

January 27, 2017

**Re: California FAIR Plan (CFP) Property Insurance
2017 Voluntary Catastrophe Treaty Program – Effective: February 15, 2017
Limit: (2017 Member CFP % share) of \$100 million in the Aggregate xs of \$225 million in the
Aggregate**

Member Companies:

The CFP is pleased to offer additional optional assessment protection to its participating members. The optional layer would provide protection to member companies for assessments by the CFP arising from events excess of the reinsurance the CFP will purchase at February 15, 2017.

CFP 2017 Reinsurance Program

The CFP anticipates placing a reinsurance layer of 100% of \$135 million in the aggregate excess of \$90 million in the aggregate.

The Rate on Line (ROL) is 4.25% (\$5,737,500) for the annual treaty period beginning 2/15/17.

Based upon an average of the AIR and RQE modeling results, the reinsurance purchased by CFP provides recoveries to the CFP for events beginning at an estimated 17 year return period up to events approximating a 58 year return period. The \$90 million retention and the amount of limit purchased were selected by the CFP Governing Committee because this structure provides the most protection to its members within its available budget.

Optional Top Layer

The CFP understands that some members may be interested in purchasing protection against potential assessments from the CFP arising out of aggregate events exceeding the \$225 million top end of its aggregate reinsurance program. Accordingly, the CFP is again pleased to advise that it, together with Aon Benfield, will make the optional top layer available to member companies.

The purchase of the optional layer would be the responsibility of the individual member company. Prior to approaching the markets, CFP are soliciting the interest level of member companies for this layer. This will be the eighth year offering this optional coverage. To date, we have not received any interest from our members.

For your consideration, the estimated annual cost for the optional top aggregate layer of \$100 million excess of \$225 million layer is 3.00% ROL (\$3,000,000). The final annual cost will be determined after the CFP receive the level of membership subscription interest. The allocated premium to a member will be determined by applying a member's current CFP percentage participation, as of 2/15/2017 (which is the inception date of the underlying treaty), times the final negotiated annual price.

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The reinsurance premium consideration will provide the member with proportional protection (based on member share as of 2/15/2017) of the aggregate \$100 million excess \$225 million limit. It is important to note that the inception date of the treaty is not synchronized with the adjustment of the Pool participations. Therefore, it is quite possible that coverage purchased at 2/15/2017 will not exactly match the liability of the Plan participant at all times during the year. If, for example, this discrepancy results in a shortfall between the amount of coverage purchased and the actual Plan participant's liability, then that difference will be retained net by the Plan participant. The limit of this layer is designed to provide protection for CFP events up to an approximate 100 year return period, and is subject also to the adjustment feature described above, based on actual SGNEPI of the CFP for the period 2/15/2017 - 2/14/2018.

The terms and conditions of the optional layer will follow those of the CFP reinsurance contracts as appropriate. However, as noted, the optional contracts will be between the individual member company and the several reinsurance companies providing the capacity for each optional layer. Additional discussions or alternative payment structures may be required for participating member companies not rated by A.M. Best or holding low ratings.

If your company has an interest in the optional top aggregate layer, please contact Aon Benfield by email to Michael Moran at michael.moran@aonbenfield.com, or call him at 203-326-4388. Please note Mike is located in Aon Benfield's Stamford, Connecticut office. Aon Benfield will answer any questions you may have, as well as forward to you the necessary documents required for the placement. As this program will need to be bound prior to the inception date of February 15, 2017, the member companies wishing to participate will need to provide advice of their interest to purchase the optional top Layer no later than Monday, February 6th. CFP will secure formal firm pricing for those CFP members that formally request protection.

We are pleased to provide these further options to our member companies as they manage potential assessments from the CFP. The CFP, along with Aon Benfield, looks forward to discussing this further with you.

Regards,



Anneliese Jivan
President