Browne Jacobson

The LA fires: Counting the insurance cost

03 March 2025 Joanna Wallens

Fires in the Pacific Palisades, Hurst and Eaton areas in Los Angeles have killed 29 people, destroyed many homes, offices, shops and public infrastructure such as roads, powerlines and sewers.

The fires are also predicted to cost many jobs, increase local inflation and may have health impacts as the fires sent lead and chlorine into the air. There are also concerns that water supplies may be contaminated.

California is the fifth largest economy in the world. It outperforms all but a few of the largest countries in the world. The potential economic impacts are enormous.

California insurance market

A California ballot initiative, Proposition 103, limited how much insurance companies could raise their rates, factors which they are allowed to consider and stipulates perils which must be covered. This was designed to protect consumers from price increases but led to some insurance companies exiting the market. Rising fire risks, more drastic swings between rainy and dry seasons and increased flood and mudslide risks made insurers nervous about their exposure, particularly as some of the levers they could usually pull to manage exposure had been removed by Proposition 103.

Some commentators have argued that, as a result of Proposition 103, California's insurance rates are artificially low and that insurers have been losing money. Regulators have approved recent new rules allowing insurers to set higher rates.

FAIR Plan is a state mandated fire insurance pool. It is an insurer of last resort, providing limited and expensive coverage. Insurers operating in California are required to take part in FAIR Plan and can be called upon to participate in losses. FAIR Plan has become a dominant player in the market. With a reduction in appetite from insurers, its exposure grew by 61 percent in the 2024 fiscal year to $456bn.

FAIR Plan only provides basic fire and smoke protection. To meet mortgage insurance requirements homeowners still need to buy private insurance policies to cover things not covered by FAIR Plan.

FAIR Plan has a per house cap of $3m for damage to residential property and it doesn't cover costs such as additional living expenses for temporary living arrangements until homes can be rebuilt. For commercial properties it has a $20m cap.

FAIR Plan is reported to have billions of dollars of exposure due to the fires. It has $2.6bn in reinsurance and around $200-400m in capital. Capital levels are well below its $900m deducible, implying a deficit. The fires may cause FAIR Plan to require insurance companies to cover losses. In addition, insurers have liabilities for their direct written policies to pay.

Some commentators say that having to pay out so many claims at once will strain the finances of insurance companies. However, others point to record profits of US insurers of $87.6bn in 2023 from their property and casualty business alone (National Association of Insurance Commissioners). They say that premiums over the past several years should have prepared insurance companies for a catastrophe like the California fires, and that they should have the resources to pay the claims (Douglas Heller, director of insurance at the Consumer Federation of America).

There is currently a one-year moratorium preventing home insurance cancellations and non-renewals in affected areas of California. This means that insurers cannot drop their existing customers in the wake of the disaster.

Climate change

Given escalating risks in recent years, the Los Angeles fires are not generally considered to be a ‘black swan’ event.

Climate change has made Los Angeles more vulnerable to fires. Rapid swings between dry and wet weather, called 'whiplash” conditions', have created large amounts of dry vegetation, which acts as tinder ready to ignite. Decades of drought in California were followed by heavy rainfall in 2022 and 2023, this then flipped to dry conditions in 2024.

Scientists are also reporting a link between massive fire events exacerbated by climate change, such as the 2019/20 Australian bushfires, and impact to the world’s ozone layer. Aerosols in fire smoke may change stratospheric circulation and influence climate, health and atmospheric chemistry. With the increasing frequency and intensity of fires driven by global warming, this is an area of concern for scientists.

Rebuilding and insurance

Following increasing premiums, a significant percentage of homes in Los Angeles are said to be uninsured. Many more are underinsured, including some that have limited cover through FAIR Plan.

Many property insurance policies cover damaged personal property and provide cover for temporary living expenses following damage to property. Insurance tends to only cover the cost of restoring property, and not the market value of the property. There may well be a reduction in home values following the fires (however values could also increase with the fires constraining the market and meaning that fewer homes are available).

It is anticipated that as so many homes will require repairs and reconstruction at the same time, that there will not be enough construction workers, which could further increase the cost of rebuilding.

Fire and flood risk in the United Kingdom

In the wake of the LA Fires, Fire service leaders in the United Kingdom have warned that the country is unprepared to tackle the growing impact of climate change. National Fire Chiefs Council chair, Mark Hardingham says:

> *“Longer term planning and investment is needed to ensure fire and rescue services, who are often at the frontline of responding to the impacts of climate change – including fires, storms, high temperatures and heatwaves, low temperatures and snow, flooding and drought – are prepared.”*

Weather extremes are expected to become more likely, with regions in the south of England projected to experience temperatures reaching 40°C and increased rainfall by up to 25%. The frequency and severity of storms and the number of flooding incidents has steadily increased on average.

Insurance impacts

Catastrophe modelling expert Dr Eugenia Cacciatori says:

> *“The current approach to insuring properties in disaster-prone areas is reaching breaking point”.*

Multi-year offerings could build better longer-term revenues and commitments allowing insurers to work hand in hand with other services to build greater resiliency. This could help shift focus from compensating losses to incentivising preventative measures.

Parametric insurance is another option. For more on this see our weather protection parametric insurance article.

Insurance companies implement risk reflective policies driven by actuarial data. There is a difficult balance between risk pooling and cross subsidisation on the one hand and individualisation on the other. Spreading risk will likely increase costs for some and decrease costs for others. It may also discourage adaption to our changing climate.

There is also a difficult debate regarding the role that governments should have in insurance, given that climate change is making many risks uninsurable or causing prohibitively expensive premiums.

Contents

Author

Joanna Wallens

Associate

joanna.wallens@brownejacobson.com

+44 (0)330 045 2272

Tim Johnson

Partner

tim.johnson@brownejacobson.com

+44 (0)115 976 6557

Related expertise

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