

[The Hidden Risks in Your Wildfire Insurance and How to Fix Them](#)

Investopedia

So far this year, more than 28,000 wildfires have burned at least 1 million acres in the U.S., surpassing the 10-year average. This growing risk is changing the wildfire insurance market. Insurers are raising prices, leaving certain areas, and changing policy rules. As a result, many homeowners and renters are finding themselves without enough coverage—or none at all.

Key Takeaways

- Companies are canceling, non-renewing, or hiking prices on wildfire insurance policies in response to stringent regulations and increased climate-related perils.
- Common coverage shortfalls include wildfire sublimits and gaps in dwelling or additional living expense (ALE) coverage.
- You can protect yourself by updating coverage limits, understanding exclusions, and participating in risk-mitigation programs.

The Challenges of Wildfire Insurance

Standard homeowners insurance usually covers wildfire damage. But in areas with frequent disasters, finding a policy that offers enough protection is getting harder. Even if you have coverage, your policy may have hidden risks and gaps.

Stringent Pricing Regulations

Several states require home insurers to submit price increases to a regulatory body for approval before they can go into effect. Others, including wildfire-prone Colorado, reserve the right to reject rate increases if they find they violate state law. That can limit how much insurers adjust to rising risks.

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“With the frequency and severity of these wildfires increasing, insurers can’t adjust their rates to match the actual risk,” said Diane Delaney, executive director at the Private Risk Management Association.

Lack of Options

Given these restrictions and increased climate-related perils, some insurers are hiking rates or ceasing new policies in states with heightened wildfire risk.

“That means homeowners are either paying a lot more for less coverage or having to go without insurance altogether,” Delaney said.

Distressed State Programs

In hardest-hit California, the lack of options has forced a rapidly increasing number of residents into state-sponsored FAIR Plans, which offer basic fire coverage to people who can’t get it elsewhere.

Beyond offering sparse policies for a high price, California’s FAIR Plan is widely considered unstable. As of March 2025, its total exposure equaled \$599 billion, a 31% increase since September 2024 and a 259% increase since September 2021, raising concerns about whether its finances can handle a significant disaster.

Dangers of Losing Coverage

Keeping wildfire coverage is no longer a guarantee. Many insurers include clauses within their policies that allow them to cancel coverage (or coverage aspects) with enough notice or cause. State regulations determine how much notice insurers need to give.

California law, for instance, typically mandates that an insurer give at least 75 days’ notice if it plans not to renew a homeowner’s policy and 45 days’ notice if it intends to reduce the homeowner’s coverage. The state also imposes a one-year moratorium on policy cancellations and non-renewals in areas under a state of emergency, such as the southern California areas damaged by wildfires earlier this year.

Insufficient Coverage

Those with wildfire insurance often have insufficient coverage. Research from United Policyholders found

that two-thirds of homeowners are underinsured for wildfire loss, meaning the cost to rebuild would exceed the claim settlement. A study of Colorado homeowners yielded similar results.

Sublimits

Complicating matters, “many carriers are now adding ‘wildfire sublimits’ to policies,” Delaney said. So, for instance, your homeowners insurance may cover \$2 million in total damages, but only \$500,000 in wildfire damages.

“Unfortunately, in many cases, there are no alternative options available to increase this amount,” Delaney said.

Policy Gaps

Another common shortfall involves additional living expense (ALE) coverage, which helps pay hotel bills, meals, and other costs if your home becomes uninhabitable.

“Many policies only offer ALE coverage for 12 months, which is often not enough time to rebuild,” Delaney said. They also sometimes cap ALE at 20% of dwelling coverage, potentially leaving you on the hook for out-of-pocket expenses.

How to Protect Yourself

While the insurance industry and regulators work on long-term solutions, you can take steps now to reduce your risk.

“Regulators can help by standardizing policy language, incentivizing mitigation efforts, and creating reinsurance backstops or state-federal partnerships to keep the private market viable,” said Anthony M. Lopez, founder and CEO at Your Insurance Attorney.

In the meantime, here’s what you can do to help protect your home and your family.

Understand the Fine Print

Identify your policy's coverage limits, sublimits, cancellation policy, and ALE terms. If you live in a wildfire-prone area, your policy might not cover wildfire damage at all, making it critical to read your policy carefully before signing up for coverage.

It's also important to understand if your coverage carries wildfire exclusions. Common ones include damage caused by fire retardants or homeowner negligence.

"Many people don't realize wildfire smoke, power outages, or fire department access clauses can impact a claim," Lopez said.

Consider Higher Coverage Limits

Inflation is affecting the price of construction materials, meaning your insurer may have based your policy on an outdated property valuation.

"It's crucial that your dwelling coverage correctly reflects current rebuilding costs, not what you originally paid for the property," said Kara Credle, a licensed personal lines insurance producer with Guardian Service in North Carolina.

Look Into Mitigation

Some insurers offer free wildfire mitigation assistance to policyholders in at-risk states, like Arizona, California, Colorado, and Texas.

Chubb and Travelers, for instance, partner with Wildfire Defense Systems, Inc. to offer a personalized wildfire hazard assessment with recommendations. USAA, Liberty Mutual, and Safeco have similar programs.

"If your insurer offers a wildfire mitigation inspection or gives credits for hardening your home, be sure to take advantage, as these work toward both safety and financial savings," Credle says.

Consider the Risks

Account for how pricey and stable a policy is before purchasing a home in a desired market.

“Given the high cost of insurance and increasing risk of wildfires in some areas, consumers should, of course, include these factors in their consideration of where to live,” said Alex Burgess, principal industry strategist at property and casualty insurance platform Hi Marley.

The Bottom Line

Due to climate change, wildfires have become increasingly prevalent, and the risk is affecting the homeowners insurance market. Homeowners in fire-prone areas have fewer choices, face higher prices, and risk policy cancellations or non-renewals. However, you can better protect yourself by understanding this new landscape and reviewing, updating, and enhancing your policies accordingly.

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