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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 limit losses, thus helping to keep insurance available and affordable. The state must prioritize investments in hazard mitigation measures and modify the California FAIR Plan to ensure the continued availability and affordability of property insurance amidst escalating losses from extreme weather events.

Due to mounting damages from climate-fueled disasters, private insurers are raising premiums, limiting coverage, and even retreating altogether from some high-risk areas. This forces property owners without private coverage into California's FAIR Plan, the insurer of last resort. California has already 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.

More homes in California are becoming uninsurable, and insurers are increasingly unwilling to accept the associated risks. Homes are more likely to be insurable if they're built to be less vulnerable to damage from common hazards, as well as if they're built in locations that are less exposed to certain types of hazards. The combination of exposure and vulnerability equates to the risk of potential damage. And as risks rise, homes that have escaped damage for years or decades can become uninsurable, which is why we have seen drastic increases in the enrollment of the FAIR Plan.

In this new reality, as the FAIR Plan takes on more uninsurable properties, new strategies are needed to ensure homeowners and communities are protected, both physically and financially, and the FAIR Plan can remain solvent in the face of intensifying disasters.

Investing in Home Hardening to Create a More Resilient Future

Wildfire home loss in California is driven by the combination of increasing development in fire-prone areas and climate change intensifying extreme fire weather conditions. Home hardening is a critical protective strategy involving retrofitting a home's exterior and clearing combustible materials from the immediate five-foot zone (Zone 0) to resist embers, which are responsible for 60–90 percent of home ignitions. NRDC analyzed[1] the economic implications of hardening approximately 616,000 to 770,000 single-family homes located in Fire Hazard Severity Zones (FHSZ) across 32 million acres of California land. Estimates of total direct expenditures to harden all vulnerable homes statewide range from $1.2 billion to $67 billion. This investment range is significantly lower than the estimated losses associated with just two recent events, the 2025 Palisades and Eaton fires, which totaled between $76 billion and $131 billion.

An investment in wildfire home hardening would generate broad economic benefits throughout the state. Using economic impact analysis, NRDC concluded that every dollar invested in retrofitting homes yields an estimated return of approximately $1.66 to $1.73 in total economic activity. If all at-risk homes were hardened, these investments could support between 9,100 and 493,100 jobs, generating $2 billion to $116.4 billion in total economic activity and bolstering state gross domestic product by $1.1 billion to $68.7 billion. Furthermore, this resilience spending would significantly increase tax revenues, providing $53 million to $3.8 billion for state and local governments, and $157 million to $9.6 billion in federal taxes. By reducing the likelihood of home losses, large-scale home hardening preserves household assets, stabilizes property tax revenues, mitigates post-disaster recovery expenditures, and allows insurers to continue providing coverage.[2]

California's FAIR Plan Can and Should Encourage Risk Reduction Via Hazard Mitigation Measures[3]

The FAIR Plan was established to ensure that private insurers would continue to provide protection through a joint underwriting mechanism to property owners who cannot obtain traditional private insurance. When this last-resort insurance program faces a shortfall after paying claims, it may apply to the California Department of Insurance (DOI) for permission to levy assessments on admitted insurers to replenish its balance sheet. Recently, the Commissioner approved a $1 billion assessment to cover fire losses following the LA wildfires. However, under new DOI guidance, when an assessment is $1 billion or less, insurers that incur costs may apply

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[1] Cousins, K. (2025, August 25). *California's Home Hardening Economy*. Earth Economics. https://www.eartheconomics.org/news/californias-home-hardening-economy (eartheconomics.org)
[2] Ibid.
[3] Natural Resources Defense Council. *Insurance for a FAIR Future: States must leverage insurance markets to encourage climate adaptation*. NRDC, 6 Aug. 2025. https://www.nrdc.org/resources/insurance-fair-future.

to the DOI to recover up to 50% of those costs from policyholders through temporary supplemental fees,[4] which insurers have already applied for after the LA fires.[5]

Allowing FAIR Plan member insurers to recoup their costs via temporary supplemental fees undercuts the foundational purpose of these programs by shifting the financial burden away from the broader insurance industry and onto policyholders. This practice undermines the shared-risk principle of the FAIR Plan, meant to support the insurance market at moments when catastrophic risk is realized. It also acts as a disincentive for long-term risk reduction and permits insurers to benefit unfairly from their access to a state market by privatizing profits while socializing losses. It would be fairer to maintain industry-wide pooling of risk without cost recoupment from policyholders. This would maintain insurer accountability and strengthen incentives to invest in resilience and hazard mitigation strategies. The California Department of Insurance should disallow such recoupment mechanisms. Measures to ameliorate the financial burden of disasters on insurers (that may otherwise contribute to insurer exits from a state market) should be geared instead towards risk reduction.

States are on the front lines of climate-related catastrophe preparedness and response. As disasters stress and overwhelm local and state budgets, many states are introducing innovative programs to reduce physical exposure of housing through regulatory and financial incentives. These hazard mitigation programs may be funded by a state through general revenue, or by contributions from insurers. They offer consumers cost sharing for specified physical upgrades to properties and require insurance carriers to account for these risk reductions in their underwriting models by providing premium discounts for these upgraded properties. For example, the Strengthen Homes program in Alabama has disbursed over $70 million dollars over the last decade in grants funded by the insurance industry.[6]

Risk reduction and hazard mitigation are essential for the FAIR Plan – and insurance markets more broadly—to operate sustainably. The FAIR Plan and private insurers should proactively help their policyholders address vulnerabilities before disasters occur. By embedding risk reduction requirements into the FAIR Plan, catastrophic losses can be minimized, and recovery can be faster and more just.

Deploying hazard mitigation measures is a powerful tool for limiting the damage from climate-fueled extreme weather events. The FAIR Plan can reduce its own risk exposure by

[4] California Department of Insurance. *Bulletin 2025-4: Updated Guidance regarding Insurer Recoupment Procedures in Response to Assessment by the FAIR Plan*. 11 Feb. 2025. (insurance.ca.gov)
[5] Darmiento, Laurence. "California Insurers Given OK to Charge Homeowners Statewide for L.A. County Fire Costs." *Los Angeles Times*, 22 Oct. 2025, https://www.latimes.com/business/story/2025-10-22/california-insurers-given-ok-to-charge-homeowners-statewide-for-l-a-county-fire-costs.
[6] Brown, Alex. "A Red State Pioneers Paying for Roof Upgrades as Storms Boost Insurance Costs." *Stateline*, 25 June 2024, https://stateline.org/2024/06/25/a-red-state-pioneers-paying-for-roof-upgrades-as-storms-boost-insurance-costs/.

incentivizing—and, where appropriate, subsidizing—hazard mitigation investments by FAIR Plan policyholders and their communities. By doing so, the FAIR Plan can demonstrate how risk reduction by communities and individual policy holders can be reflected in insurance rates, while addressing the hazards that are most relevant for a given location. Hence, to incentivize risk reduction, the FAIR Plan can discount premiums for policyholders who adopt hazard mitigation measures—with additional discounts for those in areas where community- or landscape-scale hazard mitigation has been undertaken—as well as provide grants to subsidize investment costs on the consumers and communities.

Funding Hazard Mitigation to Provide Protection for High-Risk Communities

Risk reduction efforts will benefit consumers and insurers by decreasing the long-term potential for damages and resulting financial losses. Establishing programs to encourage hazard mitigation improvements and offer subsidies for FAIR Plan policyholders will require investment.

The state can consider these ideas to fund hazard mitigation programs:

1. The FAIR Plan should consider retaining its policyholder "surplus," as opposed to disbursing that surplus to the private insurers who back the Plan. Retaining the surplus would allow the Plan to invest in risk reduction measures to avoid future losses from property damage, which are generally much more costly[7] for the state and insurers.
2. Beyond the FAIR Plan, the state can supplement the funding of electric utility wildfire adaptation in the California Wildfire Fund by increasing various taxes on the admitted and non-admitted insurers, agents, and brokers that are required for doing business in California. The state should collect funds from insurers and pool those resources to support risk reduction efforts across the state. These efforts could include resilient housing retrofits, resilient affordable housing development, supporting adoption and enforcement of hazard-resistant building codes by municipalities, and more.

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Ultimately, utilizing the FAIR Plan to invest in risk reduction is essential to break the insurance market's downward spiral and build long-term climate resilience. 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.

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[7] Seydl, Joe, and Dan Alter. "How Climate Risk — and Losses — Are Creating High Prices for Home Insurance." *J.P. Morgan Private Bank U.S.*, 16 May 2025, privatebank.jpmorgan.com/nam/en/insights/markets-and-investing/ideas-and-insights/how-climate-risk-and-losses-are-creating-high-prices-for-home-insurance.