

# BEST'S REVIEW®

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## Lessons Learned

Since 1899, AM Best has maintained a laser focus on the insurance industry. From the 1906 San Francisco earthquake to the COVID-19 pandemic, AM Best's core mission to provide unbiased, factual reports on insurers' financial health has not changed.

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# AM Best: FAIR Plan Policies Nearly Double in Five Years

States that have been vulnerable to natural catastrophes are seeing more movement of risks out of the voluntary market and into the residual market.

by John Weber

**R**esidual property insurance markets have experienced an influx of personal lines business that far exceeds its commercial lines counterpart, especially in states that are being more directly affected by the growing frequency and severity of secondary perils, according to new research from AM Best.

AM Best Associate Director David Blades and Associate Analyst Bryan Raber spoke with AM Best TV and discussed findings in *Policy Count in State-Sponsored Plans Doubles in Five Years Due to Pressures on Property Insurance*, a new

Best's Special Report that indicates in certain Gulf states, FAIR Plan policies have grown by more than 200% since 2018. Following is an edited transcript of the interview with Blades and Raber.

## Why is the number of policyholders with those residual markets growing?

**Blades:** What we've seen, in looking at the numbers, is that insurers of homeowners and even commercial property risks have had a tough time, due to a number of different factors, in terms of generating underwriting or positive underwriting results in recent years. Some of those factors, obviously, have been the greater

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**John Weber** is a senior associate editor. He can be reached at [john.weber@ambest.com](mailto:john.weber@ambest.com).

frequency and severity of extreme weather events and weather events of different types, be they primary perils or the perils referred to as secondary perils like severe convective storms and wildfires, etc. They've also been challenged by inflationary pressures that have pushed average claim costs upward.

Additionally, they have been pressured by tighter reinsurance market conditions. Those things have made it much tougher for writers of homeowners and commercial property even to generate profitable underwriting results. What we've seen, specifically in certain states where the results have really been hampered the past few years, is more movement of risks out of the voluntary market and into the residual market.

We've seen that specifically as we looked into the numbers in states like Florida, North Carolina, Georgia, Louisiana—some of the states that have been most impacted by some of the hurricanes and things of that nature in the past few years.

What that's done is led more of the business into the FAIR Plans and in these residual market mechanisms. We've seen more business going into those markets, specifically on the homeowner side. To some extent, commercial property risks have moved into that marketplace as well, but we've just seen the residual market growing in those particular states in the past few years.



“These plans were not in every state, but they’ve been very helpful for those property owners, particularly on the homeowners side, who haven’t been able to get coverage in the voluntary market for whatever reason.”

**David Blades**  
AM Best

## How did these residual plans start and how have they evolved?

**Blades:** The FAIR Plans, the Fair Access to Insurance Requirements Plans, they really started back in the late 1960s, out of a lot of the riots and things that were occurring during the Civil Rights Movement. There were a lot of cities across the U.S. that, due to these uprisings that were happening because of the riots, property exposures and the risks to property damage were just much worse.

For the property owners, there was really nothing that they could do to control these disturbances, and so insurers in voluntary markets in those states were pulling back and those markets were shrinking. To provide access to insurance coverage, that's where the FAIR Plans started to emanate from.

Currently, there are 33 states and the District of Columbia that have these FAIR Plans and there are actually also seven other Atlantic and Gulf states that have complements to FAIR Plans called beach and windstorm plans. What we've seen is these plans come out of the upheaval in the late '60s. These plans were not in every state, but they've been very helpful for those property owners, particularly on the homeowners side, who haven't been able to get coverage in the voluntary market for whatever reason.

What we're going to see going forward is that since this has been a year of a few significant

weather events, especially during the second half of the year, how might the voluntary market react. With Hurricane Helene and now Hurricane Milton, we will see what happens in the voluntary market in particular, if we see more constriction, and, therefore, more coverage going to the residual markets. That's something that we'll keep our eye on.

### How have they performed in terms of underwriting?

**Raber:** The homeowners industry as a whole has been having a bit of a lackluster performance from 2019 to 2022. Their combined ratios have been north of 100 and in 2023 it was over 110. But the FAIR Plans have recently been able to do pretty well. In 2023, all of the states except Texas had a combined ratio of below 100.

But this success does come with the caveat that they are much, much, much more volatile than the regular homeowners industry. Since 2019, they've seen combined ratios as low as 39. But they've also seen combined ratios as high as 349 in Louisiana when they got hit with Hurricane Ida in 2021.

### What will AM Best be looking at from this area, especially following a fairly active hurricane season?

**Raber:** Part of what we're going to be looking at is if the growth sort of continues, a lot of homeowners insurers have been facing some pretty strong headwinds coming out of increased natural catastrophe problems and with issues like Milton coming along and Helene coming along—which I think the last estimates I saw was \$240 billion coming out of Milton and \$45 billion coming out of Helene—we'll likely see a lot of insurers have to raise rates or have to lower coverage.

There are plenty of people who are already going without flood insurance [and who] might

end up having to forgo insurance as a whole, and that's going to cause them to start leaning toward the residual market and we'll begin to see a lot more growth in FAIR Plans.

Along with what had happened with Louisiana with Ida, we'll probably see Florida and similar states next to it have extreme combined ratios again.

**Blades:** I think, from AM Best's perspective, the first thing we're definitely going to do is engage our rated insurers to find out what they can tell us as they start assessing the damage from Hurricane Helene and from Hurricane Milton, just to see how much they've suffered in terms of insured losses so that we can get a better feel for what's going to happen possibly in the voluntary market, specific, like I said, homeowners but even to commercial property. We're going to continue looking at that.

This year, 2024, has already had five hurricanes that have made landfalls. That's already sort of historic. Only a handful of years since 1850 we've seen something like that. We're still in mid-October; we've got to get to the end of November for the end of the Atlantic hurricane season. There's a lot more that we're going to look at.

As Bryan said, we'll see if there are more than just the handful of states, six or seven states that have been growing consistently over time as far as policy count growth is concerned relative to the FAIR Plans. A year like this might cause that growth in residual market policy count to spread to even more states. We'll continue monitoring that. But like I said, keeping engaged with our rated insurers is the first priority that we'll have. **BR**

#### AM Best TV



Scan to watch the interview with David Blades and Bryan Raber.

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