

California issues new mandate that will have a major impact on homeowners' insurance: 'This is a historic moment'

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California is taking a crucial step to protect homeowners in wildfire-prone areas by requiring insurance companies to offer coverage in high-risk zones.

Announced by Insurance Commissioner Ricardo Lara, per the Guardian, this new regulation aims to ensure that Californians can still secure insurance despite the growing threat of wildfires and other natural disasters.

Under the new rule, insurers will gradually increase their market share in fire-prone areas by 5% every two years, ultimately reaching 85% of their total policies in these regions. For example, if an insurer writes 20% of the state's policies, they must ensure that 17% of those policies are in high-risk wildfire zones.

To help offset the costs of this expanded coverage, insurers will be allowed to pass on the expense of reinsurance to consumers. Reinsurance, which helps companies manage catastrophic risks like wildfires, is a cost California has not previously allowed insurers to charge for.

This policy is essential to ensuring that homeowners in wildfire-prone regions can access reliable insurance, reducing their dependence on California's Fair Access to Insurance Requirements plan, a last-resort option for those who can't find coverage through traditional insurers. Since 2020, the FAIR plan has seen its policy numbers more than double, highlighting the growing need for better insurance options in high-risk areas.

The new regulation benefits homeowners by providing greater access to insurance, even as climate change causes more frequent wildfires. It also reduces the reliance on the FAIR plan, which is mainly designed as a temporary safety net. This will help ensure fewer residents will need to turn to this emergency. This new rule does not come without pushback. Opponents say the regulation could increase premiums by 40% and doesn't require new policies to be written quickly enough.

"This plan is of the insurance industry, by the insurance industry and for the industry," stated Jamie Court, president of Consumer Watchdog, per the Guardian. Still, this regulation may help ensure that insurance remains accessible, affordable, and reliable for homeowners in wildfire-prone areas, ultimately making California's insurance market more resilient to natural disasters. The requirement is under review by California's Office of Administrative Law before it takes effect within 30 days. "Californians deserve a reliable insurance market that doesn't retreat from communities most vulnerable to wildfires and climate change," said Lara. "This is a historic moment for California."

"Anything that will help get insurance in California, period, is helpful," added Steve Crowder, mayor of Paradise, California.