State Farm's Wildfire Claims Violations

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A remarkable thing happened on May 4, 2026: The California Department of Insurance filed a formal Accusation, Order to Show Cause, Notice of Penalties, and Notice of Hearing against State Farm General Insurance Company. State Farm is accused of committing more than 430 violations of the California Insurance Code and the Fair Claims Settlement Practices Regulations. The allegations all trace back to State Farm's handling of first-party claims arising from the January 2025 Palisades and Eaton fires.

Rarely is insurance law and administrative findings a page-turner. This one's different. The Accusation reads less like a stale regulatory finding and more like an exposé. State Farm, the largest property and casualty insurer in the United States, is accused of violating California law in more than half of the examined claims arising from one of the costliest wildfire disasters in United States history.

Readers of the last column will recall that it applied the Fair Claims Settlement Practices Regulations to third-party claims. Now we see them applied to first-party claims with the lurid details of the Accusation against State Farm.

The Accusation

First, context: The Los Angeles fires were catastrophic, and the losses were staggering. Following numerous complaints about State Farm's handling of fire claims, the California Insurance Commissioner authorized a formal Market Conduct Examination under Insurance Code section 730(b). The examination reviewed a random selection of 220 first-party claims. Violations of California law were found in more than half of them.

The Alleged Claims-Handling Patterns

The examination also revealed several troubling claims-handling patterns. The first was slow and inadequate investigation of claims. State Farm allegedly failed repeatedly to begin investigations within 15 days and to accept or deny claims within 40 calendar days, as required by California Code of Regulations, title 10, sections 2695.5(e), 2695.7(b)(1), and 2695.7(c)(1). One randomly selected claim showed that State Farm waited 88 days to investigate, and only after being prompted by the insured.

The second pattern was underpayment. State Farm allegedly made "unreasonably low settlement offers" and failed to pay accepted claims within 30 days, in violation of California Code of Regulations, title 10, section 2695.7(g) and (h). Another randomly selected claim showed that the insured was entitled to additional living expenses, but State Farm dragged out the claim for more than 90 days without acting.

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Rotating adjusters was another troubling pattern. Within five months, State Farm assigned six adjusters to one insured's claim, and six other individuals also "assisted." State Farm also allegedly lacked reasonable standards for processing claims, including written standards for denials of claims seeking the cost of environmental testing for smoke damage. That alleged conduct violated Insurance Code section 790.03(h)(3) and (13). Finally, the examination highlighted inadequate communication with insureds. In multiple claims, State Farm allegedly failed to respond timely to insureds, in violation of Insurance Code section 790.03(h)(13) and California Code of Regulations, title 10, section 2695.5(b).

The randomly selected 220 first-party claims showed 79 violations for failing to provide timely notice to insureds, 41 violations for failing to attempt to settle in good faith, 29 violations for failing to advise insureds properly about the applicable statute of limitations, 27 violations for failing to issue timely payment, 26 violations for failing to provide complete responses to insureds, 25 violations for failing to provide fraud warnings, 24 violations for failing to document acceptances and denials, 21 violations for improperly applying depreciation, and 20 violations for making unreasonably low settlement offers. What a disgrace from the nation's largest property and casualty insurer.

Why It Matters

In addition to those violations, the California Department of Insurance received consumer complaints about State Farm "on a continual basis." A subsequent investigation revealed even more alleged violations of California law. The Department alleged that State Farm failed to act in good faith, giving the Insurance Commissioner grounds to suspend State Farm's certificate of authority under Insurance Code section 704(b). The Commissioner alleged that State Farm "willingly committed unfair claims settlement practices" and ordered State Farm to show cause why penalties should not be imposed.

What can we learn from this? One takeaway is that the Accusation formalizes what we all know: insurance companies systemically delay, derail, and devalue claims. That approach is at the heart of insurance companies' business model. Less in claims equals more in profit. Remember, these first-party claims were randomly selected. The actual practice is likely much worse and more widespread. Another point is that the California Department of Insurance can enforce, with teeth, the statutory framework of Insurance Code § 790.03(h) and the regulatory framework of California Code of Regulations, specifically sections 2695.1 to 2695.14. We all benefit when insurance companies abide by the implied duty of good faith and fair dealing. Enforcement of California law by the Department helps safeguard that duty.

Another takeaway is that the California Department of Insurance can enforce, with teeth, the statutory framework of Insurance Code section 790.03(h) and the regulatory framework of California Code of Regulations, title 10, sections 2695.1 through 2695.14. We all benefit when insurance companies comply with the implied duty of good faith and fair dealing. Enforcement by the Department helps safeguard that duty.

Advise clients to make consumer complaints with the California Department of Insurance. Those complaints create a paper trail that can lead to a devastating investigation into an insurer's business practices. The Market Conduct Examination was built on the back of consumer complaints.

If you handle bad-faith cases, this Accusation illustrates both the rules of the road and the penalties for breaking them. That is especially true if you have a current bad-faith case against State Farm arising from the Los Angeles fires. The Accusation can be a powerful roadmap for discovery and trial strategy.

Another takeaway: Read the Accusation and the Market Conduct Examination. You will see State Farm's response to the findings. That alone is fascinating. Watch State Farm's spin on the factual findings. You will also see that State Farm agrees with several of the findings. Because the Accusation and the Market Conduct Examination are public documents under Insurance Code section 12938(b)(1), you may also be able to use State Farm's response to the findings as a party admission under Evidence Code section 1220.

Get out the popcorn and read about the serial violator that is State Farm. **TBN**