

# **State Farm May Lose Its California License. Here's What That Means for Homeowners**

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California is pursuing historic legal action against its largest home insurer, but for wildfire survivors still waiting on claims, the question is whether that means relief

In the aftermath of Los Angeles' devastating 2025 wildfire season, California regulators have taken their most aggressive action yet against the insurance industry. This week, Insurance Commissioner Ricardo Lara announced that California was pursuing legal action against State Farm, including the possible temporary suspension of its license.

State Farm insures about one in every five California homes. It handled about a third of all residential claims filed after the Palisades and Eaton fires. And according to a state investigation, it violated the law hundreds of times in the process.

## What the Investigation Actually Found

The California Department of Insurance (CDI) examined 220 randomly selected claims filed after the Palisades and Eaton fires and identified nearly 400 violations. The alleged misconduct was not always subtle. In one case, State Farm waited nearly three months before beginning to investigate a claim at all. In another case, the company delayed payment for months while internally acknowledging it should have been approved. One claimant had a dozen different adjusters assigned to their case within a four-month window. The company also illegally denied payments for hygienic testing tied to smoke and ash contamination — a particularly consequential decision, given how widespread invisible toxin exposure was in fire-affected areas.

The maximum financial penalty, if State Farm is found to have acted willfully, would be around \$4 million. While this figure may sound significant, the company has already paid out more than \$5.7 billion on

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about 11,300 residential claims related to the fires. In other words, the fine is a rounding error. The real stakes would be reputational and regulatory — the CDI is seeking to temporarily suspend State Farm’s ability to write new policies in California for up to a year.

State Farm, meanwhile, is pushing back hard. The company called the threat to suspend its license “a reckless, politically motivated attack.” It accused the CDI of adding uncertainty to what it described as California’s already “dysfunctional” insurance market.

“The Department’s approach is adding uncertainty to a market that already lacks predictability, discouraging participation and leaving Californians with fewer coverage options when they need them most,” said State Farm in a statement on Monday.

It also insisted that it has not engaged in a general practice of mishandling claims, calling the violations primarily administrative and procedural in nature.

#### A “Dysfunctional” Insurance Market?

California’s homeowners’ insurance market has been contracting for years. In 2023, State Farm became one of several major insurers, alongside Allstate, Farmers and others, to either pause or dramatically restrict new coverage in the state. The reasoning was consistent across companies — they couldn’t adequately price wildfire risk in a landscape where fires were becoming more frequent and more destructive, and California’s regulatory environment had historically capped how aggressively they could raise premiums.

The state responded with reforms. New regulations now allow insurers to factor in climate change projections when setting prices and to pass on the cost of reinsurance (the insurance that insurers themselves buy) directly to California consumers. Last year, Lara approved a 17% premium increase for State Farm homeowners, marketed as a way to help the company avoid a financial crisis in the wake of the LA fires. In March, State Farm agreed not to cancel any new policies through the end of the year.

In short, the state is giving insurers more leeway to charge more money in exchange for their continued presence in the market. The theory is that a more financially stable insurer is more reliable and better positioned to pay out when disaster strikes.

Monday's action complicates that bargain.

#### What it Means If You Have, or Want, Insurance in California

For current State Farm policyholders, the most immediate question is whether the company might exit the California market entirely. Amy Bach of United Policyholders, a nonprofit insurance consumer advocacy group, thinks that's unlikely.

"It certainly could happen, but they have a lot invested here," Bach said. "I think the message is to State Farm, taking shortcuts on claims is not the way to make up for the fact that you have not been allowed to charge what you think you should be charging."

Bach's framing gets at the insurance industry's argument for years — that California's regulatory constraints, such as premium caps, consumer protections and anti-cancellation rules, have made the market unworkable. Monday's action suggests the counter-argument — that even under the new, more insurer-friendly rules, companies can't be trusted to treat policyholders fairly without enforcement.

For the thousands of Los Angeles families still fighting for adequate claim settlements from the Palisades and Eaton fires, the CDI's legal action is, at least, a validation of their frustrations. Jesse Albert, a State Farm policyholder who sued the company after the fires, said he'd felt unheard for months.

"I would say that this is a good first step," Albert said.

Albert's lot has been remediated. His home has not been rebuilt.

For Californians in high-risk areas who are already struggling to find any coverage at all, or who have been pushed onto the FAIR plan (which provides property insurance when no other option is available), less is clear. The FAIR Plan is itself facing legal action from the CDI over its handling of smoke damage claims from the same fires. The state is simultaneously trying to discipline the insurers it needs to keep in the market, while holding its last resort insurer accountable, too. It's a narrow needle to thread.

#### What Lies Ahead

This is the beginning of a long legal process — the investigation will eventually be argued before an administrative law judge in a public hearing. Governor Gavin Newsom has already signaled that the

action is meant to send a message to the industry.

“Survivors’ ability to access their insurance coverage is foundational to LA recovery,” Newsom said. “People need accelerated relief, and we’re not going to sit by while companies slow-walk claims and make it harder for families to rebuild. We’re standing up for survivors by holding insurance companies accountable — especially when they delay or deny what people are owed.”

Whether that message sticks depends on consistent and credible enforcement, and on whether California can figure out how to make its insurance market functional without dismantling the consumer protections that give “insurance” its meaning in the first place.

The Palisades and Eaton fires destroyed more than 16,000 structures. For the thousands of Angelenos still working through claims, it’s unclear whether the CDI’s intervention will actually accelerate their settlements. The state is focusing on accountability. But there are still plenty of homes to be rebuilt.