After the fire, the insurance battles: LA victims' ordeal may just be beginning

The Guardian

California homeowners who lost everything in this week's devastating Los Angeles-area fires now have to battle their insurance companies to recover the value of their homeowners' policies – if they are lucky enough to have insurance at all.

With estimates of the economic damage from the fires now reaching $52bn-$57bn, consumer advocates and veterans of past disasters say homeowners can expect weeks or months of paperwork to prove that they have lost what they say they have lost, if not also pressure from claims adjusters and a whole class of disaster professionals to make a quick settlement for less than they are entitled to under their policies.

The changing climate and the increasingly volatile natural disasters it has engendered have thrown the insurance industry into significant disarray, opening the door to a lot of what Amy Bach of the consumer group United Policyholders calls "sad surprises".

In recent disasters, some of those surprises have involved nickel-and-diming by insurance companies to minimise payouts on claims. Some have involved freelance claims adjusters or computer programs designed to cut costs more than to help consumers. And some have to do with the language of the insurance contracts.

"We're going to see some funky policies out there," Bach predicted, "some language we're not used to seeing."

And that's for the lucky ones. Many top insurers, citing the destabilising effects of the climate crisis, have been refusing coverage to property owners in areas deemed high risk for wildfires and other natural disasters – areas including Pacific Palisades and Altadena that have borne the brunt of this week's

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devastation.

Thousands of homeowners denied normal coverage may have to depend instead on an emergency state insurance program that is costly and complicated to join and caps its payouts at $3m per household – significantly less than the value of many affluent homes razed along with their contents to the ground this week.

Matters may only get worse once the accounting for the LA fires is over, as insurers ponder whether they need to raise premiums in California even beyond the sharp rate increases of the past several years.

“Climate-related extreme weather events will become both more frequent and more violent, resulting in ever-scarcer insurance and ever-higher premiums,” a US Senate report on the insurance market warned just last month. “Climate change is no longer just an environmental problem. It is a looming economic threat.”

The big insurers – State Farm, AllState and Farmers, among others – insist they have no choice but to raise rates because of factors including sky-high construction costs and what they call “catastrophe exposure”, especially in California where they face regulatory hurdles unmatched in other states. The industry points to State Farm, whose credit rating was downgraded last year, as a casualty of these pressures.

That attitude infuriates consumer advocates, however. They accuse the big insurers of “climate change opportunism” and argue that the cost of deadly events like this week’s fires have long since been factored into the premiums they charge.

According to the National Association of Insurance Commissioners, US insurers made record profits of $87.6bn in 2023 from their property and casualty business alone. In 2024, they were on pace to shatter that record again, making about $130bn in net income in those sectors in the first three quarters.

“We’ve been paying premiums over the past several years to prepare insurance companies for a catastrophe like this. Whatever they say, they have the resources to pay the claims,” said Douglas Heller, director of insurance at the Consumer Federation of America. “Now we have to make sure there’s not a second, financial tragedy that follows the physical catastrophe.”

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California's department of insurance has been anxious to lure insurance companies back into the market, especially in wildfire-prone areas where they have been canceling policies the fastest. In Pacific Palisades, for example, State Farm dropped 70% of its homeowner business last summer, affecting 1,600 property owners, and dropped many more in other parts of the Santa Monica mountains that run along LA's Pacific coast.

Last month, the state's insurance commissioner, Ricardo Lara, came up with an answer: a new regulatory framework that would oblige insurers to issue policies in "distressed areas" at 85% or more of the rate that they issue them in other parts of the state. Lara called this "a California first … giving people more choices to protect themselves".

Lara only achieved this, however, by agreeing to laxer regulations in other areas that insurance companies have been seeking for years, causing Heller and other critics to question the deal's overall value.

In particular, Lara agreed to allow insurers to charge consumers for the costs of reinsurance, secondary coverage they buy in the international marketplace to limit their exposure to big losses. He also allowed them to base premiums in disaster-prone areas on their own in-house "catastrophe modeling" over which there is minimal outside scrutiny.

Both concessions are expected to lead to significant premium increases, possibly even crippling ones. "The new rules will allow insurance companies to charge so much, their policies will be technically unavailable [to many consumers]," Heller charged.

"To switch from a crisis of unavailability to a crisis of unaffordability is no switch at all. That's not a win for the public."

The industry denies that it has any interest in putting its insurance rates out of the reach of its consumers. Rather, it argues that California's rates are among the cheapest in the country, despite the high cost of building there, which is why it is difficult for companies to operate profitably.

"We have to collect adequate premiums," said Janet Ruiz of the Insurance Information Institute, an industry trade group. "That's all we're looking for."

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Ruiz also contested the idea that companies are seeking to profit unfairly from the claims process by making it more onerous on consumers who have suffered heart-breaking losses. “People come in with the expectation that they’re going to have to fight with their insurance adjuster and are on the defensive from the beginning,” she said. “My advice is to work with the insurance company and think of it as a negotiation.”

If all sides agree on anything, it is that the cost of reinsurance in an age of unpredictable natural disasters has become a significant drag on the market. Consumer advocates argue that international reinsurers are an exclusive, unregulated club able to charge premiums more or less at will. Ruiz, by contrast, said the high rates reinsurers charge are simply a reflection of the number and severity of recent storms and wildfires, and that in years without fewer disasters the rates can also come down.

Heller doesn’t think victims of this week’s fires should bet on the benevolence of any part of the industry and advises them – as the California department of insurance does – to document and take notes on every interaction they have with adjusters, lawyers and anyone else offering to help them.

“Insurance companies make money by holding on to our premium and investing it and paying as little as they are required to pay – and sometimes less than that,” he said. “So we have to be vigilant.”

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