

DECEMBER 2025 UPDATE
NAVIGATING THE CALIFORNIA
HOMEOWNERS INSURANCE CRISIS

Presented By
Ramona Johanneson, Area Vice President
Arthur J Gallagher Risk Management Services

Crisis Defined:

- ❖ Insurance in California is currently in a crisis, due to the lack of availability of new policies and the fact that many insurance companies are non-renewing policies.

How Does It Affect You:

- ❖ Many insurers have **stopped accepting** new customers, regardless of where a home is located. In addition, it isn't just homeowners insurance --- insurers stopped writing renters, condo and landlord policies. In some cases, insurers have chosen to **abandon** the state's insurance market entirely.
- ❖ If your policy is cancelled, you likely will have only a few quotes to choose from when looking for a new policy. This is if you can find an insurance company still writing policies in your area or for your home type. If you are lucky and don't own an old home or a home in a fire hazard area (or on the outskirts of one), an agent might find a replacement policy for you.
- ❖ If you are purchasing a new home or condo, there will be challenges. An insurance policy is non-transferable and there is no consideration given by the current insurance company to the homebuyer. Any purchase contract should include a 10-day insurance contingency, just in case you can't find a policy. You can rescind your offer and not lose your deposit, if you act within the contingency period.

How Did We Get Here

- ❖ There has been a misguided approach to market interventions in the form of **price caps** and **over-regulation**.
- ❖ California must fix its regulatory approach and **remove barriers** to bring back a well-functioning insurance marketplace. It's been reported that possibly 100,000 California homeowners, especially those who live in areas at risk of wildfires, have lost their insurance. Those who haven't are faced with higher premiums.

- ❖ The current system is broken because government regulators have been **too slow** to react to the changing insurance market conditions.
- ❖ Wildfires in California are a big concern for insurers, but fortunately they aren't saying that "**California is not insurable.**" Insurers are saying that clearing "**regulatory hurdles**" will be enough to make it profitable to write homeowners insurance in the state.
- ❖ Many of the proposed regulatory changes indicate a **growing interest in changing Prop 103**, the 1988 voter-approved law.
- ❖ Taking a closer look at Prop 103, here are the highlights:
 - Requires **prior approval** from the California Dept. of Insurance before implementing rate changes.
 - Doesn't allow insurers to use **catastrophe modeling** in rate filings.
 - Doesn't give consideration of **reinsurance costs** in rate filings.
 - For personal insurance (home/auto), it requires a mandatory public hearing if an insurer requests a **rate increase exceeding 6.9%**. This rule creates a disincentive for insurers to request rate increases above 6.9% to avoid the lengthy and potentially costly process involving intervenors and public hearings.
 - While intended to protect consumers and prevent arbitrary rate increases, the 6.9% cap has been criticized for potentially **hindering insurers' ability to charge rates reflecting the true cost of risk**, especially with increasing costs from wildfires and inflation.

What Insurance Companies Want

- ❖ They want adequate rates in a timely manner. Streamlining approvals of rate filings is the key to addressing the insurance crisis in California.
- ❖ Data sources show California insurers **paying out \$1.13 for every \$1.00 taken in** over the **last decade** to insure homes. As of 2023, it's been reported that there were 8.5 million homeowners in California. Not all will file claims, but the negative profit year after year is unsustainable for insurers.
- ❖ Insurers agree with the experts on one important fact. California has been a LOW-COST state for insurance, but the low premiums didn't accurately **reflect the risk** insurers faced. The massive wildfires in 2017, 2018 and again in 2025 proved this.

Blame Prop. 103 - Blame Wildfires

- ❖ The years of cheap insurance premiums were a result of Prop.103. The regulations and **RATE CAP of 6.9%** had been acting as a price control...and of course, any CAP will always lead to shortages.
- ❖ The proposition proved to be a barrier to its original goal of “ensuring insurance is available to all Californians.” **Nobody is served by cheap policies they can’t get.** Prices match actual risk or there will be no policies at all.
- ❖ Focusing only on Prop. 103 and forgetting that some of the most devastating and costly wildfires in terms of insured losses have occurred, just since 2017, would be a mistake.

Closer Look At Wildfires

- ❖ Based on available information, here are some of the costliest wildfires in terms of insured losses:
 - **2025 Los Angeles Wildfires (Palisades and Eaton Fires):** These fires are estimated to be the costliest on record, potentially reaching **\$40 billion** in insured losses.
 - **2018 Camp Fire:** This was previously the most catastrophic wildfire in California history and led to approximately **\$12.5 billion** in insured losses.
 - **2018 Woolsey Fire:** This fire cost insurers around **\$4.2 billion**.
 - **2017 Tubbs Fire:** This fire resulted in insured losses of around **\$8.7 billion**.
 - **2017 Thomas Fire:** This fire had insured losses of approximately **\$2.2 billion**.
- ❖ Insurers report that data from 2017 - 2020 reflect unfavorable statistics. These **FOUR YEARS** of losses wiped out **DECADES** of insurer California **profits** and shed critical light on what rate adequacy really looks like.

Insurance Overhaul - What Comes Next

- ❖ In terms of what is being done in California to open the market back up with insurance companies writing new policies, as well as stopping insurance companies from continuing with non-renew policies, there is work being done.

- ❖ In September 2023, Governor Gavin Newsom issued an executive order directing the insurance commissioner, Ricardo Lara, to develop a regulatory plan to stabilize the insurance market. In response to Newsom’s order, Lara announced his plan of “Sustainable Insurance Strategy”. This is a set of regulatory reforms that will allow insurance companies to incorporate the cost of reinsurance into rates, as well as the ability to use “forward-looking estimations” of risk for catastrophic models. California is the only state where insurance companies are not allowed to do either.
- ❖ These reforms will result in greater availability of policies, but at likely at higher premiums. The current estimated timeframe, in which all regulations are to be enacted, is 2026.

Preventing Non-Renewal

- ❖ It’s important to mention that there are things a homeowner can do to **prevent** their insurance company from **issuing a non-renewal** of their policy. Insurers are now completing frequent inspections, both in-person and aerial inspections, of homes.
- ❖ In addition, if a homeowner receives a non-renewal and needs to purchase a new policy, there is a possibility **no policy** will be found (except the last resort California FAIR Plan) if the **condition** and/or **updates** to the home are unacceptable to new insurers.
- ❖ Some of the best actions that can be taken to keep a home insurable are as follows:

Steps Homeowners Can Take – Roof Maintenance/Roof Age

- ❖ Maintain the **condition of the roof**. If a roof has debris, algae, moss, discoloration or deterioration...or other signs it’s not well maintained or past its lifespan, this will trigger non-renewal. This applies to the home AND any outbuildings (shed, detached garage, ADU, etc.).
- Specific to a roof issue, unlike in years past, sometimes an insurance company **will not reverse** the notice of non-renewal. This means that there isn’t a **second chance** given in allowing time for the roof to be cleaned, have repairs made or have it replaced.
- If a homeowner is unsure if their roof has moss/algae/debris/etc....it should be inspected. The companies who clean roofs sometime offer a free inspection/estimate. If it is an old roof, a roofing company should inspect it.
- If the notice of non-renewal isn’t rescinded, regardless of the cleaning/repairs, a new policy will be costly. In addition, if the roof remains in poor condition, the home may be uninsurable or insurable only with a roof exclusion. A different insurer won’t issue a policy for a home with a roof that needs cleaning or is otherwise need of repair or replacement.

- For a roof in any condition – good or bad, typically the maximum age allowed is 20 years for a tar and gravel roof or 25 years for a comp, tile, rubber or any other roof type. The exception is a metal roof; they can be older than 25 years – a lot will depend on the condition. No wood shake roofs are allowed, regardless of age.
- For peace of mind and to possibly prevent a non-renewal, it is recommended that a licensed roofer inspect any roof older than 20 years and prepare a report on the condition of it. The report should be available to send to the insurance company, showing no repairs, cleaning or replacement needed.

Steps Homeowners Can Take – Trees/Vegetation/Structure

- ❖ Trim tree limbs so that they are not hanging over the roof of the home or any detached structures (garage, ADU, pool house, etc.).
- ❖ Be certain there is clearance of at least 100 feet from the home for all unmanaged vegetation.
- ❖ Install ember-resistant vents.
- ❖ Enclose eaves with non-combustible materials.
- ❖ Replace wood decking with TREX or similar decking.
- ❖ Replace wood siding with non-combustible material.

Steps Homeowners Can Take – Circuit Breakers/Plumbing/Heat

- ❖ Update the following, if not already updated:
 - Electrical (the service panel/breaker box) typically cannot be more than 25 years old. For older homes, replace knob & tube wiring (there can be none).
 - Plumbing in the visible areas typically needs to have been updated in the last 25 years and the water heater in the last 15 years.
 - Heating System: Typically, it can be no more than 25 years old. This is regardless of how well it works, if a service technician has said it is efficient and can last many more years or if it is used infrequently.

Steps Homeowners Can Take – Other

- ❖ Maintain alarm monitoring service for both burglary and fire protection.
- ❖ Maintain water flow alarm monitoring for internal fire sprinklers.

- ❖ Install an automatic seismic gas shut-off valve.
- ❖ Install an automatic water leak detection system with an automatic shut-off valve.

Final Thoughts – Three Levels of Insurance

- ❖ As mentioned above in the section How Does It Affect You, if your policy is cancelled, you likely will have only a few quotes to choose from when looking for a new policy. If you are purchasing a new home or condo, there will be challenges.
- ❖ It is important to understand that there are **THREE LEVELS**, so to speak, of **homeowners insurance companies** (this includes condo, renters and landlord too). If you are unable to “find” an insurance quote for whatever reason and you are looking for insurance because you were non-renewed, you relocated and started renting your home out, your policy was cancelled accidentally for non-pay, you purchased a new home or anything else, you should be aware of the fact that there are these three levels of insurance.
- ❖ Many Preferred/Admitted insurers are closed – they aren’t accepting any new customers or writing new policies in California. However, most Non-Preferred/Non-Admitted insurers are writing new policies. The premiums are higher, but they will usually sell you a policy. If you can’t obtain a policy through either one – a Preferred/Admitted insurer or a Non-Preferred/Non-Admitted insurer, the last resort is a policy through the California FAIR Plan.

Let’s look at the THREE LEVELS of INSURANCE COMPANIES:

- ❖ **Level One – Preferred/Admitted Insurers:**

- These are the insurance companies offering the best policies in terms of coverage, limits and premium. They also have the strictest guidelines in trying to qualify for a new policy. In addition, these are the companies who are primarily non-renewing policies in high fire hazard areas, due to wildfire concerns.
- The most well-known names are Allstate, AMICA, Chubb, Cincinnati, CSAA, Farmers, GEICO, Liberty Mutual, Mercury, Nationwide, Progressive, PURE, Safeco, State Farm, Travelers, Safeco and USAA.

- ❖ **Level Two – Non-Preferred/Non-Admitted Insurers:**

- These are the insurance companies offering policies that provide less coverage, fewer endorsement options, lower limits and higher premiums. These companies are often considered the “secondary market” and are not approved or backed by the State of California. They are not likely to be in compliance with the state’s insurance laws and regulations.

- The most well-known names are American Modern, American Western Home, Atain, Evanston, Great Lakes SE, Kinsale, KW Specialty, Lloyd's of London, MSI/Spinnaker, MS Transverse, Private Client Select, Scottsdale and Vault E&S.
- For reference, the Preferred/Admitted insurance companies must follow state regulations regarding how much they can charge and what risks they can (or can't) cover. Non-Preferred/Non-Admitted insurers do not have to follow these regulations, which allows them to take higher risks. Being Non-Preferred/Non-Admitted doesn't affect the validity of their policies or that they aren't regulated to some extent. The regulations are just different from those that govern Preferred/Admitted insurance companies.

❖ **Level Three – California FAIR Plan:**

- The California FAIR Plan is deemed the last resort for homeowners who have been declined by every insurer and are unable to purchase a policy.
- Essentially, it is a fire insurance program for high-risk properties. The policy primarily covers fire, smoke, lightning and internal explosion. However, additional coverage is offered for windstorm and hail, as well as for a few other types of loss.
- It has been predicted for a few years that one major fire could result in placing the California FAIR Plan in the spotlight for their finances due to overexposure. Unfortunately, this occurred in the January 2025 LA Fires. They are not a state run, or state backed insurance company like many people believe, they are a private insurance company.
- When purchasing a California FAIR Plan policy, it's important that the homeowner also purchase a companion policy called a DIC (Difference in Conditions) policy. This companion policy provides coverage for common perils, such as theft and water damage. In addition, liability and medical payments can be added to the DIC policy.

If you would like additional information or have questions about homeowners insurance in California, please feel free to contact me as follows:

Ramona Johanneson, Area Vice President ● Arthur J Gallagher Risk Management Services
Ramona_Johanneson@ajg.com ● 415-493-2502 Direct ● CA License# 0730406