Why LA is in an insurance crisis

The Age

California has seen other major insurers pull back on property coverage in the nation's most populous state as climate change makes wildfires, floods and windstorms more common and damaging.

Of the top 20 most destructive wildfires in state history, at least 15 occurred since 2015. The data did not include the Los Angeles area fires this week.

In 2023, seven of the 12 largest insurance companies by market share in California either paused or restricted issuing new policies in the state.

That has made it extremely difficult for homeowners in high-risk areas to obtain or afford insurance.

California homeowners in wildfire-prone areas either go without insurance or join the Fair Access to Insurance Requirements (FAIR) Plan, which the state created as a last resort for homeowners who couldn't find insurance.

Many people purchase the FAIR Plan to satisfy their mortgage requirements, but the policies only cover basic property damage and carry a $3 million limit. Given the value of the real estate involved and the limited coverage, FAIR Plan policyholders who lost homes in this week's fires may struggle to be made whole.

The policies can be very bare bones, with some options only covering the actual cash value of what was lost rather than the true replacement costs, said Amy Bach, executive director of the consumer advocacy group United Policyholders.

The plan was designed to be a temporary solution, but more Californians are relying on it than ever. The number of FAIR residential policies issued in the state more than doubled between 2020 and 2024, reaching nearly 452,000 policies.

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