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Actuaries Institute says better measures needed to understand insurance affordability

- **Many households face affordability pressure in northern Australia.**
- **Better data and measures needed to understand affordability.**
- **Greater investment in mitigation and cross-subsiding premiums for those under high stress should be considered.**

Households in up to 12% of Australian postcodes may face pressure meeting annual home insurance premiums, a figure which represents around 7% of Australia's population, according to a major research paper from the Actuaries Institute.¹

The paper states Australia has a sophisticated approach to pricing risk for natural disasters, which is reflected in premiums that can vary from less than \$1,000 a year to above \$10,000. But there is no clear and widely accepted measure for whether insurance is affordable, and data is lacking to gauge the depth of the problem. Without a measure of affordability and better publicly available data, it is difficult to target relief to those who need it.

Property Insurance Affordability: Challenges and Potential Solutions, aims to help policymakers better understand affordability issues, said Hoa Bui, President of the Actuaries Institute. "All stakeholders have a role to play in improving affordability, especially in northern Australia, where this is most keenly felt," Ms Bui said. "There is a compelling public policy case for examining cross-subsidising some premiums for those experiencing stress."

When housing affordability and cost of living pressures arise, property owners may let policies lapse or purchase less insurance than is needed. "This gives rise to what is considered a 'protection gap', property owners without sufficient insurance to recover well from loss events," Ms Bui said.

That gap is concerning for individuals, communities, governments (taxpayers) and charitable organisations because they are all called upon to bridge the gap through restoration and recovery of property and livelihoods.

Policymakers are looking for better ways ahead, as evidenced by the Australian Competition and Consumer Commission inquiry and the Royal Commission into natural disasters. *State of the Climate 2020*, a CSIRO and Bureau of Meteorology report released earlier this month, adds a further contextual imperative.

Property Insurance Affordability: Challenges and Potential Solutions, written by the General Insurance Affordability Working Group, has found that a consumer's ability to pay for insurance is not always linked to their risk: a home built on a susceptible wind-swept beachfront, subject to tidal inundation, may be high risk, but the owners may be prepared for and able to afford significant insurance premiums.

But "... unfortunately, some homes in the highest risk areas tend to be in lower socio-economic groups; understandably they may not buy insurance", said Rade Musulin, Chair of the Working Group and lead author of the report.

Building codes, community resilience, changing climate and land use planning are all relevant factors. Building codes to date have focused on life safety and the current view of risk. However, a revision of codes may take years.

¹ Calculated by mapping a sample of 15,000 quotes from a Finity supplied national buildings quote dataset. These figures are illustrative only with the key limitation being new quotes may inaccurately reflect actual premiums paid.



Social concerns arise when high premiums occur in communities that cannot pay; in places where homes have poor resilience ratings, where there are increasing instances of natural peril or where incomes are low. This may occur where circumstances change, which may also be the result of climate change.

A key feature of addressing affordability pressures involves increased mitigation. Government taxes could also be reviewed. But there is a compelling case for public policymakers to provide some support for those facing unaffordable premiums while still using economic incentives to encourage better behaviour to reduce risks in the long-term.

Support can be targeted through changes to insurance products and premium design (including, for example, community rating and risk equalisation), by providing direct subsidies or rebates, or by changing how insurance risk is pooled, either at the insurance or reinsurance level.

The arguments for targeted policies to reduce premium stress include increasing the take up of insurance, creating funds for research and mitigation, reducing government expenditure on post-event recovery, reducing intangible costs (such as mental health impact) in the event of loss from the 'peace of mind' that insurance can provide, and increasing overall economic activity by enabling development.

Guiding principles for change include:

- proper incentives for mitigation to lower overall losses over time;
- well-functioning private insurance markets which limit government intervention are desirable in an economy such as Australia's; and
- risk-based pricing to support long-term policy goals.

The paper states there is need for temporary and targeted government intervention to help manage affordability, in at least the near term. Policy solutions should be reviewed as conditions change.

Addressing affordability should include targeting the vulnerable, sending the correct economic signals to consumers and identifying what changes in behaviour are needed.

"There are complex trade-offs to be considered as part of solving problems of affordability. This paper aims to further the discussion around those issues," Mr Musulin said. The paper asks, for example, how much economic pain is acceptable for consumers or households to bear? Should losses be funded pre- or post-events, and in what proportion? To what extent should costs be pushed out and thus borne by future generations?

"The overall goal should be to improve the risk profile of the population to maximise insurability of properties and minimise the need, in the longer term, for ongoing government intervention to promote resilient communities," the paper states.

"We need to future proof Australia in a cost-effective manner to make affordable insurance available to as many people as possible."

Rade Musulin is also the Convenor of the Actuaries Institute Climate Change Working Group. He is available for interviews.

A copy of the paper is available [here](#).

For media inquiries please contact: Michelle Innis P&L Corporate Communications, +61(0) 414 999 693.

About the Actuaries Institute

As the sole professional body for Members in Australia and overseas, the Actuaries Institute represents the interests of the profession to government, business and the community. Actuaries assess risks through long-term analyses, modelling and scenario planning across a wide range of business problems. This unrivalled expertise enables the profession to comment on a range of business-related issues including enterprise risk management and prudential regulation, retirement income policy, finance and investment, general insurance, life insurance and health financing.