California homeowners insurance: Current state of the market and implications of the Los Angeles wildfires

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Introduction

This article examines the current state of the California (CA) homeowners insurance market by exploring key components of the ecosystem. Insurance company market shares and recent exits from CA are considered alongside underwriting results over time and a comparison of average premiums across the country. Wildfire presents a significant challenge to the state's property insurance market, and is becoming more frequent and costly over time. The role of regulators, the CA FAIR Plan, and the involvement of the surplus lines markets are considered as well as the current developments and potential implications of the ongoing fires in Los Angeles.

KEY TAKEAWAYS

1. Recent history of "exodus" of California homeowner insurers.
2. Market is concentrated among a few major insurers.
3. Average CA homeowners insurance premium is below the countrywide average.
4. The underwriting results of the overall market have been impacted significantly by major catastrophes
5. Wildfires are becoming more frequent and causing more damage.
6. CA homeowners insurance is highly regulated.
7. CA FAIR Plan's wildfire exposure is rapidly increasing.
8. Non-admitted surplus lines insurers are another option.
9. Los Angeles fires: One of the costliest events for California.

1. Recent history of "exodus" of California homeowners insurers

In recent years, many insurers in California have scaled back the homeowners insurance coverage they offer or are exiting the market entirely. Figure 1 shows a timeline of some insurers deciding to implement reduction of coverage or withdrawal from certain California homeowners programs.

FIGURE 1: HOMEOWNERS PROGRAMS AFFECTED BY INSURANCE COMPANIES' DECISIONS IN REDUCING OR WITHDRAWING COVERAGE

WITHDRAWAL FILING APPROVAL DATE	INSURANCE GROUP	INSURANCE COMPANY	PROGRAMS AFFECTED
08/2021	Farmers	Fire Insurance Exchange Farmers Insurance Exchange	Legacy Renters/Condo
08/2021	First American	First American P&C Ins Co	Homeowners, Renters, Condo
09/2022	Golden Bear	Golden Bear Insurance Co	Homeowners, Renters, Condo
10/2022	Farmers	Civic P&C Co Exact P&C Co Neighborhood Spirit P&C Co	FACT Homeowners
01/2023	AIG	AIG Property Casualty Co	Homeowners Program

WITHDRAWAL FILING APPROVAL DATE	INSURANCE GROUP	INSURANCE COMPANY	PROGRAMS AFFECTED
02/2023	Aspen	Aspen American Insurance Co	Renters Insurance
03/2023	AIG	Ins Co of the State of PA	Renters Insurance
04/2023	Oregon Mutual	Oregon Mutual Insurance Co	Homeowners
05/2023	Pharmacists Mutual	Pharmacists Mutual Ins Co	Homeowners
05/2023	Allstate	Century-National Insurance Co	Mobile Homeowners
06/2023	Markel	Markel American Ins Co	Homeowners
07/2023	James River	Falls Lake Fire and Casualty Co	Homeowners
09/2023	QBE	Praetorian Insurance Co	Homeowners
09/2023	Berkshire Hathaway	AmGUARD Insurance Co	Homeowners
11/2023	Allstate	Allstate Insurance Co	Mobilehome
12/2023	Kemper	Merastar Insurance Co Unitrin Direct P&C Co Unitrin Auto & Home Ins Co Kemper Independence Ins Co	Homeowners/Renters
12/2023	Farmers	Farmers Direct P&C Ins	Homeowners
01/2024	MAPFRE	Commerce West Insurance Co	Homeowners
02/2024	Farmers	Foremost Ins Co Grand Rapids	Condominium Homeowners
02/2024	Universal Group	Universal North America Ins Co	Independent Agent HO
02/2024	Ally Insurance	Motors Insurance Corp	Homeowners
05/2024	Nationwide	Crestbrook Insurance Co	Homeowners
05/2024	Tokio Marine	Tokio Marine America Ins Co Trans Pacific Ins Co	Homeowners
06/2024	Occidental	Occidental F&C Co of NC	Preferred Homeowners
08/2024	WT Holdings	Stillwater Ins Co	Homeowners, Condo
10/2024	American National	American National P&C Co	Homeowners
Pending Approval	Liberty Mutual	First National Ins Co of America Safeco Ins Co of America Safeco Ins Co of Illinois	Condo, Renter
Pending Approval	Liberty Mutual	First National Ins Co of America	Legacy Homeowners
Pending Approval	Liberty Mutual	General Ins Co of America	Essential Homeowners

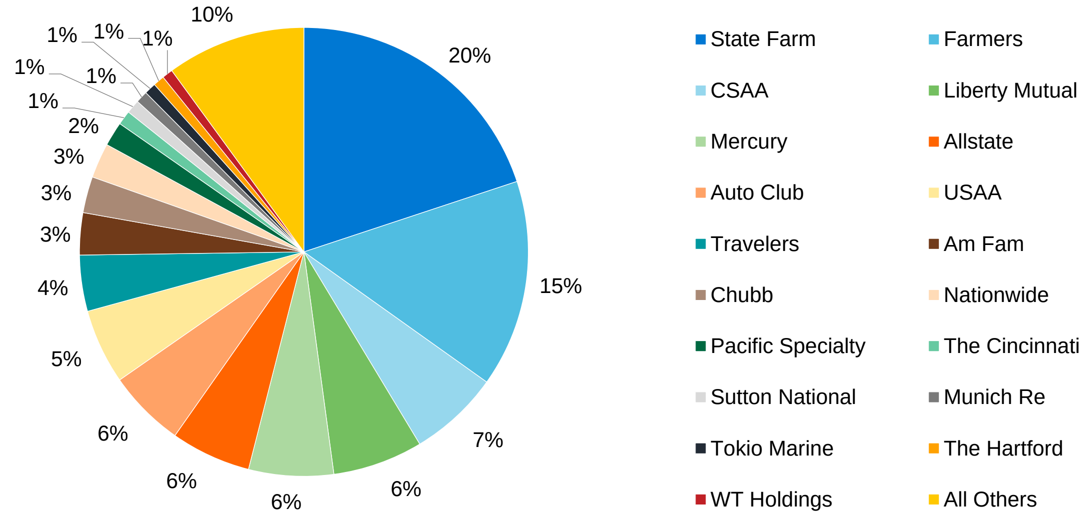
Data sources: Publicly available insurance product filings, accessed on January 15, 2025.

The above companies have formally withdrawn portions of or their entire listed programs from the market under section CIC §674.6. There are additional companies that have reduced their new and renewed business in other ways.

2. Market is concentrated among a few major insurers

The CA homeowners insurance market is concentrated among a few major insurers. Excluding the FAIR Plan, the top five insurers account for 54% of the market share in 2023 direct written premium. This concentration, coupled with the exodus of carriers outlined above, increases strain on the supply of coverage available to consumers, especially following large loss events like wildfires.

FIGURE 2: HOMEOWNERS DIRECT WRITTEN PREMIUM IN 2023 BY INSURANCE COMPANIES ($13.7B)



Data source: S&P Global 2023 CA Property and Casualty Market Share.

3. Average CA homeowners insurance premium is below the countrywide average

In 2021, the average homeowners insurance premium (HO-3) in California was below the national mean. Compared to states known for frequent catastrophe events, such as Florida, Louisiana, and Texas, CA's average premium was also markedly lower. CA's average premium of $1,403, was 42% lower than Florida, 38% lower than Louisiana, and 35% lower than Texas. While many factors impact the cost of insurance and premium rates across different states, one contributing factor to the relatively lower average premium observed in CA may be attributed to past state regulations that forbade the inclusion of reinsurance costs in an insurance company's calculation of how much premium it needed to charge customers.

FIGURE 3: AVERAGE HOMEOWNERS PREMIUM BY STATE IN 2021

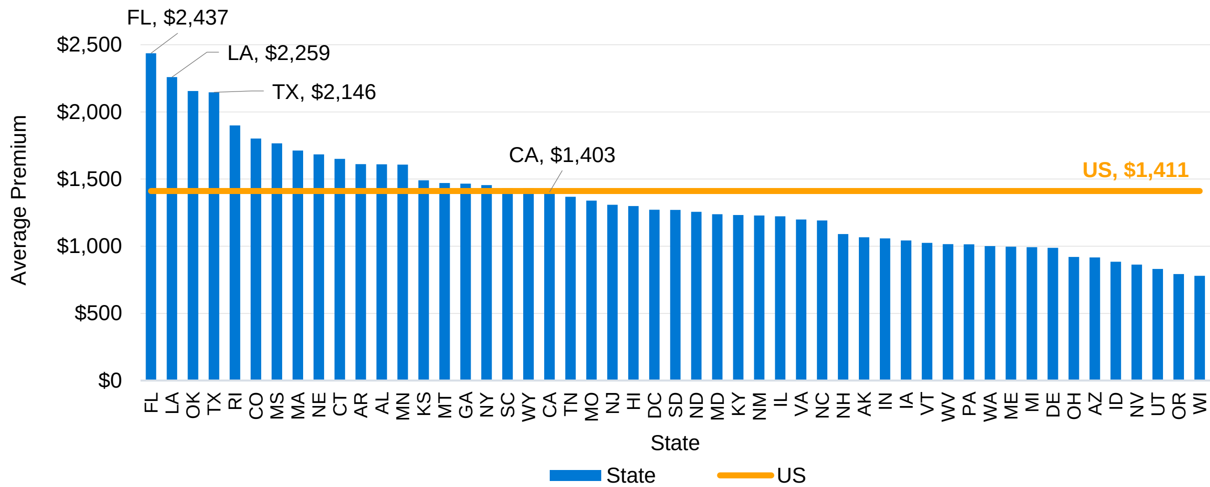
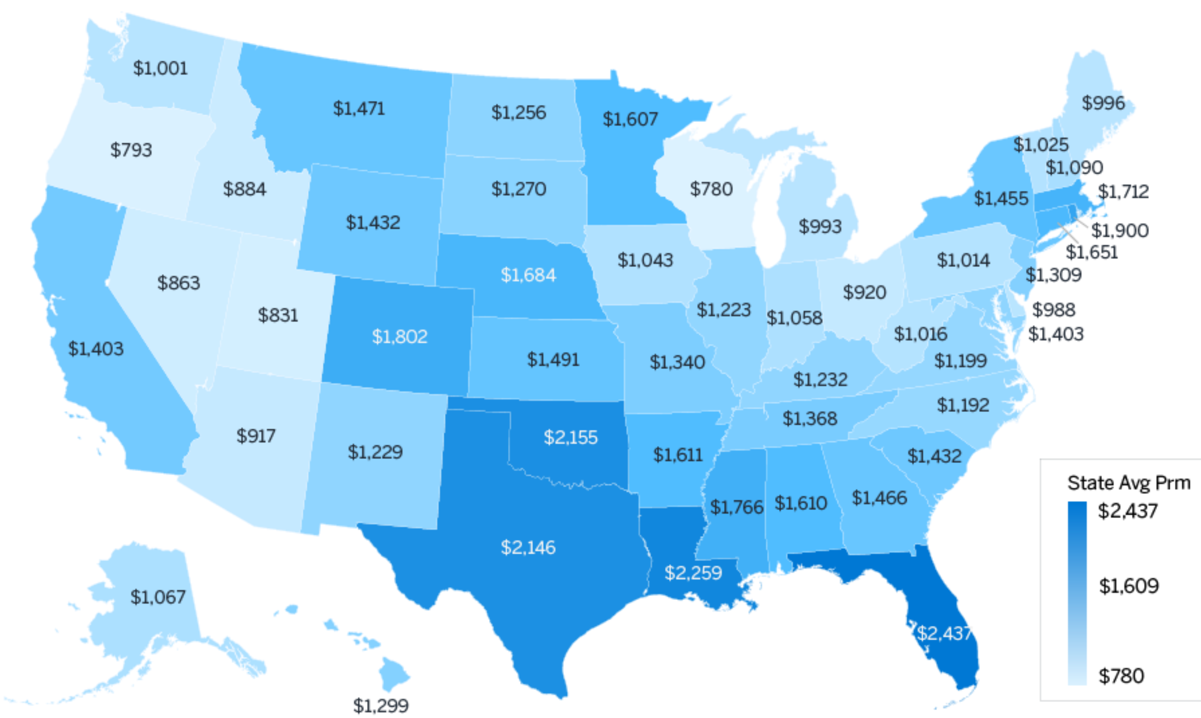


FIGURE 4: MAP OF AVERAGE HOMEOWNERS PREMIUM BY STATE IN 2021



Data source: NAIC Dwelling Fire, Homeowners, Owner-Occupied, and Homeowners Tenant and Condominium/Cooperative Unit Owner's Insurance Report: Data for 2021[1]

4. The underwriting results of the overall market have been impacted significantly by major catastrophes

The underwriting results of the CA market depends largely on the occurrence of major catastrophe events, which are mainly wildfires in CA. Based on a rolling 10-year underwriting result metric[2] on direct earned premium basis[3], the overall California homeowners market experienced an underwriting result of -10.9% on the total direct earned premium between 2013 and 2022. It is important to recognize that the underwriting performance and profitability of individual insurance companies are typically assessed on a net earned premium basis, which takes into account the costs and benefits of reinsurance. Reinsurance mitigates the year-to-year volatility of underwriting results. Consequently, on a net of reinsurance basis, the adverse financial impact of catastrophic events is lessened due to reinsurance recoverables. Conversely, in years without catastrophic events, the net underwriting profit is lower than the direct underwriting profit due to the costs associated with reinsurance.

FIGURE 5: CALIFORNIA HOMEOWNERS UNDERWRITING RESULT PERCENTAGE BY CALENDAR YEAR

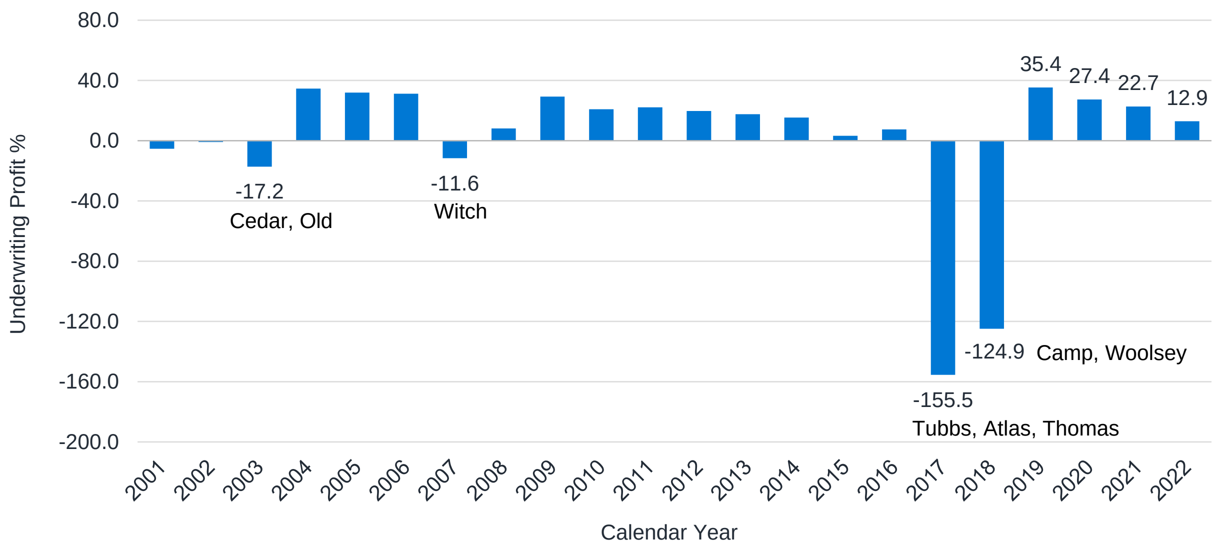
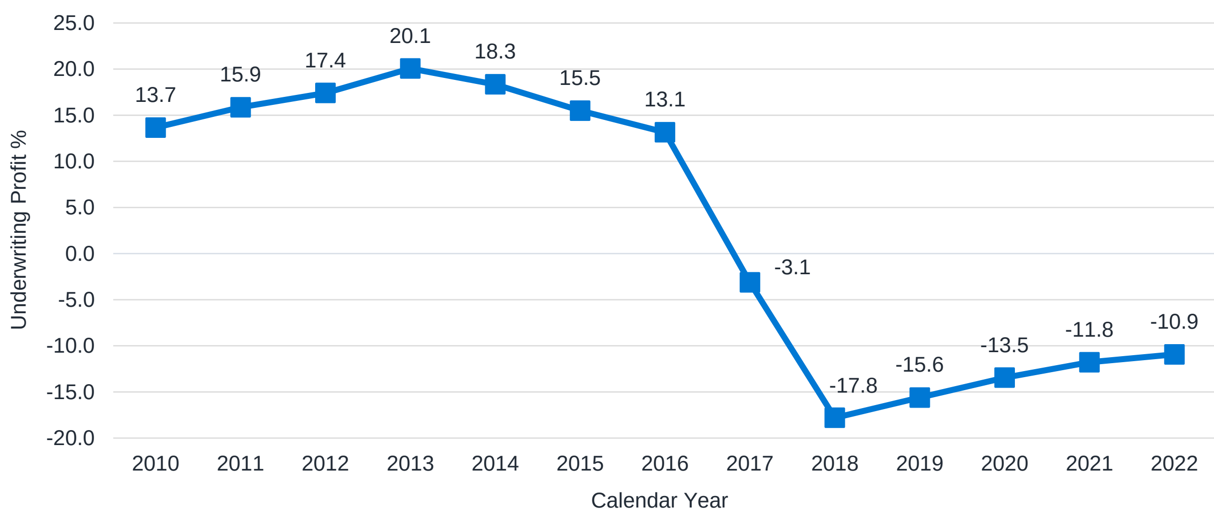


FIGURE 6: CALIFORNIA HOMEOWNERS ROLLING 10-YEAR UNDERWRITING RESULT PERCENTAGE

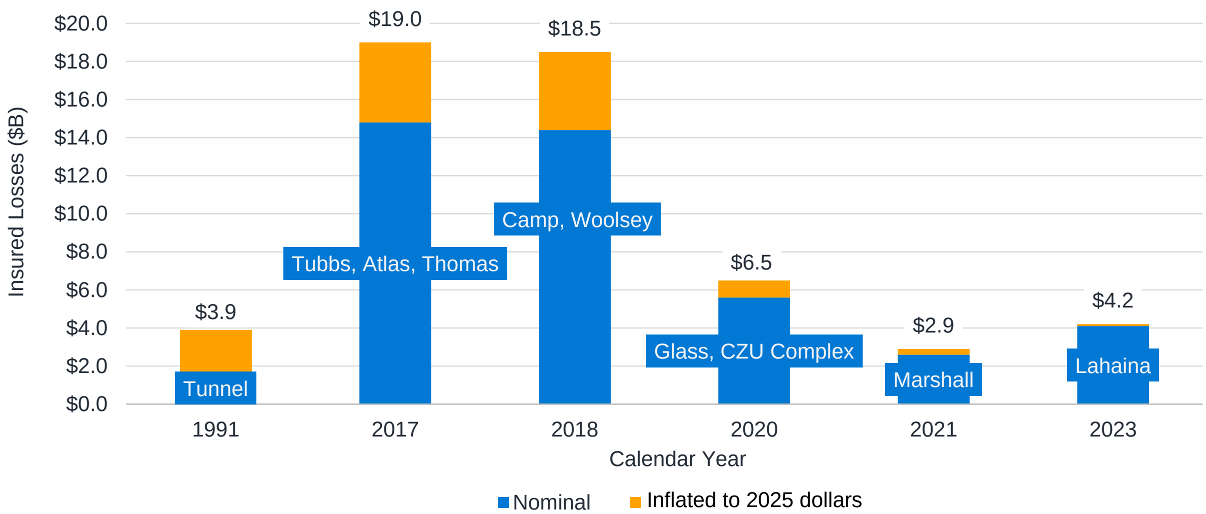


Data source: NAIC Report on Profitability by Line by State for 2001-2022[4]

5. Wildfires are becoming more frequent and causing more damage

Over the last few years, wildfires have become more frequent and more damaging. The chart in Figure 7 illustrates the costliest U.S. wildfire events in terms of insured loss, based on information from a Gallagher Re report.[5] The recent trends in the frequency and severity of wildfires are clearly reflected in these losses. All wildfires occurred in CA, except for the Lahaina Fire (Hawaii) and the Marshall Fire (Colorado).

FIGURE 7: ESTIMATED INSURED LOSSES BY YEAR BASED ON TOP 10 MOST DESTRUCTIVE FIRES (BILLIONS)



6. CA homeowners insurance is highly regulated

CA personal lines insurance (personal auto, homeowners) is among the most highly regulated markets in the country, overseen by the California Department of Insurance (CDI). Consumer advocacy groups are active stakeholders in the rate review process. Below are some major aspects of the regulatory environment in CA.

- Rigorous state legislation enacted by Proposition 103[6] aims to:
  - Protect consumers from arbitrary insurance rates and practices
  - Encourage a competitive marketplace
  - Ensure that insurance is fair, available, and affordable for all Californians
- Prior approval system was implemented: The Insurance Commissioner must approve rates before the insurer can use them.
- "6.9%": A provision requires hearings for any rate increase requests above 7% if a member of the public challenges it.
- Intervenors can participate in the rate filing process, and are allowed to recover costs, expenses, and attorneys' fees from insurers, which under law can be passed on to all consumers.
- Catastrophe models for wildfires are crucial for quantifying the potential impacts of catastrophic events on property damages and are relied upon by insurers in developing rate plans. Historically, the CDI has not permitted the use of catastrophe models in setting the rate level. This rule is being revised at the moment.
- Reinsurance cost: Reinsurance is a critical component for insurers to share risk with other companies. Given the magnitude of disasters seen across the country in 2017 and 2018 (i.e., Hurricanes Harvey, Irma, Florence, and Michael, in addition to California wildfires), there has been limited reinsurance capacity available and, when available, it is costly. Historically, reinsurance cost was not allowed to be included in the base rate calculation for homeowners insurance per the CDI. This rule is also being revised.

- Insurance product rate filings in CA take an average of 10 to 12 months to be approved, compared to a countrywide average of 2-3 months.[7]
- The Insurance Commissioner's Sustainable Insurance Strategy (2023-2024)[8] was introduced with the intention to alleviate some of these issues:
  - The Catastrophe Modeling and Ratemaking regulation[9] was finalized in December 2024, which allows for the use of catastrophe models when setting rates if insurers increase coverage in high-risk areas.
  - The Net Cost of Reinsurance and Ratemaking regulation was also introduced[10] in December 2024, which allows for reinsurance costs to be considered in ratemaking if insurers increase coverage in high-risk areas.
  - The effect of these changes will not be felt by the industry and consumers until late 2025 or 2026, because of the time it takes to prepare such proposals, the protracted time to get a filing approved in CA, and because of the ongoing wildfires.

7. CA FAIR Plan's wildfire exposure is rapidly increasing

The CA Fair Access to Insurance Requirements (FAIR) Plan, serving as the insurer of last resort in CA, is rapidly assuming the exposures on non-renewed policies from admitted[11] carriers, which are predominantly located in areas at high risk for wildfires. The FAIR Plan is a syndicated fire insurance pool comprised of all licensed property and casualty insurers in California that provides basic fire insurance coverage for high-risk properties and has the right to assess licensed insurers to pay for any covered losses exceeding the FAIR Plan's funding.

"FAIR Plan rates are usually higher because it covers a higher concentration of high-risk properties. California state law requires FAIR Plan rates be actuarially sound – meaning high enough to provide sufficient funds to pay the expected cost of claims, as determined by a certified actuary, and administrative expenses – and include net cost of reinsurance whereby insurers purchase policies from other insurers. Rates are reviewed and approved by the CDI." - FAIR Plan Fact Sheet[12]

Over the past four fiscal years,[13] the FAIR Plan dwelling policies have increased by 123% from 202,897 in September 2020 to 451,799 in September 2024. The corresponding exposure has increased from $153 billion as of September 2020 to $458 billion as of September 2024. The written premium has increased by 199% from $0.424 billion in fiscal year 2021 to $1.267 billion in fiscal year 2024. This size of written premium suggests that the FAIR Plan would have been ranked as having the third-largest market share in 2023.

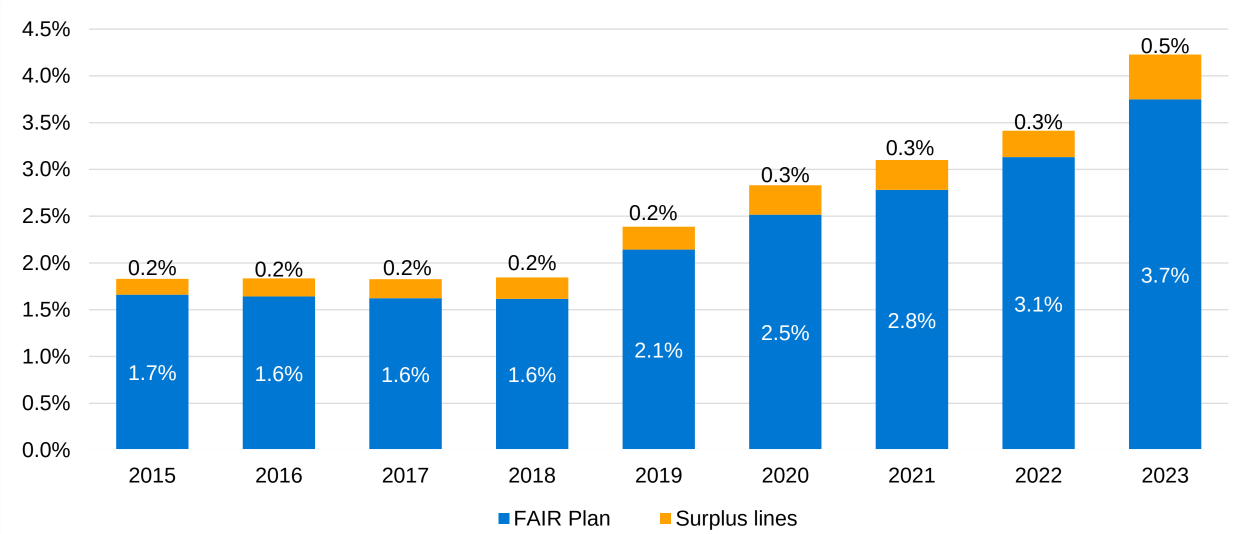
8. Surplus lines insurers are another option

A surplus lines insurance company (also referred to as non-admitted) is permitted to insure CA homes but is not licensed in the state and, therefore, not required to submit its rates or policies for approval by the CDI, nor subject to FAIR Plan assessment. When homeowners coverage cannot be found through admitted carriers in CA, a licensed surplus lines broker may seek coverage in the non-admitted market for its customers. Some important points about the surplus lines market in CA are explained below.

- Certain requirements must be met, such as providing "diligent search" documentation and ensuring placements are made by licensed surplus line brokers.[14]
- Policies issued by non-admitted insurers are not protected by the California Insurance Guarantee Association (CIGA), which provides up to $1 million, or the policy limit, whichever is less, for residential property damage claims.
- These policies are customized (compared to the standard and approved policies in the admitted market) and do not automatically renew each year.
- Evaluating the financial strength and credit rating of a non-admitted insurer is important when making an insurance purchase decision. Note that each non-admitted insurer is required to have $45 million in capital for any California risk placement by licensed surplus line brokers.

Figure 8 illustrates the growth of FAIR Plan Policies and Surplus Lines Policies as a proportion of the overall market over time. Traditional (admitted) insurers constitute the remaining percentage. In 2023, the market distribution is 95.8% for admitted insurers, 3.7% for FAIR Plan Policies, and 0.5% for Surplus Lines Policies.

FIGURE 8: CALIFORNIA HOMEOWNERS POLICY COUNTS DISTRIBUTION BY YEAR



Data source: CDI FACT SHEET: Summary on Residential Insurance Policies and the FAIR Plan [15]

In hard[16] insurance markets (like CA homeowners), surplus lines carriers may act as a safety relief valve, taking on some of the exposure that the admitted market is reluctant to write. During this time, the admitted carriers can find their footing and regulators may enact policies to improve market conditions.

9. Los Angeles fires: One of the costliest events in California history

The Los Angeles fires will certainly be considered a major catastrophe event in 2025.

Based on the latest CAL FIRE Top 20 Most Destructive California Wildfires[17] the ongoing Eaton Fire and Palisades Fire are currently the second and third most destructive wildfires, after Camp Fire in 2018.

Due to the close proximity and similar start times of the Palisades Fire and Eaton Fire, along with several smaller fires such as the Kenneth Fire, Hurst Fire, Lidia Fire, and others,[18] it is likely that these incidents may be considered as a single catastrophic event for reinsurance purposes depending on the specific terms of individual insurance contracts[19].

Looking ahead to 2025 and beyond

As the ongoing wildfires evolve and the true extent of the damage becomes known, some important aspects of the developments, as of this writing, are outlined below.

- The causes of the fires are under investigation.
- Litigation and settlement processes will require time.
- A comprehensive claims process is expected. Drones and satellite imagery may be used to get early perspectives of damage.
- Debris removal and infrastructure rebuilding will also take time before the rebuilding of individual properties.
- Rezoning of the burned areas may be considered by cities.
- Fires may have varying impacts on insurers of varied sizes and levels of exposure. Reinsurance recoverables and reinstatements, solvency, liquidity, and credit rating are all key issues to be considered.
- Reinsurance costs will likely increase.
- A Mandatory One-Year Moratorium on Non-Renewals[20] was issued by CDI on January 9, 2025.
- Rate filings to adjust for the wildfire risk and cost of insuring property in California may be expected, including a potential assessment by the CA FAIR Plan.

- Policies with higher deductibles and other features to lower premium for consumers may become available.
- There may be potential new product developments such as parametric insurance.
- More non-admitted insurers may be incentivized to fill coverage gaps.
- There may be an increase in health expenditures resulting from exposure to wildfire smoke and other chemicals released due to burnt natural and manmade materials.

Big picture impact

Catastrophic events affect more than just the insurance industry, and wildfire is not the only catastrophe that has wide-reaching effects.

- **Mortgage**: An insurance policy is mandatory for obtaining a mortgage. Property cannot be sold until new homeowners secure an insurance policy if a mortgage is required. Homeowners insurance plays a vital role in the real estate ecosystem.
- **Cost of property ownership**: Rising insurance costs may increase the cost of property ownership, which may later affect rental prices.
- **Risk assessment by the actuarial profession**: Actuaries will continue to evaluate risks by studying catastrophes, utilizing updated catastrophe models, and helping to develop wildfire risk mitigation techniques.
- **Impact on economy**: Wildfires and other natural catastrophes impact the cost of insurance and the overall cost of living, which illustrates one way in which climate change is being incorporated into the economy.

After considering the current state of the California homeowners insurance market, all stakeholders are working to aid impacted communities in their recovery and rebuilding efforts. The insurance market is playing its role in mitigating the financial burden caused by natural disasters, but it also requires a sustainable and healthy economic and regulatory environment to function effectively. As the aftermath of recent events is addressed, valuable insights are being gained to improve wildfire mitigation techniques and methods to prevent or minimize damage in future occurrences.

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ENDNOTES

1. National Association of Insurance Commissioners (December 2023). Dwelling Fire, Homeowners Owner-Occupied, and Homeowners Tenant and Condominium/Cooperative Unit Owner's Insurance Report: Data for 2021. Retrieved January 15, 2025, from https://content.naic.org/sites/default/files/publication-hmr-zu-homeowners-report.pdf.
2. Underwriting Result = (Losses Incurred + Loss Adjustment Expenses + General Expenses + Selling Expenses + Taxes, Licenses, and Fees + Policyholder Dividends) / Direct Earned Premium.
3. Per National Association of Insurance Commissioners (NAIC) reports, "the by-line and by-state profitability analysis is built, in part, on allocations of financial data reflecting multi-line and multistate operations. The data not reported by state is allocated to each state according to its premiums, losses, or liabilities to estimate state results." Hence these measures are used to suggest the trends seen from year to year, and they should not be relied upon as absolute measure of profitability.
4. National Association of Insurance Commissioners (April 3, 2024). NAIC Releases 2022 Profitability Report. Press release. Retrieved January 15, 2025, from https://content.naic.org/article/naic-releases-2022-profitability-report. Please see the disclaimer page of the report for important caveats and limitations on the uses of the data.
5. Evans, S. (January 13, 2025). LA wildfire losses to "notably exceed" $10bn, could approach $20bn: Gallagher https://www.linkedin.com/posts/gallagher-re_gallagher-re-event-response-ca-wildfire-activity-7285732112912019456-bKxs?utm_source=share&utm_medium=member_desktop.
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9. See the California Department of Insurance press release from December 13, 2024 available at https://www.insurance.ca.gov/0400-news/0100-press-releases/2024/release062-2024.cfm.
10. See the California Department of Insurance press release from December 30, 2024 available at https://www.insurance.ca.gov/0400-news/0100-press-releases/2024/release065-2024.cfm.
11. Admitted insurance companies are regulated by the state they operate in and follow state regulations. The state guarantees the admitted company's claims through the state guaranty fund if the insurance company becomes insolvent.
12. CA FAIR Plan. About the FAIR Plan. Retrieved January 15, 2025, from https://ains.assembly.ca.gov/sites/ains.assembly.ca.gov/files/FAIR%20Plan-Factsheet-2.23.23.pdf.
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15. California Department of Insurance (January 13, 2025). Summary on Residential Insurance Policies and the FAIR Plan. Retrieved January 15, 2025, from https://www.insurance.ca.gov/01-consumers/200-wrr/upload/CDI-Fact-Sheet-Summary-on-Residential-Insurance-Policies-and-the-FAIR-Plan-v-011325-2.pdf.
16. A hard market in the insurance industry refers to periods of higher price levels, restricted coverage, and a decrease in insurance capacity.
17. California Department of Forestry dand Fire Protection (January 11, 2025). Top 20 Most Destructive California Wildfires. Retrieved January 15, 2025, from https://34c031f8-c9fd-4018-8c5a-4159cdff6b0d-cdn-endpoint.azureedge.net/-/media/calfire-website/our-impact/fire-statistics/top-20-destructive-ca-wildfires.pdf?rev=dd1d6d6c99ef4861aa0d029812609865&hash=B6D0881A2742B4593BD3A08ED1B66ED0.
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