

How Fair is the California Fair Plan? by Ken Peters

The California Fair Plan was established in 1968 to provide basic insurance to property owners who were unable to attain insurance in the normal insurance market. In reality, many apartment owners who insured their property with the Fair Plan have been misdirected. If your apartment building or rental home is presently insured through the California Fair Plan, your property may well qualify for a number of different carriers.

With mostly inferior coverage, increased risk for a catastrophic claims scenario and generally higher premiums, the so-called California Fair Plan may not be fair at all for you and your current situation.

The following are a few compelling reasons to pursue insurance elsewhere:

- Many of The Fair Plan policies do not provide liability coverage. This presents a “huge gap” in appropriate asset protection.
- The Fair Plan *does not* provide replacement cost coverage for personal property. This would present difficulties in the case of furnished rental units and in other coverage claim scenarios where things such as drapes or blinds or washing machines and other built-ins may be considered business personal property, by policy coverage definitions.
- In reviewing coverages today on their website (www.dfpnet.com), I also cannot find any coverage for certain types of water losses.
- Extended coverage, such as damage to your building done by a vehicle, and vandalism, is only covered if ordered, so careful communication and review with the agent/broker who wrote your Fair Plan policy is a must.
- Another very important coverage, generally referred to as business income extra expense, is available for commercial business. The monthly maximum claim payment limit is 25% of the business income sum insured. If your apartment building or rental home had a fire while the building was being rebuilt or repaired, you would only receive 25% of the lost rents.
- In reviewing the California Fair Plan property insurance application for property insurance, it reads that if you have an apartment building which has five units or more, it would appear you must accept a minimum of 70% co-insurance. Co-insurance is the worst possible coverage for you the insured! It's like having insurance for the insurance company within the legal language of your policy. They are saying if you don't insure your building for at least the amount of the stated co-insurance requirement (in this case a minimum of 70%), you will be subject to co-insurance penalties, in the event of a covered loss. So the higher the co-insurance amount, the worse it is for you, the insured.

The bottom line is that you always want to have a replacement cost coverage policy with no co-insurance provisions. The last thing you want to experience is to suffer through a major claim and then be penalized in the pocket book because of an inferior insurance policy.

There may be several reasons why your property ended up with Fair Plan coverage. Ask your agent/broker if you have any options to get out of the Fair Plan and into the normal insurance market. Don't assume just because your agent/broker has not helped you in this way that you are stuck in Fair Plan. Frankly speaking, it shouldn't matter where the property is located. The most important concern is the owner's willingness to maintain the integrity of the property. Normal recommendations are to advise clients to wait until their policy comes due for renewal and then contact the agent/broker for a comparison proposal, but if you have the California Fair Plan, it may be in your best interest to pursue the matter immediately.

With mostly inferior coverage, increased risk for a catastrophic claims scenario and generally higher premiums, the so-called California Fair Plan may not be fair at all for you and your current situation. With a little research by a competent agent/broker you may find that your property(s)

qualify for a better insurance policy and a more reasonable premium.

The above article was written by Ken Peters of State Farm Insurance. Mr. Peters has over 20 years experience as an insurance agent. For questions or a free insurance evaluation, feel free to contact Ken at 800-935-0165 or 562.431.3933.