



Climate change and home insurance affordability

AdaptNSW 2022

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Home insurance affordability and socioeconomic equity in a changing environment

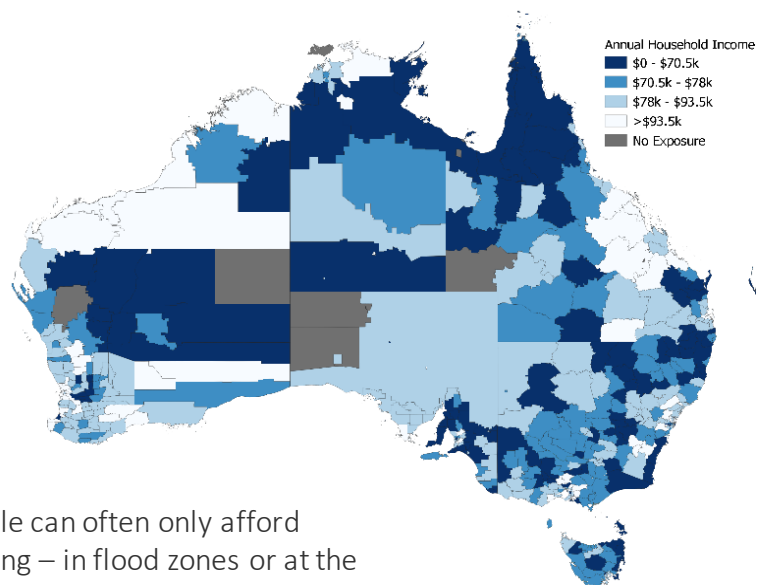
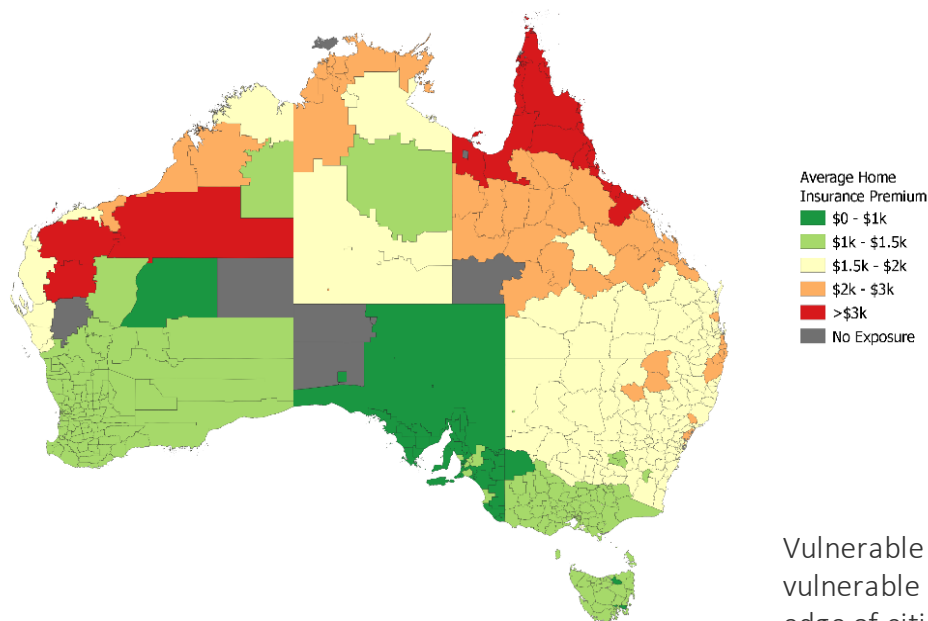


Compared cost of home insurance with gross household income for every household in Australia Current, and two climate scenarios in 2050 Focused on socioeconomic impact

Available at

<https://actuarial.asn.au/public-policy-and-media/thought-leadership/green-papers/home-insurance-affordability-and-socioeconomic-equity-in-a-changing-climate>

Home insurance affordability is affected both by the risk of extreme weather (insurance premium) and financial resources (household income)



Vulnerable people can often only afford vulnerable housing – in flood zones or at the edge of cities near bushfires

Figure: Home Insurance Premium, Average by Local Government Area

Figure: Annual Gross Household Income, Average by Local Government Area



Australian Actuaries Home Insurance Affordability Index = $\frac{\text{Annual Home Insurance Premium}}{\text{Gross Annual Household Income}}$ (weeks)

NSW

- Median 1.4 weeks
- 13% of households above 4 weeks

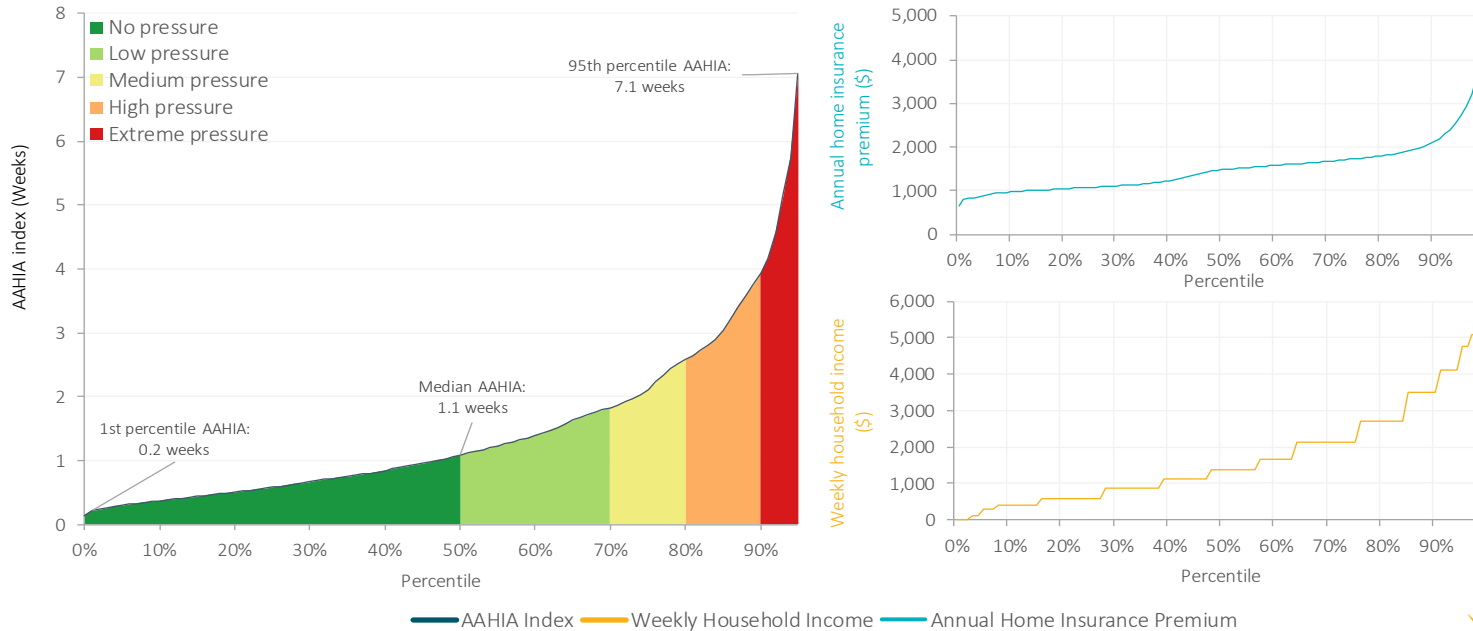
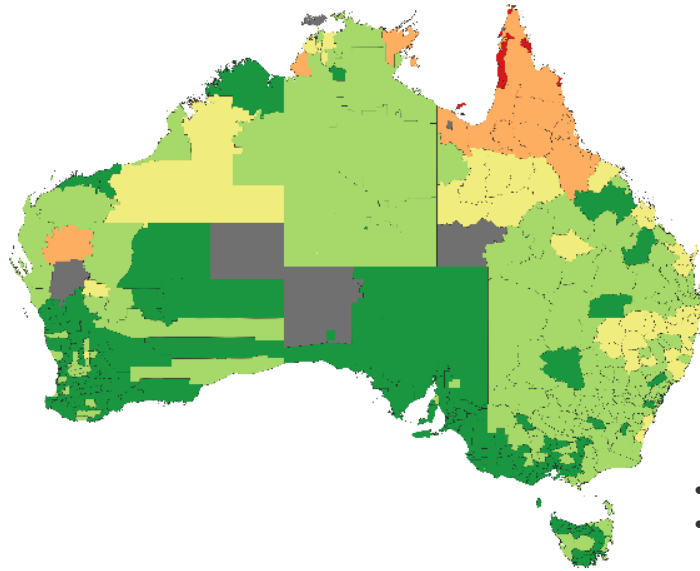


Figure: Australian Actuaries Home Insurance Affordability (AAHIA) Index by percentile
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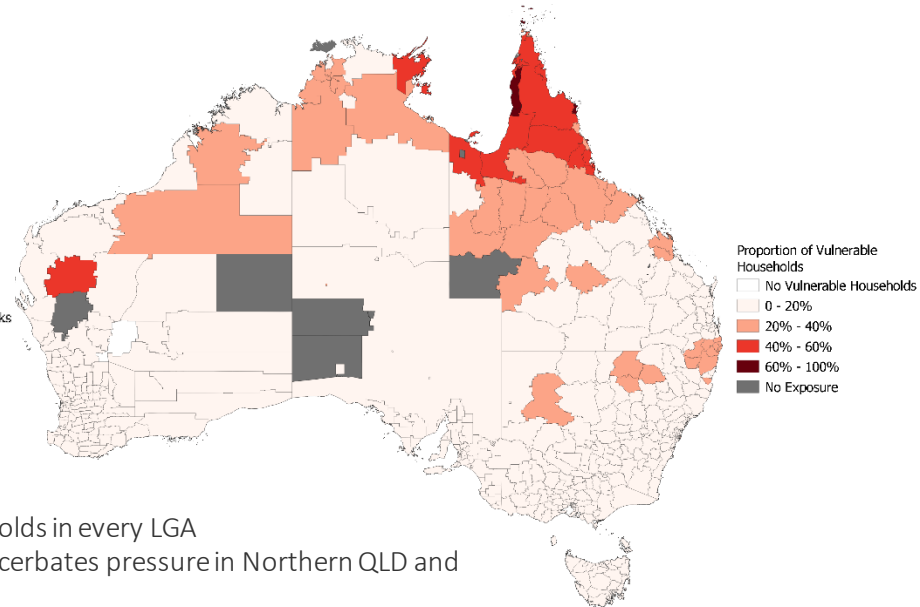
Northern Australia and inland NSW face the highest affordability pressures today



Median Affordability

- No pressure: 0 - 1.1 weeks
- Low pressure: 1.1 - 1.8 weeks
- Medium pressure: 1.8 - 2.5 weeks
- High pressure: 2.5 - 4 weeks
- Extreme pressure: 4 weeks +
- No Exposure

- Vulnerable households in every LGA
- Lower incomes exacerbates pressure in Northern QLD and Northern NSW
- But higher incomes alleviates pressure in WA



Proportion of Vulnerable Households

- No Vulnerable Households
- 0 - 20%
- 20% - 40%
- 40% - 60%
- 60% - 100%
- No Exposure

Figure: Australian Actuaries Home Insurance Affordability (AAHIA) Index by Local Government Area

Figure: Proportion of vulnerable households by LGA

Socioeconomically disadvantaged sections of the community, who are already struggling, are over-represented in the vulnerable population

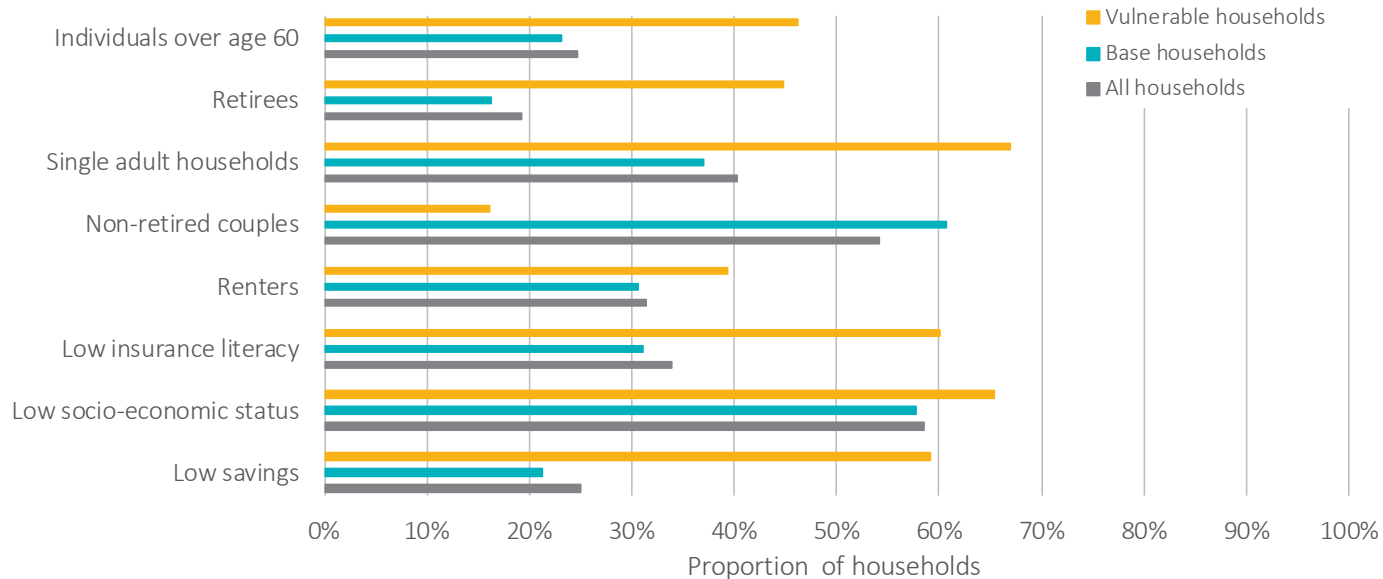
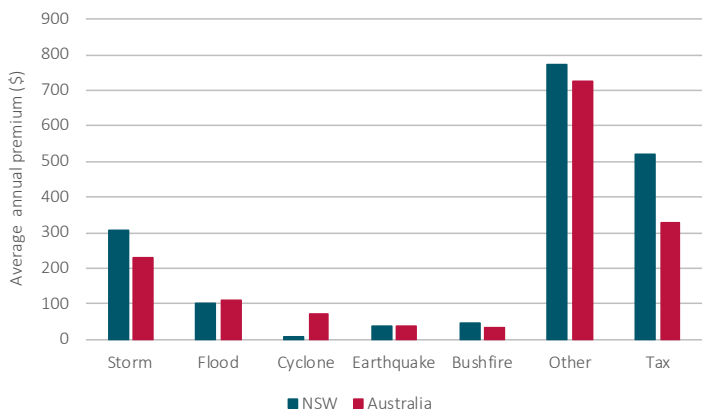


Figure: Population characteristics of vulnerable and base households

Climate change will significantly increase cyclone, bushfire and flood premiums



Impacts of climate change on weather-related hazard components at 2050

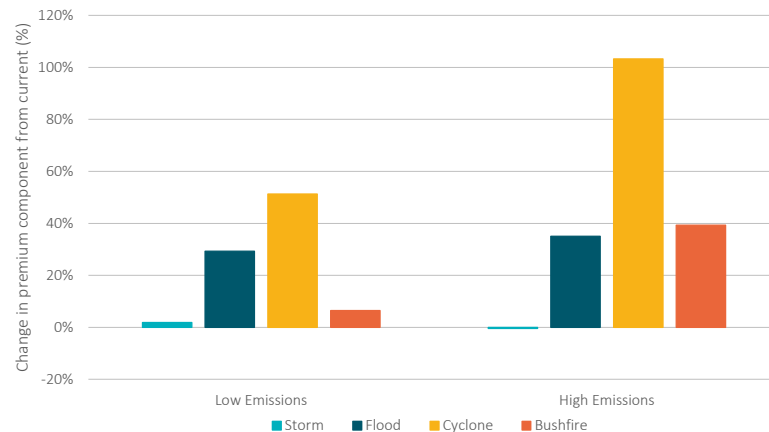


Figure: Average annual home insurance premiums by component for NSW and Australia (\$2022 values)

Figure: Changes to annual cost of weather-related hazard components under climate scenarios in 2050 compared to 2020 (in \$2022 values)

These graphs assume that all households will purchase insurance with sufficient sums insured.
 Low emissions scenario based on RCP2.6 with rapid emissions reductions a 67% chance of less than 2 °C warming.
 High emissions scenario based on RCP8.5 with increased emissions and greater than 3 °C warming by 2100.

Affordability pressures will increase everywhere, but the impacts are greatest on already-vulnerable households

Under a high emissions scenario, the median AAHIA in 2050 will increase by less than half a week for base households but by 11 days (20%) for vulnerable households.

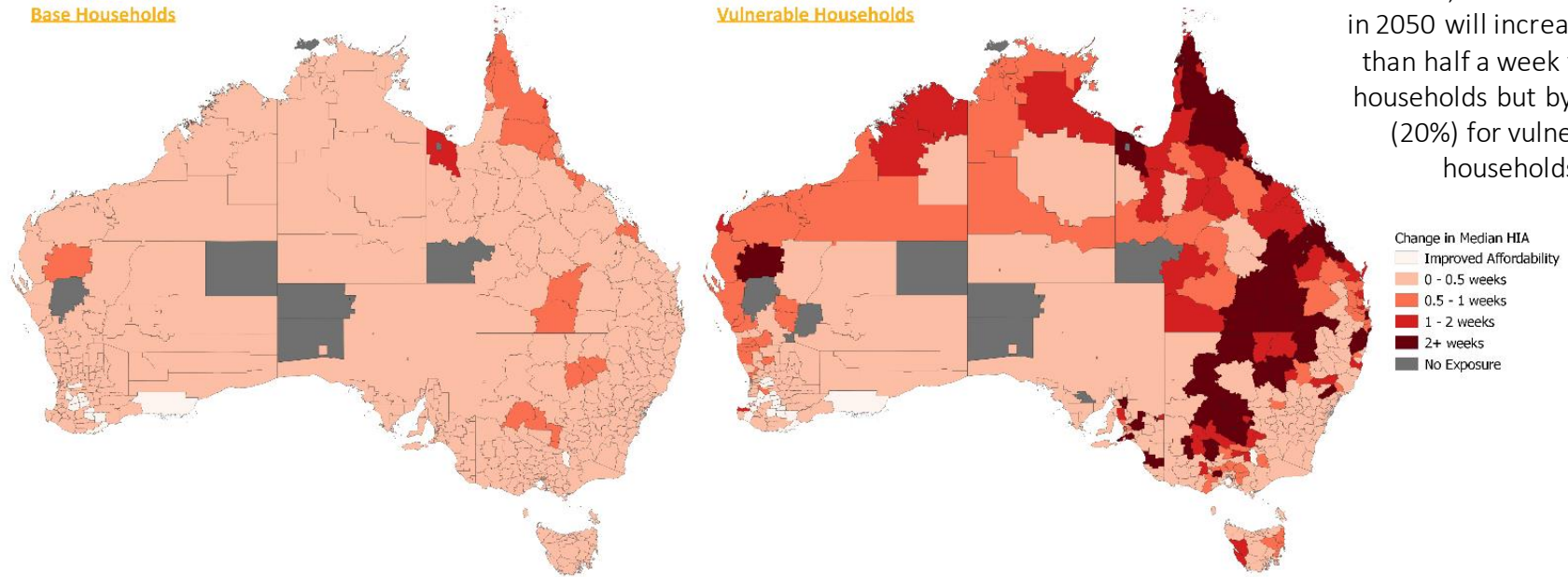


Figure: Increase in median AAHIA under a high emissions scenario

Potential solutions

- Policy solutions need to be targeted at vulnerable communities, and allow for the impact of climate change.
- Investment in resilience is far more affordable than post-disaster payout, and can readily achieve 10:1 benefit to cost ratio
- Solutions need collaboration across all levels of government, as well as insurers and banks, builders and developers and First Nation Australians
- Governments need to develop a framework for managed retreat
- We should replace state based levies and stamp duty on insurance with more efficient and equitable revenue sources
- Access to high quality and reliable data on natural hazards, vulnerable assets and climate change impacts will allow households, insurers, business and governments to make effective and efficient decisions.

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