

Green | Climate Politics

# California at Risk of New Insurance Bailout Amid Fire Danger

State's insurer of last resort has little extra cash if another disaster hits this year.



State Farm received provisional approval this month for a 22% emergency rate hike after warning that multibillion-dollar payouts in the Los Angeles area would threaten its balance sheet and the broader market. *Photographer: Michael Nigro/Bloomberg*

By [Michelle Ma](#)

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### Takeaways NEW

California's insurer of last resort, the California FAIR Plan, is facing financial strain after requiring member companies to contribute \$1 billion to bolster its reserves following the Palisades and Eaton fires.

Summary by Bloomberg AI

The plan's coffers are already depleted, with little extra cash available in case of another disaster this year, and state residents may need to pick up the bill for more funds through increased insurance bills.

Summary by Bloomberg AI

The situation highlights the rising risk of wildfires in California due to climate change, which is threatening to deepen the turmoil in the insurance market and create cost for consumers.

Summary by Bloomberg AI

As Los Angeles-area residents recover from one of the costliest natural disasters in US history, California's insurer of last resort is careening toward another hot and dry summer with its coffers already strained. The prospect that state residents will need to pick up the bill for more funds.

The California FAIR Plan last month required member companies such as State Farm, Allstate Co Ltd. to cough up a combined \$1 billion to bolster its reserves as it sorts through liabilities from the Eaton fires. The measure, known as an assessment, offered a rare look into the program's relative financials.

One key takeaway: Just three months into 2025, there's little extra cash should another disaster hit California as it battles blazes year-round.

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“The risk is really clear,” said Sridhar Manyem, head of industry research at AM Best, a credit-rater specializing in insurance. “Depending on the severity of the next wildfire, there is the possibility assessment.”

Under newly updated state regulations, private insurers are responsible for assessments but the permission to pass along as much as half of the first \$1 billion to policyholders in a given calendar year beyond that threshold. In other words, the cost of assessments can hit Californians in the form of charges that increase bills for anyone with home insurance.

The financial pressures underscore the rising risk stalking California property owners as climate change continues to deepen the turmoil in the insurance market. The January fires in Los Angeles, which were among the worst of the year, began just weeks after new state regulations took effect to ease a crisis spurred by insurers pulling out of homeowner policies or fleeing California entirely amid worries over losses.

State Farm, California’s biggest home insurer, received provisional approval this month for a 22% rate hike after warning that multibillion-dollar payouts in the Los Angeles area would threaten its balance sheet and broader market.



A resident walks through the remains of his home that was consumed by the Eaton Fire in Altadena in January. *Photographer: Jae C. Hong/AP*

“California will always face some risk of a catastrophic fire” and the risk will only get worse, Pedraza, executive officer of Edison International, said in an [interview](#) earlier this month. The power-utility acknowledged the possibility that its equipment was involved in the Eaton Fire.

The risk “will create cost for consumers, for all of us as residents if we like living here, which we

A representative for the FAIR Plan declined to comment beyond saying it “remains focused on c the Los Angeles fires and serving affected policyholders.”

The plan estimates its liabilities related to the Eaton and Palisades fires at about \$4 billion. The p holds less cash on hand compared with private insurers because it covers the riskiest risks – the businesses that private insurers have decided they don’t want to cover at any price. That leaves i vulnerable to a disaster like the January wildfires.


If the FAIR Plan held the same reserves as traditional insurers, premiums would skyrocket and b said Dave Jones, who served as the state’s insurance commissioner from 2011 to 2019. The plan’s Roach, warned last year that “our rates are not adequate.”

In a letter attached to the February assessment order from the state insurance commissioner, R the FAIR Plan has a \$900 million reinsurance deductible and as much as \$3.5 billion in payment deductible) that it has to make in order to access all available layers of reinsurance. FAIR also sai million of unallocated cash available to cover those costs, almost \$400 million short of its deduc

The gap between the FAIR Plan’s unallocated cash and its reinsurance deductible is “pretty conc “pretty much guarantees another assessment,” said Carly Fabian, a policy advocate for Public Ci advocacy group.

The FAIR Plan currently estimates that 45% of its claims from the Palisades and Eaton fires are c total losses. That may be too low, Jones said. A higher percentage would mean it will need more

Jones said another “optimistic assumption” FAIR is making is that there won’t be another catasti the spring or summer. After the \$1 billion assessment, the insurer will have about \$305 million ir



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It’s entirely possible the state will avoid devastating wildfires for the rest of the year. But the fire across the mountains of Southern California starting in May and June, according to the latest out National Interagency Fire Center. While in the past, California had a distinctive fire season that p in recent decades the state has battled blazes year-round.



An insurance company employee surveys damage at homes destroyed by the Palisades Fire in the Pacific Palisades area of Los Angeles in J Connelly/Bloomberg

Meanwhile, a legal fight is brewing over last month's assessment. Advocacy group Consumer Watchdog, which called the charge a bailout for big insurers, has said it will challenge insurance companies in court to pass on assessment costs to policyholders.

"We don't think it's legal," said Consumer Watchdog President Jamie Court, arguing that private insurers are allowed to do business in California on the premise that they will contribute to keeping the FAIR Plan.

Critics also warn that letting insurers off the hook for future assessments risks encouraging them to write their riskiest policies to the FAIR Plan, which has experienced 400% policy growth over the last

year. The California Department of Insurance, the state regulator, has rejected that view. If insurers were off the hook for FAIR Plan assessments, more companies would leave the state or refuse to write new policies, which would make insurance "much more unaffordable," California Insurance Commissioner Ricardo Lara said in a hearing last week. "All these strategies are getting them back."

Deputy Commissioner Michael Soller says the state's new regulations incentivize insurers to write new policies because only by doing so can they use crucial new risk-assessment tools.

"We're trying to do this in a balanced way, so that we're not back in another situation where insurers simply walk away from California," Soller said.

The department's goal is to get more Californians out of the FAIR Plan, which typically offers limited coverage at a higher cost, and back into the regular market.

"Nobody wants a FAIR Plan policy," Soller said.

But as insurance companies pulled back from California, more customers were only able to get coverage through the FAIR Plan. That's turning into a growing problem not just for homeowners in risky fire zones, but for the entire state insurance market.