United Policyholders
Empowering the Insured

Insurers, Homeowners on the Hook for $1 Billion California FAIR Plan Bailout

KQED

California insurance regulators have approved a request from the California FAIR Plan, the state's insurer of last resort, to get money from regular insurers to help pay customer claims from the Los Angeles Fires.

The $1 billion will be collected from private insurance companies in California to keep the FAIR Plan solvent. Insurance companies will be able to pass on $500 million to their policyholders.

The FAIR plan is a not-for-profit insurer offering coverage to homeowners who can't get it through normal insurance companies. That means it takes the riskiest homes. The plan's liabilities more than doubled between 2020 and 2024 as traditional insurers pulled back from California. Industry observers expected that a large fire could wipe out the FAIR Plan's reserves despite the high premiums charged for coverage.

"This has been warned for many years. Nobody should be surprised that this happened. It's unfortunate," said Mark Friedlander of the Insurance Information Institute.

It's a sign of a stressed and sickly insurance market, he added, placing the blame on outdated 1980s-era insurance regulations that the state finally updated in late 2024.

"[California had an] antiquated regulatory environment, which is now, of course, being addressed by the insurance commissioner's Sustainable Insurance Strategy," Friedlander said. "It will take several years for that strategy to have full impacts in the market, where the market could begin to stabilize."

Emily Rogan, a senior program officer with United Policyholders, a nonprofit that helps consumers navigate after disasters, referred to the situation as sad.

"The most important thing is making sure that the policyholders in the L.A. fires have their claims paid out,” she said.

The FAIR Plan is a necessity, Rogan explained, because for-profit insurance companies can’t be counted on to offer coverage.

If split evenly among California’s eight million home-owning households, the $500 million would be about $60 per household. However, in guidance issued this week (PDF) to companies by the Department of Insurance, Commissioner Ricardo Lara specified that the fee should be a percentage of each policyholder’s premium. People with more expensive insurance will pay a larger share.

When the fees will show up on bills is undetermined and will be hammered out in the coming months. The fee will be temporary and cannot be folded into insurance rates. The total amount should be collected within two years.

There is a precedent for supplemental insurance fees. Following several seasons of bad hurricanes in the 2000s, Florida’s insurer of last resort was bailed out, with property insurance policyholders shouldering the entire cost. In California, the FAIR plan last needed rescuing three decades ago.

In 1993, fires consumed parts of Altadena, Malibu and Topanga, some overlapping with the footprint of the January fires in Los Angeles. The 1994 Northridge Earthquake, one of the costliest natural disasters in the nation’s history, hit the same region. Thousands of homes were destroyed and freeways collapsed. Thousands were injured and 72 people died.

Following the disaster, insurance companies decided they no longer wanted to cover earthquake damage. California was too risky, so they stopped writing policies in the state. The state Legislature created the California Earthquake Authority, which provides pricey earthquake insurance and permits standard insurers to exclude earthquake coverage from their property insurance policies. The result is that, according to CEA, only about 13% of Californians who have residential insurance also have earthquake insurance.

Insurers came back to the state, but more residents are now at risk of being uncovered when the next Big One hits.

The instability after Northridge could have been a wake-up call about the danger of an unhealthy insurance market. Instead, following disastrous fires starting in 2017, the market again destabilized to the point of approaching collapse because too many Californians rely on the FAIR Plan.

“Commissioner Lara has looked at what happened [after those disasters] and decided we didn’t learn the right lesson,” said Michael Soller, a Department of Insurance spokesperson. “We need to stay on and strengthen the mitigation path.”

Making homes safer is the path forward, he said.

California can’t get to the point where insurance companies don’t want to cover fire damage.