The Insurance Crisis That Will Follow the California Fires

The New Yorker

Last week, on the day before New Year's Eve, California's insurance commissioner, Ricardo Lara, announced what his office called "a landmark regulation" to improve access to coverage. The new rule, the commissioner declared, would address the problems that California homeowners were facing in the present and, at the same time, build "a resilient insurance market for the future." Then the Palisades Fire ignited, soon to be followed by the Eaton Fire, the Hurst Fire, the Lidia Fire, and the Sunset Fire. With damages from these still mostly uncontrolled blazes now estimated at up to a hundred and fifty billion dollars, the future of California's insurance market is looking a lot more rocky than resilient. As one L.A.-based insurance agent put it to the Wall Street Journal, "We are in uncharted territory."

What is often referred to as California's "insurance crisis" has been years in the making. The devastating Camp Fire, near Chico in 2018, caused an estimated sixteen and a half billion dollars' worth of damage and led to a net loss for companies that had written fire policies in the state that year. In 2019, the number of homeowners' policies in California that were not renewed jumped by more than thirty per cent. In 2023, two giant insurers, State Farm and Allstate, announced that they would stop writing new policies for various forms of property insurance in California. State Farm said the move came in response to inflation and "rapidly growing catastrophe exposure." Last summer, it cancelled coverage for more than fifteen hundred homes in Pacific Palisades, the wealthy enclave where the first of the L.A. blazes began.

There are several reasons that "catastrophe exposure" in California has in recent years been growing. One is that more people are moving into wildfire-prone areas. Another is that fires are becoming more destructive, in large measure owing to climate change. A 2023 study concluded that the area consumed by summer wildfires in central and northern California has increased by five hundred per cent during the past several decades and that "nearly all of the observed increase" is due to warming. Another study, put out last year by the group Climate Central, found that rising temperatures had increased the number of “fire weather days”—windy, hot, and dry—throughout California. This was particularly the case in the desert basin east of L.A., which now has an average of sixty-one more such days per year than it did five decades ago. “As our climate warms, the chances of intense, fast-growing fires like the ones Californians are facing today will keep rising,” Kaitlyn Trudeau, a senior research associate at Climate Central, said on Wednesday.

Making a bad situation worse, at least from the insurance companies’ perspective, California’s insurance department made it hard for them to recoup or even project the growing costs of weather-related disasters. Until department rules were revised last year, they prevented companies from using so-called catastrophe models to forecast losses from wildfires; insurers could only look backward, at historical losses. Also, until last month, they could not pass on the costs of reinsurance, which is basically insurance for insurers, and which has been rising steeply in price.

In return for the changes to the rules, insurers are now required to write more policies for homeowners in wildfire-prone areas. Some consumer advocates condemned the deal as too favorable to the industry. Others hoped that it would, finally, improve access to coverage. “We were all thinking 2025 is going to be the year insurers regain their appetite for the market in California,” Amy Bach, the executive director of United Policyholders, a California-based nonprofit, told NBC News. “Having this catastrophe hit us right out of the gate is really unfortunate.”

California is, of course, not the only state facing—or not facing up to—a climate-inflected insurance crisis. After a series of devastating hurricanes—Harvey in 2017, Ida in 2021, Helene and Milton in 2024—property owners in Florida, Louisiana, and Texas are also finding insurance increasingly hard to afford or even obtain. The situation is similar in Colorado, where, as in California, wildfire risks are climbing. “We’re a few bad decisions away from being where California is,” Carole Walker, the executive director of the Rocky Mountain Insurance Information Association, told CBS.

For homeowners who can’t find fire insurance, California has an insurer of last resort, known as the Fair Access to Insurance Requirements, or FAIR, plan. The FAIR plan was established by the state, but it is operated by private companies, which pool the risks. Florida, Louisiana, and Texas have similar entities, and Colorado recently established one. As insurers have pulled out of California, the number of policies written by the state’s FAIR plan has risen steeply; just since late 2023, it has grown by more than forty per cent. Meanwhile, the value of the residential properties insured by FAIR has risen to more than four hundred and fifty billion dollars, triple what it was in 2020. This has led to worries that, with all the damage from the current fires, the plan will go broke.

“I’m concerned that we’re one bad fire season away from complete insolvency,” Jim Wood, then a California assemblyman, said back in March. Were FAIR unable to meet its obligations, the state’s insurance companies would have to make up the difference. They, in turn, would pass on at least part of the cost of this assessment to consumers, further driving up prices.

All of which raises the question of what role insurance can—and should—play in a warming world. As the dangers of climate change in California have increased, FAIR has absorbed much of the risk. This has been a boon to homeowners in the most fire-prone neighborhoods, but it could prove a burden to other state residents if they end up picking up the tab.

“The bet on the FAIR Plan is the state’s decision to do whatever it takes to keep property markets working, even in risky areas, and to mute the price signal of riskiness,” Susan Crawford, a clinical professor emeritus at Harvard Law, wrote in a recent Substack post. “That bet may now be being called. No one knows what will happen next.”