Gallagher Re

California Wildfire: Navigating Risk and Finding Opportunity

One Year On From Palisades and Eaton

Key Takeaways

1. **Climate Has Shifted the Peril**
A measurable shift in climate, marked by rising temperatures and "weather whiplash," means **severe, prolonged fire seasons are no longer a statistical fluke but a highly probable threat.**

2. **A Tale of Two Californias**
The state's risk profile has fundamentally shifted; **Northern California's fire frequency and size have escalated dramatically,** now splitting the state's average annual loss (AAL) almost fifty-fifty with Southern California.

3. **Southern California's Tail Risk Endures**
Despite the AAL rebalance, Southern California's extreme risk remains, with **twice the exposure in high/extreme zones and an average maximum loss almost two times costlier than NorCal.**

4. **A 'Second Season' of Liability**
Recent debris flows in the Eaton and Palisades footprints — alongside catastrophic mudflows in the 2024 Bridge Fire scar that damaged over 50 homes [1, 2] — underscore a critical coverage gap. **As "weather whiplash" creates recurring mudslide events in old burn footprints, insurers face complex "proximate cause" disputes** to determine if excluded flood damage was actually caused by the covered peril of fire.

5. **A 1-in-35-Year Wake-Up Call**
Gallagher Re's analysis benchmarks the Total Insured Values (TIV) exposed to the fire perimeter of the January 2025 Los Angeles as a **1-in-35-year event**, establishing a new, data-driven baseline for the current state of climate and exposure.

6. **The Market Is Reformed**
Amendments to California Proposition 103 now **permit forward-looking models and reinsurance costs to be incorporated into rates.** In return, carriers must write policies in high-risk areas — making sophisticated portfolio management essential for survival and growth.

7. **An Innovative Tool With Location-Level Insight**
Gallagher Re's wildfire offering gives insurers the tools they need to **write profitably in wildfire-exposed areas by leveraging sound science, bespoke accumulation metrics and a complete delivery platform.** Across billions of dollars of claims data over the past several years, greater than 97% were identified by the hazard score as having moderate hazard or higher — a highly effective predictor of where wildfire loss may happen.

8. **Validated by Events, Trusted by the Market**
Gallagher Re's Wildfire Hazard Score **identified 100% of properties within the January 2025 fire perimeters as "Extreme"** and was successfully filed with the California Department of Insurance (CDI) by leading carriers.

9. **Optimize Your Portfolio; Don't Just Shrink It**
Gallagher Re provides clients with the strategic insight to **surgically de-risk their book** — one client cut their PML by 30% while simultaneously achieving 6% growth in total insured value by avoiding high hazard risks using using the tools available in Gallagher Re's wildfire offering.

10. **A Holistic Strategy Is Required**
A modern approach must look beyond models to **quantify systemic risks, including FAIR Plan assessment exposure, dynamic subrogation potential and the true value of mitigation.** Gallagher Re can help carriers solve bespoke solutions to remain resilient in this dynamic market.

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One year on from the January 2025 devastation, the California wildfire landscape has continued to evolve and those who are able to apply a more bespoke approach to refining risk selection and portfolio composition are achieving differentiated results.

The remainder of this document provides additional detail on a number of factors impacting insurers today and insights on the application of Gallagher Re's tools to achieve greater profitability.

Factors Impacting the Changing Risk Landscape	Characteristics of a Dynamic Insurance Market	Mastering Wildfire Risk: The Gallagher Re Approach	From Insight to Action: Real World Application to Greater Profitability

Introduction

The January 2025 Los Angeles wildfires, which primarily occurred in the Palisades and Eaton areas, rank as the costliest wildfire sequence ever recorded by the insurance industry.[3] One year after the event, estimated insured losses are approaching $40 billion.[3] Occurring in one of California's most extreme fire risk areas, the fires destroyed thousands of properties, highlighting the urgent need for more accurate and granular risk assessments to bolster the future operation and resilience of the (re)insurance industry. As reforms are enacted and the sector evolves to meet the challenges posed by today's fire risk, carriers who strategically approach the risk will be positioned to secure best-in-class placements and advance their business goals.

Gallagher Re's in-depth and bespoke approach provides cedents the ability to optimize both risk selection and portfolio metrics and pursue profitable growth opportunities by bridging static hazard scoring with stochastic models, particularly critical in this reformed legislative environment.

Factors Impacting the Changing Risk Landscape

The Eaton and Palisades fires of January 2025 unleashed unprecedented devastation across greater Los Angeles. While the Eaton Fire remains under scrutiny — with investigations continuing to focus on whether Southern California Edison's equipment sparked the blaze[4] — the origins of the Palisades Fire are now clearer. In October 2025, federal authorities described the disaster as a "holdover" event that reignited from the intentionally set Lachman Fire, as embers smoldered underground for days before resurfacing during extreme winds[5]. With a suspect now indicted for the initial arson, the event illustrates how a single malicious act can lie hidden before cascading into a region-wide tragedy. What is known is that the intersection of environmental and human factors set the stage for a catastrophe of historic proportions.

Environmental Factors

California's wildfire season typically spans from May through October. However, in recent years, environmental factors, including rising temperatures, severe dryness and wind, have extended the season and raised the likelihood of devastating fires.

In 2024, coastal Southern California did in fact experience extreme dryness and above-average heat, prolonging the wildfire season beyond October into late 2024. **Figure 1** illustrates temperature and precipitation timeseries in coastal Southern California over the past 75 years (May-December). The chart highlights the severe dryness in this timeframe and a clear upward trend in temperature since 1950.

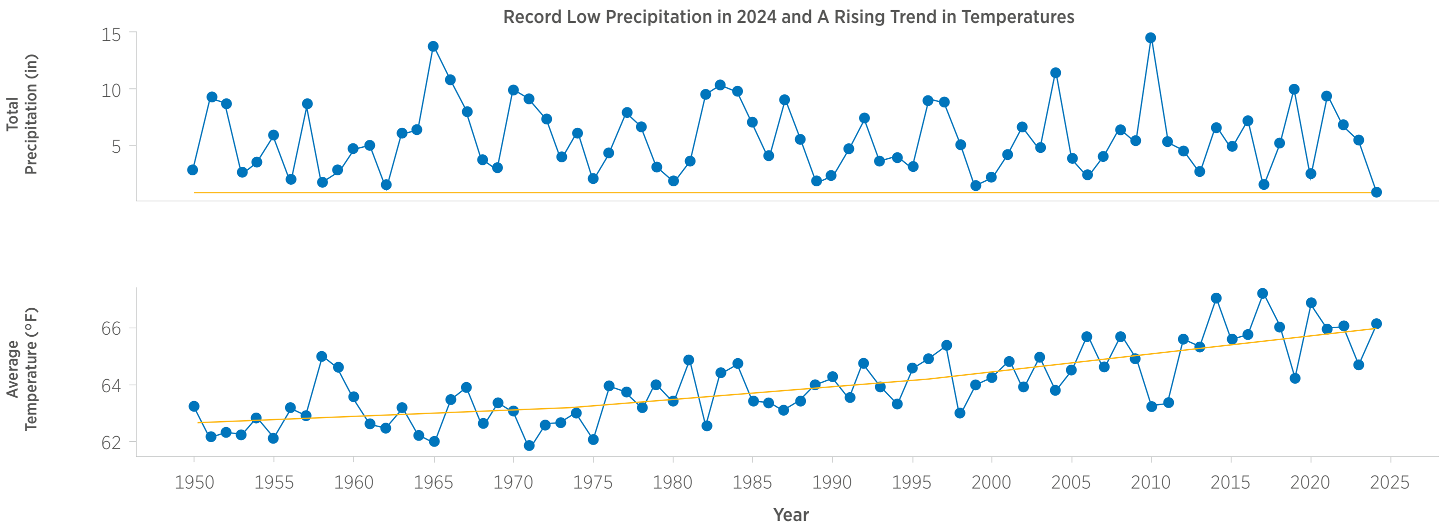
Furthermore, a series of wet winters promoted increased vegetation growth prior to the record dry season in 2024, which provided ample fuel for the January 2025 wildfires. This rapid change in weather conditions, known as weather whiplash, combined with an exceptionally strong Santa Ana wind event, was the perfect catalyst for the extreme devastation experienced in the new year.

Santa Ana winds are hot, dry, powerful downslope winds originating from high-pressure systems in the inland Great Basin that rush toward the Southern California coast. The wind rapidly strips vegetation of moisture and fans flames.

Studies have shown that the burned area per day can be 3.5 to 4.5 times larger on Santa Ana days than on non-Santa Ana days,[6] underscoring their impact on wildfire behavior. During the January 2025 fires, measured Santa Ana wind gusts reached hurricane-force speeds of up to 100 mph in high-elevation canyons and 50 mph to 80 mph in populated urban areas.[7] The force of the gusts drove extreme fire behavior and drastically increased the rate of fire spread.

These events serve as definitive proof that the risk window now extends well beyond the fire season itself. The shift in climate is measurable. Temperatures that would have been considered a statistical fluke a generation ago are now more than seven times more likely to happen. Severe, prolonged fire seasons are no longer just a tail risk but relatively a far more probable threat in the current climate.

Ultimately, this weather whiplash creates a cycle of peril that outlasts the flames. Just as wet winters fuel the vegetation that feed wildfires, the resulting burn scars leave the landscape defenseless against future rains. This dynamic turned catastrophic in late December 2025, when atmospheric rivers triggered debris flows in the Eaton and Palisades footprints, and unleashed destructive mudflows in the 2024 Bridge Fire scar that severely damaged over 50 homes in Wrightwood[1, 2].



Weather Data: NOAA | **Analysis and Graphic:** Gallagher Re

Figure 1. The prolonged May-Dec 2024 fire season in coastal Southern California featured record-low precipitation along with temperatures that have been rising across recent history. The yellow lines show the modeled return level benchmarked to the 2024 observed heat and dryness levels for the period of May-December.

Human Factors

Two of the primary human factors impacting wildfire risk are ignition and exposure. The vast majority of destructive wildfires in California are ignited by human activity, whether accidental or infrastructural. Power lines and electrical equipment, particularly in high-wind conditions, have become a leading source of catastrophic ignitions. Initial reports suggest the Eaton Fire may in fact have been started by such a source. Wildfire risk is also magnified by the rapid expansion of the Wildland-Urban Interface (WUI), where human development pushes directly against flammable wildlands. This outward growth not only increases the number of potential ignition sources but also places an ever-growing number of homes in harm's way, turning remote wildfires into urban disasters.

Additionally, historical land management and policy decisions have shaped a more hazardous landscape. Decades of aggressive fire suppression across the West have disrupted natural fire cycles that once cleared out undergrowth and dead vegetation. These decisions have left many forests, particularly in Northern California, unnaturally dense and overloaded with fuel, priming them for today's larger and more intense fires. Dangerous conditions are further compounded by land-use planning that has not kept pace with the escalating threat. Gaps in the enforcement of fire-resistant building codes are leaving communities vulnerable.

These interconnected factors — from a single spark to century-old policies — have transformed the state's risk profile. And while Southern California bore the brunt of the January fires, a broader look reveals shifting risk patterns across the state.

While extreme environmental conditions create the potential for conflagration, the scale of recent wildfire destruction is inextricably linked to a web of human factors. The expansion of infrastructure and communities into fire-prone landscapes has fundamentally amplified the risk.

Northern vs Southern California

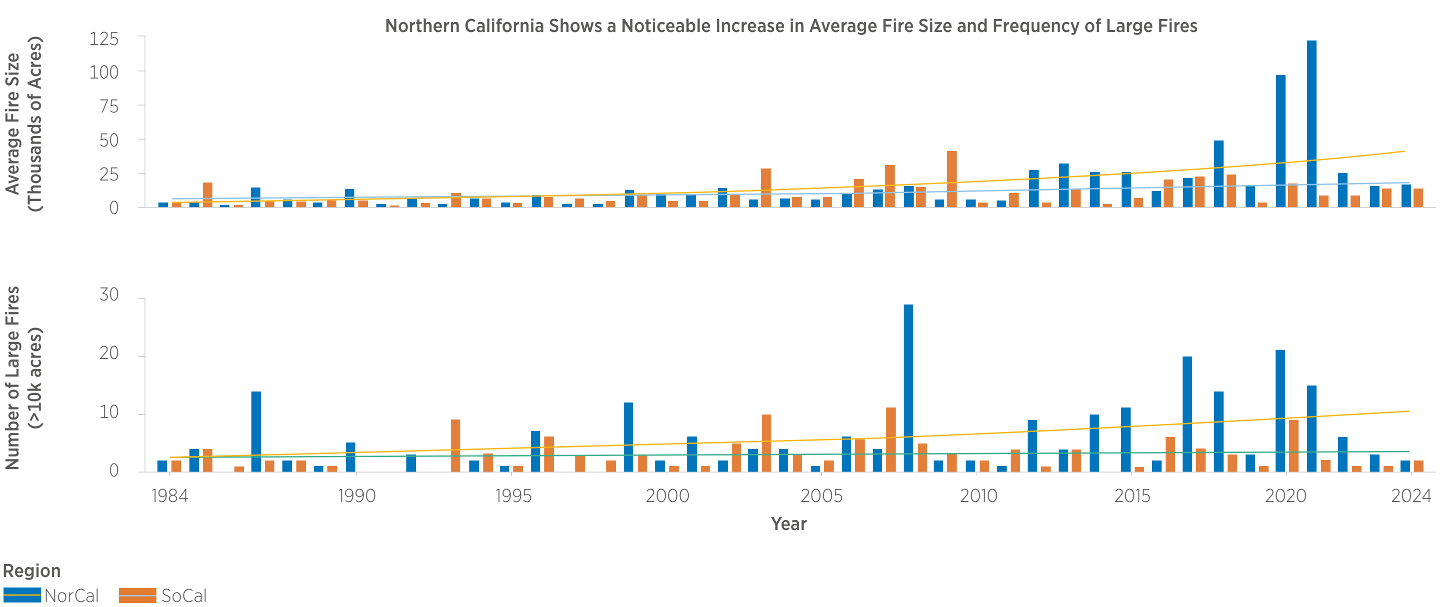
Since the January 2025 Los Angeles wildfires are now California's two costliest wildfire events on record, many assume that Southern California continues to be the overwhelming driver of statewide insured losses. However, a deeper analysis of long-term trends reveals a critical and accelerating shift in the state's risk landscape. While Southern California's risk profile remains significant, it is Northern California that has seen a dramatic and alarming escalation of catastrophes.

The escalation of catastrophic events is rooted in a confluence of environmental and historical factors. The primary driver is intensifying climate change, which has created hotter, drier conditions and extended fire seasons across the state. In Northern California, these hazardous conditions are now being compounded by a legacy of century-long fire suppression that has allowed dense forests to accumulate immense fuel loads. When these parched, overgrown forests ignite, the result is often an explosive, high-severity crown fire.

Southern California's ecosystem presents a different, though no less dangerous, set of drivers. The region's chaparral and shrubland environments are naturally adapted to more frequent fire cycles and do not accumulate the same level of biomass. Instead, in Southern California, the primary threats are severe, prolonged droughts, powerful seasonal winds like the Santa Anas, and a high number of ignitions stemming from the dense WUI.

From a hazard perspective, as depicted in **Figure 2**, Northern California has experienced a significant increase in both average size and frequency of large wildfires (exceeding 10,000 acres) during the past 40 years. This trend is starkly reflected in the historical loss record; of the top 20 costliest insured wildfire events in Northern California within the past 62 years, an astonishing 18 have occurred since 2015. By contrast, Southern California's top 20 events are split almost evenly, with 11 occurring before 2015 and nine since.

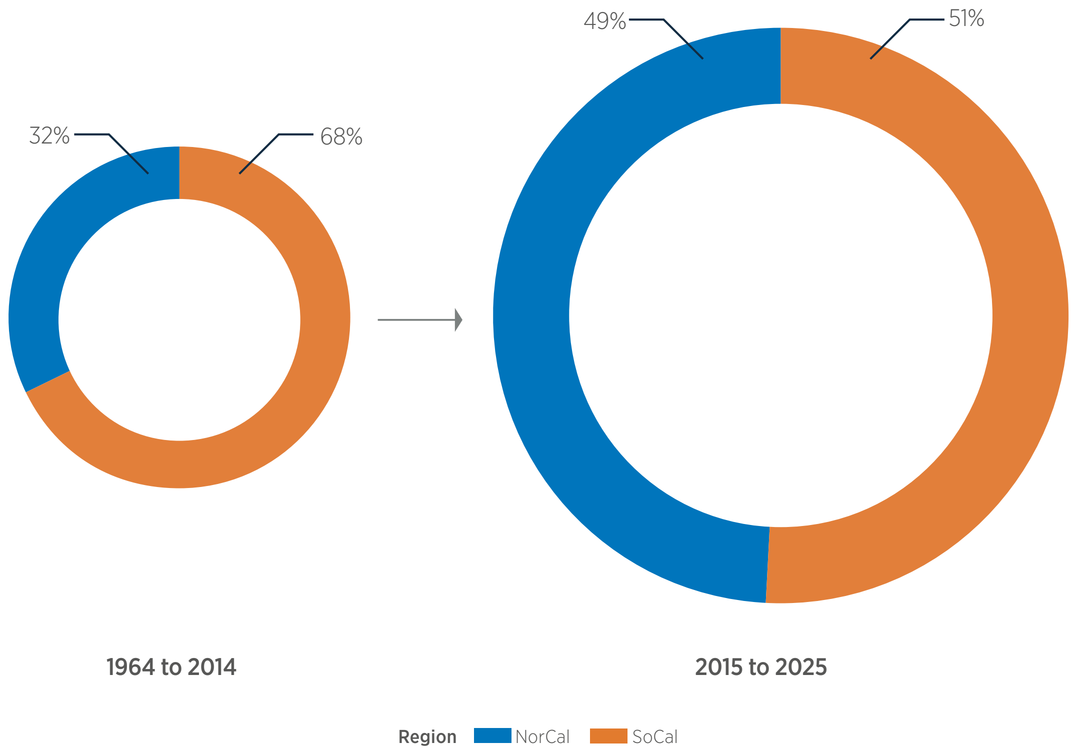
The financial consequence of this paradigm shift is profound. Where Southern California once contributed approximately 70% of the state's average annual wildfire loss, that burden has now rebalanced. Southern California's contribution has dropped to approximately 50%, creating an almost equal split between the two regions (**Figure 3**).



Fire Data: MTBS | **Analysis and Graphic:** Gallagher Re

Figure 2. Trends in Average Fire Size and Number of Large Fires (>10,000 acres) in California, 1984-2024. NorCal shows a noticeable increase and outpaces SoCal in both average fire size and frequency of large fires.

CA wildfire insured losses since 2015: ~7x prior 51-year total



Data, Analysis and Graphic: Gallagher Re

Figure 3. Shift in NorCal and SoCal Contribution to CA Wildfire Losses.

Understanding regional dynamics is crucial for insurers recalibrating their portfolios. Rebalancing of average annual losses must not be mistaken for an equalization of risk. Averages can mask the underlying potential for extreme events, and a deeper look at the exposure landscape reveals a critical divergence.

As noted above, while Northern California's threat is characterized by rising frequency, Southern California's enduring challenge is its immense concentration of value in high-hazard areas, creating a different but equally potent risk profile. The maximum loss occurrence in a year is, on average, almost two times costlier in Southern California than in Northern California, based on Gallagher Re proprietary modeling and analysis.

Southern California currently has about 25% more exposure in the WUI compared to Northern California. Over the past three decades, in Southern California, exposure growth has been significantly stronger within WUI areas than outside of them. Specifically, WUI exposure grew by 43% in Southern California and 36% in Northern California over this period, whereas growth outside the WUI was 19% in Southern California compared to 30% in Northern California.[8]

Additionally, our Gallagher Re Wildfire Score shows that Southern California has twice as many exposures in the high and extreme zones as Northern California. This underscores the critical need for targeted wildfire preparedness and land-use planning focused especially on Southern California's WUI.

Characteristics of a Dynamic Insurance Market

The ability for California communities to recover and move on from increasingly large and frequent wildfires is wholly tied to a viable (re)insurance sector.

Proposition 103

For more than 30 years, Proposition 103 required wildfire catastrophe loadings to be calculated as a 20-year average of each insurer's own incurred wildfire losses. Insurers could not detrend these losses for inflation or exposure growth, and they could not use industry or modeled data. The result was a reactive system that systematically underestimated risk in an era of hotter, faster and more destructive fires.

California stood as the only state to prohibit catastrophe models for wildfire pricing, citing concerns about opaque "black box" methodologies. Yet insurers were already using these same tools internally for underwriting, accumulation management and reinsurance negotiations. The regulatory disconnect drove massive underwriting losses, leading to widespread non-renewals.

Rise of E&S Lines and the California FAIR Plan

With the private sector retreating and leaving people exposed to a growing wildfire risk, homeowners began seeking coverage from excess and surplus (E&S) lines and the California FAIR Plan.

Today, the E&S market's role has expanded beyond high-value properties. It now serves as a critical backstop for standard homes in wildfire-prone areas, with policy growth in regions like Bakersfield exceeding 2,500%. This influx of moderate-risk properties has driven a 34% decline in the California Surplus Lines Market Index for "Fire and Allied Lines" through August 2025 compared to the same period in 2024, reflecting lower average premiums.[9]

E&S carriers are adapting by leveraging underwriting flexibility, mandating wildfire mitigation measures like ember-resistant venting, and tailoring coverage terms in ways the constrained admitted market could not under California Department of Insurance (CDI) regulations.

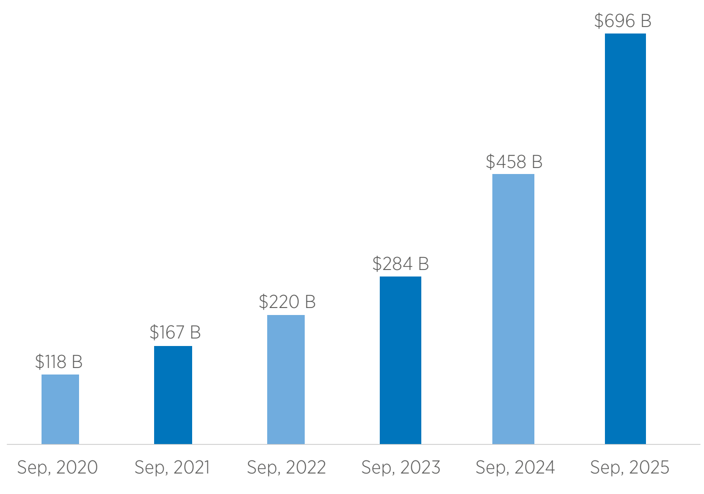
Furthermore, as a result of the distressed admitted market, the California FAIR Plan, a last-resort insurance program for homeowners unable to secure fire coverage from private insurers, was created. All licensed property insurers in California share risks and costs, providing basic fire insurance when standard coverage is unavailable. Established by statute as a privately governed association, insurers contribute based on market share.

The program has ballooned from approximately 240,000 policies in 2021 to nearly 646,000 in 2025, with total written premium quadrupling to $1.93B, underscoring the system's unsustainability. In fact, FAIR Plan's exposure has grown from $166.9B in September 2021 to $696.1B in September 2025, a 317% increase (**Figure 4**).

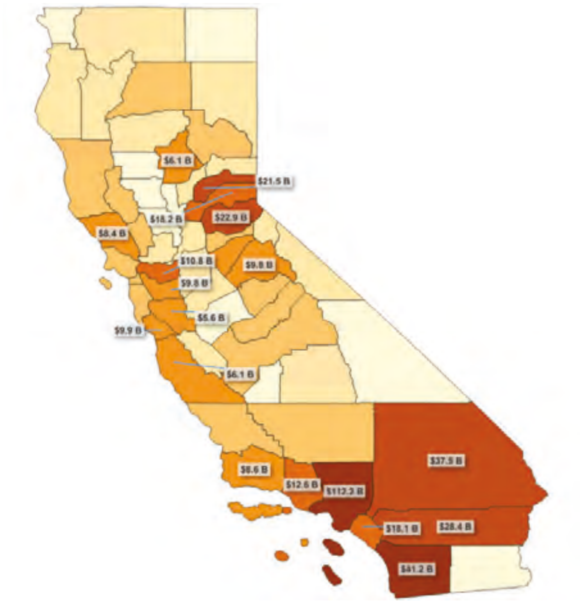
The FAIR Plan did in fact play a critical role in the aftermath of the January 2025 Los Angeles wildfires. It insured approximately 22% of structures in the Palisades Fire and 12% in the Eaton Fire, with potential exposures of $4B and $775 million, respectively. To cover the severe losses, CDI on February 11, 2025, issued a $1B assessment on admitted insurers who are part of the FAIR plan.[10] Per Proposition 103, after receiving CDI approval, insurers can recoup up to fifty percent of this assessment from their policyholders. The recoupment process must be transparent and temporary and, importantly, cannot be considered in any future rate change applications.[11]

As of May 9, 2025, the FAIR Plan has received more than 5,000 claims, nearly half reporting total losses, and paid approximately $2.7B, including for smoke damage.[12]

The CA FAIR Plan's Total Exposure



FAIR Plan Total Exposure by County (as of Sep 2024)



Data: California Fair Plan | **Analysis and Graphic:** Gallagher Re

Figure 4. The California FAIR Plan's exposure has increased by approximately 5.5 times over the past five years, with 60% of its 2024 total exposure concentrated in Southern California. The map illustrates the FAIR Plan's total exposure by county as of September 30, 2024.

Reforms to Stabilize the Market

With the E&S market and FAIR Plan's rapidly increasing exposure and retreating private insurers, change was needed to dispel conversations of an uninsurable market. As of August 1, 2025, the CDI has approved three wildfire catastrophe models — from Verisk, Moody's RMS and Karen Clark & Company (KCC) — for use in property insurance ratemaking.

The approvals allow insurers the flexibility to price wildfire risk using forward-looking, scientific models that simulate thousands of seasons under current fuel, weather and climate conditions. It enables true risk-based pricing at a granular, property-specific level. These models not only capture climate- and exposure-driven wildfire dynamics but also allow insurers to quantify the benefits of mitigation.

Under the regulations, carriers must recognize at least 12 specific hardening and defensible-space measures in their rating plans, ensuring homeowners receive meaningful, data-driven discounts for investments like fire-resistant roofs or cleared vegetation.

The allowance of modeling is a core component of a broader CDI reform package, which will also permit insurers to incorporate the cost of reinsurance directly into their rate calculations, potentially easing reinsurance market pressures by enabling primary insurers to achieve more adequate premium levels and attract greater capacity from reinsurers.

The reforms also include a coverage obligation: insurers using catastrophe models must commit to writing policies in wildfire-distressed areas equal to at least 85% of their statewide market share. Combined with the allowance for reinsurance costs in rates, this "grand bargain" seeks to restore the financial viability of insuring wildfire risk while ensuring availability across California.

Together, these reforms replace a backward-looking system with modern scientific models intended to stabilize the nation's largest and most volatile insurance market. The ultimate goal is to restore the financial viability of insuring wildfire risk, thereby increasing availability, reducing the strain on the FAIR Plan, creating a more stable and competitive market for all Californians, and potentially lowering reinsurance premiums as primary rates better align with risks, drawing back capacity and shifting business from E&S to admitted markets.

The approval of catastrophe models signals a broad shift in how wildfire risk is assessed in the state and marks the beginning of a new era for California's insurance market. Given that California represents roughly 10% of the US property insurance market[13] and wildfires have generated over $100B in insured losses in the state since 2015, this approval is arguably the most important regulatory reform for wildfire risk in decades.

Mastering Wildfire Risk: The Gallagher Re Approach

Insurers will benefit from evolving their frameworks now or risk being outpaced by the peril itself. At Gallagher Re, we are committed to providing the forward-looking analytics that help cedents navigate not just today's risks, but tomorrow's as well.

Gallagher Re adds value to carriers throughout the portfolio management spectrum. Our hazard scoring and accumulation tools remain critical for underwriting, portfolio steering and transparent regulatory support. At the same time, our deep experience in catastrophe model evaluation helps clients interrogate outputs from CDI-vetted catastrophe models, calibrate assumptions and integrate reinsurance costs into their filings.

By bridging static hazard scoring with stochastic models, Gallagher Re enables carriers to comply with CDI reforms, optimize their portfolios and negotiate smarter reinsurance placements.

Defining the New Reality:
The January 2025 Event Return Period

The January 2025 wildfires were not isolated events but a compound catastrophe involving multiple fire footprints. Understanding that wildfire risk often comes in clusters, with multiple perimeters burning simultaneously, is the first step to properly managing it.

However, common analytical approaches can be misleading; some underestimate risk by viewing fires as isolated footprints, while others overestimate it by grouping unrelated events. Getting this right is critical. A proper cluster-based approach provides a true sense of financial impact and aligns a cedent's risk view with how reinsurance contracts define an occurrence, preventing surprises during a claim. This clarity is the foundation of an efficient reinsurance strategy, and Gallagher Re can help you navigate the nuances between different models.

Gallagher Re's property research, integrating historical fire perimeters, current industry exposures and evolving environmental patterns, estimates a 1-in-35-year return period for the Total Insured Values (TIV) exposed to the fire perimeter of the January 2025 event. This benchmark reflects the new reality of this peril. As climate and exposure trends evolve, a dynamic and accurate view of risk is vital for long-term resilience.

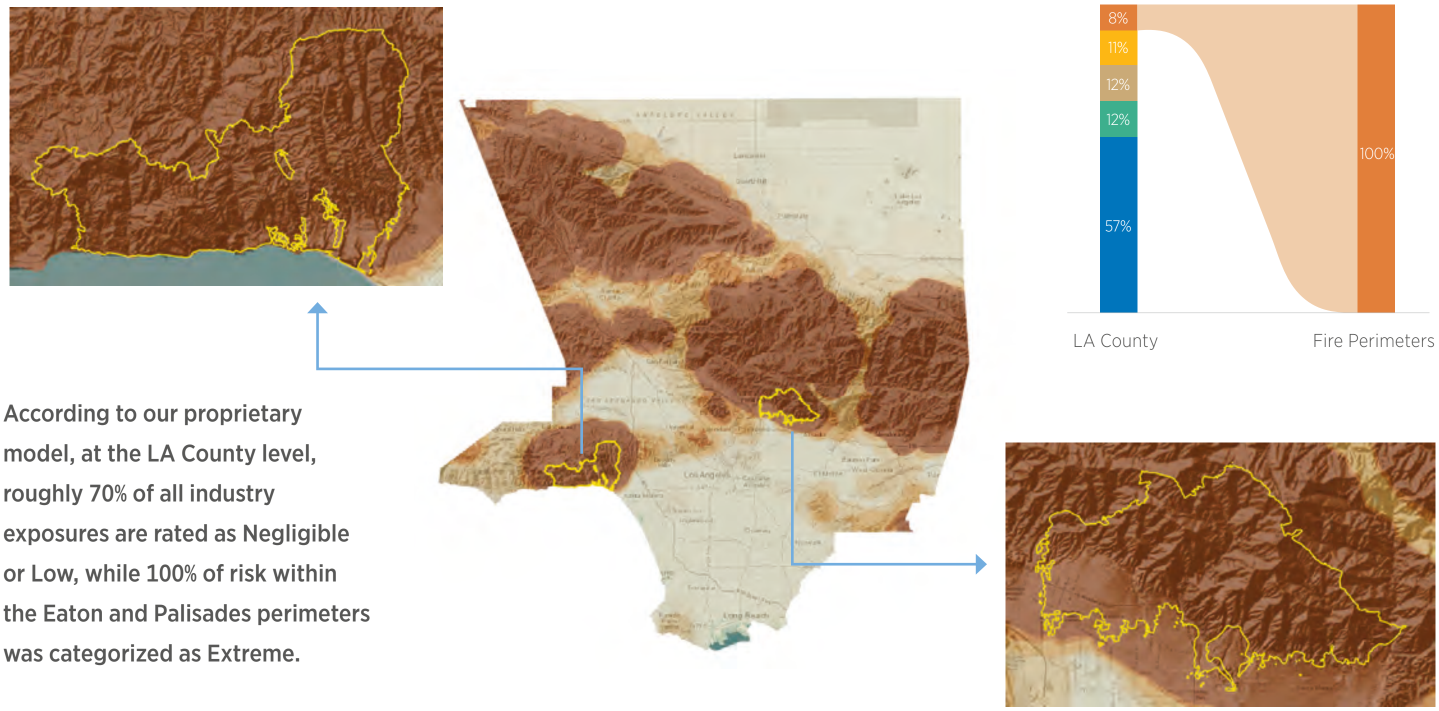
Location-Level Insight:
Validating the Wildfire Hazard Score

As the landscape of wildfire risk continues to evolve, accurate and actionable insights are paramount for the insurance industry. The Gallagher Re US Wildfire Scoring model stands as our commitment to addressing this challenge. Leveraging the latest and highest-resolution data, it delivers precise, location-specific hazard scores across all 50 states, providing a robust and adaptive framework for comprehensive risk evaluation and confident decision-making.

The model's risk segmentation accuracy is validated by the CAL FIRE Damage Inspection Program (DINS) database, confirming the model's ability to reliably distinguish and prioritize risk.

This capability is critical for enhancing our clients' underwriting, rate planning and accumulation management strategies. As insurers implement the new CDI-approved catastrophe models, this demonstrated scoring accuracy provides a vital, independent tool to validate model outputs and serve as a powerful rating factor, enabling true risk-based pricing at the individual property level.

> The model's effectiveness was powerfully demonstrated during the January 2025 Los Angeles fires. In Los Angeles County, where wildfire scoring rates roughly 70% of industry exposures as Negligible or Low, it correctly identified 100% of the risks within the Eaton and Palisades fire perimeters as Extreme (as shown in Figure 5).



According to our proprietary model, at the LA County level, roughly 70% of all industry exposures are rated as Negligible or Low, while 100% of risk within the Eaton and Palisades perimeters was categorized as Extreme.

Fire Perimeters: CAL Fire | **Data, Analysis and Graphic:** Gallagher Re

Figure 5. Eaton and Palisades fire perimeters overlaid on the Gallagher Re wildfire scoring map, demonstrating accurate risk identification.

As these models enter the new regulatory framework, Gallagher Re brings the dual capability of combining granular hazard scoring with deep expertise in validating and interpreting model outputs, ensuring clients can deploy both approaches effectively.

The value of a forward-looking, granular risk metric was recognized by industry leaders long before the recent regulatory reforms. Seeking to leverage advanced analytics within the constraints of the old system, a diverse group of prominent carriers, collectively covering more than 20% of California's market, have all successfully incorporated Gallagher Re's Wildfire Hazard Score into their regulatory filings with the California Department of Insurance.

This widespread adoption demonstrates the score's immediate value for underwriting, pricing segmentation and regulatory defensibility. However, the prevailing requirements at the time imposed a critical limitation: CDI required all relativities to be tied back to each carrier's own historical wildfire losses. This ultimately meant that while the hazard scores were invaluable tools, they could not fully bridge the structural gap between backward-looking averages and the forward-looking realities insurers were confronting.

Now, as the regulatory landscape shifts to embrace catastrophe models, the gap is closing and Gallagher Re clients are already well-positioned for this transition. Gallagher Re's Wildfire Hazard Score has long provided high-resolution, property-level insights — leveraging data like fuels, weather, industry exposures and precise WUI boundaries that were critical when stochastic models were barred from ratemaking.

Beyond a Single Risk: Managing Portfolio Accumulation

To effectively manage a wildfire portfolio, insurers must consider not only the hazard of an individual location but also the aggregated exposure in the wildfire-prone area, as concentrations of risk disproportionately drive tail risk and increase reinsurance financing costs.

Gallagher Re has developed the proprietary Area Rating Factor (ARF) to address this challenge directly. This metric provides critical insight into the specific geographic areas, down to the census-block level, that contribute most to risk accumulation and are likely to drive losses in major modeled events.

By integrating the ARF with standard wildfire risk scores via API or underwriting dashboards, underwriters are empowered to proactively evaluate a policy's full impact, including its contribution to concentration costs, before binding.

As a result, the ARF acts as a vital bridge between high-level portfolio strategy and on-the-ground underwriting decisions, enabling insurers to tactically refine their wildfire exposure, identify growth opportunities and ultimately build a more profitable portfolio while improving underwriting efficiency and reducing reinsurance expenses.

Gallagher Re's Area Rating Factor (ARF) empowers carriers to strategically manage wildfire tail risk and optimize their portfolios. By identifying the geographies contributing most to a carrier's wildfire PML, ARF enables targeted and data-driven non-renewals that produce significant reductions in PML and AAL with only minor impact on overall insured value, thereby minimizing portfolio disruption.

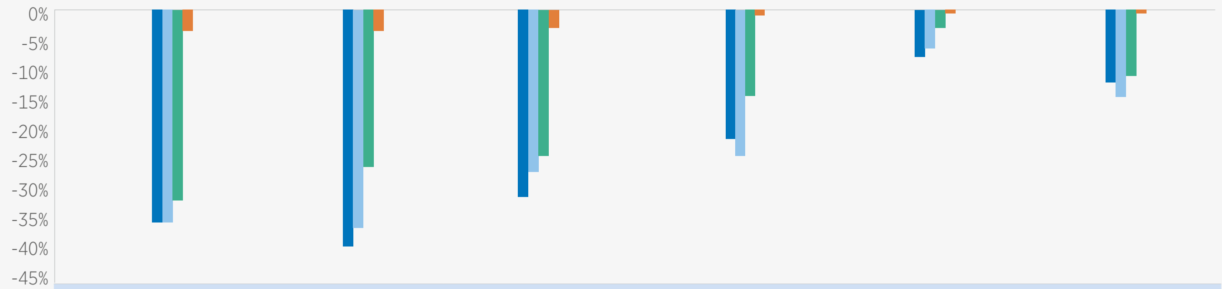
Beyond optimizing existing portfolios, ARF supports strategic growth initiatives by identifying sub-geographies with low correlation to the portfolio's wildfire tail, guiding expansion into areas with minimal incremental reinsurance cost. This pre-binding intelligence allows carriers to proactively price new business and maintain profit margins, armed with a clear view of how any new location impacts their overall risk.

As illustrated in **Figure 6**, Gallagher Re's Wildfire Suite helped a California residential property client systematically reduce exposures in high-risk, high-ARF regions while selectively writing new business in lower-ARF zones. By embedding ARF and Hazard Scores into their underwriting process and continuously monitoring accumulations, the client achieved a 30% reduction in PML while growing total exposure by 6% in just two years.

With Gallagher Re's Wildfire Suite — integrating both ARF and Hazard Scores — carriers benefit from a retroactive-proactive methodology for underwriting, monitoring, and managing wildfire exposure. It is a comprehensive suite of tools that carriers have filed and had approved by CDI.

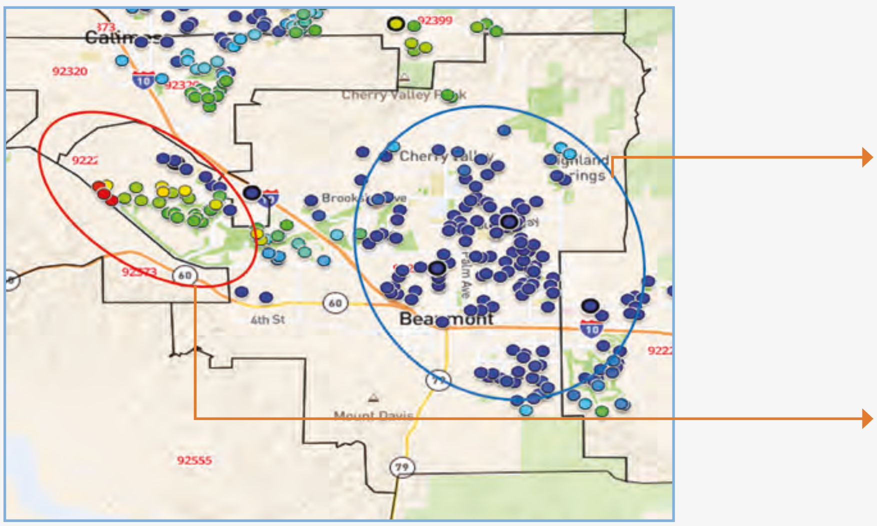
> The insights provided by the Area Rating Factor (ARF) often result in reinsurance savings that can offset any lost premium, making it a highly efficient approach to de-risking. By pinpointing policies with outsized contribution to portfolio risk, ARF helps carriers act with precision rather than broad reductions.

Portfolio De-Risking



	Company A	Company B	Company C	Company D	Company E	Company F
1:250 Reduction	−35%	−39%	−31%	−21%	−8%	−12%
1:100 Reduction	−36%	−36%	−27%	−24%	−6%	−14%
AAL Reduction	−31%	−26%	−24%	−14%	−3%	−11%
TTV Change	−3%	−4%	−3%	−1%	−0%	−0%

Directing Flow of New Business

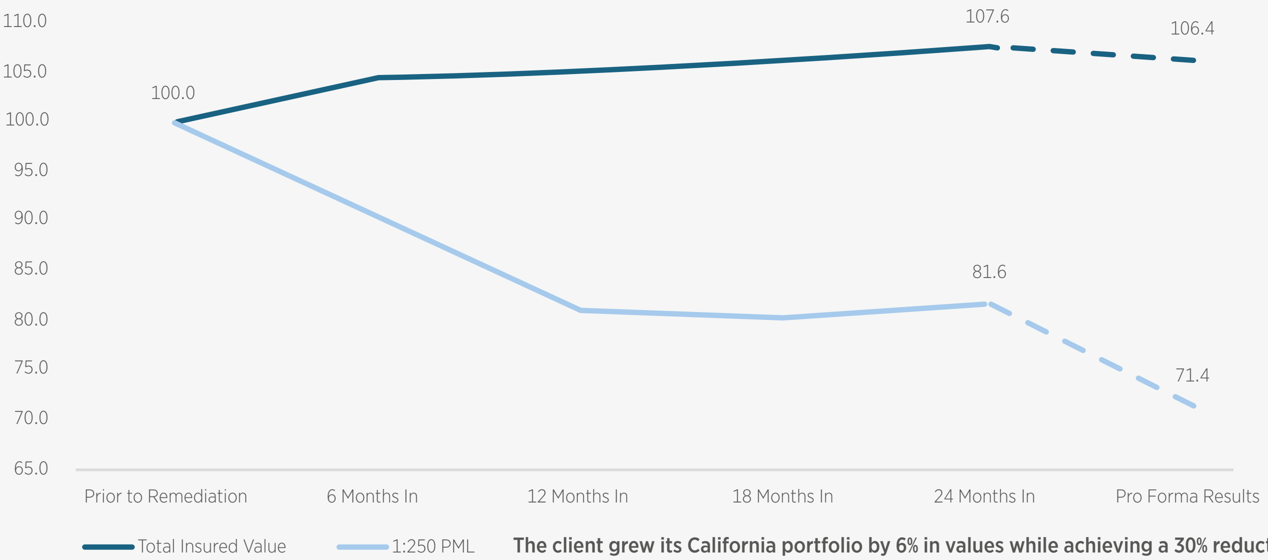


New business with low correlation with current wildfire PML and therefore low impact on reinsurance costs.

New business with high correlation with current wildfire PML and therefore high impact on reinsurance costs.

Accumulation Tracking (Sample Client Data)

Strategic Growth with ARF-Based Portfolio Monitoring



The client grew its California portfolio by 6% in values while achieving a 30% reduction in PML.

Figure 6. The Area Rating Factor (ARF) enables carriers to identify portfolio-specific geographies that most significantly contribute to wildfire tail risk, supporting targeted de-risking, informed business growth and ongoing accumulation management. ARF insights empower effective portfolio optimization, strategic expansion into low-correlation regions, and continuous monitoring to control both risk and reinsurance costs.

Data, Analysis and Graphic: Gallagher Re.

From Insight to Action: Real World Application to Greater Profitability

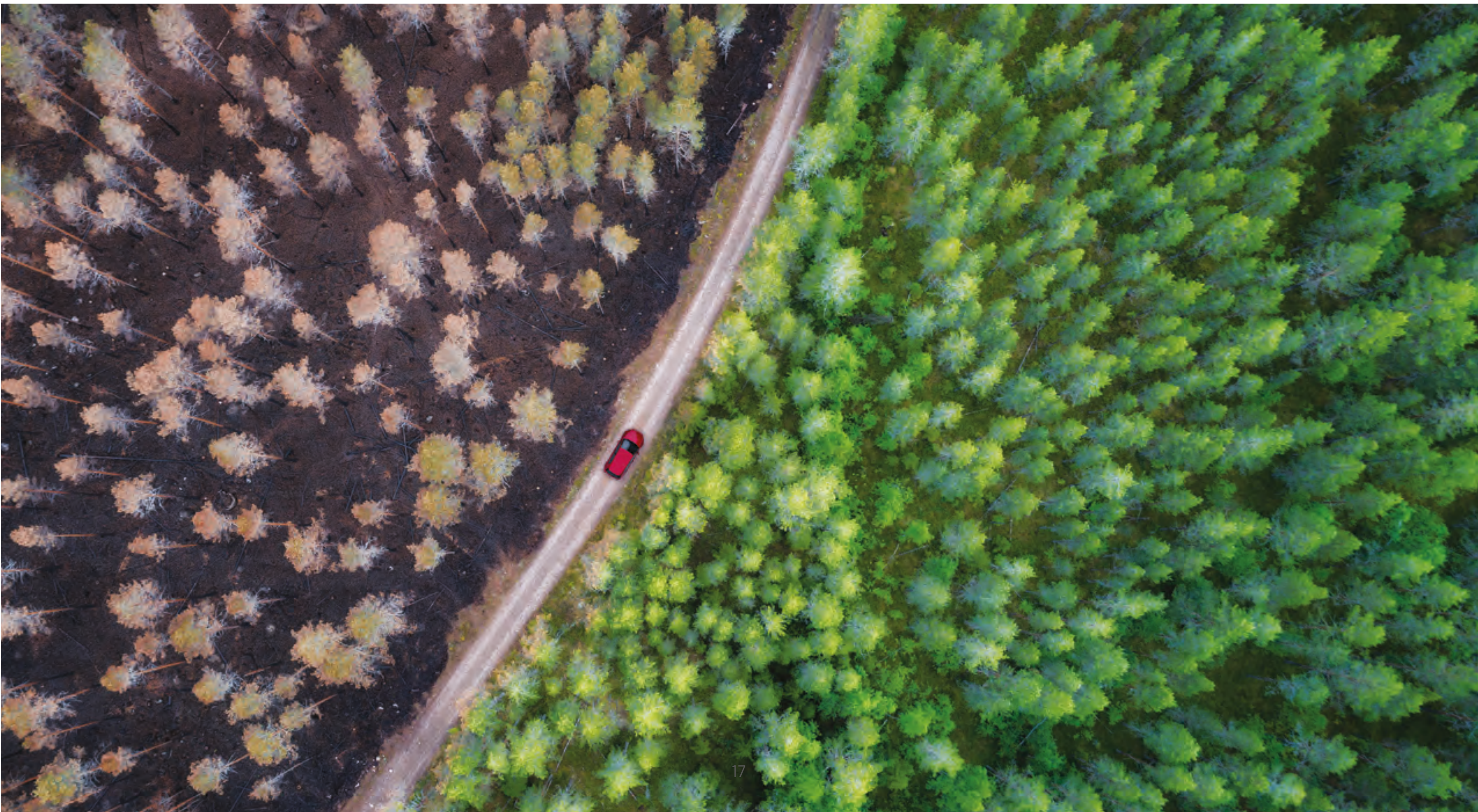
As California's insurers navigate this profoundly altered landscape, success depends on a strategy that extends beyond traditional risk selection and pricing. The new dynamics of the FAIR Plan, subrogation and mitigation require a more sophisticated, forward-looking analytical framework.

A critical challenge is the systemic risk posed by the FAIR Plan's explosive growth. For carriers, understanding assessment exposure, both its potential magnitude and timing, is essential for managing capital and making informed reinsurance decisions. Gallagher Re's analytics address this by integrating proprietary exposure data and risk scores to quantify the impact of potential FAIR Plan assessments on a carrier's unique financial position.

Furthermore, a dynamic view of subrogation must be integrated directly into modeled outcomes. Static assumptions are no longer sufficient. Gallagher Re employs a proprietary framework that considers utility infrastructure and historical outcomes at a granular level. This allows for the assignment of expected subrogation recoveries on an event-by-event, location-by-location basis, enabling cedents and reinsurers to capture these potential credits with greater confidence.

Finally, the discipline of mitigation is rightfully migrating from coastal hurricane zones to the wildlands of California. Beyond the model inputs of Setback Clearance, Gallagher Re has worked with clients to derive thoughtful, scientific and defensible application of wildfire mitigation efforts within catastrophe modeling frameworks. Advancements in science allow for the location-based differentiation of construction materials and vegetation management, integrating their true value into a modern view of risk.

Whether navigating regulatory challenges, optimizing a portfolio or defending a view of risk to rating agencies and reinsurers, Gallagher Re provides solutions with a track record of tangible success. Our analytical depth is designed to lower retained risk, improve price adequacy and provide greater transparency with trusted partners. In an era of unprecedented change, we are proud to help our clients turn uncertainty into opportunity.



How can we help?

If you would like to learn more about the California wildfire risk landscape, Gallagher Re's wildfire suite, or how we can help you navigate your (re)insurance challenges, please get in touch with one of the team.

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