OUR SHARED ECONOMY

Limited options for Silicon Valley homeowners insurance amount to nearly $16 million in broader regional impacts since 2019

Modeling potential economic impacts of the increased number of California FAIR Plan homeowners insurance policies

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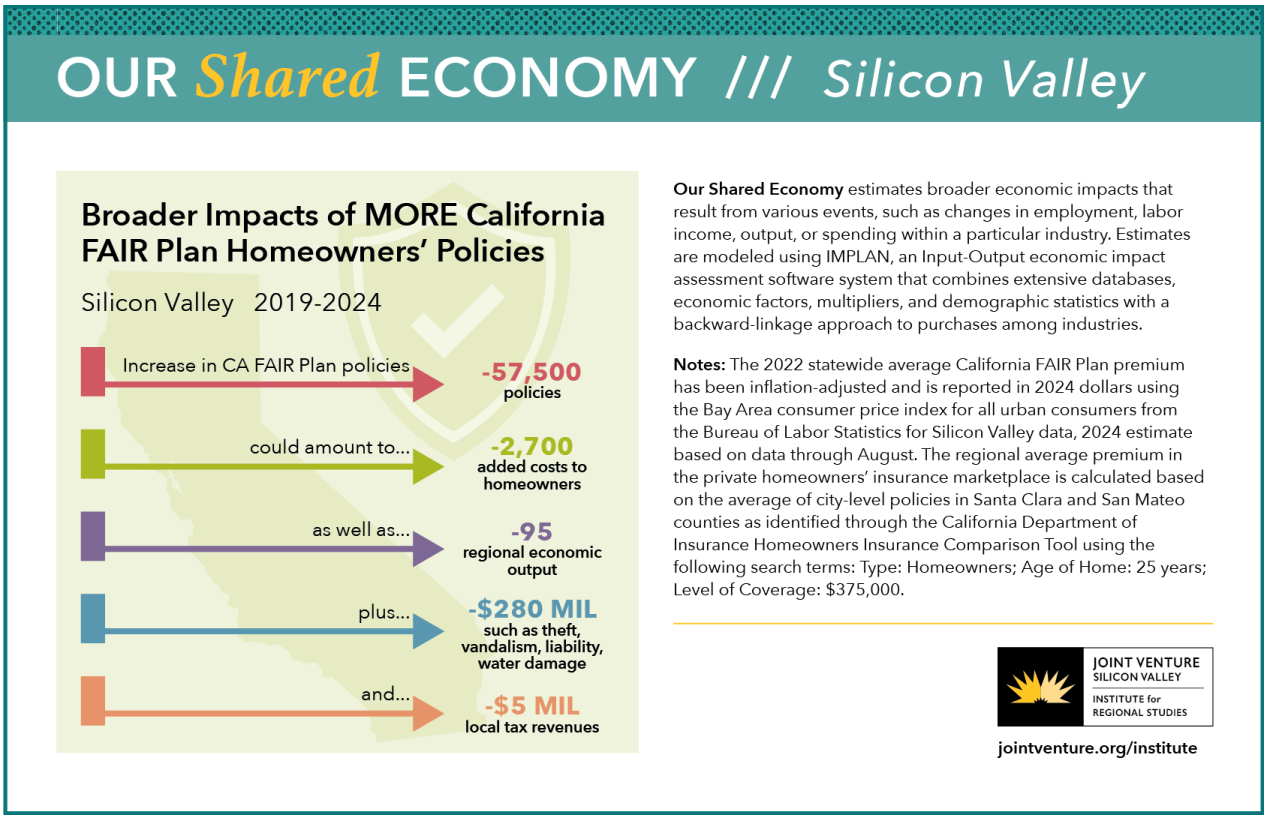
Statewide, homeowners unable to find insurance in the traditional marketplace have increasingly turned to the California FAIR Plan, resulting in higher costs, on average, for less coverage. A high-level analysis of Silicon Valley's collective increases in annual premiums shows a potential loss of nearly $16 million in regional economic output since 2019.

Originally intended as a short-term, stop-gap solution for homeowners while they search for insurance in the traditional marketplace, the California Fair Access to Insurance Requirements (FAIR) Plan has become the only insurance option for many homeowners – particularly those in high-risk fire areas. As an effect of the recent, disastrous wildfires beginning in 2017, the number of California FAIR Plan policies has grown significantly. In Santa Clara and San Mateo Counties, approximately 4,200 California FAIR Plan homeowner policies were *in force* as of June 30, 2024 – an increase of more than 300% over the past five years. This growth also includes homeowners in low-risk wildfire areas, as a result of private insurers reducing their statewide risk and market share to hedge the risk of California FAIR Plan insolvency.

The *2024 Silicon Valley Poll* indicated that 38% of Bay Area homeowners have (or know of someone who has) experienced a recent policy cancellation; more than half (58%) have experienced recent increases in their homeowners insurance premiums. According to a California FAIR Plan spokesperson, the statewide average annual premium was $3,200 in 2022. Assuming an inflation-only increase in premiums, this would amount to $3,400 in 2024 dollars – approximately $2,100 greater than the average regional private insurance premium.

Modeling this increased uptake of coverage through the California FAIR Plan as a loss in effective household income, the rise in collective premiums may have resulted in a loss of approximately $26 million to homeowners, $15.6 million in regional economic output, and $530,000 in local (county, sub-county, and special district) tax revenues since 2019. Based on estimated reductions in household spending, these projected losses in regional economic output include $1.9 million to retail, $1.1 million to restaurants and other food/drinking places, and more than $2 million to the region's healthcare industry (e.g., hospitals, doctor's offices, outpatient care centers).



The broader effects of this massive shift in homeowners insurance in Silicon Valley and throughout the state would be even greater if specific coverages were factored into the analysis. A standard California FAIR Plan policy provides basic coverage for fires & lightning, internal explosions, and smoke only, and additional policies are required to cover other sources of damage or liability.

To address these issues, the State of California Department of Insurance has made several changes to the California FAIR Plan since 2019, has conducted an investigatory hearing to elucidate issues related to consumer needs, and has published its Top Ten Tips for Finding Residential Insurance, which includes directions on filing a complaint for unfair receipt of non-renewal notices.

Our Shared Economy estimates broader economic impacts that result from various events, such as changes in employment, labor income, output, or spending within a particular industry. Estimates are modeled using IMPLAN, an Input-Output economic impact assessment software system that combines extensive databases, economic factors, multipliers, and demographic statistics with a backward-linkage approach to purchases among industries.

Notes: The 2022 statewide average California FAIR Plan premium has been inflation-adjusted and is reported in 2024 dollars using the Bay Area consumer price index for all urban consumers from the Bureau of Labor Statistics for Silicon Valley data, 2024 estimate based on data through August. The regional average premium in the private homeowners insurance marketplace is calculated based on the average of city-level policies in Santa Clara and San Mateo counties as identified through the California Department of Insurance Homeowners Insurance Comparison Tool using the following search terms: Type: Homeowners; Age of Home: 25 years; Level of Coverage: $375,000.