
At the Edge of Insurability: When Wildfire Risk Becomes Investment Risk

Wildfires offer a case study in how climate-related risks can spread to capital markets.

From severe wildfires in northern Ontario to record heat across Europe, extreme weather is back in the headlines. Such events are becoming more frequent and intense, and the risks associated with them are testing the limits of insurability. With our research partners at Columbia Climate School, we examine how strains on the insurance system can transmit climate-related risks through the capital markets.

California's 2025 wildfires provide a case study. The Palisades and Eaton wildfires in Los Angeles in January 2025 cost insurers $40 billion—a new loss record for that category of natural disaster and, according to Swiss Re Institute, among the top 10 costliest insured loss events across all natural disaster categories to date. But these losses should be seen in the context of historical data showing that global catastrophe claims have trended sharply higher, particularly over the past decade.

Because of this trend, insurance premiums are rising, coverage is becoming more restrictive, some policies aren't being renewed, and some insurers are retreating from higher-risk markets. The challenge affects not only insurers and asset owners but investors—especially those with exposure to insurance companies, real assets or municipal bonds. The issue is global, but California's wildfires help to illuminate its key aspects.

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