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Empowering the Insured

[An insurance crisis was already brewing in L.A. Then the fires hit.](https://uphelp.org/an-insurance-crisis-was-already-brewing-in-l-a-then-the-fires-hit/)

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In July, as California sweltered through its hottest month in history, the state's biggest insurance company stopped providing home insurance to more than a thousand homeowners in the Pacific Palisades neighborhood of Los Angeles.

Tucked into the fire-prone hillsides on the city's Westside, the neighborhood was one of a growing number in California deemed too risky to insure, State Farm President Denise Hardin wrote in a letter to regulators. The carrier did not renew nearly 70 percent of policies in the Palisades Zip code, leaving residents increasingly reliant on a state-backed "insurer of last resort" known as the FAIR plan. Pacific Palisades had become one of the most fire-exposed areas the plan covered, with nearly $5.9 billion in assets at risk of going up in flames.

Now, the catastrophe that residents, insurers and regulators feared has come to pass. Thousands of homes and businesses in Los Angeles have been reduced to ash since Tuesday as five separate fires rage out of control. Many are in the Palisades, one of the city's wealthiest neighborhoods — and one of the most susceptible to wildfire. Though the full financial toll of the disaster is unclear, experts are warning the losses could overwhelm California's already fragile insurance market, potentially worsening an exodus of carriers and destabilizing the state-backed system.

"We're marching toward a future where insurance is not going to be available or affordable," said Dave Jones, who served as California's insurance commissioner from 2011 to 2018 and now directs the Climate Risk Initiative at the University of California at Berkeley's School of Law.

This week's fires began at a time when home insurers were beginning to feel better about their future in California, said Carolyn Kousky, associate vice president for economics and policy at the Environmental Defense Fund. After years of private insurers scaling back coverage in the state, officials last month announced new regulations that would allow companies to increase rates and use models that factor in future climate risks. In exchange, they would have to sell policies in fire-prone areas.

“There was a lot of optimism the market in California was really turning around,” Kousky said. “The fires raise the question: Is that enough when we’re in an environment of increasing risk?”

The American Property Casualty Insurance Association, a trade group representing insurers, said it was too soon to say whether California’s new regulations would prevent more insurers from leaving. Most of the reforms have not taken effect.

We’re hoping they will build a foundation for a strong, competitive insurance market,” said Denneile Ritter, a vice president with the association. Among insurers, there is a sense “the state is on the right track,” she said.

According to an estimate by Moody’s Ratings released Thursday, insured losses from the fires are likely to run into the billions “given the high values of homes and businesses in the impacted areas.” J.P. Morgan estimates the losses to be in the tens of billions of dollars.

The prospect of such high-cost catastrophes had long worried California’s private insurers, who said the premiums they were legally allowed to charge did not match the escalating damage from fires fueled by climate change. In the past two years, seven of the state’s top 12 insurers have pulled back on coverage by no longer issuing new policies or not renewing existing ones.

The only option for many homeowners became the Fair Access to Insurance Requirements (FAIR) plan: a state-mandated fire insurance association established in 1968 to fill the gaps where private insurers were unwilling to issue policies. Every company operating in California is required to contribute to the plan’s expenses in proportion with its market share in the state.

Though the premiums offered by the FAIR plan are typically higher than those from private insurers, participation in the plan has more than doubled in the past four years. In Pacific Palisades, the number of FAIR plan policies increased 85 percent from 2023 to 2024 — growing at roughly twice the statewide rate.

The association does not make its finances public. But in March, FAIR plan President Victoria Roach testified that the plan was dangerously overextended — accountable for more than $300 billion in potential losses, with just $200 million in “surplus” available to cover those costs.

“We’re one bad fire season away from complete insolvency — it feels like a big gamble in many ways,” Assembly member Jim Wood, a Democrat from Sonoma County, told the Los Angeles Times last year.

If claims from this week’s fires exceed the FAIR plan’s reserves, private insurance companies will be required to cover the first $1 billion in shortfall, Jones said.

But if the toll goes even higher, insurers can seek approval to assess policyholders for the remaining cost — an outcome that would lead to premium increases across the state.

Officials won’t know whether those increases are necessary until they are able to calculate the cost of damage to homes covered by the FAIR plan. “But it’s certainly a risk that needs to be paid attention to,” Jones said.

In the meantime, for Los Angeles homeowners who do rely on the state’s insurance program of last resort, there’s another wrinkle: Many of them are underinsured, said Amy Bach, executive director of United Policyholders, a consumer advocacy group. The FAIR plan caps policies at $3 million, which is often less than the median home price in many wealthy and fire-prone California communities, including the Palisades.

This becomes a problem when residents return after a disaster but find the cost of rebuilding a home is more than their insurance payout.

“There’s definitely going to be some people who don’t have any insurance,” Bach said. “But we know a lot of the people affected by these fires will have been insured through the FAIR plan. If they’re in the FAIR plan, we know they’re underinsured.”

Moments like this underscore the tensions facing homeowners, insurance companies and regulators as climate disasters escalate, said Judson Boomhower, an environmental economist at the University of California at San Diego. Public officials want to ensure that insurance is accessible and affordable for their constituents. Yet insurers also need to be able to charge rates that accurately reflect the risks they face — otherwise, they may not be able to pay claims when disaster strikes.

Raising rates — or refusing to even offer policies — can dissuade people from moving to the riskiest areas, which could help prevent deaths and reduce spending on costly firefighting efforts, he added. But it may also displace people and deplete long-standing communities.

“If there is a fundamental trade-off between sending incentives for efficient investment and providing risk protection, how do you want to balance those things?” Boomhower said.

But policy changes can only do so much to balance the needs of insurers and increasingly vulnerable homeowners, Jones said. With global temperatures — and the planet-warming emissions that drive them — still rising, disasters in California and elsewhere will only become more frequent and expensive, he said.

In the hardest-hit areas, Jones worries, homes could become too risky to ensure “at any price.”

“Because we’re not doing enough fast enough to transition away from fossil fuel use,” he said, “we are marching very steadily toward an uninsurable future in the United States.”