the Commissioner issued Order 2025-2 (See Subsequent Events), to which the FAIR Plan consented, updating the Plan of Operation to provide authority and guidelines for establishing liquidity facilities, including a line of credit, along with repayment terms and pledged asset requirements. Repayment of amounts borrowed under the liquidity facilities must be approved by the Commissioner. Effective September 4, 2025, the FAIR Plan obtained a \$600 million line of credit from commercial banks to support liquidity needs,

such as in the event of a large catastrophe, to ensure that consumer claims are timely settled and paid. The line of credit matures on February 27, 2026, and the agreement includes an option for extension. Further, the California State Legislature passed Assembly Bill 226 on September 12, 2025 to provide statutory guidelines for such a facility. The legislation is currently pending the Governor's consideration.

FAIR Plan Response: As noted above, the FAIR Plan obtained a line of credit from commercial banks effective September 4, 2025.

Financial Oversight and Reporting Significant Findings and Recommendations

- **2022 Finding/Recommendation 15**: *To effectively reflect actuarial conclusions in quarterly financial reporting, the FAIR Plan should reflect Milliman's quarterly loss, loss adjustment expense ("LAE"), and premium deficiency reserve estimates in the concurrent quarterly financial statements, even if the FAIR Plan delays the financial reporting to member companies by a few days, to reflect the period's statutory results and financial position accurately in the quarterly financial statements. (Page 20)*

2025 Status: The FAIR Plan complied with the Finding/Recommendation as Milliman's quarterly loss, LAE, and premium deficiency reserve estimates have been reflected in the FAIR Plan's quarterly financial statements since 2023.

Additional Recommendations: As part of the 2024 audit, the independent auditor concluded that there are significant deficiencies in the system of internal control related to the reporting of changes in the estimates for unpaid losses and loss adjustment expenses by year incurred, as this data is not readily available. The historical focus of the actuarial reporting and analysis used for such estimates has been the pool year rather than the incurred fiscal year. The independent auditor recommends that the FAIR Plan, in consultation with its independent actuary, implement a process to track unpaid loss and expense development as actual results emerge, including changes in estimates for incurred but not reported losses, to

facilitate enhanced financial reporting, assist in identifying trends in reserve adequacy, and enhance overall reserving practices.

FAIR Plan Response: The FAIR Plan is working with its independent actuary to implement a process for tracking the development of unpaid losses and loss adjustment expenses by incurred year. The FAIR Plan notes that the change was recently recommended by its auditors in light of its unprecedented growth.

- **2022 Finding/Recommendation 16**: *Based on current budgeting practices, the FAIR Plan should review the budget process, determine the objectives of the process, and consider process adjustments to ensure that it provides the Governing Committee with the most useful and intended information. If the budget is intended to estimate cash flows, then a focus on projected cash-basis impacts that include estimates of premiums received would be appropriate. Alternatively, the budget process could solely focus on cash-basis expenses if the objective is expense management. If the intent of the budget is to reflect accrual-basis statutory financial results, then more complex accounting estimates should be included in the projections such as IBNR, premium deficiency reserves, employee benefits accruals, and others. Several of these estimates would require involvement by Milliman. Also, if the FAIR Plan continues to report actual vs. budgeted results at the ten-month period, the budget process should focus on cash-basis impacts, since reserves and many accrual-basis adjustments are only estimated and recorded quarterly. (Page 21)*

2025 Status: The FAIR Plan assessed its budgeting processes and adopted changes in 2023 to ensure that these processes provide useful and appropriate information to comply with the Finding/Recommendation.

- **2022 Finding/Recommendation 17**: *The FAIR Plan does not report its climate-related financial risks. The FAIR Plan should begin reporting its climate-related financial risks within its annual statutory financial statements, in alignment with recently adopted National Association of Insurance Commissioners (“NAIC”) guidance*

and the international Task Force on Climate-Related Financial Disclosures (“TCFD”). This would include the FAIR Plan’s exposure to, and anticipated effects of, specific climate-related financial risks and opportunities, planned responses to the effects, and the implications of the responses on the FAIR Plan’s current and future financial statements, capital, liquidity, and reinsurance availability. The TCFD has published guidance for implementation that may be helpful. <https://www.fsb-tcfd.org/> (Page 21)

2025 Status: Finding/Recommendation remains open.

FAIR Plan Response: The FAIR Plan will evaluate the need to report on climate-related financial risks and its ability to do so. The FAIR Plan incorporates its comments made in response to Finding 1, above.

Underwriting and Rating Significant Findings and Recommendations

- **2022 Finding/Recommendation 18:** *As noted previously, the Governing Committee has not adopted a strategic plan. The FAIR Plan should develop a three-to-five-year strategic plan including an assessment of underwriting staffing or contracting needs consistent with expected growth along with depopulation efforts. The strategic plan should also assess training and development needs of newly hired staff and contractors. (Page 22)*

2025 Status: The FAIR Plan has not developed a three-to-five-year strategic plan to assess underwriting staffing or contracting needs. The FAIR Plan hired additional staff to service policyholders as a result of its growth. As of May 1, 2025, the FAIR Plan has 254 full-time employees and 32 non-claim temporary staff available to serve policyholders, compared to 133 employees and contractual resources available in June 2022. Within the claims function, the FAIR Plan has 63 employees, 122 temporary claims examiners, and 87 field adjusters to assist the FAIR Plan as needed.

FAIR Plan Response: The FAIR Plan has hired, and continues to hire, additional staff based on current and currently anticipated needs. The FAIR Plan again incorporates its response to Finding 1, and states it cannot develop a three to five-year strategic

plan because it cannot anticipate expected growth or depopulation. Given the rapidly changing marketplace, a three-to-five-year plan would be highly speculative. The FAIR Plan further states that as of the date of the examination, it had 280 full-time employees in addition to temporary and outsourced staff.

- **2022 Finding/Recommendation 19:** *The FAIR Plan's Underwriting Manual, which includes personal lines dwelling fire and commercial property guidelines does not appear to have been updated since 2019. Examples of updates needed for recent statutory changes include revising the definition of "actual cash value" and noting the 75-day notice requirement to consumers for non-renewal actions. A proposed Commercial Underwriting Manual for commercial property risks has been drafted to be effective February 1, 2022, and includes underwriting guidelines for newly-eligible farm risks. The FAIR Plan states that it has filed the draft Commercial Underwriting Manual with the Department for approval. The Underwriting Manual, for personal lines dwelling fire risks should be updated consistent with California law changes, changes in the Plan of Operation, and for other changes as approved by the Department. Also the revised Underwriting Manual should be submitted to the Department for review and approval. The FAIR Plan states that it plans to update the Underwriting Manual. Also, the proposed Commercial Underwriting Manual should be updated for recently increased policy limit offerings and submitted to the Department for approval. (Page 22)*

2025 Status: Commissioner's Order 2023-2 (See Subsequent Events) addressed underwriting issues identified by the CDI including issues addressed in the underwriting market conduct examination report adopted by the CDI on April 27, 2021. The FAIR Plan updated its underwriting manuals in 2022 and submitted them to the CDI for approval with various rate filings. Also, since December 2023, 11 underwriting and rate manuals have been submitted to the CDI and approved.

Additional Recommendations: In 2023, in response to concerns about unfair and disparate treatment of insureds from underserved areas in non-renewal actions, the

FAIR Plan conducted an operational audit, which found no disparate treatment in non-renewals, but concluded that 12.9% of non-renewals were improperly processed and executed. The FAIR Plan, in consultation with the CDI, agreed to reduce non-renewals when there are deficiencies not cured at the property, and instead apply a premium surcharge for the conditions. The internal audit function should conduct testing of the FAIR Plan's non-renewal procedures to ensure that the FAIR Plan is in compliance with the FAIR Plan's underwriting and rating guidelines as approved by the CDI.

FAIR Plan Response: This testing will take place as part of the Underwriting audit, scheduled to be completed in 2026.

- **2022 Finding/Recommendation 20:** *To improve the efficiency and effectiveness of its underwriting and policy service processes, the FAIR Plan should continue to evaluate underwriting and policy service processes and application systems. For example, premium payments are received in the FAIR Plan's mail room, scanned, and deposited the same or next day in the FAIR Plan's premium bank account. Use of a lockbox system would be more efficient, particularly with the growth in policies-in-force, and provide additional controls over premium receipts. Management states it will continue to review this issue, and that use of a lockbox system is a medium to long-term objective. (Page 23)*

2025 Status: The FAIR Plan partially complied with the Finding/Recommendation. The purchase and implementation of Duck Creek's policy administration and underwriting system beginning October 1, 2023 addressed many needed policy administration enhancements and allowed for the processing of a much higher volume of coverage applications. The FAIR Plan also implemented a lockbox system with their bank for processing incoming premiums checks. However, during the 2024 independent audit, problems were identified with the design and logic of the Duck Creek application in accurately and completely recording premium-related transactions, and thus in summarizing these transactions for financial reporting. These problems delayed the completion of the 2024 audit with the audit report not issued

until August 22, 2025.

Additional Recommendations: The independent auditor recommended that the FAIR Plan strengthen its reconciliation procedures and implement more robust controls over premium-related data and accounts to ensure accurate, complete, and timely reporting. Further, the independent auditor believes that additional staffing resources will be necessary to manage the increasing workload from increased business activities and ongoing system implementation.

The FAIR Plan should continue its efforts to remediate the issues and ensure that Duck Creek produces accurate and complete financial information for accounting and financial reporting. Also, once these issues are remediated, the FAIR Plan should make efforts to automate the interface between the Duck Creek system and the general ledger for more timely and accurate financial reporting. Further, the FAIR Plan's internal audit function should complete periodic and ongoing audits to ensure that all issues have been remediated.

FAIR Plan Response: The FAIR Plan has engaged an external consulting firm to modify its financial reports to ensure that requirements are properly defined, and to monitor and assess premium cycle remediation efforts. The new premium cycle reports have been developed and tested, and will be used going forward to prepare financial statements. In addition, the reports are cross-checked to ensure that premium accounts are appropriately reconciled. The external consulting firm and the FAIR Plan staff are working with the systems integration vendor to ensure that items requiring correction are being addressed through design fixes in the Duck Creek system.

Claim Processing and Reserving Significant Findings and Recommendations

- **2022 Finding/Recommendation 21:** *As noted previously, the Governing Committee has not adopted a strategic plan. The FAIR Plan should develop a three-to-five-year strategic plan including an assessment of claims staffing or contracting needs*

consistent with anticipated growth in claim volume. Further, the FAIR Plan should continue to make efforts to hire sufficient employee claims staff to reduce dependency on high-cost and marginal-quality non-field contract adjusters. The strategic plan should also assess training and development needs of newly hired staff and contractors. (Page 25)

2025 Status: As noted above, the FAIR Plan has not developed a three-to-five-year strategic plan to assess staffing or contracting needs. The FAIR Plan hired additional staff to service policyholders as a result of its growth. Approximately, 85 additional full-time employees were added between mid-2022 and late 2024 for a total of 218 full-time employees in late 2024. The Commissioner communicated expectation to the FAIR Plan in January 2025, instructing the FAIR Plan to have necessary capacity and staffing to handle consumer claims from the Los Angeles Wildfires in the most expeditious manner possible. As of May 1, 2025, the FAIR Plan has 254 full-time employees and 32 non-claim temporary staff available to serve policyholders, compared to 133 employees and contractual resources available in June 2022. Within the claims function, the FAIR Plan has 63 employees, 122 temporary claims examiners, and 87 field adjusters to assist the FAIR Plan as needed.

FAIR Plan Response: The FAIR Plan respectfully disagrees with the assertion that it hired additional staff at the Commissioner's insistence or expectation. Staffing decisions have been, and continue to be, made based on current and reasonably anticipated operational needs. As stated in response to Finding 1, the FAIR Plan is unable to develop a three- to five-year strategic plan, as it cannot reliably project future growth or depopulation given the rapidly evolving marketplace. Any such plan would be speculative in nature. As of the date of the examination, the FAIR Plan employed 280 full-time employees, in addition to temporary and outsourced personnel. These staffing levels, together with the FAIR Plan's established catastrophe response plan, are designed to ensure the organization remains adequately resourced to meet policyholder and operational demands.

- **2022 Finding/Recommendation 22:** *The structured oversight of the claims function appears to be lacking. The Claims Subcommittee should meet regularly and consistently and receive standard reports from the FAIR Plan's claims management related to claims operations, including compliance with standards and benchmarks for claims handling, staffing issues, results of QA reviews and other claims audits, process weaknesses or challenges, management's recommendations for improvements, and any other necessary topics. Also, the FAIR Plan should consider whether real-time reporting of claims benchmarks to the Claims Subcommittee is warranted. (Page 25)*

2025 Status: The FAIR Plan partially complied with the Finding/Recommendation. The Claim Subcommittee presently meets annually to discuss claims handling, results, and operational matters; however, the oversight is conducted at a very high level, and since it only meets annually, it is not timely, or as effective as needed.

The FAIR Plan updated its claims handling guidelines in September 2024 for evaluating smoke and ash claims due to wildfires; however, the FAIR Plan has not submitted an updated form filing addressing policy coverage changes for smoke and ash claims to comply with California law. Generally, the FAIR Plan should implement more detailed and frequent oversight of the claims function by the Claims Subcommittee or the Governing Committee, including consideration of the results of internal or compliance audits to ensure compliance with statutory and regulatory requirements, policy contractual language, and claims handling guidelines. The internal or compliance audits should include complex claims such as wildfire claims and claims for smoke damage. The oversight and reporting could occur in joint meetings of both groups.

FAIR Plan Response: The Claims Subcommittee meets annually to recap the annual claims activity, including claim volume, staffing, achieved goals, and future plans. The Claims Subcommittee charter states that it serves in an advisory capacity and sounding board by providing guidance and technical advice to management based on

industry standards, responding to referral matters, and performing other duties at the request of the Governing Committee or Vice President of Claims. In addition, claims supervisors review open claims monthly. The FAIR Plan will be implementing internal audit processes to review closed claims for compliance and customer service.

- **2022 Finding/Recommendation 23:** *To improve the efficiency and effectiveness of its claim processes, the FAIR Plan should continue to evaluate its claims processes and application systems. (Page 25)*

2025 Status: The purchase and implementation of Duck Creek's claim system beginning October 1, 2023 addressed many needed enhancements to comply with the Finding/Recommendation.

- **2022 Finding/Recommendation 24:** *The case reserve amounts automatically assigned to claims have not been updated in several years. The FAIR Plan and its consulting actuary, Milliman, should evaluate and update the standard case reserve amounts based on historical and projected claim settlement values. (Page 25)*

2025 Status: With Milliman's assistance, automated reserves were updated in 2023 with the implementation of the Duck Creek system to comply with the Finding/Recommendation.

- **2022 Finding/Recommendation 25:** *The FAIR Plan's Claims Manual requires that only a member of the Governing Committee may sign a claim payment check over \$1.5 million, but the staff were unsure about this requirement. The FAIR Plan should review this policy and ensure that claims staff understand this and other policies in the Claims Manual. (Page 26)*

2025 Status: The FAIR Plan has reviewed the policy and confirmed that all claim checks go through an internal review process and no longer require Governing Committee approval to comply with the Finding/Recommendation. The check

authority levels were approved in 2024 by the Governing Committee.

- **2022 Finding/Recommendation 26:** *The FAIR Plan should consider expanding the QA File Reviewer staff review to allow for improved claim process quality and accuracy, to provide targeted training needs indicated by the QA review results, and to assess the quality of closed claims for potential reach-back of contractual fees paid for poor quality work. (Page 26)*

2025 Status: The FAIR Plan has made several changes in the guidance and supervision of claims examiners, including both employees and contractors, to increase the frequency and depth of oversight over the claims examiners to comply with the Finding/Recommendation.

- **2022 Finding/Recommendation 27:** *The FAIR Plan should re-evaluate all claims contracts to ensure that meaningful quality and service standards are included in the contracts sufficient to ensure consistent high-quality performance, and with timely actions that can be taken when the work does not meet the service standards. (Page 26)*

2025 Status: The FAIR Plan has engaged new claims contractors and evaluated contracts to ensure that they reflect the needs of the FAIR Plan at a reasonable cost. Within the claims function, the FAIR Plan has 63 employees, 122 temporary claims examiners, and 87 field adjusters to assist the FAIR Plan as needed to comply with the Finding/Recommendation.

Reinsurance Adequacy Significant Findings and Recommendations

- **2022 Finding/Recommendation 28:** *The FAIR Plan does not have a multi-year reinsurance strategy. The FAIR Plan should develop a multi-year reinsurance strategy in connection with the capital and liquidity plan. The strategy should include quantitative benchmarks of desired or optimal reinsurance protection over a multi-year period. Also, to the extent that the FAIR Plan's reinsurance return-period continues to*

be far lower than desired or optimal, the determination should be disclosed and supported. The reinsurance strategy should be regularly monitored and consistently reported to the Reinsurance Subcommittee and the Governing Committee. (Page 27)

2025 Status: The FAIR Plan has not developed a multi-year reinsurance strategy in connection with a capital and liquidity plan. The FAIR Plan has increased its reinsurance coverage since 2022 as its exposures have significantly increased. The 2024-2025 catastrophe reinsurance tower of \$4.85 billion above the \$900 million self-insured retention provided \$2.63 billion of reinsurance coverage, with the remaining \$2.22 billion unsubscribed, such that the FAIR Plan was responsible for the unsubscribed portion, in addition to the \$900 million self-insured retention, for a total of \$3.12 billion of FAIR Plan exposure. The entire reinsurance tower provided 102.5 return-period protection, if it were fully subscribed. The cost of the reinsurance was \$424.4 million, which was less than the reinsurance budget of \$474.0 million for that treaty year. Similarly, effective March 1, 2025 to February 28, 2026, the FAIR Plan's catastrophe reinsurance coverage includes a \$1.25 billion retention and provides coverage to \$7.1 billion through various layers, which equates to a 103.7-year modeled return period. However, not all layers were placed, with total placed coverage of approximately \$3.46 billion and cumulative retention and unplaced coverage of approximately \$3.64 billion. The FAIR Plan continues to have inadequate reinsurance protection for the exposures it writes, due to the insufficient liquidity to purchase reinsurance, which is very costly. Thus, the members have chosen to partially self-insure instead, which could result in assessments needed to operate the FAIR Plan after a major wildfire event. The FAIR Plan should establish a plan that will allow it to obtain the necessary members' equity needed in order to purchase adequate reinsurance protection for the exposures it writes.

FAIR Plan Response: The FAIR Plan relies on the expertise of its Reinsurance Subcommittee and its reinsurance broker, Aon, when purchasing reinsurance. The FAIR Plan obtains recommendations from Aon, discusses the recommendations with the Reinsurance Subcommittee, and then meets with Aon and the reinsurers to

procure the most cost-effective coverage. The FAIR Plan purchases reinsurance in accordance with budgetary constraints established by the Governing Committee. The FAIR Plan has submitted a dwelling rate filing to the CDI which includes the net cost of reinsurance. The FAIR Plan has considered the purchase of multi-year CAT bonds as part of the reinsurance structure last year and is reconsidering this year as well. The FAIR Plan further incorporates its response with respect to 2022 Finding/Recommendation 1.

2022 Finding/Recommendation 29: *The FAIR Plan should consider the use of catastrophe bonds or similar capital market solutions as alternatives to traditional reinsurance in future years as other residual market facilities have done, including two such facilities in California. Use of catastrophe bonds has advantages and disadvantages from an insurer's perspective. Catastrophe bonds generally have short maturities of three to five years, and bond payments to the insurer are dependent on the occurrence of a catastrophic event resulting in catastrophe claims exceeding a pre-determined amount. When traditional reinsurance is expensive due to recent catastrophe claims or limited capacity, use of catastrophe bonds as a form of reinsurance can be more cost effective. Also, catastrophe bonds generally provide more cost certainty to the insurer. Alternatively, in periods of financial instability or rising interest rates, the costs of such bonds may increase due to the investor's risk appetite, and the opportunity cost of forgoing safer or higher-yielding investments.*
(Page 27)

2025 Status: The FAIR Plan considered purchasing catastrophe bonds as part of its 2024-2025 reinsurance structure and determined that such bonds were not cost effective. The FAIR Plan is reconsidering purchasing catastrophe bonds as part of its 2025-2026 reinsurance structure. This recommendation is not related to the liquidity recommendation #14 or the legislation to provide authority for a liquidity facility or catastrophe bonds through the California Infrastructure and Economic Development Bank.

Customer Services Policies and Procedures Significant Findings and Recommendations

- **2022 Finding/Recommendation 30:** *The FAIR Plan uses a first-notice-of-loss (“FNOL”) script for claims inquiries, which is also contained in the FAIR Plan’s Catastrophe Response Plan. The customer service call scripts contain suggested responses to claimants’ inquiries about whether they can stay in a hotel, whether their evacuation costs are covered under their FAIR Plan policy, or whether their medical expenses are covered under their FAIR Plan policy. Each of the suggested answers note that an adjuster will answer their claim questions, and the hotel question response also indicates that fair rental value coverage is provided under the FAIR Plan policy. The FNOL script should clarify to the consumer that loss of use of the home is covered through the fair rental value policy provision, since this interpretation may be confusing to the consumer. Also, the FNOL script refers the consumer to the “specimen copy of the policy on the website”, which is not currently available on the website to the general public. Finally, the FNOL script should be reviewed by legal counsel to ensure its accuracy and adherence to industry standard fair claims practices. (Page 29)*

2025 Status: The FAIR Plan has updated its internal documentation and guidelines to ensure that they are clear and consistent with policy language and regulatory requirements to comply with this Finding/Recommendation.

- **2022 Finding/Recommendation 31:** *As the FAIR Plan’s staffing is lower on a per policy basis when compared to other FAIR plans or residual market facilities of similar size, the FAIR Plan should continue to consider the adequacy of the number of employee staff available to assist consumers and producers with their insurance needs. It may be appropriate to increase hiring efforts, and to develop a robust training program to ensure that the staff is capable of handling consumer and producer requests, and to assist with employee retention. (Page 30)*

2025 Status: As of May 1, 2025, the FAIR Plan has 254 full-time employees and 32

non-claim temporary staff available to serve policyholders, compared to 133 employees and contractual resources available in June 2022. Within the customer service function, there are currently 88 employee staff. These actions address the Finding/Recommendation.

- **2022 Finding/Recommendation 32:** *The FAIR Plan monitors the number of business days to process dwelling fire endorsements, customer service average call-time-to-answer, and the call abandonment rate. These benchmarks are periodically summarized in the President's Report as provided to the Governing Committee. However, the reporting of these benchmarks is inconsistent. In three instances, the average call-time-to-answer was not shown. Also, measurement of the benchmark in seconds or minutes would be more informative. The FAIR Plan should provide the Governing Committee, and possibly one or more of the Subcommittees, with more frequent and informative results of customer service benchmarks and consider whether real-time reporting of these and other benchmarks is warranted. (Page 30)*

2025 Status: The FAIR Plan complied with the Finding/Recommendation and now provides consistent reporting. The FAIR Plan monitors customer call volume and customer wait times as documented in the President's Report with commentary on trends and action steps. In the January to March 2025 period, there was an average of approximately 39,000 monthly customer calls, and wait times decreased from an average of 5.33 minutes in January 2025 to 0.56 minutes in March 2025 with the goal of answering calls within two minutes.

TERRITORY AND PLAN OF OPERATION

Territory

The FAIR Plan was organized by the insurance industry in accordance with the establishing statute enacted by the Governor and California State Legislature to make property insurance for homes and businesses available in two areas of the state: (1) specified brush/wildfire areas; and (2) specific urban areas (Division I) designated by the Commissioner of Insurance (“Commissioner”) of the California Department of Insurance (“CDI”). A Business Owner’s Program (“BOP”) (Division II) has been offered by the FAIR Plan since October 1, 1994. BOP offers coverage to small and medium-sized business operators, who have difficulty obtaining property and liability insurance in the voluntary insurance market. The FAIR Plan is a syndicated property insurance pool established to provide insurance coverage to those insurable risks that would otherwise not be able to obtain coverage through voluntary markets. Effective May 30, 2001, the Commissioner expanded the FAIR Plan’s area of operation state-wide.

In accordance with California insurance statutes, all private insurance companies licensed to write fire, allied lines, homeowners, commercial multi-peril, and earthquake coverages are required to participate in the FAIR Plan and share in any profits and losses as a condition of their authority to transact insurance in California. It is a mechanism to spread risk, premiums, losses, and expenses among the participating insurers. Participating percentages are reduced proportionately by the amount that the participating insurers voluntarily write in the designated lines of business. Accounting activity is allocated to pool years, which remain open until closure is approved by the Governing Committee, and a distribution, assessment, or members’ equity contribution of equity (re-application to other pool years) of funds may be made. The Plan of Operation was amended as of May 13, 2019 to include language noting that a distribution or assessment requires the prior approval of the Commissioner.

All activity conducted by the FAIR Plan is on behalf of its participating insurers. For this reason, the FAIR Plan does not have a certificate of authority. Licensed producers are

not appointed agents of the FAIR Plan; however, all property and casualty producers licensed by the CDI are eligible to submit applications to the FAIR Plan on behalf of their insurance clients. Consumers may also seek coverage directly from the FAIR Plan without the use of a licensed producer.

The FAIR Plan writes its own policies, collects premiums, pays return premiums, commissions, and incurs general expenses. One-year policies are issued, and premium rates are based upon the FAIR Plan's loss experience, as approved by the California Department of Insurance. While the FAIR Plan does not verify if applicants attempted to place a risk in the voluntary market, it does require that producers e-sign an acknowledgement that they have conducted a diligent search, as required by California Insurance Code ("CIC") §10093.

Plan of Operation

In December 1996, the California Earthquake Authority ("CEA") was created by the Governor and California State Legislature to help resolve the insurance availability crisis in California, and accordingly, the FAIR Plan made a contribution of \$15.0 million to the CEA. Pursuant to CIC §10091(c), the FAIR Plan continues to participate in the CEA. The participation is designed to limit the FAIR Plan's earthquake exposure. As of September 30, 2023, the FAIR Plan has a 0.59% share of the total CEA market, and its maximum exposure to earthquake loss is approximately \$9.9 million. Future assessments in the event of a catastrophe are dependent upon the FAIR Plan's CEA earthquake market share, the magnitude of the earthquake losses, and the financial position of the CEA.

Effective February 1, 2022, the Commissioner approved the FAIR Plan to issue commercial policies to farmowners, wineries, and other similar outdoor businesses in accordance with California law changes.

Pursuant to Stipulation and Order No. 2023-1 dated March 29, 2023, the FAIR Plan was directed to increase policy limits for Division I commercial property combined coverage limits to \$20 million for building coverage, business personal property coverage, and other

associated coverages at one insured location. Also, Division II BOP combined coverage limits were increased to \$20 million for building coverage, business personal property coverage, and other associated coverages at one insured location, plus additional limits of \$1 million per occurrence and \$3 million in the aggregate for liability coverage, for total combined limits of up to \$23 million for BOP coverage. The FAIR Plan agreed to these changes and began offering such coverage limits in 2023. See Subsequent Events for later developments.

The maximum policy limits that may be placed through the FAIR Plan as of September 30, 2023 were as follows:

<u>Division</u>	<u>Type of Coverage</u>	<u>Maximum Policy Limit</u>
Division I	Dwelling-Buildings and Contents Combined Commercial Coverage	\$3.0 million per one location \$20.0 million per one location
Division II	Combined Property Coverage	\$20.0 million per one location
Liability	BOP (Commercial Multi-peril)	\$1.0 million per occurrence \$3.0 million in aggregate

The FAIR Plan filed litigation against the CDI beginning in 2019 regarding a series of Orders issued by the Commissioner requiring changes to the Plan of Operation. The FAIR Plan implemented operational changes to effect covered perils, policy limits, and premium rates to comply with aspects of the Orders where the FAIR Plan agreed, or where legislation or litigation settled the issues. However, the FAIR Plan disagreed with the Commissioner's Amended Order 2021-2, which requires the FAIR Plan to expand its dwelling fire policy offerings to include accidental discharge or overflow of water or steam; theft; falling objects; weight of ice; snow or sleet; freezing; loss of use, including coverage for additional living expenses, and fair rental value; premises liability; and incidental workers' compensation, to the extent that such coverage is with respect to the insured property. See Subsequent Events for further discussion.

REINSURANCE

Assumed

The FAIR Plan does not assume any reinsurance.

Ceded

The FAIR Plan maintains catastrophe reinsurance coverages that limit the FAIR Plan's liability with respect to cumulative losses under all policies issued by the FAIR Plan. The FAIR Plan remains contingently liable with respect to reinsurance ceded to the extent that any reinsurer is unable to meet its contractual obligation.

Effective March 1, 2023, to February 28, 2024, the FAIR Plan's catastrophe reinsurance coverage included eight layers of excess of loss reinsurance in addition to the \$600 million retention. The first four layers were 100% subscribed with layers of \$100 million, \$200 million, \$325 million, and \$400 million, respectively. The fifth layer was 39.61% subscribed of \$400 million; the sixth layer was 20.00% subscribed of \$500 million; the seventh layer was 50.00% subscribed of \$500 million; and the eighth layer was 50.00% subscribed of \$500 million. The reinsurance coverage exhausted at \$3.525 billion, which is the 65-year modeled return period. Of \$3.525 billion in reinsurance coverage, \$1.783 billion was placed with various reinsurers, with the remaining \$1.742 billion unplaced and retained by the FAIR Plan.

The FAIR Plan's reinsurers are rated A- or better by A.M. Best. For the year ended September 30, 2023, the FAIR Plan ceded \$299.1 million of premiums and recovered \$1.05 million in losses or loss adjustment expenses under reinsurance agreements.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the FAIR Plan with the California Department of Insurance and present the financial condition of the FAIR Plan for the year ended September 30, 2023. The accompanying comments should be considered an integral part of the financial statements. There were no adjustments made to the financial statements as a result of the examination.

Statement of Financial Condition as of September 30, 2023

Statement of Income and Members' Deficit for the Year Ended September 30, 2023

Reconciliation of Members' Equity (Deficit) from September 30, 2020 through September 30, 2023

Statement of Financial Condition
as of September 30, 2023

<u>Assets</u>	<u>Ledger and Non-ledger Assets</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Cash and short-term investments	\$600,211,862	\$600,211,862	
Premiums receivable	74,380,733	74,380,733	
Accrued investment income	1,995,565	1,995,565	
Reinsurance recoverable	1,054,178	1,054,178	
Other assets	333,259	333,259	
Total assets	<u>\$677,975,597</u>	<u>\$677,975,597</u>	
<u>Liabilities and Members' Equity (Deficit)</u>			
Unpaid losses		\$ 35,214,550	(1)
Unpaid loss adjustment expenses		7,300,777	(1)
Unearned premiums		490,683,883	
Advance and unapplied premiums		23,219,391	
Commissions payable		13,992,730	
Pension and postretirement benefit accrual		5,069,992	
Escheatment payable		7,415,431	
Accrued expenses		<u>5,498,216</u>	
Total liabilities		588,394,970	
Total members' equity		<u>89,580,627</u>	(2)
Total liabilities and members' equity		<u><u>\$677,975,597</u></u>	

Statement of Income and Members' Equity (Deficit)
for the Year Ended September 30, 2023

Statement of Income

Underwriting Income

Premium earned	\$ 439,082,086
Deductions:	
Losses incurred	89,812,110
Loss adjustment expenses incurred	19,618,984
Other underwriting expenses incurred	104,339,658
Total underwriting deductions	<u>213,770,752</u>
Net underwriting income	225,311,334

Investment Income

Net investment gain	19,402,782
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Other Income

Other income	35,173
Net income	<u>\$ 244,749,289</u>

Members' Equity (Deficit)

Members' deficit, September 30, 2022	\$ (135,210,608)
Net income	\$244,749,289
Change in nonadmitted assets	(19,976,229)
Change in pension liability	1,835
Other	<u>16,340</u>
Change in members' equity for the year	<u>224,791,235</u>
Members' equity, September 30, 2023	<u>\$ 89,580,627</u>

Reconciliation of Members' Equity (Deficit)
from September 30, 2020 through September 30, 2023

Members' equity (deficit), September 30, 2020			\$(205,308,801)
	<u>Gain in Surplus</u>	<u>Loss in Surplus</u>	
Net gains	\$327,883,138		
Changes in nonadmitted assets		\$ (38,208,614)	
Changes in pension liability	5,218,753		
Other losses		(3,849)	
Total gains and losses	<u>\$333,101,891</u>	<u>\$ (38,212,463)</u>	
Net increase in members' equity			<u>294,889,428</u>
Members' equity, September 30, 2023			<u>\$ 89,580,627</u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

The liabilities for unpaid losses and unpaid loss adjustment expenses include amounts determined from individual case reserve estimates and loss estimates, based on past experience, for losses incurred but not reported. Losses incurred are directly allocated to pool years based upon the effective date of the policy. Allocated loss adjustment expenses are allocated to pools directly, and unallocated loss adjustment expenses are allocated to pools in proportion to claims paid. The FAIR Plan retains Milliman, Inc. (“Milliman”) to prepare quarterly estimates of loss and loss adjustment expense reserves, including incurred but not reported reserves.

Pursuant to California Insurance Code (“CIC”) §10094, the FAIR Plan may assess member companies their proportional shares of losses incurred in a pool year. The FAIR Plan’s Governing Committee must approve all assessments, and then request the Commissioner’s approval. Other than the \$1 billion assessment approved by the Commissioner for the January 2025 Los Angeles Wildfires (see Subsequent Events), there have been no assessments to member companies since 1995. Previous assessments were related to the 1993 Kinneloa Fire in Altadena and the Old Topanga Fire in Malibu and Topanga, which affected some of the same areas impacted by the 2025 wildfires, and the fires following the 1994 Northridge Earthquake. Previous Commissioners authorized \$260 million, equivalent to approximately \$563 million today, in member assessments for these catastrophes.

A Casualty Actuary with the California Department of Insurance conducted an independent review of the work of Milliman, and performed additional analysis as deemed appropriate. Based on this review, the FAIR Plan’s unpaid losses and unpaid loss adjustment expenses as of September 30, 2023 were determined to be reasonably stated and have been accepted for purposes of this examination.

(2) Members' Equity (Deficit)

The FAIR Plan reviews pool years annually to determine if a distribution of members' equity is appropriate. The Governing Committee approves the closure of the pool years and the members' equity distribution. Distribution of members' equity is made subject to the financial condition of the FAIR Plan and only with approval of the Commissioner. In making a distribution, the Governing Committee may reduce the distribution by deficits incurred in other pool years. There have been no distributions approved by the Governing Committee and the Commissioner during the examination period, other than to reduce deficits incurred in other pool years when pool years are closed.

SUBSEQUENT EVENTS

Plan of Operation and Litigation Against the California Department of Insurance (CDI)

On November 23, 2023, pursuant to the Commissioner's Order 2023-2, to which the FAIR Plan consented, the Plan of Operation was updated for underwriting practices and rate filing changes as a result of non-compliance issues identified in a CDI targeted Market Conduct underwriting examination for the 2016-2019 period, for which the examination report was adopted on April 27, 2021.

On November 27, 2023, the Los Angeles Superior Court issued a ruling that denied the FAIR Plan's petition for writ of mandate in its entirety, finding that the Commissioner properly exercised authority in issuing Amended Order 2021-2, which requires the FAIR Plan to expand its dwelling fire policy offerings to include accidental discharge or overflow of water or steam; theft; falling objects; weight of ice; snow or sleet; freezing; loss of use, including coverage for additional living expenses, and fair rental value; premises liability; and incidental workers' compensation, to the extent that such coverage is with respect to the insured property. The FAIR Plan filed an appeal, which is still pending.

On July 25, 2024, the Commissioner issued Order 2024-1, to which the FAIR Plan consented, as follows:

1. The FAIR Plan shall increase Division I commercial property limits to \$20 million

per structure and to \$100 million in aggregate per location, with these limits offered for three years. Also, the FAIR Plan may include in a rate filing temporary supplemental fees for policyholders, who purchase a policy with limits above \$20 million per location, and for rule-change applications.

2. The FAIR Plan may access to credit facilities assist with solvency and liquidity.
3. The FAIR Plan shall identify in its clearinghouse program all policyholders who have (a) completed one or more of the mandatory property-level mitigation efforts or optional factors or (b) obtained a policy for a property in an area that has received a community-level designation, both as specified in Title 10, California Code of Regulations, §2644.9, subdivisions (d) and (e).
4. The FAIR Plan shall provide quarterly reports to increase transparency to the public and assist with solvency oversight commencing on July 1, 2025.

On August 27, 2024, the Commissioner issued Order 2024-2, to which the FAIR Plan consented, requiring the FAIR Plan to incorporate the provisions of Order 2024-1 in a revised rate filing and reflecting these provisions in a revised Plan of Operation. The Order also indicates the CDI and the FAIR Plan shall cooperate to make further amendments to the Plan of Operation, so that the FAIR Plan may procure a line of credit, use catastrophe modeling, and include the net cost of reinsurance in its rate filing applications.

The FAIR Plan made two commercial rate filings with the CDI in 2024 to address various requirements including those contained in Orders 2024-1 and 2024-2. The first commercial rate filing was approved on July 23, 2024, and the second commercial rate filing was approved on March 28, 2025.

On September 3, 2025, the Commissioner issued Order 2025-2, to which the FAIR Plan consented, updating the Plan of Operation to provide authority and guidelines for establishing liquidity facilities including a line of credit, along with repayment terms and pledged asset requirements. Repayment of amounts borrowed under the liquidity facilities must be approved by the Commissioner.

Catastrophe Reinsurance 2024-2025 Treaty

Effective March 1, 2024 to February 28, 2025, the FAIR Plan's catastrophe reinsurance coverage includes a \$900 million retention and provides coverage to \$5.75 billion through various layers, which equates to a 102-year modeled return period. However, not all layers were placed, with total placed coverage of approximately \$2.63 billion and cumulative retention and unplaced coverage of approximately \$3.12 billion.

Policyholder Class Action Litigation

On July 24, 2024, a class action lawsuit was filed in the Alameda County Superior Court by several policyholders alleging that the FAIR Plan acted in bad faith by unreasonably restricting coverage for wildfire losses through policy exclusions and sub-limits, which violate California fire insurance requirements. Specifically, the lawsuit alleges that the FAIR Plan has unfairly limited fire coverage to "direct physical loss" evidenced by "permanent physical changes" and by covering only visible smoke damage, while ignoring potentially toxic wildfire contaminants. Litigation remains ongoing.

January 2025 Los Angeles Wildfires

The week of January 6, 2025, the Los Angeles area suffered catastrophic wildfires that materially impacted the FAIR Plan and its insureds. The Palisades Fire resulted in approximately 3,960 claims, and the Eaton Fire resulted in approximately 1,533 claims. Approximately 97% of the claims were for residential dwellings and 3% for commercial structures. In addition, the FAIR Plan received over 500 claims apart from these wildfires during the same period, including windstorm and fire claims unrelated to the wildfires. Approximately 45% of the claims were reported as total losses, 45% were reported as partial (including smoke), and 10% were reported as fair rental value coverage only.

The FAIR Plan, along with its actuarial firm, Milliman, projected that these claims incurred during the week of January 6, 2025 will result in an estimated \$4.039 billion of gross claims and claims adjustment expenses, net of subrogation based on historical average subrogation for such fires. Net of reinsurance recoverable from the catastrophe

reinsurance noted above, the estimated net claims and claims adjustment expenses were estimated at \$2.35 billion. Consequently, the FAIR Plan's Governing Committee approved a \$1 billion assessment, and the FAIR Plan sought approval from the Commissioner for the assessment on February 11, 2025. On that same day, Commissioner's Order 2025-1 approved the assessment of member insureds based on their participation in the California property market as set forth in the Plan of Operation and California Insurance Code ("CIC") sections §10094 and §10095. The Order also directed the member insureds to remit the assessment to the FAIR Plan within 30 days. As of August 2025, \$996.2 million of the \$1 billion assessment was collected. The FAIR Plan believes that with the assessment, and existing liquidity, it will be able to satisfy all of its obligations including the payment of claims and expenses for these wildfires and all other claims submitted. The CDI is closely monitoring the FAIR Plan's claim and cash activity to ensure that the FAIR Plan has sufficient liquidity to satisfy all claim obligations.

On April 10, 2025, ten policyholders filed litigation against the FAIR Plan and various insurance companies in the Los Angeles Superior Court alleging that the defendants acted in bad faith and in breach of contract by refusing to properly investigate and remediate wildfire smoke damage claims. The plaintiffs seek contractual benefits and damages. Litigation remains ongoing.

Catastrophe Reinsurance 2025-2026 Treaty

Effective March 1, 2025 to February 28, 2026, the FAIR Plan's catastrophe reinsurance coverage includes a \$1.25 billion retention and provides coverage to \$7.1 billion through various layers, which equates to a 103.7-year modeled return period. However, not all layers were placed, with total placed coverage of approximately \$3.46 billion and cumulative retention and unplaced coverage of approximately \$3.64 billion.

Smoke Claims Litigation and Court Ruling

A lawsuit was filed by a policyholder in 2021 in Los Angeles County Superior Court alleging that the FAIR Plan issued property insurance policies for fire coverage that is unlawful relating to smoke damage claims. On June 24, 2025, the Court determined that

the FAIR Plan's insurance policy's definition of "direct physical loss" as "actual loss or physical damage, evidenced by permanent physical changes", and the requirement that smoke damage be "visible to the unaided human eye" or capable of being "detected by the unaided human nose of an average person" rather than being perceptible "by the subjective senses of [the insured] or by laboratory testing" were unlawful under CIC § 2070. More specifically, the Court determined that the policy language and practice to limit coverage was not substantially equivalent to the standard form policy contained in CIC §2071. Also, the policy language and practice were determined to be illegal under previously settled case law. Further, the FAIR Plan's dispute resolution procedure for smoke damage claims was determined to be unlawful to the extent it is derived from, or relies on, the definition of "direct physical loss", or the requirements that smoke damage be "visible to the unaided human eye" or capable of being "detected by the unaided human nose of an average person" rather than being perceptible "by the subjective senses of [the insured] or by laboratory testing". The FAIR Plan does not plan to appeal the decision.

Commissioner's Show Cause Order on Smoke Claims

Smoke claims have been the subject of claimant litigation for several years. The CDI has continued to receive consumer complaints that showed a pattern of denying smoke damage claims based on the FAIR Plan's requirement for "permanent physical damage". On July 31, 2025, the Commissioner issued a Show Cause Order to the FAIR Plan for systematically denying and limiting smoke damage claims from wildfire claimants based on a multi-year investigation. The Commissioner's Order cites violations of CIC §790.03 including, but not limited to, misrepresenting policy terms, failing to investigate claims fairly, and denying legitimate claims without a reasonable basis. The FAIR Plan intends to contest the Show Cause Order.

Procurement of a Liquidity Facility

Effective September 4, 2025, the FAIR Plan obtained a liquidity facility in the form of a \$600 million line of credit from commercial banks to support liquidity needs. See Finding/Recommendation 14 for further discussion. Also, the California State Legislature

passed Assembly Bill 226 on September 12, 2025 to provide statutory guidelines for such a facility. The legislation is currently pending the Governor's consideration.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Updates to the 2022 Operational Assessment Report (Page 4): The California Department of Insurance expects that the FAIR Plan will continue its efforts to adopt the remaining recommendations as soon as practicable.

Previous Report of Examination

Accounts and Records – Information System Controls (Page 8): It was recommended that the FAIR Plan evaluate the recommendations and make appropriate changes to strengthen its controls over its information systems. The FAIR Plan has complied with these recommendations.

Accounts and Records – Operational Process and Controls (Page 8): It was recommended that the FAIR Plan evaluate the significant findings and recommendations, and best practices, and make appropriate changes to operational process and controls. The FAIR Plan has fully addressed 15 of the 32 findings identified in the 2022 Operational Assessment Report.

Accounts and Records – Premium Deficiency Reserves (Page 8): It was recommended that the FAIR Plan implement procedures to ensure Premium Deficiency Reserve should be recorded or adjusted in its quarterly statutory financial statement in accordance with Statutory Statement of Accounting Principle No. 53, Paragraph 17. The FAIR Plan has appropriately addressed the recommendation.

ACKNOWLEDGMENT

Acknowledgment is made of the cooperation and assistance extended by the FAIR Plan's officers and employees during the course of this examination.

Respectfully submitted,

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