

A Review and Evaluation of the California FAIR Plan*

Nancy Wallace[†]

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Abstract

This review traces the California FAIR Plan's evolution from a response to the urban unrest and insurance availability crises in the 1960s into a permanent provider of wildfire catastrophe coverage. Although it still operates under its original structure as a nonprofit, mandatory association of licensed property insurers, governance and incentive frictions in California have intensified as wildfire risk has become larger and more correlated. Over the past decade, the FAIR Plan has shifted from a marginal backstop to a macro-financial institution for housing climate risk. The central challenge now is how to restore a sustainable boundary between the voluntary insurance market and the residual market mechanism, the FAIR Plan, that was never designed to serve as California's primary wildfire insurer.

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[†]Haas School of Business, U.C. Berkeley, 545 Student Services Building, Berkeley, CA 94720-1900.
Email: newallace@berkeley.edu.

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1 Introduction

As climate-driven catastrophe risk intensifies, residual property and casualty (P&C) insurance markets—FAIR Plans, the insurers of last resort—have assumed a central role in insurance provision across the thirty-three states that operate them. These markets were originally designed as temporary backstops, providing coverage to high-risk properties unable to obtain insurance in voluntary markets. However, in states exposed to severe natural hazards, particularly California, residual markets have become large, systemically important institutions. As of September 2025, the California residual P&C insurer, the FAIR (Fair Access to Insurance Requirements) Plan, has approximately \$696 billion of property exposure and is deeply intertwined with both private insurers and state regulatory policy.¹

National inducements for state-level FAIR Plans originated with the Urban Property Insurance Protection and Reinsurance Act of 1968,² which used federal incentives such as riot reinsurance to encourage states to create last-resort insurance mechanisms to address urban deterioration and alleged discriminatory insurance practices. The historical record emphasizes that the initial policy objective was market stabilization via access, not affordability or risk-based pricing. Instead, FAIR Plans were designed to provide basic coverage where voluntary insurers would not write, often in locations perceived as riot-prone or otherwise politically sensitive (see Nwokolo, 2023).

The California FAIR Plan was established in 1968 in response to market failures in the provision of property insurance following civil unrest and wildfire losses during the 1960s. The FAIR Plan was initially created by California Assembly Bill 2177 (1968) and later codified into the California Insurance Code.³ The FAIR Plan was designed to be an insurer of last resort to ensure the continued availability of basic property insurance when coverage was unavailable in the voluntary admitted markets. Its statutory purpose was threefold: i) to ensure stability in California’s property insurance market; ii) to ensure the availability of basic property insurance; and iii) to encourage maximum use of the voluntary insurance market rather than supplant it.

2 Statutory organization

The California FAIR Plan is not a state agency and does not receive state or taxpayer funding. It is a nonprofit, involuntary association of all insurers licensed to write property insurance in California, each of which is statutorily required to participate. Governance is es-

¹<https://www.cfpnet.com/key-statistics-data>

²Pub. L. No. 90-448, tit. XI, 82 Stat. 555 (1968) (codified as amended at 12 U.S.C. § 1701 note).

³Stats. 1968, ch. 1459 (Cal.); Cal. Ins. Code §§10090–10107 (West 2025)

established through a Plan of Operation, and regulatory oversight is exercised by the California Department of Insurance (CDI). Importantly, the FAIR Plan is not subject to Proposition 103,⁴ although its rates must by statute be actuarially sound. This legal positioning reflects a deliberate legislative balance: the FAIR Plan is intended to operate as a temporary safety net rather than a permanent substitute for private insurance markets.

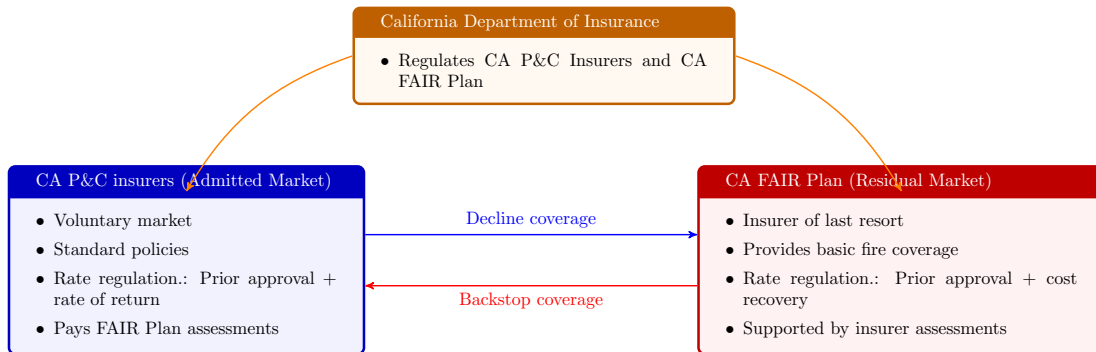


Figure 1: Schematic for California P&C Insurance and Fair Plan Regulation

As shown in Figure 1, the California Department of Insurance is the regulator of record for both the admitted and residual markets (the private P&C insurers licensed to sell insurance in California and the California FAIR plan). There are fundamental differences between the two markets in terms of their codified organizational structures, policy coverage, price regulation, and assessments.

2.1 Market structure

- **Voluntary market:** the P&C insurance market segment in which admitted insurers freely choose whether to underwrite, renew, or non-renew risks according to their filed underwriting guidelines and approved rates, subject to statutory and regulatory constraints.⁵ Policies issued in the voluntary market are written at the insurer’s discretion, not by statutory compulsion, and insurers may decline to insure properties that do

⁴California’s Proposition 103 was approved by voters on November 8, 1988. With its adoption, admitted market P&C insurance regulation required: i) insurers to file proposed rates with, and obtain approval from, the CDI before using them; ii) prohibited excessive, inadequate, or unfairly discriminatory rates; iii) established a formal role for consumer participation (“intervenor”) in rate proceedings. For further details see https://sins.senate.ca.gov/sites/sins.senate.ca.gov/files/2023_proposition_103_fact_sheet.pdf.

⁵The California Insurance Code does not, however, define the “voluntary market” as a standalone term, instead the concept is implicitly defined by contrast with the statutorily created California FAIR Plan (see also CAL. INS. CODE §§ 10090–10107 (West 2025)).

not meet their underwriting criteria, provided such decisions comply with California’s unfair practices and anti-discrimination laws.

- **Residual market:** the statutorily created California FAIR Plan that is designed to provide basic property insurance to applicants who are unable to obtain coverage in the voluntary market, despite making a good-faith effort to do so. The residual market is not optional for insurers participating in the voluntary market: it is a collective underwriting obligation imposed by statute and administered through a joint underwriting association.⁶

2.2 Policy coverage

- **California’s admitted (voluntary) P&C market** is structured around comprehensive homeowners policies—most commonly the HO-3—that bundle first-party property coverage with third-party liability and loss-of-use protections in a single contract. For owner-occupied dwellings, the HO-3 typically insures the dwelling and other structures on an open-perils basis (subject to exclusions), provides named-perils coverage for personal property, and includes standard personal liability and medical payments to others.⁷
- **The California FAIR Plan (residual market)** offers a fundamentally narrower product: a named-peril, “basic fire” dwelling form, focused on specified causes of loss such as fire, lightning, smoke, and internal explosion. Because the FAIR Plan does not provide the integrated homeowners package available in the admitted market, policyholders commonly must assemble coverage through a two-policy stack by pairing FAIR Plan fire coverage with a privately issued Difference-in-Conditions (DIC) wrap to approximate the level of protection available under a single HO-3 policy.⁸

2.3 Price regulation

- **Admitted market** property insurance rates under Proposition 103 are required to be filed with and approved by the Insurance Commissioner and not be excessive, inadequate, or unfairly discriminatory.⁹ This standard is operationalized through detailed regulations incorporating investment income and an explicit permitted rate of return.¹⁰

⁶See Cal. Fair Plan Ass’n v. Garnett, 125 Cal. App. 4th 563, 571–72 (2004)

⁷<https://www.insurance.ca.gov/01-consumers/105-type/95-guides/03-res/res-ins-guide.cfm>

⁸<https://www.cfpnet.com/policies/dwelling/>

⁹CAL. INS. CODE §§ 1861.01–1861.16 (West 2025)

¹⁰See 10 CAL. CODE REGS. §§ 2644.15–.16 (2025).

- **Residual market** rates are likewise subject to prior-approval rate regulation requiring that premiums not be excessive, inadequate, or unfairly discriminatory. Unlike the admitted market, however, the governing framework emphasizes actuarial sufficiency and requires rates to be adequate to cover expected losses, expenses, and taxes, while accounting for investment income. The FAIR Plan operates as a market of last resort oriented toward solvency and loss-paying capacity rather than competitive pricing.¹¹

2.4 Assessments

- **Admitted market backstop:** Because California’s FAIR Plan is not a state agency, in operational terms, by statute the California insurance code converts admitted-market licensure into mandatory membership. P&C insurers authorized to transact the covered lines must participate in the FAIR Plan Association as a condition of doing business subject to the CDI Insurance Commissioner’s review and approval.¹² The assessment mechanism is the Plan’s “backstop capital.”¹³ When FAIR Plan losses, expenses, or liquidity needs exceed what can be funded through premiums, reinsurance, and other ordinary resources, the FAIR Plan may (with regulatory approval) call an assessment on its member insurers.
- **Allocation rules:** The allocation rule is a market-share style formula set for each member insurer who participates in the FAIR Plan’s in proportion to the premiums written during the second preceding calendar year relative to the aggregate premiums written by all participating insurers (net of certain specified exclusions).¹⁴ This structure is designed to (i) spread residual market losses broadly across the admitted sector and (ii) reduce incentives for any one carrier to “free ride” on the residual market while withdrawing from high-risk underwriting.
- **Pass-through to insured:** A key legal and economic feature of backstop assessments is when, and to what extent, admitted insurers may pass assessment costs through to policyholders. On the pass-through question, the California Department of Insurance (CDI) has issued detailed guidance stating that an admitted insurer that pays a FAIR Plan assessment may seek to impose a temporary supplemental fee on its own policyholders to recoup some of the assessment, subject to regulatory review.¹⁵

¹¹10 CAL. CODE REGS. § 2644.16 (2025)

¹²CAL. INS. CODE § 10091 (West 2025)

¹³CAL. INS. CODE § 10094(a) (West 2025)

¹⁴CAL. INS. CODE § 10094(c) (West 2025)

¹⁵See Cal. Dep’t of Ins., Bulletin 2025-4, at 2–5 (Feb. 2025). CDI’s Bulletin 2025-4 ties the permissible recoupment amounts and conditions directly to Order No. 2025-1 and specifies, among other items, that insurers must substantiate that the assessment was not already reimbursed (e.g., by reinsurance) and must present the temporary fee as a distinct, transparent charge.

- **Recent market performance:** On February 11, 2025, the Commissioner issued Order No. 2025-1, approving a \$1 billion FAIR Plan assessment and expressly grounding the assessment authority and insurer participation obligation in the FAIR Plan’s governing statutes. The order frames the assessment as a stabilization tool intended to maintain availability of last-resort coverage and prevent disorderly residual-market failure.¹⁶

3 The FAIR Plan’s “Institutional Drift”

Although created in response to urban unrest (Dwyer, 1978; Taylor et al., 2025) and insurance redlining (Nwokolo, 2023) in the 1960s, since the 2010s the California FAIR plan has been steadily repurposed into an institutional mechanism to warehouse catastrophe-correlated exposures that the voluntary market is increasingly unwilling (or unable under prevailing regulation and capital constraints) to insure (see Dixon et al., 2019; Hartwig and Wilkinson, 2016; Jones, 2025; Melo, 2020; Sproul, 2025). One key factor driving the FAIR Plan’s continued institutional drift appears to be related to misconceptions concerning the physical risks of wildfire. Early policy analyses such as Dwyer’s (Dwyer, 1978) framed FAIR Plan insurance as a last-resort market stabilizer that was designed to correct access failures without fundamentally displacing private underwriting incentives. This framework, however, presumed that California wildfire risk distributions were stationary normal distributions – a presumption that can no longer be supported by modern scientific evidence.

Crucially, wildfire risk is not only heavy-tailed but also *spatially correlated* (see Cooke et al., 2014; Issler et al., 2025; Jones, 2025; Kousky, 2022; Sproul, 2025). Large fires affect many properties simultaneously, and the likelihood and severity of damage depend on local environmental conditions that evolve jointly across space and time. Climate-change-related risks are therefore characterized by both fat tails and tail dependence, with extreme outcomes becoming more likely to occur together (see Cooke et al., 2014; Kousky, 2022). Recent evidence further suggests that climate change may be actively fattening the tails of extreme-event distributions, increasing the probability of catastrophic wildfire seasons (see Cardil et al., 2021; Goss et al., 2020; Koh et al., 2023). A second factor driving the FAIR Plan’s institutional drift is the regulatory and political economy of pricing P&C insurance in California via a highly unwieldy rate-approval system and continually politicized debates over permissible rating factors (including forward-looking catastrophe risk and reinsurance costs) (see Frazier, 2021; Jones, 2025). Together, these factors have affected the willingness of admitted market P&C insurers to supply coverage.

¹⁶See Cal. Dep’t of Ins., Order No. 2025-1 (Feb. 11, 2025).

3.1 Market share drift

Although historically the FAIR Plan held a relatively small market share of overall P&C insurance provision in California, recent wildfire events such as the Camp fire (2018) and the Eaton and Palisades fires (2025), have led to a dramatic expansion of its exposure and policy counts. These events have transformed the FAIR Plan from a marginal backstop to a key institution in the California’s residential P&C property insurance system. This recent transformation has raised important questions about its long-term role, capitalization, and interaction with private insurers.¹⁷

In response to this accelerating wildfire risk, the FAIR Plan has grown to have a material share of about 6.2% of the California residential P&C insurance market (admitted market plus FAIR plan).¹⁸ As shown in Figure 2, between September 2021 and September 2025, there has been a rapid 304% increase in California Fair Plan total policy exposure in billions (Figure 2a) and total premiums paid in billions (Figure 2b).

3.2 Drift in geographic concentration

As discussed in Appendix A.3, the California FAIR Plan regularly publishes annual data on the Plan’s “total exposure” and “premiums per policy” for residential dwelling policies in force by zip code. The zip code measure of total exposure is defined as the sum of all policy limits (insured values) of FAIR Plan policies written for properties in a given zip code. It represents the aggregate potential liability that the FAIR Plan would face if all covered losses were to occur up to the policy limits. The measure of premiums per policy is calculated as the total premium collected (written premium) divided by the number of policies in force. It represents the average premium per active policy over a given period.

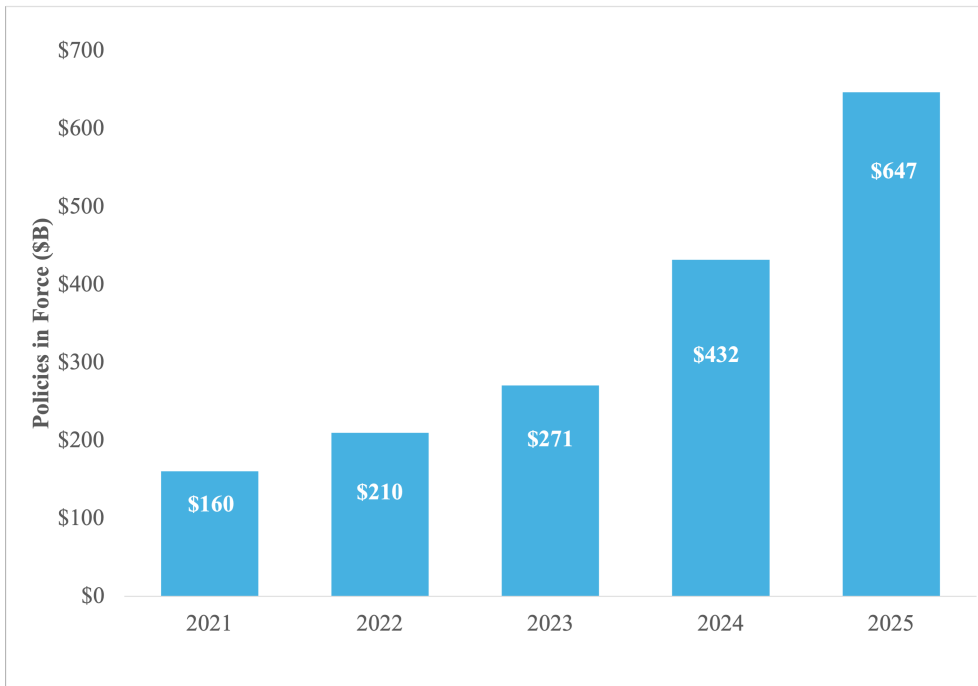
3.2.1 Geography of exposure, premiums and risk

Figure 3 presents two bivariate maps, Figure 3a maps the 2025 total exposure (measured in dollars) of FAIR Plan dwelling policies by wildfire risk,¹⁹ and Figure 3b maps the average policy premiums (measured in dollars) by wildfire risk. The horizontal axis of the legend moves from lower wildfire risk on the left to higher wildfire risk on the right and the vertical axis moves from lower exposure (or average premiums) on the bottom to higher exposure

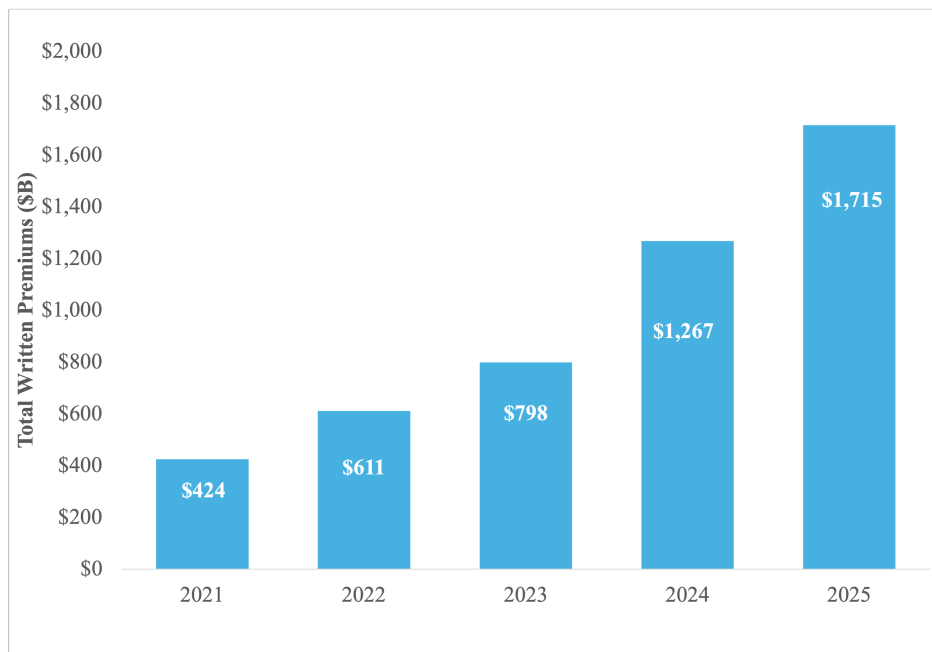
¹⁷<https://ains.assembly.ca.gov/system/files/2025-05/assembly-fair-plan-hearing-deck-5.28.25.pdf>

¹⁸Calculation from <https://www.insurance.ca.gov/01-consumers/180-climate-change/Sustainable-Insurance-Strategy.cfm>.

¹⁹Risk is measured using Spatial Temporal Convolutional Neural Net (ST-CNN) forecasts of wildfire incidence developed by Issler et al. (2025).



(a) Total Exposures



(b) Total Premiums

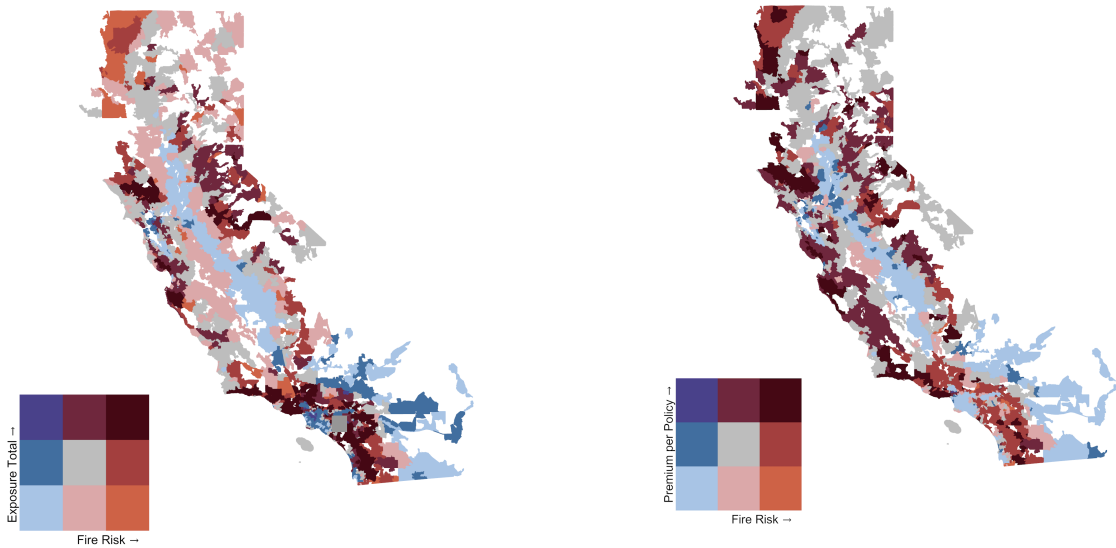
Figure 2: **Growth in California FAIR Plan total policy exposure and total premiums 2021 – 2025.** Panel (a) presents the total residential policy exposure of the California Fair plan. Panel (b) presents the total residential policy premiums of the California Fair Plan. Source: <https://www.cfpnet.com/key-statistics-data/>

(or average premiums) on the top. The legend colors combine both dimensions. Thus, dark red or maroon areas indicate the most financially consequential locations for the FAIR Plan where high wildfire risk is paired with high policy limits, or high average premiums, meaning that losses per event can be especially severe. The orange or red areas reflect elevated risk but more modest coverage amounts, or lower average premiums, indicating that exposure is driven more by hazard probability than by insured values. The blue or purple areas capture higher insured values in comparatively lower-risk areas. The light blue areas are the least exposed on both dimensions.

Figure 3a presents the 2025 total policy exposure by wildfire risk at the zip code level. As shown, the map indicates strong clustering of high-risk/high-exposure zip codes with the highest wildfire risk for zip codes in Solano county, zip codes in San Mateo, Santa Cruz, and Santa Clara counties and parts of Northern Monterey county, zip codes on the western slopes of the Sierra Nevada, and importantly in the zip codes located in Southern California coastal counties of Santa Barbara, Ventura, Los Angeles, as well zip codes located in some of Orange and San Diego counties. These areas combine elevated wildfire probability with expensive housing stock, producing disproportionate tail exposure for the FAIR Plan. By contrast, many coastal metro zip codes show lower wildfire risk and/or lower exposure intensity, while some interior areas display higher risk but more moderate insured values, consistent with lower property values despite elevated hazard.

Figure 3b again shows high-risk and high-premium clustering especially along the Sierra Nevada, parts of Northern California, and inland Southern California. These areas combine elevated modelled wildfire risk with high average FAIR Plan premiums, reflecting the Plan's growing concentration in the highest risk part of the states. The map also shows mismatch regions with moderate wildfire risk but relatively high premiums suggesting that pricing pressure driven by underwriting constraints, cross-subsidization limits, or lack of admitted-market alternatives rather than pure hazard. The shift between the two maps—where many locations that appear as high-risk, high-exposure in the exposure map have only moderate-premium categories in the premium map—indicate that premium prices do not scale proportionally with insured value and tail risk.

The overall patterns found in the two maps establish that exposure per policy rises sharply in high-risk regions, especially in wildland-urban interface areas of the Sierra Foothills, North Bay counties, and coastal and inland areas of Southern California, reflecting large homes, high replacement costs and concentrated development in fire prone areas. By contrast, premiums per policy increase more modestly across those same areas. The policy implication suggests there is a growing structural mismatch between capital at risk and allowed pricing by the FAIR Plan. As exposure accumulates faster than premiums, the Plan's potential losses



(a) California FAIR Plan total risk exposure by wildfire incidence risk (ST-CNN 2022 forecasts)

(b) California FAIR Plan premiums per policy by wildfire incidence risk (ST-CNN 2022 forecasts)

Figure 3: Spatial distribution of FAIR Plan total exposure in 2025 by zip code and projected wildfire risk by zip code

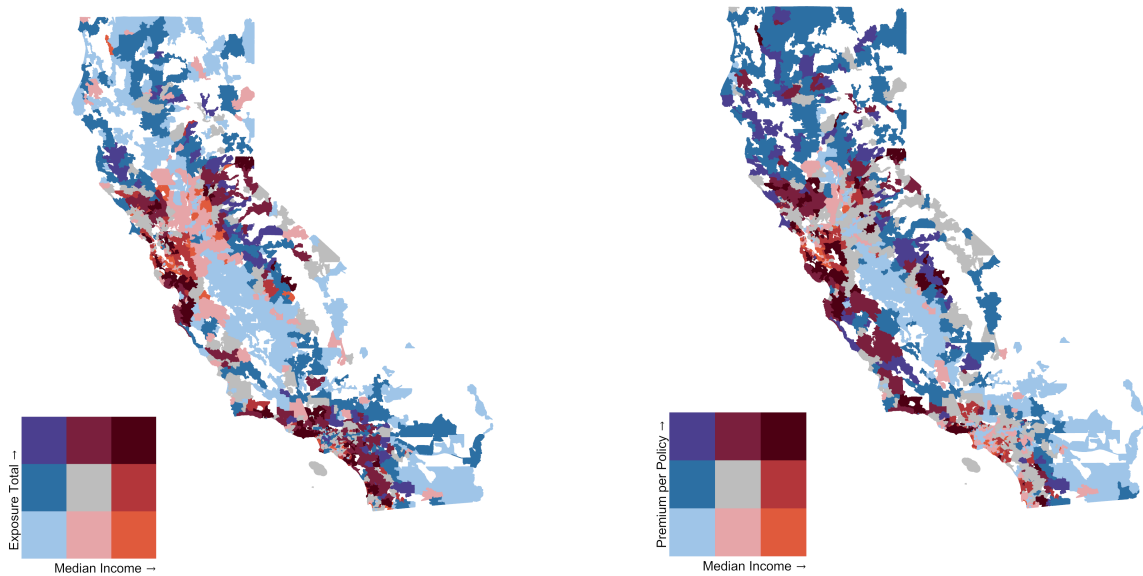
and future assessment risks to the admitted market will increase nonlinearly. Together, the maps suggest that incremental rate adjustments alone are unlikely to restore balance and that correcting these imbalances will require mitigation incentives and land-use policy changes in the highest-risk regions.

3.2.2 Geography of median income, exposure, and premiums

Figure 4 presents two bivariate map pairs: i) Figure 4a maps the relationship between the geographic concentration of the FAIR Plan’s 2025 total policy exposure and the most recently available measure of average five year median income (measured as the 2023 inflation adjusted dollars from the American Community Survey (ACS));²⁰ ii) Figure 4b maps the relationship between the geographic concentration of the FAIR Plan’s 2025 total policy premiums and the ACS average five year median income. The coloring and the scale of the legend is as discussed above, but the mapping is now between FAIR Plan total exposure and median income, and FAIR Plan premiums and median income. Again, the colors blue, grey, and dark red indicate high correspondence between the zip code level of FAIR Plan exposure, or premiums, and median income and the off diagonal colors indicate a lower level of correspondence. Read together, these maps demonstrate that the FAIR Plan’s expansion is not driven by wildfire

²⁰See Appendix A.4

risk alone, but also by its interaction with housing values and incomes.



(a) California FAIR Plan total policy exposure by zip code median income (b) California FAIR Plan premiums per policy by zip code median income

Figure 4: Spatial distribution of FAIR Plan exposure by zip code and median income by zip code median income (five year average 2015-2020)

Figure 4a presents the total policy exposure at the zip code level by average median household income by zip code. As shown, locations with the highest median incomes and highest FAIR Plan total exposures are concentrated in zip codes in Solano county, zip codes in San Mateo and Santa Clara counties, zip codes in Placer and El Dorado Counties on the western slopes of the Sierra Nevada, and in the Southern California zip codes located in Santa Barbara, and Ventura counties and parts of Los Angeles, Orange and San Diego counties. Figure 4b indicates that overall, there appears to be a high correspondence between high premiums and high income zip codes for the Northern California zip codes located in Solano, San Mateo, Santa Clara, Santa Cruz, Monterey and San Luis Obispo counties. However, surprisingly, there is less evidence of a strong positive correspondence between premiums and median incomes in zip codes located in Orange, Riverside and parts of San Diego Counties.

Overall, the maps provide a consistent geographic structure indicating that high-risk, high-exposure and high-premium clusters are concentrated in inland Southern California, the Sierra foothills, and parts of Northern California—areas where wildfire hazard intersects with relatively high replacement costs. Coastal metropolitan cores, by contrast, generally combine

high incomes with lower wildfire risk, producing high housing values but more moderate FAIR Plan exposure and premiums. At the same time, the premium map reveals pockets of acute affordability stress: some middle- and lower-income communities face very high premiums per policy even where aggregate exposure is modest, reflecting extreme localized wildfire risk rather than concentration of insured value.

The two maps suggest an important distinction between systemic financial risk and household-level affordability pressure. Aggregate exposure risk is disproportionately tied to higher-income, high-asset communities in fire-prone areas. Premium stress, however, falls more heavily on middle-income households embedded in high-risk geographies, driving political and consumer pressure on the FAIR Plan. Effective reform therefore requires differentiated tools: land-use controls, building standards, and mitigation finance to limit exposure concentration, alongside targeted mitigation credits or affordability mechanisms to address premium burdens, while preserving the FAIR Plan’s residual-market role and avoiding continued drift.

3.2.3 Exposure growth rates and CDI market nonrenewals

Figure 5 presents a bivariate map showing the relationship between the geographic concentration of the FAIR Plan’s total policy exposure growth in 2024 and the nonrenewal rate for admitted market policies per 100 policies.²¹ Again, the scale and coloring of the legend is as discussed above, but the mapping is now between the growth rate of the FAIR Plan total exposure and average policy nonrenewal rate per 100 in 2023. Again, the colors blue, grey, and dark red indicate high correspondence between the zip code growth rate of FAIR Plan exposure and the nonrenewal rate in 2023 and the off diagonal colors indicate a lower level of correspondence.

As shown, there are only a limited number of zip codes with a dark red scale indicator for high correspondence between FAIR Plan policy growth exposure in 2024 and zip code nonrenewal rates in 2023. These high correspondence areas are located in parts of Alameda and Contra Costa counties along the slopes of the Bay Area coastal range, and zip codes in parts of Tulare, Kern, and San Bernardino counties. However, the dominant locational correspondence level is less (shown at the off-diagonal soft red scale) indicating that high nonrenewal rates led to very low total exposure growth and the medium red scale that indicates positive but more modest correspondence between exposure growth and nonrenewals in zip codes in Southern California, the western slopes of the northern Sierra Nevada, and in Northern California (where as seen in Figure 4 median incomes are the lowest in the state).

²¹See Appendix A.3.

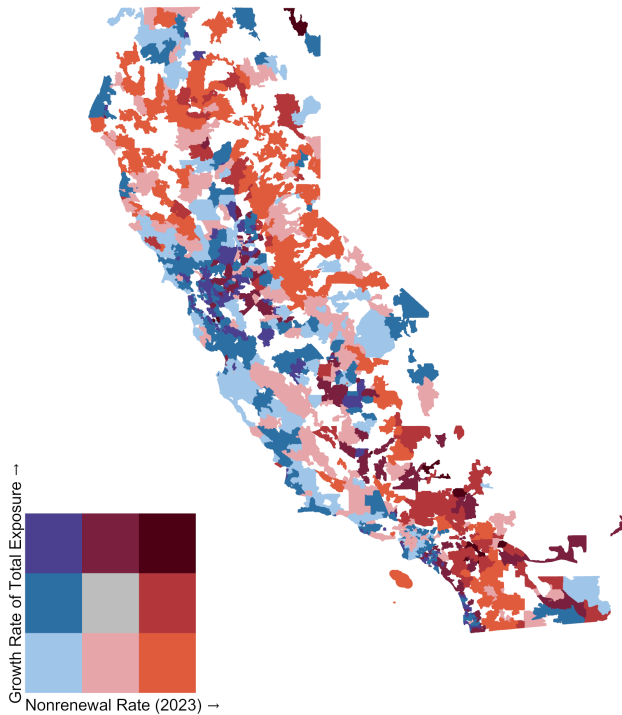


Figure 5: **Spatial distribution of FAIR Plan exposure growth for 2024 by zip code and CDI reported nonrenewal rates per 100 policies for 2023 by zip code**

From a policy perspective, the most salient pattern is the emergence of high–high clusters (high nonrenewals alongside rising exposure) in parts of Southern California and select inland growth corridors. These areas signal increasing risk concentration despite insurer pullback potentially reflecting population growth, rebuilding after losses, or mortgage-driven insurance demand that is being displaced toward residual mechanisms rather than eliminated. Conversely, low–low clusters reflect stable insurance availability but also slow growth, implying limited pressure on risk-bearing capacity. Taken together, the map underscores that insurer nonrenewals are not merely reducing coverage but reallocating risk geographically, amplifying the role of residual markets and raising concerns about correlated exposure growth, pricing adequacy, and capitalization in precisely the regions where private underwriting appetite is weakest.

3.2.4 Empirical evidence from recent academic research

Recent academic research also provides evidence supportive of the bivariate mapping conclusions discussed above. Baysinger et al. (2025) show that as the voluntary market sup-

ply contracted, FAIR Plan enrollment surged, particularly in wildland urban interface areas (Baysinger et al., 2025). Using quasi-experimental variation from California’s wildfire nonrenewal moratoria, Taylor et al. (2025) find that forced renewals temporarily reduced insurer-initiated cancellations but did not meaningfully slow growth in FAIR Plan participation. Once the moratoria expired, insurers rapidly resumed policy shedding, suggesting that regulatory compulsion delayed rather than prevented market retreat. Boomhower et al. (2025) document substantial heterogeneity in insurers’ wildfire risk classification technologies, showing that firms with coarser models either charge very high premiums or exit high-risk segments altogether. The interaction between imperfect risk modelling and regulatory price constraints exacerbates adverse selection, pushing marginal and high-risk households into the residual market. Finally, Dong et al. (2025) find that although California’s homeowners insurance has historically been relatively affordable and widely held, accelerating climate risk, insurer retrenchment, and regulatory changes are driving rapid premium increases and growing coverage gaps that disproportionately burden low-income, rural, and mobile-home households, creating an urgent policy challenge.

3.3 Legislative drift

Legislative and regulatory actions have also exacerbated the continued institutional drift of the California FAIR Plan and the residual market. With the 1996 passage of Assembly Bill 1754²² the California FAIR Plan was mandated to set premiums that were actuarially sound (i.e., not excessive, inadequate, or unfairly discriminatory) and were sufficient to cover expected losses, expenses, and taxes.²³ The bill responded to criticism that FAIR Plan rates had been set too low, produced significant deficits that were covered by large assessments on admitted insurers, reduced reliance on ex post insurer assessments, and constrained the use of subsidized pricing to promote FAIR Plan growth.

More recent initiatives include: i) Assembly Bill 3012 (2020)²⁴ that implemented a “clearinghouse” to allow admitted insurers to be matched with FAIR Plan policyholders and introduced new wildfire claim handling protections; ii) Senate Bill 505 (2023)²⁵ that extended the “clearinghouse” concept to commercial property; and iii) the *California Sustainable Insurance Strategy* (2024)²⁶ that was intended to slow FAIR Plan growth by requiring admitted market insurers to write more policies in high risk areas in an effort to “depopulate”

²²Assemb. B. 1754, 1995–1996 Reg. Sess. (Cal. 1996)

²³Now codified in California Insurance Code § 10100.2.

²⁴Assemb. B. 3012, 2019–2020 Leg., Reg. Sess. (Cal. 2020) (enacted as 2020 Cal. Stat. ch. 258)

²⁵S. 505, 2023–2024 Leg., Reg. Sess. (Cal. 2023) (enacted as 2023 Cal. Stat. ch. 180)

²⁶See <https://www.insurance.ca.gov/01-consumers/180-climate-change/Sustainable-Insurance-Strategy.cfm>

the FAIR Plan. The *California Sustainable Insurance Strategy* is of particular importance because it allowed forward-looking wildfire catastrophe modelling (probabilistic models) into the admitted market rate-making review. At the same time, other policies, such as Senate Bill 11 (2021)²⁷ expanded FAIR Plan Farm coverage and CDI stipulations,²⁸ further expanded Fair Plan residential coverage coverage limits to \$3 million per policy, and allowed inflation adjustment mechanisms on the caps so that future limits could be regularly updated.

3.4 Drift conclusions

Taken as a whole, the California FAIR Plan is under profound strain from climate risk, market withdrawal, and policy expansion. The FAIR Plan remains legally and conceptually anchored as an insurer of last resort, yet operational realities increasingly position it as a primary insurer for large segments of California’s high-risk residential dwelling stock. Additionally, these risks are highly concentrated geographically in high value residential property markets with relatively high income residents. Legislative efforts to balance expansion with depopulation, actuarial discipline with affordability, and solvency with market stability underscore the central policy tension: whether the FAIR Plan can continue to function as a temporary safety net or is evolving into a quasi-public insurer bearing systemic climate risk on behalf of the state

4 Ongoing policy risks

Current trends in policy counts and total policy exposure increasingly suggest that the FAIR Plan has become the de facto primary market for many households. This functional shift matters because the logic of FAIR Plan’s design (thin capital buffers, limited coverage forms, and ex post assessments on member insurers) is fundamentally different from a fully capitalized statewide insurer. Hemmati et al. (2025) highlight the structural under capitalization of state-backed insurers of last resort and warn that residual markets increasingly function as “shadow social insurance” without explicit fiscal accountability. Jones (2025); Paskerian (2025); Schwarcz (2025) advocate for a policy re-conceptualization of California P&C insurance as a tool of climate governance, and advocate for risk pooling, subsidies, and federal backstopping to preserve affordability and housing finance even in objectively high-risk areas. Overall, some of the key risk management concerns now confronting the California FAIR

²⁷CAL. INS. CODE §§ 10091(c), 10094, 10094.5 (West 2025) (as amended/added by Stats. 2021, ch. 128 (S.B. 11))

²⁸<https://www.insurance.ca.gov/0250-insurers/0500-legal-info/0700-commissioners-orders/upload/FAIR-Plan-Order-2021-2.pdf>

Plan include: actuarial and fiscal risks; operational and governance risks; political economy risks; and future policy design risks.

4.1 Actuarial and financial risks

Tail risk, correlation, and “capital mismatch” Wildfire losses are increasingly characterized by fat-tailed severity and spatial correlation (many homes burning in the same event), which makes simple pooling less effective and pushes systems toward reinsurance and capital-market risk transfer. The FAIR Plan’s recent growth in scale, with 645,987 residential insurance policies in force, has intensified this problem. Although the CDI has no published data on the FAIR Plan’s reserves as of September 2025, independent reporting indicates that pre-2025 the FAIR Plan’s reserves were about \$377 million and that these funds have now been depleted by the payouts for the 2025 Altadena and Pacific Palisades wildfire claims.²⁹ Currently, the FAIR Plan’s cash reserves have been largely depleted leading to the recent CDI approved \$1 billion assessment on member insurers to cover the shortfall.³⁰

Adverse selection into the residual market As the California FAIR Plan continues to grow, the state has effectively amplified its adverse selection exposure to properties with the highest wildfire hazards and potentially to more pricing constrained households. Paskerian (2025) argues that the FAIR Plan is currently being used “in ways that were never intended,” thus forcing the plan to become the only available insurance mechanism for many California households as voluntary insurers pull back. An additional concern is that the ever-increasing concentration of adverse selection risk will necessarily amplify expected loss exposure and volatility per policy, thus raising the likelihood that the California FAIR Plan premiums will become inadequate relative to risk (especially when rate signals and risk classifications are politically constrained).

Pricing constraints and gaps in risk modelling Since Proposition 103 barred probabilistic modelling in rate-setting, wildfire risk has evolved far faster than the backward-looking metrics and slow approval processes permitted by the CDI. Singh (2022) argues that California’s restrictions on using climate forecasting in ratemaking are “dangerous,” and has produced a system “incapable of weathering anticipated wildfire disasters,” and recommends allowing catastrophe modelling and climate-aware methods under regulatory oversight. Reiterating this concern, Frazier (2021) also points out that CDI’s historical reliance on historical catastrophic losses (e.g., long lookbacks) and was not designed for rapid,

²⁹See <https://www.taxpayer.net/wp-content/uploads/2025/11/tcs-CA-insurance-2025.pdf>

³⁰See <https://cepp.substack.com/p/the-shrinking-of-the-private-insurance>

climate-driven regime change—creating systematic underpricing pressure in the highest-risk tail. As a result, because prices could not adjust to risk, the admitted market insurers retreated and the residual market share grew into ever more correlated tail risk.

On September 21, 2023, CDI undertook a key regulatory change concerning its policies for catastrophe modelling and ratemaking published as part of its *Sustainable Insurance Strategy*.³¹ The purpose of the change was: i) to make rates more “actuarially responsive” to wildfire risk and reinsurance costs; ii) to require measurable improvements in availability (e.g., commitments/targets to write more in under-served areas and reduce FAIR Plan growth); and iii) to improve transparency around rate filings and market outcomes. New expanded Title 10 rate regulations now allow wildfire catastrophe models (probabilistic models) to support the catastrophe component of P&C property rates, subject to new guardrails and commitments.³²

As a result of these changes, vendors of wildfire risk are now being vetted by the CDI who hosted a series of summer 2025 information sessions featuring firm presentations by The Karen Clark & Company US Wildfire Reference Model Version 3.0; the Cotality (formerly CoreLogic) U.S. Wildfire Model v.22.1; The Moody’s North America Wildfire Model Version 2.0; and The Verisk U.S. Wildfire Model.³³ Unfortunately, the posted webinars are light on technical details, so there is little or no transparency concerning the underlying statistical and forecasting properties of the proposed methodologies.

Growing cost of reinsurance coverage As of early 2025, the California FAIR Plan’s catastrophe reinsurance program had grown to several billion dollars in size. For the 2024–25 coverage year, the Plan covered the first \$900 million in wildfire losses itself and purchased additional protection that extended total coverage to nearly \$5.8 billion. This represented a major expansion from the prior year, with both the overall coverage limit and the amount transferred to private reinsurers increasing substantially. Reflecting this growth, the FAIR Plan’s spending on reinsurance rose sharply from about \$299 million in 2023 to \$425 million in 2024 (about a 42% growth rate) reflecting both the rising scale of wildfire risk and the increasing cost of securing financial protection against extreme losses.³⁴

³¹See <https://www.insurance.ca.gov/01-consumers/180-climate-change/Sustainable-Insurance-Strategy-Updates.cfm>

³²Cal. Code Regs. tit. 10, § 2648.5 (2025)

³³See <https://www.insurance.ca.gov/01-consumers/180-climate-change/DetermineProcedure.cfm>

³⁴See <https://www.cfpnet.com/wp-content/uploads/2025/09/2024-California-FAIR-Plan-Association-Statutory-Financial-Statements.pdf>

Reinsurance cost passthrough and second-order affordability stress Even when reforms allow reinsurance to be reflected in rates, a second-order risk emerges: affordability stress can rise quickly, increasing lapse risk, mortgage distress, and political pressure to constrain premiums again. Schwarcz (2025) emphasizes that rising insurance costs can trigger loan default or forced sale dynamics, and highlights how residual-market mechanisms can embed implicit subsidies that do not fully price catastrophe risk. In other words, under the current reinsurance and assessment structures the FAIR Plan’s financial viability can destabilize as the system oscillates between i) actuarial inadequacy that enlarges the residual market and ii) premium corrections that raise affordability concerns.

FAIR Plan assessments as a statewide taxes A defining actuarial and political feature of the FAIR plan institutional structure is its ex post funding channel through assessments. If the FAIR Plan cannot pay claims, member insurers can be assessed and those costs can be transmitted back to consumers. Paskerian (2025) asserts that if the FAIR Plan were to go bankrupt, “regular insurers would be responsible” for bailing it out, and these “enormous costs would then almost certainly be passed onto consumers.” As a result, the residual market could become a conduit by which concentrated wildfire losses can become a statewide surcharge or tax.

4.2 Operational and governance risks

Claims handling, transparency, and service capacity under surges Operational capacity becomes binding when a backstop becomes a primary insurer. The FAIR Plan has faced criticism for customer experience and claims outcomes and has been accused of “high costs, low payouts, and inadequate coverage,” and complaints about low settlement offers and lack of transparency in the claims process (see Jones, 2025). This reflects the classic problem in which systems that were designed for limited, last-resort volume face surge events such as the 2025 Southern California wildfires, while also managing a much larger everyday book. Recent survey evidence carried out by Department of Angels (conducted by Embold Research) reported that among wildfire survivors of the January 2025 Southern California wildfires, customers of State Farm and the California FAIR Plan reported much higher dissatisfaction than customers of other insurers³⁵ A specific source of complaint is the California FAIR plan’s handling of smoke-damage coverage that has now been challenged by

³⁵https://static1.squarespace.com/static/6792c245599ed84703227b1e/t/6959797a4c0de667333503fc/1767471494384/Department%2Bof%2BAngels%2BLA%2BFire%2BRecovery%2BReport_January%2B2026.pdf

the courts³⁶ and by Governor Newsom.³⁷

Coverage limitations and “thin” product design Historically, FAIR plans tend to provide minimum or basic coverage compared to voluntary-market package policies. In an early study, Dwyer (1978) notes that FAIR plans “generally provide only the minimum coverage,” eliminating the benefits of cost-efficient package policies, and that FAIR plan insureds often do not receive the same customer services (e.g., payment plans, agent availability). This design may be appropriate for a last-resort bridge, but it becomes a governance risk when hundreds of thousands of households rely on the product as their default homeowner policy—creating political pressure to expand coverage without necessarily expanding capital or operational infrastructure proportionately. These pressures are already being felt with respect to continued improvement in the FAIR Plan’s offerings such as the recent increases in the FAIR plan caps to \$3 million.³⁸

Governance complexity and blurred accountability When the FAIR Plan grows, it is no longer just a market backstop; it is a quasi-public institution making distributional choices concerning who gets coverage, on what terms, and who pays when losses exceed resources. Paskerian (2025) suggests that this could lead to challenges to the FAIR Plan’s financial stability and operational inefficiencies and Dong et al. (2025) suggest that access and fairness will continue to grow as crucial policy problems for insurance provision in California. These competing forces led to operational risks that are not only administrative but institutional due to the unresolved tensions among ambiguous FAIR Plan objectives of availability vs. solvency vs. affordability. These ambiguities can produce inconsistent directives and unstable expectations.

4.3 Political-economy risks and feedback loops

Risk-based pricing vs the politics of affordability Short-run consumer protection and political resistance to higher rates can undermine long-run market functioning of the California P&C insurance market and the FAIR Plan. Singh (2022) argues that California has pursued “short-term solutions at the cost of a sustainable insurance infrastructure,” and warns that without corrective action the market is inherently fragile. He proposed that the current admitted and residual market design in California has created a self-reinforcing

³⁶<https://apnews.com/article/california-wildfires-smoke-damage-fair-plan-insurance-f9d6d781b3d897884dc23432b38100fa>

³⁷<https://www.sfchronicle.com/california-wildfires/article/newsom-insurance-fair-plan-21033489.php>

³⁸S.B. 11, 2021–2022 Reg. Sess. (Cal. 2021), 2021 Cal. Stat. ch. 626

loop with i) constrained pricing; ii) voluntary insurer retrenchment; iii) FAIR Plan growth and higher tail risk exposure; iv) assessment and affordability shocks after disasters; and v) renewed political pressure to re-constrain pricing (see Singh, 2022).

Regulation-induced perverse incentives (mitigation discounts and market exit) Sproul (2025) concludes that the California Department of Insurance “Safer From Wildfires” regulation which proposes a system of insurance company discounts in exchange for household mitigation and home hardening investments are likely to lead to “perverse incentives” for insurers not to risk-price and instead to “pull out completely” from high-risk areas (or the state). The implication for the FAIR Plan is direct: well-intended mitigation policy can unintentionally accelerate residual-market growth, worsening the Plan’s adverse selection and capital stress. Additionally, there is limited information on the magnitude of the mitigation discounts and the part of the premium they apply to.³⁹

Land-use externalities A key political-economy risk is that the FAIR Plan can become an implicit subsidy for continued development in high-hazard zones, because some of the social cost of building in wildfire-exposed areas is shifted onto a broader premium and assessment base. Jones (2025) proposes a requirement that developers of new high-risk subdivisions must post a bond with the FAIR Plan that is sized and priced to expected losses (net of mitigation). Such a mechanism would force developers to internalize costs they would otherwise externalize to the residual market and ultimately to all policyholders. This interpretation of the FAIR plan views the plan as not merely as an insurance institution, but as a fiscal backstop whose existence shapes land-use incentives.

Distributional conflict and “implicit subsidy” politics Residual market subsidies tend to be politically popular when concentrated beneficiaries are vocal and losses are deferred, but fragile when large post-event assessments become salient. Schwarcz (2025) argues that residual market mechanisms “almost always charge implicitly subsidized premiums” that do not fully account for catastrophe risk and proposes an additional distributional concern that many residual-market policyholders may be relatively wealthy homeowners in high-risk locations. Thus, the political risk for the FAIR Plan could become a legitimacy problem, if the Plan is perceived as socializing wildfire losses for high-value properties while spreading costs statewide.⁴⁰

³⁹Recent reporting found that CSAA (a AAA affiliate) offered premium discounts of up to 12.5%, approximately \$250/year discount for a \$20,000 premium for mitigation that met the Insurance Institute for Business and Home (IBHS) standards. (See San Francisco Chronicle, Another Major Insurer Seeks to Raise Rates, Megan Fan Munce, Aug 28, 2025.)

⁴⁰Some of the evidence for these trends is evident in the discussion in Section 3.2

Climate attribution and cost recovery politics Jones (2025) connects FAIR Plan assessments and broader insurance costs to climate accountability arguments—suggesting that as climate-driven disasters expand, political conflict may shift toward whether fossil-fuel entities, utilities, developers, or the general premium base should bear the costs. Melo (2020) suggests a further political interpretation to this argument by highlighting how wildfire causation controversies (e.g., utility equipment and regulatory failures) intensify blame allocation and pressure for policy change. These attribution disputes matter for the FAIR Plan because they affect the feasibility of subrogation, levies, or bonding regimes that could stabilize residual-market finance.

4.4 Policy recommendations

The California Department of Insurance should reorient to make the FAIR Plan’s role explicit and align it with actuarial reality, operational capacity, and incentive-compatible land-use and mitigation policies. The policy design initiative for such as reorientation initiative should include:

- Match risk with capital and pricing tools. If the FAIR Plan is functionally insuring hundreds of billions in exposure, the CDI must either (a) recapitalize and price accordingly or (b) restore voluntary market capacity through credible, science aligned rate-making tools (cat models, climate aware forecasting projections) with transparent oversight.
- Treat assessments as systemic risk. Because post-event assessments can spread losses statewide, they function like a contingent statewide levy. These ex post assessments should instead be reflected in explicit rules (triggers, limits, disclosure) and in complementary policies that reduce the probability that the FAIR Plan becomes the marginal insurer.
- Close the externality loop for new risk creation. Development in high-hazard areas can externalize expected losses to the residual market. Bonding or similar ex ante cost internalization, as suggested by Jones (2025), is one possible strategy. More directly, perhaps would be to focus on developing needed second lien mortgage markets to fund home hardening (e.g. mitigation retrofitting with Class A fireproof roofs, double pane glass, fireproof cladding etc.) or outright mitigation subsidies to some designated financially at-risk communities as a means to reduce the probability that structures burn to the ground. These needed capital market innovations have the potential to curtail long-run FAIR Plan growth and reduce property-level moral hazard.

5 Conclusions

The California FAIR Plan, with origins in the urban unrest and insurance availability crises of the 1960's, has evolved into a permanent provider of wildfire catastrophe insurance despite an increasingly constrained regulatory and capital market environment in California. The FAIR Plan continues to run under its original design as a nonprofit, involuntary association of all insurers licensed to write property insurance in the state. This institutional structure, under state oversight, has ensured political feasibility without explicit taxpayer backing. However, embedded governance and incentive frictions have intensified under the large and correlated climate risks that drive the incidence and destructive force of California wildfires. Over the past decade, the FAIR Plan has shifted from a peripheral safety net to a macro-financial institution for housing climate risk management. Since the FAIR Plan was never designed to be California's primary wildfire insurer, the governance and operating policy challenge — that must now be met — is how to restore a sustainable division between the voluntary and residual market functions. The greatest risk is not a single catastrophic year of wildfire losses, but institutional drift that has continued to transform the FAIR Plan into greater market dominance. Addressing this risk will may require fundamental changes to pricing authority, capitalization, operations, and land-use accountability for both the voluntary and residual markets in California.

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Appendices

A Data Sources

A.1 DINS data

CAL FIRE Damage Inspection Program (DINS) database of structures damaged and destroyed by wildland fire in California since 2013 as documented by CAL FIRE and partnering agencies.⁴¹ Structures damaged by fire prior to 2013 do not have a digital record. Fires in LRA or FRA responsibility areas may or may not be included. Beginning in 2018 the DINS Program collected all non-damaged structures, prior to 2018 only damaged/destroyed structures were collected. Data included: 2013-present.

A.2 Property and Casualty Market Intelligence Data PCMI Data

Property and Casualty Market Intelligence Data Call (PCMI Data) was published through a collaborative effort by the National Association of Insurance Commissioners (NAICs), state insurance regulators⁴² The PCMI Data includes 80 percent of HO-3 and HO-5 policies nationwide, as measured by direct premiums written, with market share by the same measure above 50 percent in 49 states, including almost complete coverage in a handful of states.

The PCMI does not include information on owner-occupied homeowners insurance policies that are provided by residual markets such as the California Fair Plan in California. In addition, the PCMI Data does not include data from 2023 and 2024. Overall, the PCMI Data is the broadest and most granular data that covers homeowners insurance coverage in the U.S. and it covers 1552 of the total 1800 zip codes in California. Because the PCMI Data assembly required review and validation by the NAIC and state insurance regulators, the data were reported retrospectively for the five-year period from 2018 through 2022. The PCMI Data are reported at the ZIP Code level, by year. To protect the privacy of insurers and homeowners, only ZIP Codes with information from at least 10 reporting insurers and at least 50 insurance policies are included. These limits reduce the total number of ZIP Codes by 22 percent from the PCMI Data underlying the Report.

⁴¹<https://gis.data.cnra.ca.gov/datasets/CALFIRE-Forestry::cal-fire-damage-inspection-dins-data/explore>

⁴²https://home.treasury.gov/system/files/311/Supporting_Underlying_Metrics_and_Disclaimer_for_Analyses_of_US_Homeowners_Insurance_Markets_2018-2022.xlsx

A.3 California Fair Plan Data CDI

The California Fair Plan data sources are:

1. Residential exposure by zip code: <https://www.cfpnet.com/wp-content/uploads/2025/11/CFP-5-yr-TIV-Zip-FY25-DWE-251114.pdf>
2. Policies in force by zip code: <https://www.cfpnet.com/wp-content/uploads/2025/12/Policies-by-category-DWE-as-of-250930-DL-251211v002.pdf>
3. Premiums by category: <https://www.cfpnet.com/wp-content/uploads/2025/11/Premium-by-category-DWE-as-of-250930-DL-251114.pdf>
4. Exposure by category: <https://www.cfpnet.com/wp-content/uploads/2025/12/Exposure-by-category-DWE-as-of-250930-DL-251211v003.pdf>

A.4 American Community Survey Data

The American Community Survey (ACS) 2023 reports California median household income in last twelve months in 2023 inflation adjusted dollars by zip code.⁴³ As shown, the highest median household income areas are zip codes in the Bay Area (San Francisco, Marin, Alameda, San Mateo, Santa Clara, Santa Cruz, and Monterrey counties), Sacramento county, Placer and El Dorado counties (Lake Tahoe), Kern county, and coastal parts of the Southern California counties of Barbara, Ventura, Los Angeles, Orange, and San Diego counties.

A.5 ST-CNN wildfire probability estimates

Issler et al. (2025) develop Spatio-temporal Convolutional Neural Network (ST-CNN) estimates for 2020 through 2022 estimates of out-of-sample predictions for annual wildfire occurrence probabilities, aggregated by zip code from their average grid-cell forecasts shown here in

⁴³[https://data.census.gov/table/ACSST5Y2023.S1903?q=median+income&g=040XX00US06\\$8600000](https://data.census.gov/table/ACSST5Y2023.S1903?q=median+income&g=040XX00US06$8600000)

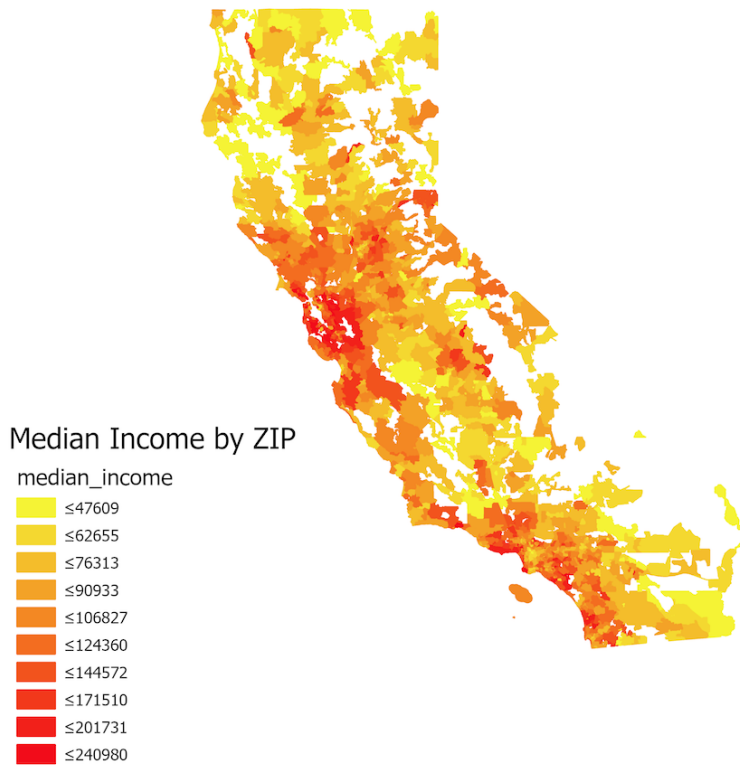


Figure 6: California ACS median income in the past 12 months (in 2023 inflation adjusted dollars) by zip code

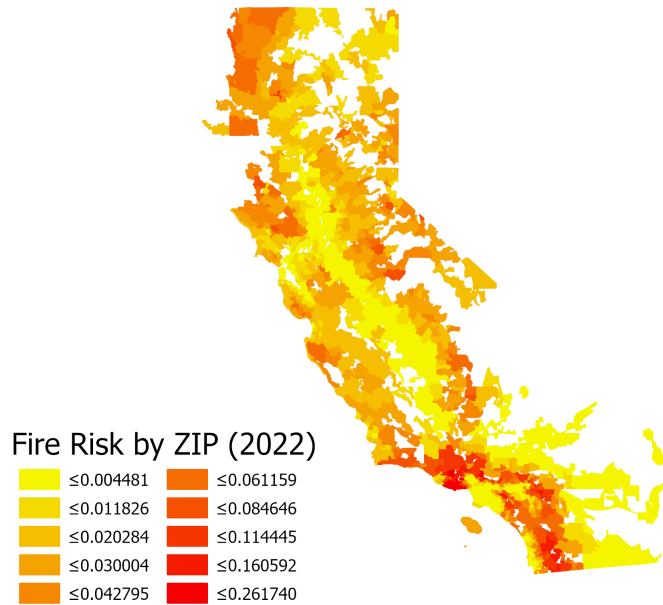


Figure 7: ST-CNN one-year-ahead (2022) out-of-sample wildfire prediction aggregated to zip code level.