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Incentivizing Wildfire Mitigation Through California's Fair Access to Insurance Plan (FAIR plan)

The skyrocketing cost of property damage from climate disasters is increasingly affecting California's property insurance market, with premiums rising and insurers withdrawing, yet not enough is done to invest in hazard mitigation improvements that can reduce property damage and help to limit losses, thus helping to keep insurance available and affordable. This paper addresses the urgent need to incentivize climate adaptation measures and restructure the California FAIR Plan to ensure the continued availability and affordability of property insurance amidst escalating losses from extreme weather events.

Mounting damages from climate-fueled disasters—such as wildfire, hurricanes, and severe storms—have caused private insurers to raise premiums, limit coverage, and even retreat altogether from some high-risk areas. This forces property owners without private coverage into California's FAIR Plan, the insurer of last resort. This shift results in a growing number of high-risk properties increasingly concentrating catastrophic loss exposure within the FAIR Plan, creating an unsustainable financial spiral downwards.

This is not a theoretical scenario; California has seen a dramatic increase in FAIR Plan enrollment and exposure. As of September 2025, the FAIR Plan's total policies-in-force number 645,987, reflecting a 39% increase since September 2024 and a 169% increase since September 2021.

Given the insurability crisis, NRDC proposes five reforms to strengthen the FAIR Plan:

- Prohibit private insurers from passing FAIR Plan assessment costs on to policyholders, to promote shared responsibility and accountability across the industry.
- Incorporate property- and community-level hazard mitigation into rate models, offering premium discounts to reward risk reduction.
- Fund means-tested premium subsidies and voluntary home buyout or relocation programs for vulnerable households in high-risk areas.
- Enhance financial stability by retaining policyholder surplus and utilizing catastrophe bonds to transfer catastrophic risks to capital markets.
- Explore innovative products—such as hazard mitigation-linked subsidies for affordable housing and community-level insurance—to foster resilience at multiple scales.

Proactively investing in wildfire-resistant home upgrades ("home hardening") provides both safety and strong economic returns. Analysis finds that each dollar invested in retrofitting homes ripples throughout the economy and returns about $1.70 in total economic activity. Moreover, the National Institute of Building Sciences estimated in its *Mitigation Saves* report that wildfire mitigation saves $4 on average for every $1 spent on federal mitigation grants. Home hardening includes actions like replacing flammable roofs and siding, installing ember-resistant vents, and clearing vegetation near structures. California has between 620,000 and 770,000 single-family homes in fire hazard zones, making the need for large-scale hazard mitigation urgent as wildfire risk grows with climate change and expanding development.

Home hardening represents a high-return resilience investment that can simultaneously protect lives and property, strengthen local economies, and reduce future disaster costs. With the FAIR plan's exposure increasing 42% over the past year to approximately $650 billion, more investments in resilience must be made to protect these communities. Scaling up these investments to build a robust "home hardening economy" not only mitigates wildfire risk to manage the increasing exposure across the state but also drives sustained economic growth across construction, materials, and service sectors.

Ultimately, reforming the FAIR Plan and investing in risk reduction is essential to breaking the insurance market's downward spiral and building long-term climate resilience. This paper will provide analysis on how California can stabilize FAIR Plans while protecting both policyholders and housing markets by integrating hazard mitigation, providing equitable financial support, and deploying risk transfer tools. Expanding investments in proven resilience measures such as home hardening not only safeguards communities from growing climate threats but also offers strong economic returns. Together, these actions can create a more sustainable, equitable, and adaptive insurance system capable of withstanding the accelerating impacts of climate change.