United Policyholders™
Roadmap to Preparedness Program

The lowdown from UP on the California FAIR Plan, the last resort option for insuring your home

Under normal circumstances, homeowners can choose between a variety of insurance companies and premiums are generally affordable. But disasters and other economic pressures sometimes cause insurers to stop selling home policies in a region or an entire state for a period of time. Competition and consumer choices disappear, prices skyrocket. Home values drop, real estate sales slow down and homeowners struggle to find and afford insurance. That is happening in California in 2019. UP works hard to help and protect consumers during these periods. Fortunately, California has something called the Fair Plan Association as a backstop:

What is the California FAIR Plan?

The California FAIR Plan Association (FAIR Plan) is a "last resort" option for people to insure their home when they have been unable to find a company willing to sell them a standard policy. A FAIR Plan policy protects your home for the risk of fire, and will satisfy a mortgage company's requirement that your home be insured, but it doesn't cover theft, flood, earthquake, hail, vandalism or personal liability.[1] Homeowners in wildfire-prone and inner-city regions often have to turn to the FAIR Plan to insure their homes when other options aren't available.

The FAIR Plan has about 60 of its own employees and is overseen by a Governing Board that includes the California Insurance Commissioner and insurance company executives. The FAIR Plan collects premiums and adjusts claims and is financially backed by all of the insurance companies licensed to sell property insurance in California.

Can anyone buy home insurance through the FAIR Plan?

Any person that has made a diligent but unsuccessful effort to buy home insurance can turn to the FAIR Plan to insure their home with a basic dwelling policy. As long as the property meets minimal underwriting standards, FAIR Plan will insure the home, even if it is in a high-risk wildfire area.

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[1] An example of a personal liability claim: A guest is injured while visiting your home and seeks compensation.

Does the FAIR Plan sell the same dwelling and contents coverage as a standard home insurance policy?[2]

No. FAIR Plan basic dwelling policies are "bare bones." A FAIR Plan policy only covers losses to a dwelling and its contents caused by:

- Fire or Lightning
- Smoke
- Internal Explosion

You can buy windstorm, hail, and vandalism coverage from the FAIR Plan as ***optional additional*** protection.

Will the cost of a FAIR Plan policy be similar to what I was paying for my standard home insurance?

The answer depends on which FAIR Plan options you choose, and whether you also buy a policy that supplements what a FAIR Plan policy covers. Policies that supplement what the FAIR Plan covers are called "Difference in Conditions" (DIC) policies, see below. If you buy a FAIR Plan policy ***plus*** a DIC policy, chances are the combination will cost more than the price of a standard home insurance policy with similar protection.

Can I buy a policy from the FAIR Plan that will cover the replacement cost value of my home?

That depends on the replacement cost value of your home. Currently FAIR Plan will only insure you for $1.5 million **total**, including your dwelling, contents and all other coverages. Starting in the spring of 2020, that maximum is scheduled to increase to $3 million.

Does the FAIR Plan offer the same liability coverage as a standard home insurance policy?

No. The FAIR Plan does not cover "personal liability," "medical payments to others," or "damage to property of others." If you compare a basic FAIR Plan policy with a standard home insurance policy you'll see it covers much less. For more information on buying a liability coverage supplemental policy, click [here.](https://www.cfpnet.com/index.php/brokers/standalonecomprehensivepersonalliability/) [3]

Does the FAIR Plan pay dwelling claims on a Replacement Cost basis like a standard home insurance policy?

Only if you pay extra for FAIR Plan Dwelling Replacement Cost coverage. If you do not purchase FAIR Plan Dwelling Replacement Cost coverage and your home gets damaged or destroyed, you will only collect benefits for the Actual Cash Value of the dwelling at the time of the loss. That is

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[2] Standard home insurance policies typically use a form known as an "ISO H0-3," ISO stands for the Insurance Services Office, longstanding publisher of policy form templates.

[3] https://www.cfpnet.com/index.php/brokers/standalonecomprehensivepersonalliability/

almost always far less than the Replacement Cost Value. For that reason, an Actual Cash Value only FAIR Plan policy is much less expensive than one that pays Replacement Cost Value. Avoid buying only ACV coverage if you can.

Does the FAIR Plan cover temporary rent, and other expenses I have, due to not being able to live in my home?

A FAIR Plan policy ***only*** covers the cost of **renting a property** similar to your home up to a dollar limit equal to 10% of your FAIR Plan dwelling limit, unless you buy upgraded coverage of 20%.

Note that a standard home insurance policy covers **renting a property** PLUS expenses like extra mileage, pet boarding, meals, furniture rentals, etc. (typically labeled as “Loss of Use” or “Additional Living Expense”). A FAIR Plan policy does not.

I have diligently searched and cannot get insurance for my home anywhere but the FAIR Plan. Now what?

1) CUSTOMIZE your FAIR Plan policy by buying the best coverage options they offer and you can afford.
2) Get at least two quotes for buying a “Difference in Conditions” policy (DIC) that will supplement what your FAIR Plan policy provides. If you can afford one, buy one.

What else do I need to know about the CA Fair Plan?

Even after you buy a FAIR Plan policy, ***continue shopping for a better option in the private market as often as you can***.[4] The home insurance marketplace changes constantly, so it’s worth continuing to shop for a standard policy that covers more than just fire, smoke, and explosion.

In addition to the brand name insurers you’re familiar with, you may be able to find an affordable policy outside the FAIR Plan through a lesser known brand or a type of insurance company known as “non-admitted” or “surplus lines.”[5] Keep looking for a standard home insurance policy that offers more coverage than a FAIR plan policy for the same or a lower price.

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[4] Visit www.uphelp.org/dropped to find our shopping tips and tools.

[5] The “surplus lines market” is made up of insurance companies who insure risks that standard carriers, those admitted to sell insurance in the state, wont cover. Often they insure higher risk exposure.

Difference in Conditions (DIC) Policies

What is a DIC policy?

A DIC policy is type of insurance product you can buy that is designed to supplement or fill in gaps between what a FAIR Plan policy covers versus what a standard home insurance policy covers. If you have a standard home insurance policy, you don't need a DIC. When the FAIR Plan is your only choice, you should strongly consider buying a DIC policy to fill coverage gaps. Very few people (or professional insurance agents, for that matter!) know about DIC policies or where and how to buy one. DIC policies have traditionally been sold to commercial property owners who needed special coverage for unusual conditions. But in today's challenging home insurance marketplace, more and more homeowners need a DIC policy. More and more insurers are offering DIC options, and consumers and insurance professionals are getting more familiar with them.

What is the purpose of a DIC policy?

A DIC policy should supplement a FAIR Plan policy by covering perils a CFP policy doesn't cover and giving you better protection. When combined, the CFP policy and DIC policy should more closely resemble a standard homeowner's policy. A DIC policy can be purchased to provide coverage for perils such as theft, water damage and liability protection.

How can I get a DIC policy?

By shopping on your own or through a professional insurance agent or broker. The FAIR Plan does NOT sell DIC policies, but they offer links on their website to several DIC options. The California Department of Insurance offers a list of insurers that sell DIC policies here.[6] UP recommends working with an independent agent that is up to date on all available options in the current marketplace for insuring your valuable asset…your home.

What does a DIC policy look like?

A contract with lots of words, like any other insurance policy. But it should clearly state what is covered, what is excluded, what your maximum benefits are and how much it costs (the premium).

Can I trust a professional insurance agent or broker to make sure I have no protection gaps once I buy a FAIR Plan and a DIC policy?

Trust but verify. Agents and brokers should guide you in buying the coverage you need at a price you can afford, but they tend to focus on making the sale and earning a commission. UP recommends against blindly trusting ***any*** salesperson to protect your valuable asset. Take the time to ask questions, get answers, take good notes and do your best to make sure you have the proper coverages. Visit www.uphelp.org and read up on how to avoid being underinsured.

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6 https://www.insurance.ca.gov/01-consumers/105-type/5-residential/carriersDICpolicies.cfm

An agent or broker should help you shop, but at the end of the day, it is *your* asset to protect. Blind trust or a 15-minute conversation is NOT the way to properly protect your investment in your home. Two-thirds of the disaster victims we assist through our Roadmap to Recovery program find themselves underinsured.

Is there anything I should pay special attention to when purchasing a DIC policy?

How are covered and excluded PERILS defined? Review the definitions of the perils covered in the policy. A few key words can mean the difference between *thinking* you're covered and *actually* being covered (i.e. how is flooding defined? Does surface water, such as rain and snow, meet that definition?).

How are EXCLUSIONS defined? The wording on your DIC policy should match your FAIR Plan policy to ensure there are no gaps in coverage that go unaccounted for. Make sure the language in each policy supplements the other. Your agent or broker may be able to help you.

How much are you insuring your home for? As explained above, the basic FAIR Plan policy will only cover your home up to the policy limits you purchased, whether you purchase Actual Cash Value (standard) or Replacement Cost Value. Similarly, you can buy a DIC policy that only pays Actual Cash Value or pay more for one that covers your home's Replacement Cost Value.

Coinsurance. Most DIC policies do not have a coinsurance requirement, but it is important to either (1) make sure it does not, or (2) make sure you fulfill the requirement. Coinsurance is a common provision in standard home insurance forms that penalizes the insured if their asset is not insured to a specified percentage of the total value of that asset (usually 80%). A coinsurance provision in a DIC policy could affect the amount of recovery at the time of a loss.

This publication was produced for educational purposes only and is not intended to be construed as legal advice.
UP thanks and acknowledges the following sources for contributing to the information and guidance herein: The Susman Insurance Agency, The California Fair Plan, Shaffer Insurance Services, Irwin Insurance Solutions. Please visit www.uphelp.org for additional home insurance shopping help.