California’s FAIR Plan carries growing load as insurers retreat beyond wildfire zones

Insurance Business

As another wildfire season approaches, California’s insurer of last resort is shouldering a rapidly expanding share of the state’s property risk, including in areas with relatively low wildfire exposure, as private carriers tighten underwriting and push more homeowners off standard policies.

The California FAIR Plan, designed as a backstop for properties that private insurers deem too exposed to wildfire, saw enrollment jump 43% betweeen September 2024 and December 2025, following a run of catastrophic fires including last year’s $40 billion LA fire that destroyed 12,000 homes.

Originally intended as temporary cover for homes in areas classified as high risk because of vegetation, terrain and weather, the FAIR Plan’s role has expanded well beyond the wildland-urban interface. A Bloomberg analysis of plan data found that 14% of current FAIR policies, and 28% of the plan’s total exposure, now sit in largely urban, lower-fire-risk zones – a sign that carrier pullbacks are spilling into what were once considered “normal” parts of the market.

“What we’re seeing is that the infection of the market that existed in the high-fire-risk areas has spread into the normal parts of the market,” said Michael Wara, director of the climate and energy policy programme at Stanford University, as quoted in a Yahoo News report.

The FAIR Plan’s own data indicated that policies in force and exposure have surged in recent years, with total insured value rising to the hundreds of billions of dollars and policy count in the mid-hundreds of thousands, heightening concerns over whether the residual market could cope with another LA-scale event.

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Tight regulation, LA losses and political pressure

California's climate-driven insurance crisis has prompted a broad rethink of the state's heavily regulated market, where prior-approval rules under Proposition 103 can mean it takes a year or more for carriers to secure rate increases. Regulators have pledged faster turnarounds and to allow rates that better reflect wildfire risk in order to persuade insurers to expand capacity in high-hazard regions.

Those efforts have had to run in parallel with emergency responses to the LA fires, which left thousands of residents fighting to get claims paid and exposed widespread underinsurance in affluent neighborhoods. In 2025 the Department of Insurance signed off a 17% emergency rate hike for State Farm – California's largest home insurer – to shore up its capital after billions in fire losses and contributions to FAIR Plan assessments, while warning that the market remained fragile.

Lawmakers, meanwhile, are pushing new mandates aimed at correcting inequities revealed by the disaster. One recently introduced bill would require insurers to write and renew cover in high-risk areas for homeowners who carry out specified fire-hardening measures, or risk a five-year suspension from doing business in California. Another proposal would compel carriers to offer guaranteed replacement cost on destroyed homes, after many LA policyholders discovered limits far below rebuilding costs.

"The insurance market right now is in a fragile state," said Mark Sektnan, vice-president for state government relations at the American Property Casualty Insurance Association. "The decisions that the legislature makes through the laws that they pass could make California either appear to be a more encouraging market or less encouraging market for insurers wanting to come back."

FAIR Plan reform and competitive tension

A separate bill, backed by insurance commissioner Ricardo Lara, would allow the FAIR Plan to offer comprehensive homeowners' cover rather than fire-only policies, which today must be paired with a separate policy to cover other perils. Proponents argue that giving FAIR the ability to provide "real" cover is essential for households stuck in the residual market.

"The FAIR Plan was never designed to be as good as the protection that you can get in the private market because we don't want people on FAIR," said Amy Bach, executive director of United

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Policyholders. Michael Soller, a deputy insurance commissioner, said the objective is to ensure adequate cover for those who “have to be on the FAIR Plan, but that needs to be short term.”

Industry representatives warn that expanding FAIR’s product suite without addressing pricing could entrench the plan’s position. “You can’t depopulate the FAIR Plan if it’s competitively priced or if it’s priced lower than what’s in the market,” Sektnan said, noting that relatively low FAIR premiums are one reason growth has extended into lower-risk, urban areas.

Early signs of stabilization – and a long timeline

There are tentative signs that access to the private market may be improving at the margin.

After “breakneck” growth since 2024, FAIR Plan enrolment rose by less than 4% in the final quarter of 2025. Under Lara’s “sustainable insurance strategy”, six major carriers have had, or are seeking, rate increases in exchange for commitments to write more in wildfire-distressed areas and to take policyholders off the FAIR Plan.

Farmers Insurance has requested a near-7% rate rise and has pledged to market to 300,000 consumers in high-risk zones from 2026 and add about 5,600 policies over two years. CSAA Insurance Group has indicated it has already written 18,300 more policies in high-hazard areas than required by regulators, while Mercury General has set a target to grow its book in high-risk areas by 15% and, over eight years, shift 6.5% of FAIR Plan policyholders to its own cover.

Sektnan argued that the market will not fully recover without even faster rate reviews, warning that inflation can erode the value of approved increases before they take effect. Lara told lawmakers in February that recent rate assessments have been completed in around 120 days and that the department is now targeting 60 days.

“We are not out of the woods,” he said. “A structurally healthier market is a 3-5-year project”

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