How the wildfires in the Los Angeles area could affect California’s home insurance market

The Minnesota Star Tribune

The wildfires that destroyed homes in multiple sections of the Los Angeles area will test California’s efforts to stabilize the state’s insurance marketplace after many insurers stopped issuing residential policies due to the high fire risk.

The wind-driven blazes that started Tuesday roared through neighborhoods from the Pacific Coast inland to Pasadena and the Hollywood Hills. The vast property damage in a disaster-prone state with high real estate prices and an uncertain insurance landscape could make coverage more expensive and even harder to find.

One area likely to feel the impact — and encounter challenges rebuilding — is Pacific Palisades, an affluent community sandwiched between the Pacific Ocean and the Santa Monica Mountains. This week’s wildfire there has been named as the most destructive in the modern history of the city of Los Angeles. Flames destroyed businesses, a library, cultural landmarks as well as houses.

State authorities previously listed the Palisades as one of the five Southern California areas with the highest concentration of potential wildfire risks. The community also is among the areas most impacted by an unavailability of insurance coverage.

When State Farm decided to discontinue coverage for 72,000 houses and apartments in California last year, it dropped nearly 70% of its market share in Pacific Palisades, according to the San Francisco Chronicle.

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Source: https://uphelp.org/how-the-wildfires-in-the-los-angeles-area-could-affect-californias-home-insurance-market-2/ Date: April 28, 2025

Here’s what to know about California’s residential insurance crisis and how the ongoing wildfires may further disrupt the policy market:

Why does California have a home insurance crisis?

California has seen other major insurers pull back on property coverage in the nation’s most populous state as climate change makes wildfires, floods and windstorms more common and damaging.

Of the top 20 most destructive wildfires in state history, at least 15 occurred since 2015. The data did not include the Los Angeles area fires this week.

In 2023, seven of the 12 largest insurance companies by market share in California either paused or restricted issuing new policies in the state.

That has made it extremely difficult for homeowners in high-risk areas to obtain or afford insurance.

What happens to residents who can’t get regular home insurance?

California homeowners in wildfire-prone areas either go without insurance or join the Fair Access to Insurance Requirements (FAIR) Plan, which the state created as a last resort for homeowners who couldn’t find insurance.

Many people purchase the FAIR Plan to satisfy their mortgage requirements, but the policies only cover basic property damage and carry a $3 million limit. Given the value of the real estate involved and the limited coverage, FAIR Plan policyholders who lost homes in this week’s fires may struggle to be made whole.

The policies can be very bare bones, with some options only covering the actual cash value of what was lost rather than the true replacement costs, said Amy Bach, executive director of the consumer advocacy group United Policyholders.

The plan was designed to be a temporary solution, but more Californians are relying on it than ever. The number of FAIR residential policies issued in the state more than doubled between 2020 and 2024, reaching nearly 452,000 policies.

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Could claims from the LA fires push the FAIR Plan into insolvency?

Policies sold to FAIR customers primarily fund the plan, but insurers would have to pay into the fund if it becomes insolvent or to keep it from insolvency. Under a new state rule, insurers could ask the state to approve rate increases to recoup the money spent on bailing out the FAIR Plan.

FAIR Plan spokesperson Hilary McLean said it could take years to tally total losses from the Los Angeles area fires. While it's too soon for reliable loss estimates, the FAIR Plan anticipates being able to pay out claims from the wildfires, McLean said.

"We are aware of misinformation being posted online regarding the FAIR Plan's ability to pay claims," she said in a statement. "The FAIR Plan has payment mechanisms in place, including reinsurance, to ensure all covered claims are paid."

The plan has roughly $700 million in cash on hand and about $2.5 billion in reinsurance, according to testimony given to California lawmakers last year.

The mean home value in Pacific Palisades and its surrounding areas hovers around $3.3 million, according to real estate company Redfin. Owners of the most valuable properties probably are not relying on the FAIR Plan because of the coverage limit, said Jamie Court, president of nonprofit organization Consumer Watchdog.

The claims from the fires will be significant, Court said, "but this is not enough to put the industry out of business or the FAIR Plan out of business."

On Thursday state lawmakers introduced a bill that would give the FAIR Plan the ability to seek "catastrophe bonds" if it faces liquidity challenges.

How has California responded to the insurance crisis?

In a new tactic, state officials undertook a yearlong overhaul to give insurers more latitude to raise premiums in exchange for more issuing policies in high-risk areas.

A new regulation that took effect this month allows insurers to consider climate change when setting

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their prices. California previously did not let insurance companies factor in current or future risks when deciding how much to charge. Many companies cited the restriction as their reason for retreating from the state’s insurance market.

The state is also in the final stage of approving a rule that would let insurance companies pass on the costs of reinsurance to California consumers. Insurance companies typically buy reinsurance — or insurance for themselves — in case they face huge payouts from natural disasters or catastrophic losses. California is the only state that doesn’t already allow the cost of reinsurance to be borne by policyholders.

The new rules have prompted Farmers, the second-largest insurer in the state, to resume writing new policies for homeowners last month. Consumer Watchdog’s Court says the rules also could make it easier for insurers to raise rates with little oversight.

How will the fires impact California’s insurance market?

It’s ”premature” to assess whether the wind-whipped fires and their destruction will put a damper on California’s attempt to preserve home insurance options for residents, said Denneile Ritter, a vice president with the American Property Casualty Insurance Association, the largest national trade association for home, auto and business insurers.

But higher homeowner premiums could be coming soon, RAND economist Lloyd Dixon said. If insurers’ models signal a potential increase of risk, ”then you’d expect to see the requests for premium increases by the insurers,” he said.

California Insurance Commissioner Ricardo Lara said Wednesday that the newly enacted rules allowing climate change consideration in premiums will help insurers accurately assess risks and set fair rates. The state is also issuing a one-year moratorium prohibiting insurance companies from dropping coverage in areas affected by fires.

”Insurance companies are pledging their commitment to California, and we will hold them accountable for the promises they have made,” Lara said in a statement.

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