

LA Fires and Lessons for New Zealand, 29 August 2025

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NZSA representatives were invited to this event, sponsored by ICNZ and Tonkin + Taylor, which examined the devastating wildfires in Los Angeles in January 2025 and the implications for New Zealand from the interplay between climate change, regulatory environments and community resilience.

The key speaker was Dr Laurie Johnson, the San Francisco based principal and founder of Laurie Johnson Consulting and award-winning urban planner specialising in disaster recovery and catastrophe risk management. Laurie is an internationally recognised expert in disaster recovery and disaster risk management and has advised communities, insurers and governments, including New Zealand, on how to best prepare for and recover from natural hazards. Her work is captured in her widely cited book titled *After Great Disasters*, an in-depth analysis of how six countries managed community recovery, which includes lessons drawn from her years of recovery research and advisory roles in New Zealand following the Canterbury earthquakes.

The wildfires that tore through parts of LA in January this year burned tens of thousands of hectares of land, including the densely populated areas of Altadena and Pacific Palisades. 18,000 structures, including homes and businesses, were damaged with many completely destroyed. It's estimated that as few as 25% of the losses suffered are likely to be insured, highlighting increasing pressure on the industry from climate-driven perils.

Laurie started off the presentation by reminding the audience that the same story could apply to a range of natural hazard perils, for example, flood, which is covered under most New Zealand insurance policies. Reactions to events and their impacts on the California insurance market were a key theme of her presentation and are a lesson on what can go wrong with insurance markets.

20th century regulation and consumer demands impeded insurers' ability to fairly charge

In California, citizens can put propositions on the ballot and vote on them as voters, changing the state's constitution and legislation outside of the formal legislature or governor. In 1988, a consumer advocate put *Proposition 103 – Insurance Rate Reduction and Reform* on the ballot. This was largely driven by the high rates of increase in automobile insurance, but it swept in property insurance and life insurance as well. It was a broad reform, and it was barely passed by the voters of the day, but the implications 50 years on have been immense.

California has a very highly regulated market, with a state agency watchdog, the Department of Insurance. The proposition:

- changed the head of the Department of Insurance, the Insurance Commissioner, to be an elected position, no longer an appointment by the governor. This made it a more political position which had implications

- rolled back rates across different sectors of insurance by 20%
- required the Department of Insurance to review and approve rates, and it restricted (driven by automobile insurance) insurers to basing rate applications on historic losses, not future predictions. In the catastrophe insurance industry, that meant no catastrophe risk models could be used for pricing because these are probabilistic models that are looking at a suite of possible events.
- did not allow the reinsurance costs to be included in rates, which became an increasing problem for insurers over time
- required proposed rate increases over 7% to also be reviewed by a consumer advocacy group, at the insurer's cost.

The results were that there were substantial consumer savings over time. In reality, these restrictions were artificially suppressing rates relative to the increasing risk due to droughts, climate change, and a number of other issues, and underfunding insurers.¹

Experience started to outpace insurance premiums and premium increases, with devastating effects on insurance markets and availability

Starting in late 2015 to 2020, there was a very long period of drought in California, drying out local vegetation. The state started to experience a series very catastrophic wildfires in urban areas. During that time there were also a number of hurricanes and reinsurance rates increased significantly.

Insurers started to cancel policies after people had experienced a wildfire. Homeowners had been rebuilding on the assumption that they will be able to reinstate their insurance, but then as they got back into their homes, they found they couldn't get insurance. Policy non-renewal started around 2021 in the high fire risk areas. In 2022 one of the major insurers said they would write no new policies in California. This started a cascade of other insurers also closing their books to new business or retreating from high-risk areas. They were retreating from wildfire severity zones, as mapped by the state fire agency, as well as retreating from urban areas like San Francisco where there is dense wood-frame construction.

Laurie noted that the urban retreat was a surprising flow-on effect for many like herself who were in disaster and resilience, as many of urban areas in California have done a lot of work on improving the resilience of building stock for earthquakes, which is one of the major causes of fire risks for a homeowner.

¹ *In the aftermath of the devastating January 2025 Los Angeles wildfires, Steven Greenhut of the R Street Institute harshly criticized Proposition 103 for pushing the state's property insurance system to the brink of collapse by imposing a "byzantine" system of price controls which had already caused most insurers to flee the state because it was impossible for them to earn a profit. In arguing for the imposition of conditions on the release of federal aid to California wildfire victims, U.S. Senator Ron Johnson (R-WI) criticised the moral hazard inherent in California's "laws where they made it very unattractive for private insurers to come in and actually insure their properties and assess the risk properly" and thereby "encouraged people to build multimillion ... homes and complexes in very vulnerable areas". Reuters reported that California's price controls were so effective that before the fire, insurance costs in Pacific Palisades, California (which was mostly wiped out) were cheaper than in 97% of all ZIP Codes in the United States.*
 Source: Wikipedia entry, 15 September 2025

Structural changes in the insurance market resulted and comprehensive coverages reduced

There are many states in the United States that run what is called a **FAIR² Plan**, effectively a separate pool for high-risk properties (these also apply to other lines of business, such as motor). The FAIR Plan is the insurer of last resort, and is basically paid for by the insurers, but it allows more restrictions and limits on the policies than on insurer-offered coverages. The California FAIR Plan has a basic fire insurance cover. Homeowners in the FAIR Plan for fire then need to obtain a separate policy to cover other perils which might affect their property.

Additionally, there is a burgeoning surplus lines market (or “non-admitted market”) in California, where underwriters write bespoke insurance policies, and are not subject to the same rules as primary insurers. Over time the FAIR Plan and the surplus lines market have grown as the traditional homeowner insurance market has retreated.

The third outcome of this has been consumers either choosing to be uninsured or underinsured, perhaps by increasing their excess or not fully covering their property. This means California has a growing underinsurance issue.

A number of mitigations have now been put in place, which could inform actions in New Zealand

In 2023 the California Insurance Commissioner established a sustainable insurance strategy. This allows insurers to more accurately price their cover (including the use of catastrophe models and allowing for the reinsurance expenses), but in return requires insurers to provide discounts for ten mitigations that homeowners can take, for example, having a “Class A” fireproof roof. Insurers are currently working through how they will achieve this with their modelling and pricing.

Another positive action is that the insurance industry in America funds a nonprofit called the Institute for Building and Home Safety. The Institute has prepared a standard and a certification for homeowners and insurers that attests that a house can be considered “wildfire prepared”.

The insurance tech sector has also exploded with data and applications that inform and/or determine risk scores, for example, drones fly over houses to see the quality of the roof. There's a wealth of data pouring into the market at this point which can assist with better understanding of risk for insurers and homeowners.

After large fires in 2017 and 2019 the state of California started investing more heavily in wildfire resilience, including vegetation management. One of the major causes of wildfires has been high winds breaking electric utility lines, which led to electric utilities being unable to get insurance. California has set up a risk pool for the three electric utilities. In return, they have mitigation requirements to fulfil. The savings they are making through the pool must be ploughed back into making their systems more resilient.

² Fair Access to Insurance Requirements

There's a lot of work going on to reduce the risk to make California more insurable. However, the state is still facing a legacy of insufficient preparation and a changing climate.

The devastating Paradise and LA fires are opening policy-makers' eyes

The Paradise fire in 2018 was caused by an electric utility company and a small town of 18,000 structures in the foothills of the Sierra Nevada mountains was completely wiped out. There were over 85 deaths. It forced the local utility company to file for bankruptcy, which is what led to the creation of the risk pool to try to stabilise the electric utility market.

Paradise was a small town but coincidentally the losses were the same number of structures that burned in the Los Angeles Pacific Palisades fires earlier this year. The view of impact and the government's response to it was quite different because it was a more isolated place.

LA had been going through a severe drought and on the day the LA fires broke out, the National Weather Service had issued a high wind warning. 14 separate fires meant there were challenges for firefighting, including water delivery, given the strain on the system.

Additionally, the emergency alerting system had problems that are still under investigation. Many people died in their beds because they went to sleep unaware they needed to evacuate.

It took nearly a month to put the two main fires out. Economic losses are valued at over US \$50 billion, with some projections as high as US \$ 250 billion.

LA fires insurance considerations

The insurance industry loss is projected to be about US \$30 to \$50 billion.

The FAIR Plan is continuing to grow as insurers continue to retreat. The Fair Plan also has huge losses from this event and is effectively out of funds.

Insurers are now starting to work their way through the Insurance Commissioner's new rate making rules, but these will take at least a year, if not longer, to get through.

Recovery considerations for insurers and the public

In California the Federal government leads the fire debris removal process in Federal declared disasters, so debris removal has moved quickly and is almost completely done. It's a two-phase process. First, hazardous waste is removed, then a cleansing process is applied to the first half meter of topsoil and the foundations of the houses.

A further big issue for insurers has been the cost of remediating the smoke and the toxic damage in houses which are still standing, including removing toxins embedded in the house's soil. This has been a challenge for medical officials, including ensuring there are consistent standards applied across the industry.

There's been restricted access for residents to come back to their neighbourhoods. There are going to be all sorts of non-insured/unexpected costs because homeowners are going to be required to upgrade their houses, especially those that weren't built modern building code standards. Some of

that may be built into underlying policies, but homeowners are likely to blow through allowances because of the tariffs on supplies, demand surge, and the competition for resources.

Mortgage lenders are, in some cases, requiring that they be paid first so that their loan be paid off before a homeowner can start using the rest of their policy payout for recovery. For example, if a home-owner had a \$400,000 mortgage and were insured for \$800,000, he or she now only has \$400,000 to start recovery. Further mortgages may be more difficult to obtain and will require proof of insurance.

Some insurers are selling claims to hedge funds. The hedge funds will then seek reimbursement from the Wildfire Fund (or litigation) later. Laurie described this as an unexpected twist, as policymakers did not anticipate hedge funds making profits when they set up the Wildfire Fund.

Lawsuits are plentiful, including lawsuits around the insurers colluding to push people out of high fire areas; smoke policies; and suits against the electric utilities.

Laurie's questions and considerations for New Zealand

- Are there parallels between the historic challenges of fire risk in California and flood and other risks in New Zealand?
- What is the potential risk, benefits, and unintended consequences of regulatory intervention?
- What's the potential need, challenges for valuing mitigation? Are there gaps in New Zealand's hazard risk and NHC cap modelling that need to be filled?
- What potential issues are there in New Zealand regarding utility and local government liability and the rise of claims and lawsuits?
- Are there potential roles or needs for central government to support a sustainable private insurance market?

Laurie's final thoughts

In risk management, we talk a lot about the process of risk management. You identify risks, you assess their value, you make decisions on how you're going to handle them, and then you monitor your actions. Generally, we have four buckets of tools that we use. We can

- avoid the risk,
- accept the risk,
- reduce and mitigate the risk, or
- transfer the risk.

Risk transfer through insurance is just one mechanism. A holistic policy approach for managing risk going forward needs to knit up all of these other tools, recognise their limits; and help strengthen each one; especially land use planning, building codes, and other forms of risk reduction and risk avoidance.

There's also more to be done in the areas of risk retention and risk acceptance, particularly in informing the people who are ultimately owning the risk.

(You can view the presentation here: <https://www.youtube.com/watch?v=sxi7EF8yQQM>)