MORNINGSTAR | DBRS

Commentary

One Year Later: Consequences of the Los Angeles Area Wildfires for the Insurance Sector

Morningstar DBRS
January 6, 2026

Key Highlights

- The U.S. P&C insurance sector has recovered from the 2025 wildfire losses thanks to premium increases and low catastrophe losses for the remainder of the year.
- State Farm General Insurance Company, the entity writing California property risk for State Farm, was particularly vulnerable and remains in a weaker position.
- Allowance for premium increases and other reforms are a move in the right direction to create a sustainable property insurance market, but the reliance on the FAIR Plan is a risk for the industry and doesn't incentivize accurate pricing of risk.

Patrick Douville
Vice President
Global Insurance & Pension Ratings
+ 1 416 420-3377
patrick.douville@morningstar.com

Marcos Alvarez
Managing Director
Global Financial Institution Ratings
+ 34 919 03 65 29
marcos.alvarez@morningstar.com

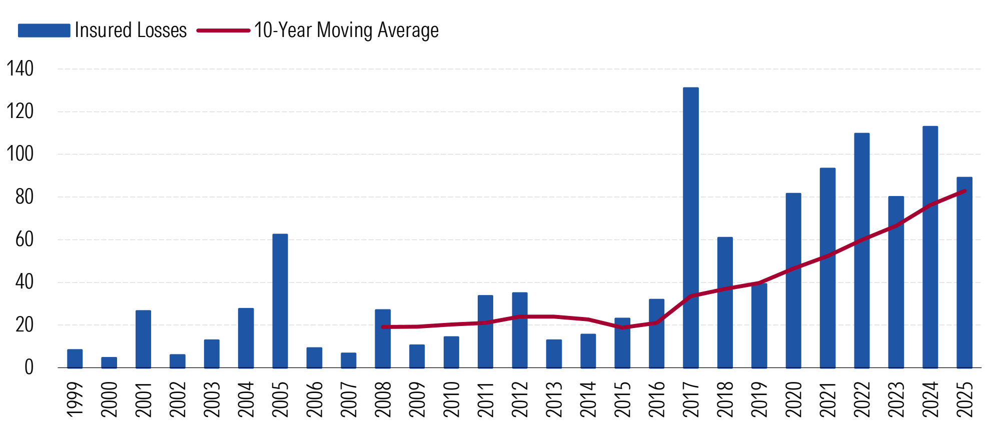
Overview

The 2025 Los Angeles (L.A.) area wildfires tested the financial strength of the property and casualty (P&C) insurance industry, highlighting some of the flaws in the California property insurance market. While the insurance sector proved resilient overall, the California property arm of State Farm incurred severe losses. Since the fires, reforms have been enacted to incentivize insurers to operate in the California property market and to stabilize the Fair Access to Insurance Requirements (FAIR) Plan. The absence of major catastrophe losses for the remainder of 2025 provided some breathing room for P&C insurers, but the reliance on the FAIR Plan is a risk for the industry and doesn't incentivize accurate pricing of risk.

2025 Catastrophe Losses

Swiss Re estimates global insured catastrophe losses for 2025 at $107 billion—24% lower than the $141 billion recorded in 2024—with the U.S. accounting for 83% of the total, or $89 billion, in 2025 (Exhibit 1). The 2025 L.A. wildfires produced the costliest-ever wildfire event globally with insured losses of $40 billion, out of a total of $65 billion in economic losses, according to Gallagher Re. The majority of wildfire losses appear to have been covered by insurance, despite the widely discussed withdrawal of coverage by certain insurers and overall difficulty in insuring certain properties.

Exhibit 1 U.S. Natural Catastrophe Insured Losses ($ Billions)



Sources: Aon, ISO's Property Claim Services unit (PCS); Insurance Information Institute.

Pricing and appetite for wildfire risk appear to have stabilized on the reinsurance market, with more than $5 billion of catastrophe bonds with some level of exposure to wildfire risk being issued by insurers and sold to investors in 2025, according to Artemis.

California Property Insurance Market Remains Vulnerable

A year after the L.A. wildfires, the U.S. P&C insurance sector has generally remained resilient, with no failures among the leading insurers in the California property market. This can be explained by the relatively benign U.S. catastrophe losses incurred during the remainder of 2025, the targeted premium increases where possible both before and after the wildfires, and reduced exposures through coverage withdrawal prior to the event.

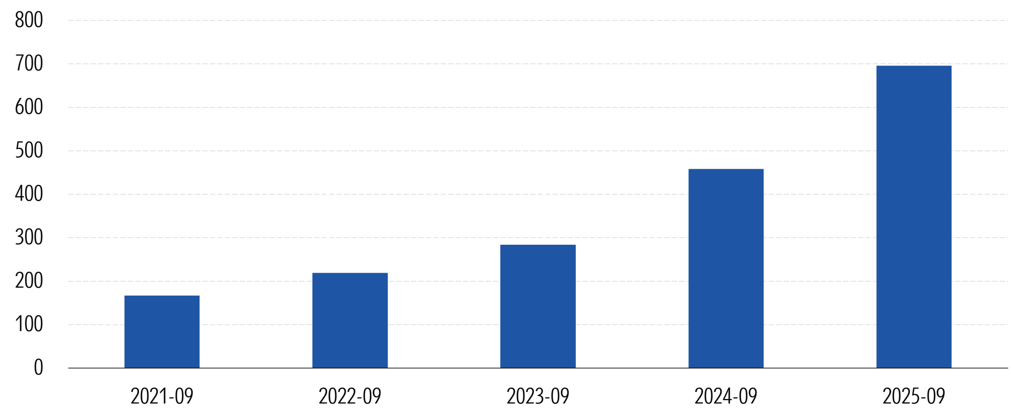
However, State Farm General Insurance Company (SFGIC), which is the market leader in homeowner multiple peril insurance in California with a market share of approximately 20% and part of the State Farm group of mutual companies, incurred $7.6 billion in catastrophe losses in Q1 2025 alone. SFGIC was allowed a 17% emergency rate increase on homeowner lines in the spring of 2025 and issued $400 million of surplus notes to replenish its capital position. Despite these actions, SFGIC remains in a relatively weak, although stable, financial position. This experience highlights the risk of overconcentration in one type of insurance or one geography and the potential flaws in the state-focused structure of SFGIC in comparison with more nationally or internationally diversified peers.

During 2025, the California Department of Insurance (the Department) updated its Sustainable Insurance Strategy, which allows the use of forward-looking catastrophe models and price reinsurance for rate-setting, but in exchange requires insurers to cover high-risk areas. Following the end of its one-year moratorium on insurance cancellations in fire-prone areas, the Department enacted a new moratorium as of September 2025 in certain, more restricted areas. These changes, especially the allowance for higher rates, will incentivize insurers to remain in or return to the California property market, although they are likely to be cautious.

FAIR Plan Remains Supported by Industry

California's FAIR Plan received a $1 billion payment from the insurance industry in 2025, after it ran out of funds to cover the approximately $4 billion in claims related to the L.A. wildfires. Property insurers are allowed to pass this cost through to policyholders as surcharges, but this mechanism still relies on a healthy insurance industry to process the losses and on the FAIR Plan covering a small enough share of the overall property insurance market for it to be sustainable. The reforms enacted in the fall of 2025 provided the FAIR Plan with financing mechanisms to ensure increased efficiency to pay claims, better oversight, while improving policyholder experience, and adding coverage for manufactured homes. Additionally, the Department will be required to consider additional home hardening measures every five years as part of its Safer from Wildfires efforts. However, with the total exposures of the FAIR Plan growing rapidly and reaching $696 billion in September 2025 (Exhibit 2), the risk appears unsustainable for the industry to assume. In the event of a future severe wildfire, healthy insurers and policyholders could be burdened by significant liabilities and surcharges, which would have significant negative implications for the industry.

Exhibit 2 California FAIR Plan Total Exposure ($ Billions)



Source: California FAIR Plan.

Potential Liabilities for Utility Companies

Some of the 2025 L.A. wildfires losses may ultimately be passed on to utility companies if it is determined that their equipment caused the fires. In September 2025, Southern California Edison was officially qualified to draw from the state fund set up to cover wildfire liability claims in excess of $1 billion because of compensation claims related to the Eaton Fire. According to documentation published by the California Earthquake Authority, which administers the fund, the claims to be paid in relation to the Eaton Fire are estimated to be in the tens of billions of dollars, which would require replenishment of the fund and would make the Eaton Fire the costliest wildfire the fund has had to cover. Such an outcome would lessen the cost born by the insurance industry and the FAIR Plan, but the ultimate recovery remains uncertain. However, legal liabilities could also have implications for casualty insurers, with multiple lawsuits targeting P&C insurers themselves in addition to utilities, municipal fire and water departments, and even manufacturing and construction companies.

Note: All figures are in U.S. dollars unless otherwise noted.

Related Research

- *Commercial Property Insurance Prices Are Softening Despite Escalating Insured Losses--but for How Long?*, September 15, 2025
- *Global Reinsurers H1 2025: Solid Results Despite Elevated Catastrophe Losses*, August 26, 2025
- *Line of Fire: How Wildfires Threaten Utility Credit*, July 2, 2025
- *Aftermath of Los Angeles Wildfires: A Wake-Up Call for Property & Casualty Insurers and Regulators*, April 7, 2025
- *Global P&C Reinsurers: Solid Earnings in 2024, but There Are Potential Headwinds on the Horizon for 2025*, April 3, 2025
- *Los Angeles Area Wildfires Will Cause Record Insured Losses; Solutions to Address Insurability Are Needed*, January 15, 2025

About Morningstar DBRS
Morningstar DBRS is a full-service global credit ratings business with approximately 700 employees around the world. We're a market leader in Canada, and in multiple asset classes across the U.S. and Europe.

We rate more than 4,000 issuers and nearly 60,000 securities worldwide, providing independent credit ratings for financial institutions, corporate and sovereign entities, and structured finance products and instruments. Market innovators choose to work with us because of our agility, transparency, and tech-forward approach.

Morningstar DBRS is empowering investor success as the go-to source for independent credit ratings. And we are bringing transparency, responsiveness, and leading-edge technology to the industry.

That's why Morningstar DBRS is the next generation of credit ratings.

Learn more at dbrs.morningstar.com.

MORNINGSTAR | DBRS

The Morningstar DBRS group of companies consists of DBRS, Inc. (Delaware, U.S.)(NRSRO, DRO affiliate); DBRS Limited (Ontario, Canada)(DRO, NRSRO affiliate); DBRS Ratings GmbH (Frankfurt, Germany)(EU CRA, NRSRO affiliate, DRO affiliate); DBRS Ratings Limited (England and Wales)(UK CRA, NRSRO affiliate, DRO affiliate); and DBRS Ratings Pty Limited (Australia)(AFSL No. 569400). DBRS Ratings Pty Limited holds an Australian financial services license under the Australian Corporations Act 2001 to only provide credit ratings to "wholesale clients" within the meaning of section 761G of the Act. For more information on regulatory registrations, recognitions, and approvals of the Morningstar DBRS group of companies, please see: https://dbrs.morningstar.com/research/225752/highlights.pdf.

For persons in Australia: By continuing to access Morningstar DBRS credit ratings and other types of credit opinions and related research (collectively, Relevant Documents), you represent to Morningstar DBRS that you are, or are accessing the Relevant Documents as a representative of, a "wholesale client" and that neither you nor any entity you represent will directly or indirectly disseminate the Relevant Documents or their contents to "retail clients" within the meaning of section 761G of the Australian Corporations Act 2001. Morningstar DBRS does not authorize distribution of the Relevant Documents to any person in Australia other than a "wholesale client" and accepts no responsibility or liability whatsoever for the actions of third parties in this respect.

The Morningstar DBRS group of companies are wholly owned subsidiaries of Morningstar, Inc.