Actuaries Institute: one million Australian homes facing insurance premiums of more than four weeks income today, climate change will increase affordability pressure

17 August 2022

- **Climate change to widen the gap in home insurance affordability between average and vulnerable Australian households.**
- **Vulnerable households concentrated in NT, QLD, and Northern NSW.**
- **Report proposes policy solutions to help target assistance to these households.**

Research issued today by the Actuaries Institute shows vulnerable households are paying an average of 7.4 weeks of their gross annual income on home insurance, while the Australia-wide average is 1.1 weeks.

The paper said one million households (approximately 10%) – defined as 'vulnerable' – spend more than 4 weeks of their gross annual income on home insurance. They are more likely to be in northern Queensland, Northern Territory, and northern NSW, while the rest tend to be in capital cities. For households where the annual home insurance premium is more than $2,000, half earn less than $65,000.

The Actuaries Institute Green Paper, *Home insurance affordability and socioeconomic equity in a changing climate,* was commissioned by the Actuaries Institute and compiled by authors Sharanjit Paddam, Calise Liu and Saroop Philip from Finity Consulting's Climate & ESG Risk Practice. The paper takes a detailed look at insurance costs for each Australian household (summarised by Local Government Area) and shows the gap between vulnerable and other households will widen due to climate change.

"Climate change will increase home insurance affordability pressure, but the impact will be far greater on vulnerable households – those already facing affordability pressures," said Mr Paddam. "This will make it harder for them to recover from natural disasters or to prepare and pay for measures to reduce their risk," he said.

"These vulnerable households are more likely to be older, renting, in lower socio-economic areas and have less savings. By acting today, policymakers can begin to address home insurance premium affordability and the socioeconomic inequities of climate change," Mr Paddam said.

"Policy changes will require strong collaboration between multiple parties, including local, state and Commonwealth governments, insurers and banks, builders and developers, and First Nation Australians," Mr Paddam noted.

The following recommendations were outlined in the report:

- structural solutions to improve infrastructure resilience (such as levees, floodways, and sea walls);
- managed retreat from risk-prone areas;
- better land use and planning and changes to building codes to allow for the impact of climate change over time, and to reduce development in high-risk areas;
- nature-based solutions for improving resilience;
- close consultation with First Nations Australians on more resilient ways of living within the Australian landscape;
- options to subsidise insurance for low-income households to supplement the cyclone reinsurance pool;
- improved data collection and availability on home insurance affordability as well as vulnerable assets, natural hazards and the impact of climate change; and
- replacement of State stamp duty and levies with more equitable and efficient sources of revenue.

"In areas where mitigation and adaptation systems cannot adequately manage the losses suffered from persistent severe weather events, communities may need to consider relocating some or all of its people and assets, especially in cases where home insurance premiums become unaffordable" the paper said.

"Managed retreat was used in Grantham (west of Brisbane) in 2013 and is underway in New Zealand in some areas damaged by the Christchurch earthquake," Mr Paddam said, "but this requires careful government planning, community consultation and education to ensure vulnerable households are not left behind."

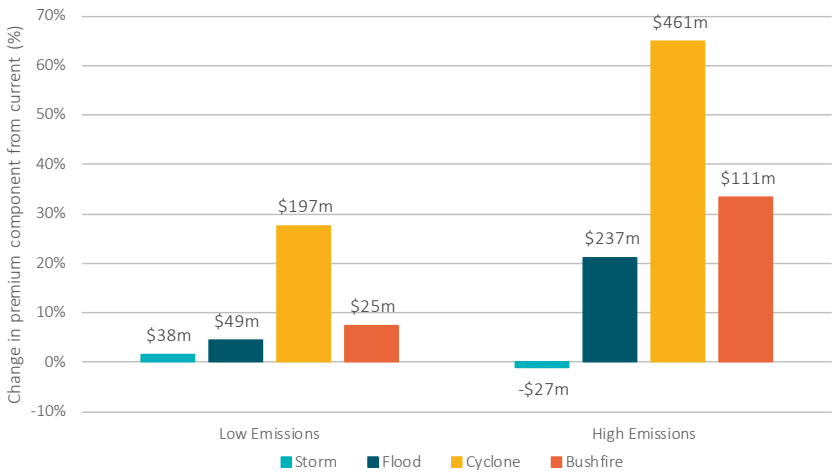
Actuaries Institute Chief Executive Elayne Grace said: "The Australian Actuaries Home Insurance Affordability (AAHIA) Index will give policymakers insights into home insurance affordability for households, the flow-on effects on the economy, and the implications for planning and disaster recovery. The most effective use of finite government

resources will be to assist the most vulnerable households expected to experience the greatest pressures from the changing climate".

The paper said the Federal Government's $200 million annual investment in resilience will help protect communities from the impact of natural hazards and could eventually reduce home insurance premiums in addition to non-insurance costs for Governments and households. Infrastructure resilience measures could yield savings of up to 10 times the initial investment, it added.

Under a scenario with a less than 2°C temperature rise ('low emissions scenario'), home insurance affordability pressure will increase by 14% (or 7.6 days) for vulnerable households, but with very little change for other households. Under a scenario where emissions continue to increase and temperatures increase by more than 3°C by 2100 ('high emissions scenario'), affordability pressure increases by 20% (or 10.7 days) for vulnerable households. In both scenarios, significant increases in cyclone, bushfire, and flood risk drive much of the increased affordability pressure.

Changes to annual cost of weather-related hazard components under climate scenarios in 2050 compared to 2022 ($2022 values)



The AAHIA Index estimates the number of weeks of income households pay in home insurance (by dividing annual home insurance premiums by gross annual household income). Those most vulnerable have low incomes and high insurance costs and are typically in the areas most affected by natural disasters.

The paper compares the index increase for the 10% of households with the least affordable premiums ("vulnerable households") to the rest of the insured population ("base households") by 2050 – under the low and high emissions scenarios. These scenarios are based on scientific advice from the CSIRO, The Bureau of Meteorology, and UNSW as part of the Climate Measurement Standards Initiative.

According to the paper, the average (mean) home insurance premium across Australia is $1,534 while Australians living in parts of Northern Queensland and Northern WA currently pay the highest amounts for insurance coverage, with mean annual home insurance premiums over $3,000. Communities in the Northern Territory are mostly impacted by cyclone risk, while inland NSW and southern QLD have high exposure to flood risks.

The paper can be found **here.** Sharanjit Paddam and Elayne Grace are available for media interviews.

For media inquiries please contact:
Janine MacDonald, P&L Corporate Communications
m +61(0) 478 492 110

About the Actuaries Institute and the Profession
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 use data for good by harnessing the evidence to navigate into the future and make a positive impact. They think deeply about the issue at hand, whether it's advising on commercial strategy, influencing policy, or designing new products. Actuaries are adept at balancing interests of stakeholders, clients, and communities. They're called upon to give insight on complex problems, they'll look at the full picture. Actuaries analyse the data and model scenarios to form robust and outcome-centred advice.

Key graphs and tables from the Green Paper

Figure 1.1 Australian Actuaries Home Insurance Affordability Index by percentile

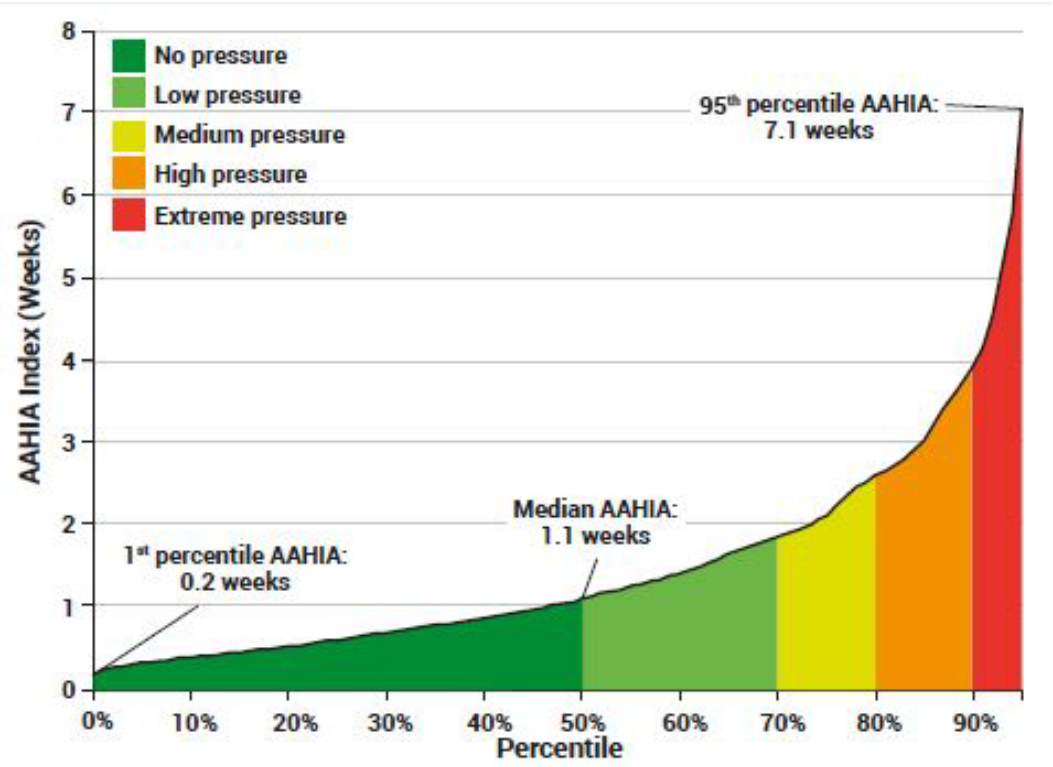


Figure 1.2 – Population characteristics of vulnerable and base households

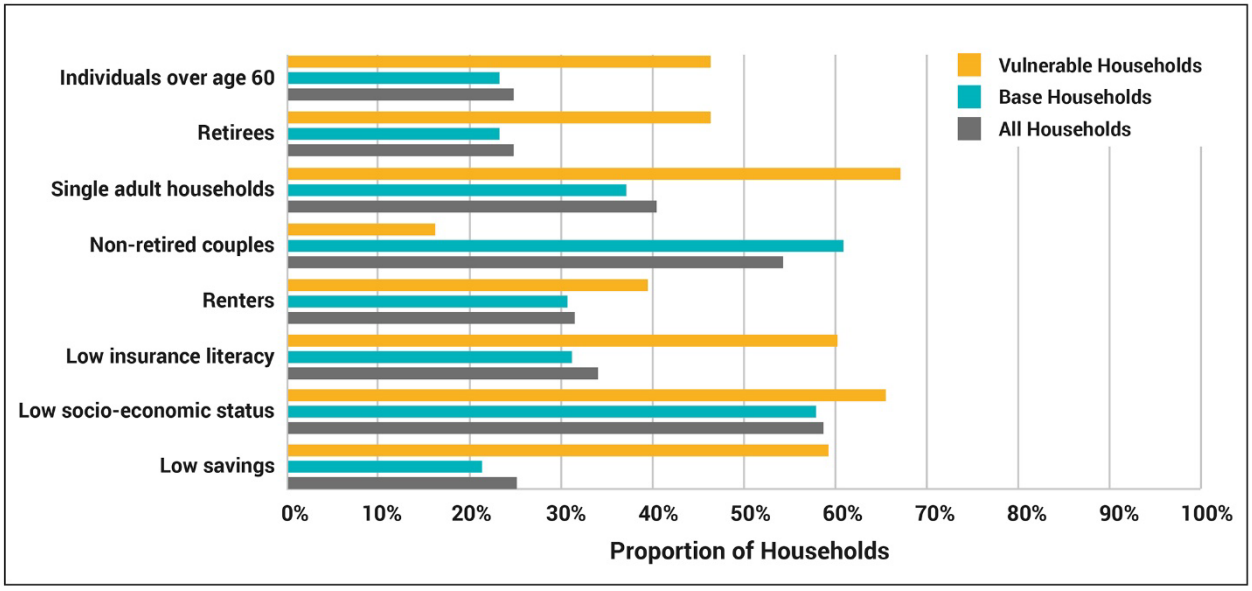


Figure 1.3 Increase in median AAHIA under a high emissions scenario

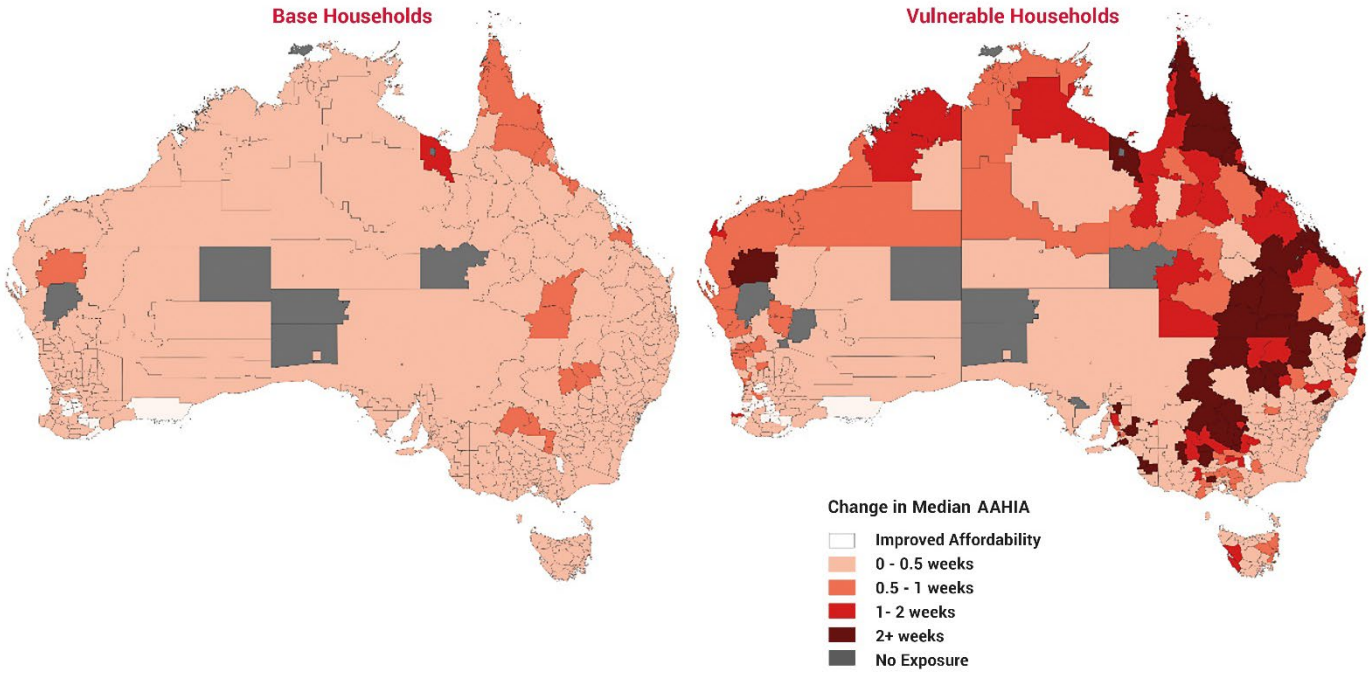


Figure 2.1 – Historical insurance losses in Australia

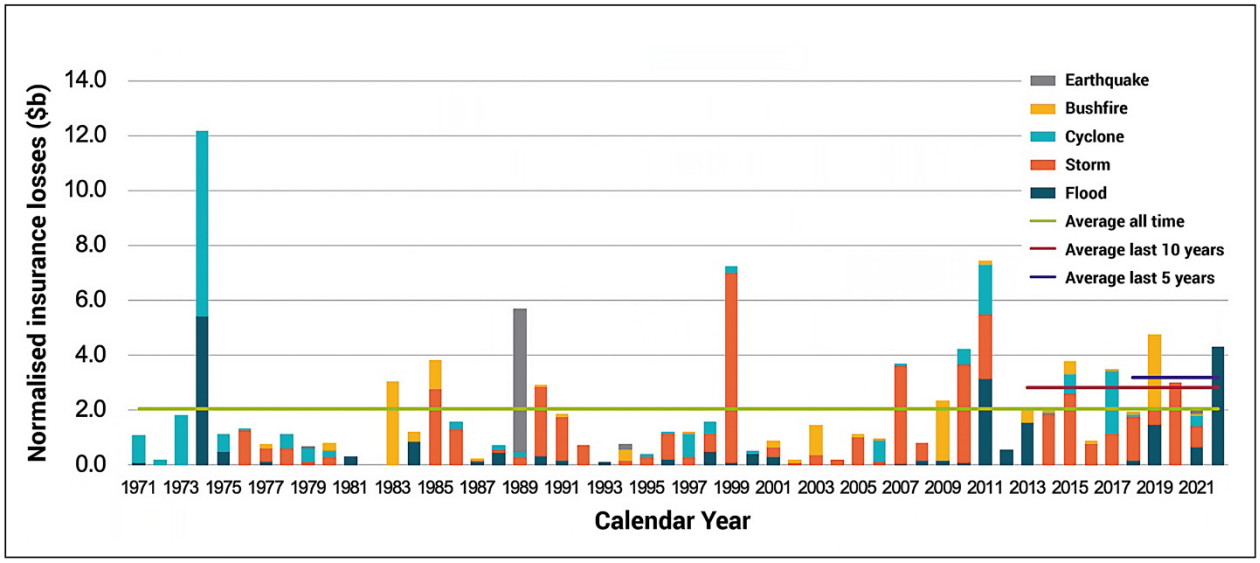


Table 4.3 – Australian Actuaries Home Insurance Affordability Index by State

	NSW	VIC	QLD	SA	ACT	NT	TAS	WA	AUS
Median AAHIA Index (weeks)	1.4	0.9	1.4	0.8	0.7	1.3	0.9	0.8	1.1
Total number of LGAs	129	80	74	69	1	16	29	135	533
Number of LGAs with median AAHIA Index greater than 1.1 weeks[i]	78	1	61	1	0	12	2	12	167
Proportion of LGAs with median AAHIA Index greater than 1.1 weeks[i]	60%	1%	82%	1%	0%	75%	7%	9%	31%
Number of LGAs with median AAHIA Index greater than 4 weeks[ii]	0	0	12	0	0	0	0	0	12
Proportion of LGAs with median AAHIA Index greater than 4 weeks[ii]	0%	0%	16%	0%	0%	0%	0%	0%	2%

[i] This corresponds to the median across all households.
[ii] This corresponds to the 90th percentile across all households.