Last-resort insurer must increase limits

California Insurance Commissioner Ricardo Lara has ordered the Fair Plan, the state's insurer of last resort for homeowners and renters who can't get coverage elsewhere, to double the coverage limit on its barebones homeowner's policy and begin offering a comprehensive policy alongside it.

The move comes at a time when many more people living in regions at risk of wildfires, including parts of the Bay Area, are having a hard time getting or keeping insurance from mainstream carriers licensed and regulated by the department. Their only options are to get a policy from the Fair Plan, which must offer fire insurance to those denied coverage by mainstream carriers, or go to "surplus lines" carriers, which are not licensed by the state and don't have to get their rates approved.

By April 1, the Fair Plan must increase the limit on its existing policy for all coverage types combined (including structures and contents) to $3 million from $1.5 million. The Fair Plan must submit a new rate plan for that policy by Dec. 1. Policies with higher limits or broader coverage generally cost more, but the insurance department must approve the new premiums.

"We envision that a current policyholder should be able to increase their coverage to the higher limit after April 1 or at their next renewal, at their option," said Insurance Department spokesman Michael Soller.

The existing Fair Plan policy covers fire and limited smoke damage but excludes many other types of coverage found in a standard homeowner's policy. For example, the Fair Plan has no coverage for liability; theft; damage caused by water, mold, snow, ice or sleet; or living expenses if you have to move out of your house. Fair Plan customers typically buy a supplemental or "wraparound" policy from another company for those missing pieces.

By June 1, the Fair Plan must offer an additional policy with comprehensive coverage equal to a standard HO-3 policy. That policy must have a combined coverage limit of $3.3 million, including up to $300,000 for liability. The Fair Plan will also have to submit rates for the new policy and get them approved. "We know they carry a lot of risk," Soller said.

"The growing unavailability of homeowners and fire insurance has touched virtually every county in the state and threatens home values, real estate transactions, tax revenues, emergency services, and the integrity of California communities," the department said in a news release.

When Leonard Nielsen, who had homeowners insurance through Allstate for more than 20 years, got a non-renewal notice earlier this year, he called many other licensed companies. None were willing to insure his home in the Oakland hills.

When he contacted the Fair Plan, he said, "I was really surprised" when the representative told him "if you have any other options, you should take them."

He ended up getting a policy from a surplus lines company, but it costs $6,589 a year compared with the approximately $1,800 he had been paying to Allstate. The Fair Plan policy "was around $4,500, and I would have had to buy more coverage to try to fill the gap," he said.

The Fair Plan is not a state agency. It's an association backed by licensed carriers based on their market shares.

"The Fair Plan was created to assure the availability of basic property insurance," its President, Anneliese Jivan, said in a statement. "The Commissioner's call for the Fair Plan to offer liability coverage and an HO-3 policy would have unintended consequences that could ultimately hurt consumers." It would require a "massive scale up of personnel with expertise in different types of insurance," which would "divert resources from core activities" and "result in increased operating costs that will be passed along in the form of higher rates for all policyholders." It would also "limit the ability for consumers to benefit from multiline discounts" companies offer to customers who insure their home and auto with the same company.

Lara also ordered the Fair Plan to offer no-fee monthly payments and let customers pay by credit card or electronic funds transfer without any fees.

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