

Los Angeles wildfires rage as California homeowners battle an ‘insurance crisis’

NBC News

Analysts estimate the insured losses in Pacific Palisades alone could approach \$10 billion, squeezing insurance companies at a time when some have been pulling back policies.

The wind-driven wildfires burning out of control in the Los Angeles area couldn't have emerged at a more perilous moment for California's homeowners, as officials try to rehab what they concede is a deepening "insurance crisis."

"We were all thinking 2025 is going to be the year insurers regain their appetite for the market in California, but having this catastrophe hit us right out of the gate is really unfortunate," said Amy Bach, the executive director of United Policyholders, a California-based nonprofit consumer group.

"Up until this latest disaster," she said, "we thought we might be turning a corner."

The state Department of Insurance issued a new regulation last month meant to turn the tide of some of the largest insurance companies' refusal to take on new customers in California or decisions not to renew policies of current ones. Under the rule, insurance companies are permitted to pass on the cost of reinsurance to consumers, although at an amount that can't exceed an industry standard.

Reinsurance is protection that insurance companies acquire to shield themselves from catastrophic claim events.

The Insurance Department said California had been the only state that didn't allow the cost to be passed on.

In return, insurers doing business in the state must again provide coverage in fire-prone areas at a

mandated amount. Another rule finalized last month allows insurers to incorporate catastrophe modeling into their rates on the condition that they increase their policy offerings in underserved areas of the state.

“Californians deserve a reliable insurance market that doesn’t retreat from communities most vulnerable to wildfires and climate change,” Insurance Commissioner Ricardo Lara said in a previous statement. “This is a historic moment for California.”

The actions, however, drew scrutiny from consumer advocates who worry it will only lead to sharply increased premiums.

Lara’s office didn’t immediately respond Wednesday to a request for comment in the wake of the latest wildfires.

The ongoing Palisades Fire is poised to become one of the state’s costliest: Fire officials said Wednesday that more than 11,800 acres have been destroyed and that 1,000 structures have been burned, while a J.P. Morgan Insurance analysis estimates insured losses from that blaze alone could approach \$10 billion. At least four other significant fires have erupted, as well.

The J.P. Morgan analysts note that the area of the Palisades Fire is “an affluent residential area, with a median home price” exceeding \$3 million.

Bach said homeowners in California might pay anywhere from \$1,000 to upward of \$40,000 a year to insure their properties.

While no law mandates that property owners in the state must carry insurance, those with mortgages are required to have it. Typical property insurance policies, however, don’t generally cover damage from disasters such as earthquakes, floods and landslides. Separate insurance policies are required to protect against those types of calamities.

The concern isn’t whether insurance companies will pay out for damage but rather how much and how long it will take, Bach said.

“For the people who lose their homes in these wildfires, there will be fights over coverage,” she said.

But that's if they have insurance at all.

In the wealthy Pacific Palisades neighborhood ravaged by the wildfires, some homeowners were blindsided in March when State Farm announced it would stop renewing their coverage.

State Farm, the largest home insurer in California, said its decision was “not made lightly.” It blamed costs associated with inflation, catastrophe exposure, reinsurance and regulations for its need to protect ‘its bottom line.

The devastation wrought by wildfires in particular, leading to tens of billions of dollars’ worth of insured property losses in California over the past decade, has only grown more intense as climate change leads to rising temperatures, longer fire seasons and heightened drought conditions.

State Farm said in a nonrenewal letter provided to the state that the 30,000 property insurance policyholders who were being dropped across California lived in areas deemed to “present the most substantial wildfire or fire following earthquake hazards.” Los Angeles’ Westside region was hardest-hit by the company’s decision, which went into effect last summer. In Pacific Palisades, more than 1,600 policies weren’t renewed.

State Farm had already said in 2023 that it would no longer offer home insurance to new customers in California, in part because of catastrophe exposure. Allstate, the sixth-largest home insurer in California, also said that year it was halting new policies in the state.

Asked about its homeowner coverage in the areas affected by the wildfires, State Farm said in a statement Wednesday that its “number one priority right now is the safety of our customers, agents and employees impacted by the fires and assisting our customers in the midst of this tragedy.”

California does have an insurance program under the Fair Access to Insurance Requirements Plan, established in the 1960s, which provides fire insurance coverage for high-risk properties. The coverage is basic and funded by the insurance companies.

While it’s meant as a last resort for homeowners, its use has only soared in recent years, from nearly 154,500 residential policies in September 2019 to more than 408,400 in June — creating a high risk exposure that state officials say was never intended.

But there had been a glimmer that some insurance companies are willing to fill the voids in the market. On Tuesday, Mercury Insurance, an independent home insurer in California, announced it would begin writing new homeowners insurance policies in the town of Paradise, the site of the deadly Camp Fire in 2018, which is considered to be the worst wildfire in modern state history.

Janet Ruiz, the chief spokesperson for the Insurance Information Institute, which represents the insurance industry, told NBC Bay Area that the reality is companies have to manage how much they can handle in the face of destructive wildfires and rising reconstruction costs.

“California is the fourth-largest insurance market in the world,” Ruiz said. “We want to be here, we want to be a part of it, but we do need to make some profit.”

Bach said that if the state succeeds in motivating insurance companies to get back into the market and become competitive, it could be a benefit for consumers.

But she said she worries that the latest wildfires may only have an opposite effect on already skittish insurers.

“Home insurance is an essential good that the private market is increasingly unwilling to provide,” Bach said. “We are at a crossroads.”