

Property & Casualty

# California Wildfires Reveal Significant Market Impacts

## And Need for Innovation Across the Insurance Marketplace

Over the past decade, there have been multiple catastrophic losses due to wildfire with the intensity, frequency, and duration escalating due to factors, such as climate change, prolonged droughts, and urban expansion into fire-prone areas. Of the top 20 largest California wildfires<sup>1</sup>, in terms of structures impacted, eight have occurred in the last five years and 15 have occurred in the last 10 years. The frequency and severity increases have had a profound impact on insurers, policyholders, and regulatory frameworks. Additionally, the financial impacts have resulted in many insurers withdrawing from markets and exponentially increasing premiums - all while leaving many policyholders struggling to find affordable coverage.

### Impact Forecasts

In this case of the California wildfires, there has been a rise in the number of policies placed in California's Fair Access to Insurance Requirements (FAIR) Plan, a high-risk pool designed as a last resort for coverage. But, the impact varies across sectors, with the commercial property marketplace behaving differently than personal lines carriers.

Reinsurance CAT treaty renewals at 1/1 have seen rate reductions between -5% to -15% with terms, conditions and retentions that were largely unchanged. Losses resulting from the current wildfires will likely hit reinsurer's balance sheets. As a result, 4/1 and 7/1 treaty renewals may not experience the same rate reductions. Although we are still early into the 2025 renewal season, commercial property insurance buyers are experiencing more competition and reduced rates. The wildfires have not affected the softening market environment.

That said, commercial property has witnessed some insurers who refuse to deploy any capacity on certain risk with high wildfire exposure scores. Portfolios with a heavy California concentration will face more of an impact in both rate and underwriting scrutiny on the wildfire risk potential, mitigation efforts and proximity to the wildland urban interface. Insurers will look to incorporate wildfire modeling into underwriting and pricing, but these models are not currently consistent amongst insurers, and some are more far reaching and punitive than others.

On the other hand, the California homeowners' market is anticipated to continue to see further rate action post-Eaton and Palisades fires. With the California Department of Insurance allowing the utilization of catastrophe models in insurance company ratemaking, it's expected that carriers will take a refreshed look at their view of risk and respond accordingly.

Further, concerns over utility involvement will compound a difficult wildfire liability insurance marketplace for utility companies. It's likely to see a reduction of liability limits available, further rate action and stricter underwriting criteria for these risks.

One undeniable constant is emerging: wildfires have prompted widespread reevaluations across the board.

### Innovative Risk Management

The insurance industry must align to collectively execute a new level of innovation to deal with this ever-increasing and changing risk. The California wildfires have become a milestone moment - a source of motivation for changes across the insurance industry, requiring everyone to adapt to a new risk landscape. Some of these recent changes include:

#### 1. Changes in Underwriting Practices:

Insurers are increasingly adopting advanced underwriting tools, such as predictive modeling, satellite imagery, and geographic information systems to assess wildfire risk. These tools enable more accurate risk assessment and pricing, but they also result in higher rates or reduced coverage options for properties deemed high-risk.

#### 2. Regulatory Responses:

California regulators have implemented measures to address the crisis, including temporary moratoriums on policy cancellations in wildfire-affected areas. Additionally, state agencies are encouraging insurers to reward policyholders who take proactive wildfire mitigation measures, such as creating defensible space and hardening structures against fire risks.

### 3. Growing Emphasis on Mitigation and Resilience:

The insurance industry is increasingly advocating for community-wide wildfire mitigation efforts. Public-private partnerships, enhanced building codes, and investments in infrastructure to reduce fire risk are critical to fostering a sustainable insurance market. These measures not only protect lives and property but also help stabilize insurance availability and affordability.

### 4. Implications for Reinsurance and Risk Transfer:

The growing severity of wildfires has amplified the reliance on reinsurance markets. However, reinsurers are also raising rates and tightening terms due to elevated risks. This trend has driven innovation in alternative risk transfer mechanisms, such as catastrophe bonds and parametric insurance solutions.

California wildfires underscore the urgent need for a holistic approach to risk management, combining mitigation, policyholder education, regulatory adaptation, and market innovation. While the insurance industry faces considerable challenges, collaborative efforts among insurers, policymakers, and communities can help build resilience and ensure the long-term viability of the insurance marketplace in the face of escalating wildfire risks.

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## TOP 20 CALIFORNIA WILDFIRES

(As of January 2025)

Rank	Fire Name	Date	Structures Burned
1	Camp	November 2018	18,804
2	Eaton	January 2025	7,000+
3	Tubbs	October 2017	5,636
4	Palisades	January 2025	5000+
5	Tunnel	October 1991	2,900
6	Cedar	October 2003	2,820
7	North Complex	August, 2020	2,352
8	Valley	September 2015	1,955
9	Witch	October 2007	1,650
10	Woolsey	November 2018	1,643
11	Carr	July 2018	1,614
12	Glass	September 2020	1,520
13	LNU Lightning Complex	August 2020	1,491
14	CZU Lightning Complex	August 2020	1,490
15	Nuns	October 2017	1,355
16	Dixie	July 2021	1,311
17	Thomas	December 2017	1,063
18	Caldor	September 2021	1,003
19	Old	October 2003	1,003
20	Jones	October 1999	954

Source: [California Department of Forestry and Fire Protection | CAL FIRE](#)

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