[The pros and cons of self-insurance for homeowners](https://uphelp.org/the-pros-and-cons-of-self-insurance-for-homeowners/)

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“What do you think about going without homeowners insurance?” It was a question I had been asked before. Tim is a past client who I helped buy a home in Shingle Springs several years ago. He told me when he first purchased the home State Farm was their insurance provider and his yearly policy was around $1,500. Since then, State Farm and two other insurance companies have refused to renew his homeowners policy, leaving Tim with the only insurance available, the California FAIR Plan.

In 2019 Tim’s FAIR Plan premium was $4,500. His most recent renewal quote was over $17,000. Tim had paid off his mortgage, subsequently a homeowners policy was optional. Doing without homeowners insurance was a risk Tim was considering. Roughly 40% of U.S. homeowners own their home free and clear of a mortgage. Many are finding homeowners insurance an expensive option.

Lenders require homeowners with a mortgage to have a comprehensive full replacement costs policy in force during the life of the loan. If the security for their loan is damaged or jeopardized they want to be paid first. If a homeowner fails to maintain acceptable coverage, a lender will obtain a lender’s policy which insures the lender in the event of an insurable loss. Lender policies are expensive, and their cost is invoiced to the homeowner. Failure of a homeowner to pay for insurance coverage is a foreclosure risk.

Homeowners without a mortgage may have some flexibility in determining the amount and extent of their insurance coverage but not much. Most insurance companies have limits on the policy deductions and require minimum coverage. With few opportunities for substantial savings on a policy premium, more homeowners are electing to do without.

According to the Insurance Information Institute, the percentage of Californians without homeowners insurance has doubled since 2019. Currently, 12% of homeowners have opted to go without homeowners insurance, compared to 5% in 2019. That percentage is likely to increase. California homeowners insurance premiums are expected to increase by 80% within the next four years. An expensive option for the 7.4 million California homeowners without a mortgage.

While one third of California homeowners have the option of going without insurance, most don't have the financial strength to withstand a significant loss. The majority of homeowners have 80% or more of their household net worth in their home's equity. If the equity in a personal residence accounts for more than 30% of the family's total net worth, going without insurance is not advisable. Tim's home equity amounted to less than 30% of his net worth. If a fire destroyed his home, it would be a catastrophe, but his net worth would allow him to buy another home or rebuild.

Statistically, the odds of losing a home to a fire were in Tim's favor. According to Cal Fire, about 2,000 homes each year are destroyed by fires from different sources. That's a large number. However, there are about 14 million homes in the state. The risk increases for homes that are located in high fire areas, older homes without fire hardening features and homes with poor defensible space.

I suggested Tim hire a fire-inspection service to evaluate the likelihood that Tim's home could survive a wildfire and offer suggestions how to improve his defensible space and house hardening. Homeowners who elect to self-insure should either set aside the insurance premium they would have paid to offset potential expenses in the event of a loss or use the money to upgrade a home with fire-prevention features in preparation for a potential fire. Spending the savings of a yearly insurance premium on a fire-suppression system is a one-time cost and will improve the home's value.

Both the cost of insurance and the risk of going without is stressful. Amy Bach, co-founder of consumer advocacy group United Policyholders explained, "The stress levels households are experiencing around the insurance crisis is unprecedented. You can't afford to lose most of your net worth because you don't have insurance, but the $18,000 and $40,000 premiums people are quoted is insane."

The declining number of insurance companies in California has eroded homeowners options for lower premiums. Insurance companies are not negotiating on premiums. Bundling home with auto, higher deductibles and threats of shopping around will not substantially lower premiums. However, fire hardening improvements and more defensible space will substantially decrease a home's potential loss to a wildfire.

If a homeowner is willing to take the risk of self-insurance they must think like an insurance company.

They must be prepared for a loss with adequate reserves to build or buy another home. They should objectively view their home's potential for a fire loss and evaluate mitigation measures to insure it survives a fire. Homes are subject to damage from other sources normally covered in a comprehensive policy. A general liability policy should also be considered.

Homeowners are caught between a rock and a hard spot. With the median selling price of a California home north of $900,000, few homeowners can sustain that loss. However, costly premiums are forcing rural homeowners to accept the risk of no coverage or selling their home and relocating.

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