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California's Wildfire Insurance Crisis: Causes, Challenges, and a Path Forward



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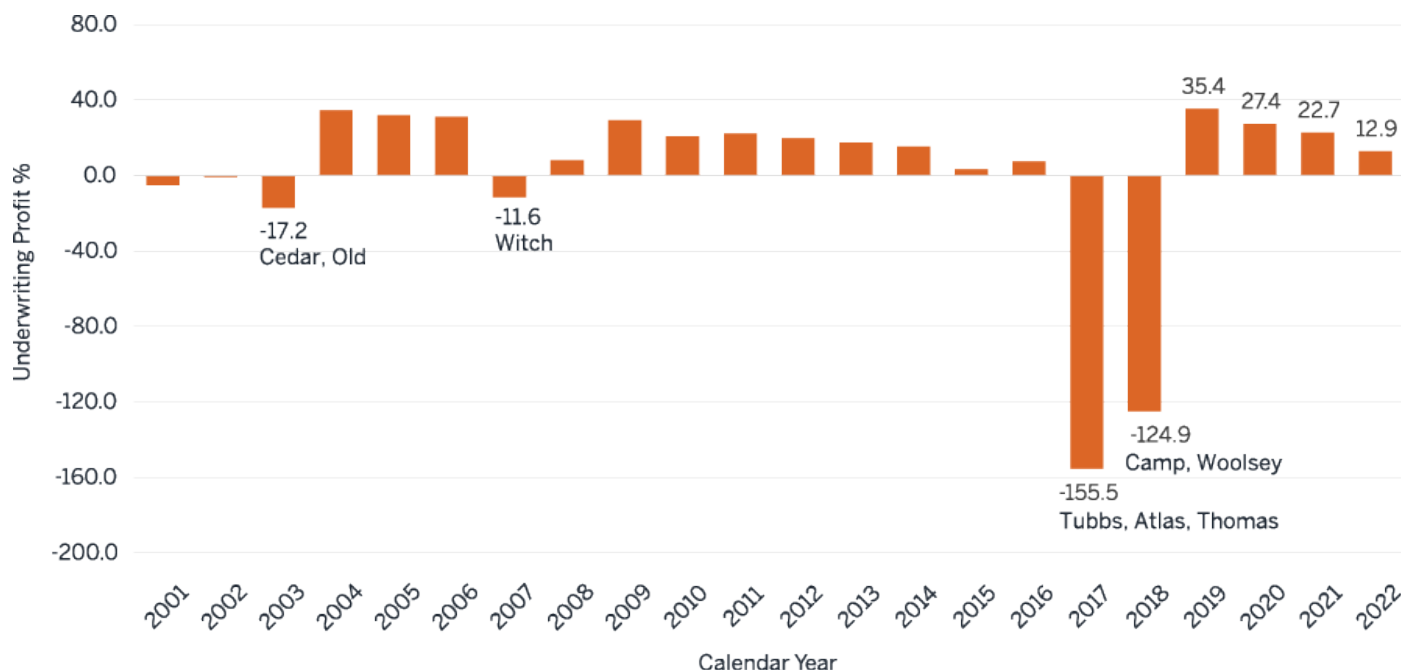
California is at the center of an escalating wildfire crisis, with recent fires in Los Angeles exposing the state's vulnerability to climate-driven disasters. The Palisades and Eaton blazes alone destroyed thousands of homes, displaced families, and caused tens of billions of dollars in damages. Experts estimate these wildfires could rank among the most expensive in U.S. history, with economic losses between \$150 billion and \$275 billion.¹ Losses were particularly magnified because high-value areas like Pacific Palisades were hit especially hard. Total property and capital losses ranged from \$75 billion to \$131 billion, magnifying the financial burden for homeowners and insurance providers alike.²

The fallout extends far beyond the burn areas. California's home insurance market is buckling under the weight of these disasters. Insurance losses from the Los Angeles fires surpassed \$28 billion and are estimated to range up to \$45 billion,³ one of the costliest in California history.

These losses will likely be another blow to Californian home insurance companies whose underwriting results—the difference between premiums collected and expenses and claims paid out—have largely depended on major catastrophe events in the past. The Los Angeles fires will certainly be considered one.⁴ The 2017 wildfire season alone—another major catastrophe event—wiped out over 10 years of underwriting profits for California home insurance companies. The 2017 and 2018 wildfires resulted in a combined underwriting loss of \$20 billion—more than double the underwriting profit the state's insurers generated from 1991 to 2016.⁵

The 2017 and 2018 wildfire seasons and the Los Angeles fires earlier this year show that major catastrophe events like wildfires can no longer be dismissed as anomalies. When a single severe catastrophe can turn a relatively profitable line of business into an unprofitable one and the frequency of these events is ever increasing, insurers need to re-evaluate—do they have enough capital to underwrite the risks they take on, are their rates adequate, and how can they model for catastrophe events? However, even as insurers recognize the need to assess wildfire risks more accurately, the California regulatory environment has not allowed them to charge premiums consistent with risk estimations.

California Homeowners Underwriting Result Percentage (2001-2022)



Source: Milliman White Paper, California homeowners insurance: Current state of the market and implications of the Los Angeles wildfires

A Broken Insurance Market

In response to mounting losses and strict regulations in California, insurance companies have pulled back—by refusing to issue new policies, limiting coverage, or canceling existing policies in fire-prone regions. Seven of the state's twelve largest insurers have stopped or restricted new policy issuance, citing wildfire risks, inflation, and other factors.⁶ In March 2024, State Farm, California's largest home insurer, announced it would not renew roughly 30,000 property policies and 42,000 commercial apartment policies.⁷ This followed its May 2023 decision to stop accepting new applications for property and casualty coverage in the state.⁸ In May 2025, State Farm agreed to pause non-renewals of policies through the end of the year as a condition of the state's approval for an emergency rate increase prompted by financial losses from the LA fires.⁹

Other major insurers are also pulling back. Tokio Marine America Insurance Co. and Trans Pacific Insurance Co. fully exited the California market in 2024, affecting more than 12,500 policies.¹⁰ As of early 2024, The Hartford stopped issuing new homeowners policies in the state.¹¹ Allstate and Farmers have similarly limited or halted new offerings due to wildfire risk and cost pressures.¹²

This has left many homeowners in California with few options beyond the FAIR Plan, which offers limited coverage. Following the 2018 wildfires, the number of nonrenewals of California residential-property policies grew by 36% in 2019, while FAIR Plan policies surged 225% that same year.¹³ As of June 2025, the FAIR Plan's total number of policies grew to over 450,000, and its total exposure ballooned to \$650 billion—a 289% increase since the end of fiscal year 2021.¹⁴

As the insurer of last resort for high fire risk areas, the FAIR Plan is under serious strain.¹⁵ Increased demand compounds risks for admitted insurers, who are responsible for any losses and expenses the FAIR Plan's premiums cannot cover in the event of a disaster. As insurers leave the California market, the number of insurers responsible for a FAIR bailout decreases,

increasing the burden on those remaining insurers who will be assessed on a statewide market share-basis. At the start of 2025, the FAIR Plan had \$377 million in reserves and \$5.75 billion in reinsurance.¹⁶ In February, in response to the LA wildfires, the Insurance Commissioner levied a \$1 billion assessment on FAIR Plan member insurers because expected insurance payouts exceeded the FAIR plan reserves and reinsurance only kicks in after losses exceed a certain limit.¹⁷ This is the first assessment since the 1990s and only the third since the plan was established in 1968.^{18, 19} As of July 2025, the plan had paid out \$2.7 billion across more than 5,000 claims related to the LA wildfires.²⁰

With increasing demand and ballooning exposure, the FAIR Plan could enter a death spiral.²¹ The FAIR Plan recently proposed to increase home insurance rates by an average of 35.8%, which would be the program's largest increase in the last seven years.²² In 2021, the FAIR Plan proposed a 48.8% increase but was only granted 15.7%. But even if this rate increase is implemented, California's insurance market is in urgent need of reform to address the structural imbalance between insurer solvency and the availability and affordability of coverage.

Distorted Incentives and the Expansion of Wildland-Urban Interface

Past insurance laws and regulations, especially Proposition 103, have led to a market failure that fails to price fire risk accurately. In a free market, insurance premiums should reflect the level of risk. Passed in 1988, Prop 103 was intended to protect consumers from arbitrary rates and practices. It requires insurers to seek approval from the Insurance Commissioner before raising or lowering rates. Until recently, the law also did not allow the use of catastrophe models or the inclusion of reinsurance costs in setting rates for home insurance.²³ This has significantly limited insurers' ability to price policies based on future risks.

California has one of the most time-consuming insurance rate approval systems in the country, with an average 236-day wait for homeowners insurance,²⁴ far below the national average of 64 days.²⁵ Insurers cannot afford to wait for close to a year, or more in some cases, while wildfire risks rise. Under Prop 103, public hearings are mandatory when an insurer requests a rate increase that exceeds 7%. To avoid triggering an automatic hearing and the ensuing delay, insurers often file for 6.9% rate increases even when they need much more, leaving rates artificially suppressed rather than based on any sound actuarial justifications.

California's Insurance Market Structure

California has a three-tiered insurance market structure: admitted insurers, non-admitted insurers, and the California's Fair Access to Insurance Requirements (FAIR) Plan.

Admitted insurers are licensed to write home insurance policies in the state and must receive approval for rate changes from the State Insurance Commissioner. In 2022 there were 102 admitted insurance companies, covering 97% of homeowner insurance policies.

Non-admitted or surplus line insurers are based outside of California—and thus are regulated by their home state or country—and choose to undergo additional scrutiny to get on the California-approved list. The 141 non-admitted insurance companies cover less than 1% of homeowner insurance policies in the state.

The FAIR plan, the option of last resort, offers basic "bare-bones" fire insurance for homeowners who are unable to find coverage in the traditional marketplace. Although still a small portion of the market share covering only 3.7% of homeowners policies, the FAIR plan has more than doubled its policy counts since 2015. All insurers licensed to operate in California are mandated to fund the FAIR plan and share the financial burden proportionally to their market share.

Meanwhile, California's growing population and housing shortage have pushed development further into the Wildland-Urban Interface (WUI), where human settlements intermingle with natural landscapes. Most wildfires are caused by human activities such as unattended campfires, burning debris, equipment malfunction, and downed electricity lines. And more people in fire-prone areas doesn't just increase the chance of ignition—it can increase resulting costs. Wildfires starting near the WUI can damage large numbers of homes and infrastructure, threaten lives, and amplify property losses.²⁶ Many of the state's largest wildfires—such as the 2019 Kincade Fire, the 2021 Dixie Fire, and 2022 Mosquito Fire—were caused by Pacific Gas & Electric Company's equipment. Investigations suggest the recent Eaton Fire may have been sparked by Southern California Edison.²⁷



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Although other factors, like California's land-use and zoning policies, may have increased rapid expansion into very high-risk areas, artificially suppressed insurance rates due to Proposition 103 likely played an important part in the continued risky development in the WUI. According to the International Center for Law and Economics, California leads the country in rate suppression, underpricing wildfire risk more than any other state.²⁸ The average California homeowner's insurance premium is still below the U.S. average, and is particularly low compared to other states that commonly endure catastrophic natural disasters—California's average premium is 42% lower than Florida, 38% lower than Louisiana, and 35% lower than Texas.²⁹

While premiums remain suppressed, wildfires are becoming more frequent and causing more damage, resulting in increasing wildfire claims. From 1964 to 1990, insurers paid an average of \$100 million per year in fire claims in California. From 2011 to 2018, that figure jumped to \$4 billion per year. As of July 2025, over \$20.4 billion in claims has been paid out following the Los Angeles Fires.³⁰ This dysfunctional market has driven insurers to flee or limit new policies, leaving homeowners with the FAIR plan that offers limited coverage at higher rates, or none at all.

Pricing Risks Accurately: A First Step

Ensuring that insurance premiums accurately reflect wildfire risk is a first step towards resolving California's insurance crisis. At the end of 2024, the Insurance Commissioner issued regulations allowing insurers to use forward-looking catastrophe models and factor in reinsurance costs when setting rates—an important step toward pricing wildfire risks accurately. In exchange, insurance

companies must write policies in high-risk areas equal to at least 85% of their statewide market share. The state legislature passed a bill in October 2025 to develop a public wildfire catastrophe model to help homeowners and consumers understand wildfire risks and take appropriate risk mitigation measures.

However, striking the balance between consumer protection and insurer solvency can be challenging. After the LA wildfires, the Commissioner issued a one-year moratorium on cancellations and non-renewals in affected areas. While necessary to protect homeowners from immediate financial distress, this temporary measure may deepen insurer losses. Recent California laws passed in response to the LA fires require insurers to provide up to 60% of the personal property policy limit without an itemized claim.³¹ Intended to protect consumers and homeowners after traumatic events like wildfires, the law could potentially further destabilize the financial solvency of insurers.

The recent reforms could also be offset by the rapid growth of the FAIR Plan. If current trends continue, the plan will write more policies for homeowners unable to find private coverage, with total exposure exceeding its reserves.

The inherent problem with state backstops like the FAIR Plan is that they are not financially stable over the long term if there are no disincentives for homeowners to use it as subsidized insurance. When the plan runs short, it shifts costs back to private insurers within the FAIR plan pool who then spread them to consumers—essentially functioning as a hidden tax. In practice, this means all policyholders statewide—including those not in the FAIR plan—pay higher premiums to cover losses in high-risk areas. And when private insurers and California homeowners cannot afford the assessments, the FAIR Plan, like any other state and federal backstop, will always look to the state legislature for a bailout, meaning California taxpayers will be on the hook if the FAIR Plan continues to underprice risks, effectively encouraging development in high-risk areas that should never have been built. The National Flood Insurance Program offers a cautionary example of outdated hazard maps



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Parametric Insurance Can Offer Additional Coverage

As the traditional insurance market in California has been destabilized by the growing frequency and intensity of wildfires, parametric insurance could help fill critical coverage gaps.

Parametric insurance is a non-traditional insurance product that pays out a pre-agreed sum when a specific trigger metric—such as seismic intensity, wind speed, or proximity of the fires to an insured property—is met, regardless of the actual, itemized losses suffered. Triggers are typically clear, objective, and based on independent data sources like satellite imagery or official incident records. Unlike regular insurance policies, parametric insurance can provide immediate liquidity for homeowners—sometimes before disaster even strikes—without cumbersome claims processes, allowing homeowners to better prepare for and recover from wildfires.

Incentivizing wildfire-prone communities to get parametric insurance when traditional coverage is unavailable or unaffordable can provide urgently needed liquidity, resilience, and market stability. California should partner with private insurers and other stakeholders to share wildfire related data, establish scientific parametric triggers, and educate homeowners on the need for additional coverage.

and insufficient pricing leading to reliance on federal bailouts.³²

To remain a true backstop and not an unfunded public subsidy, the FAIR Plan must:

- Be actuarially sound and priced accurately for the risks it underwrites.
- Remain the insurance of last resort and not compete with the private market in terms of affordability. Subsidized rates that compete with private insurers create a false sense of protection and market functionality while driving insurers out and worsening availability.
- Only provide temporary coverage, with clear and tight guidelines that help homeowners get back to the private market. The goal is to shrink the plan, not expand it.
- Require strong, science-backed mitigation and home fire-proofing requirements as a condition for coverage, such as clearing trees and brush or using better building materials.



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Discourage Further Expansion into WUIs

Discouraging risky development in the WUI will also be key to preventing further destabilization of the insurance market. Research shows that areas with high housing density have lower likelihood of fires thanks to both increased and more efficient deployment of suppression and lack of combustible materials.³³ The study also found that the marginal firefighting cost per additional home decreases significantly in clustered, high-density housing areas compared to low-density development.

California should encourage and incentivize cities and municipalities to focus new housing growth away from the WUI and into established high-density urban areas or lower-risk zones. This can be accomplished by requiring updated local general plans and zoning codes to prohibit new residential subdivisions in the state-mapped Very High Fire Hazard Severity Zones and WUI areas³⁴ and by prioritizing infilling and upzoning development in already urbanized, lower-fire-risk neighborhoods.

Regional land-use planning is also critical. Buffer zones around communities, with less flammable land uses such as agriculture or conservation, can drastically reduce fire risks. The state should coordinate with local governments to ensure regional land-use plans include fire-buffering open spaces between wildlands and developed areas, so these lands function as shared fire breaks for communities at risk.

Risk Mitigation Is Key

Accurate pricing and discouraging risky new development is needed to prevent future risks, but mitigation is essential to ensure insurance availability and affordability for current homeowners in the WUI. The Insurance Institute for Business and Home Safety (IBHS) standards emphasize that communities are only as safe as their weakest link—embers can destroy entire neighborhoods if even one house is left unprotected.

At the property level, stricter, fire-proof building codes should be applied not just to new developments in the WUI—existing developments must also retrofit for defensible space, ignition-resistant materials, and emergency access. At the community level, fuel breaks, evacuation planning, reliable water supplies, and upgraded electrical grids will help reduce risks.

California law already requires insurers to offer discounts for certain mitigation actions steps, but the standards are inconsistent. Stronger, science-based statewide rules and coordination with local and Tribal governments are needed to ensure progress. Insurers also need flexibility from regulators to develop innovative products that reward mitigation and keep coverage available.³⁵

Conclusion

Insurance is only a piece of the puzzle—the California wildfire crisis stems from over a century of fire suppression that created a fire deficit, compounded by rising temperatures, prolonged drought, and strong winds like the Diablo and Santa Ana that intensify and spread wildfires. As the state confronts the growing strain of wildfires and their ripple effects on housing and insurance markets, the need for reform is urgent. But no insurance fix will last without a longer-term wildfire risk mitigation strategy—stronger building codes, smarter land-use—that protects lives, safeguards property, and preserves the stability of California's insurance market.

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