

Nearly one in eight households now facing home insurance affordability stress

Home insurance premiums have jumped by 28 per cent in the past year – the biggest rise in two decades, raising concerns that many Australian households may abandon their insurance altogether, according to new research released today by the Actuaries Institute.

In response to the research, the Actuaries Institute has outlined a package of urgent policy measures for governments, insurers and other stakeholders to consider in order to ease the affordability pressures and bolster existing initiatives to improve the preparedness and resilience of communities facing threats from floods, cyclones and bushfires.

The research, which involves two related reports commissioned by the Actuaries Institute, found that median home insurance premiums rose 28 per cent to \$1,894 in the year to March 31, with the highest risk properties, such as those in flood-prone areas, up by 50 per cent.

The first report, [Home Insurance Affordability Update](#), is authored by actuaries Sharanjit Paddam, Calise Lui and Saroop Philip from Finity Consulting's Climate Analytics Practice, and looks at it in the context of all natural perils. The report found that the proportion of "affordability stressed" households – those that spend more than one month's worth of their gross annual income on home insurance – rose from 10 to 12 per cent. These households spend on average 8.8 weeks of their income on home insurance, which is more than seven times what the average household spends.

Overall, the report estimated that 1.24 million Australian households – or nearly one in eight – are facing home insurance affordability stress, up from one million households a year ago.

"This is the largest increase in home insurance premiums I have seen over the last two decades," Mr Paddam said. "Half the increase in home insurance premiums relates to building cost inflation, which has spiked during the past two years due to supply chain shortages. There's also been an increase in natural disasters and higher reinsurance costs, driven by the climate change impacts we're already seeing".

"Based on science, we expect these home insurance affordability pressures are likely to continue to worsen due to climate change. If we don't take policy action now, we can expect to have more people abandoning home insurance. Without insurance, households will struggle to recover from disasters and governments, taxpayers, charities and many informal means of support will be left to assist. This usually results in households receiving some support but will not allow them the full economic recovery they would receive if insured."

The research found that the hardest hit households are in the flood-prone Northern Rivers region of NSW, as well as north Queensland and Western Australia, where cyclone risk is high. Among most of the affordability-stressed households in these areas, more than half of their home insurance premiums relate to natural peril costs due to floods.

An estimated 171,000 households across Australia were said to be enduring extreme affordability pressure, with riverine flood risk contributing more than half of their home insurance premiums. The researchers estimate that the total flood premium for these 171,000 households, if they were fully insured, to be \$1.5 billion per annum, or \$8,800 on average per household.

"At the moment, \$1.5 billion is the size of the problem," Mr Paddam said. "That is our estimate of flood insurance that could already be considered unaffordable."

The research included analysis of the expected impact of the federal government's Cyclone Reinsurance Pool, which began phased introduction in July 2022. The analysis found that if all households in areas rated as cyclone exposed purchased insurance, the Pool is expected to reduce total cyclone premiums by 26 per cent (\$370 million) and flood premiums by nine per cent (\$230 million), noting that cyclone-related flood is covered by the Pool.

The Institute's second report, [Funding for Flood Costs: Affordability, Availability and Public Policy Options](#), examines riverine flood risk alone and outlines a package of short, medium, and long-term policy measures that should be considered by governments, insurers, and other stakeholders to reduce affordability stress for households who are also facing the highest risk.

The measures include continual investment in effective risk reduction initiatives complemented by government actions such as reform of insurance-based taxes or targeted subsidies to provide an immediate impact and encourage the take up of insurance.

They also include the introduction of interim cost-sharing measures, like an insurance or reinsurance pool that includes riverine flood or other types of government funding, if policymakers decide relief needs to be accelerated. Insurance pools generally aim to share the risk and cost across a wide group (or 'pool') so that insurance is made more affordable for higher-risk policyholders through a cross-subsidy mechanism.

The report's lead author Evelyn Chow, Head of Portfolio Management APAC for Swiss Re, said: "Risk reduction is the only way ultimately to address affordability stress by lowering the underlying risk and therefore costs in a sustainable way, especially when we factor in climate change. An optimal mix of measures could be supported by using better data, technology and climate risk frameworks.

"If the government was to give consideration to an insurance pool, any future model would need to consider the fact that flood risk is highly localised in Australia among a relatively small number of households with significant exposure."

Actuaries Institute CEO Elayne Grace said: "Flood insurance affordability pressures are acute and there is a need to address this problem urgently. We need to tackle this problem holistically, with a well-designed suite of policy measures to achieve long-term benefits for all Australians."

Other policy measures supported by the Institute include the:

- Replacement of insurance taxes, such as stamp duty, and the NSW Emergency Services Levy with alternative revenue sources that are more equitable and efficient.
- Strengthening and futureproofing of building codes and land use planning rules to improve the resilience of communities.
- Improved collection and use of up-to-date data by governments, agencies and the private sector to improve flood risk management and strategy and inform the public about a property's flood risk.

Sharanjit Paddam and Evelyn Chow are available for comment.

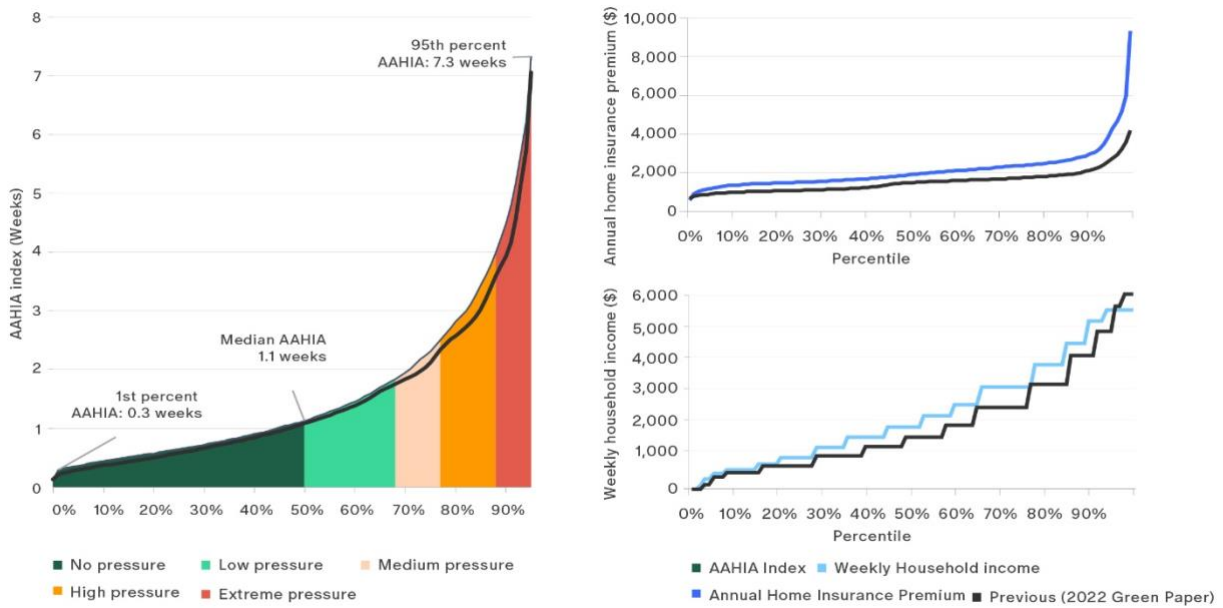
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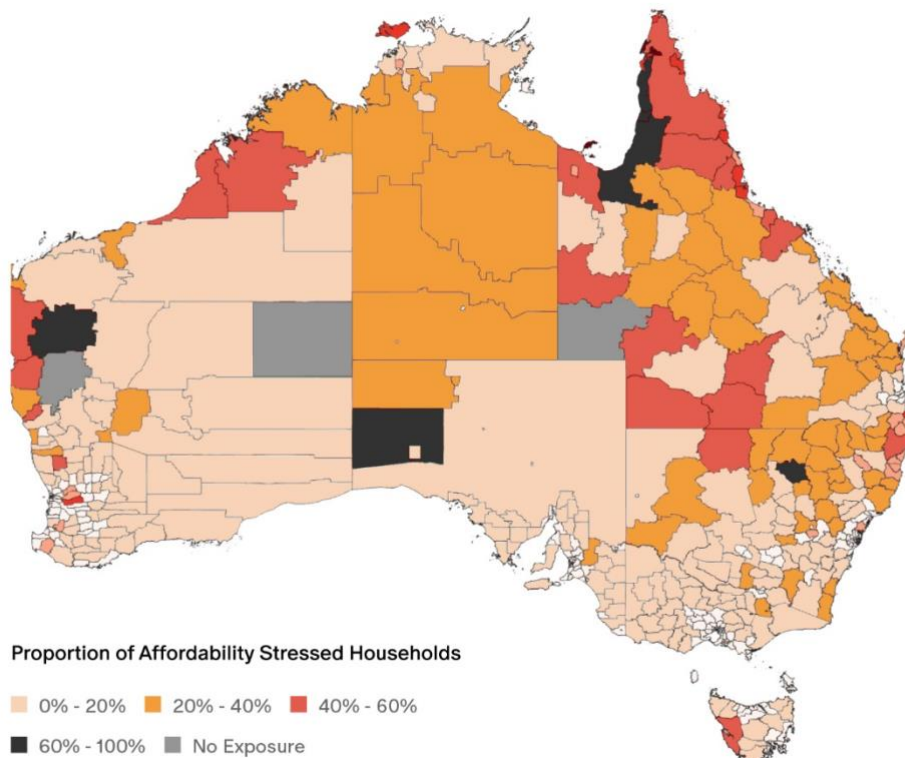
About the Actuaries Institute and the Profession

As the peak professional body in Australia, the Actuaries Institute represents the profession to government, business and the community, and holds the 'public interest' or 'common good' as a key principle in developing policy. 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.

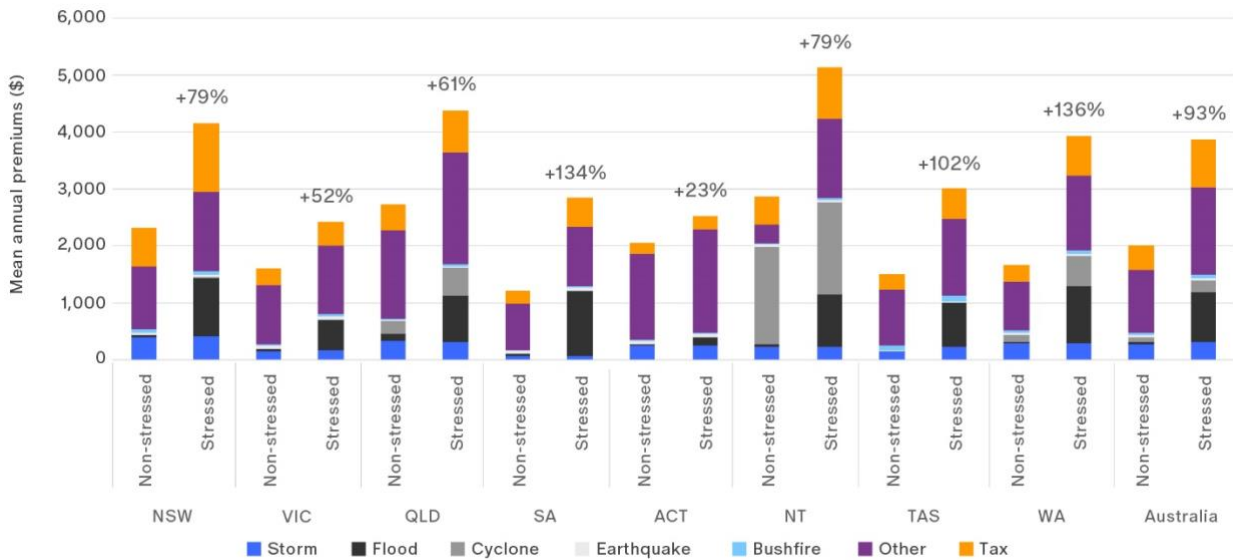
Australian Actuaries Home Insurance Affordability Analysis



Note: The Australian Actuaries Home Insurance Affordability (AAHIA) Index is expressed as the number of weeks of gross household income required to pay a home buildings and contents insurance premium. The higher the AAHIA, the more unaffordable the home insurance premium is.



Total Home Insurance Premiums by State (split by affordability stress)



Home Insurance Premiums by State

	Estimated mean by state									Australia	
	NSW	VIC	QLD	SA	ACT	NT	TAS	WA	Mean	Median	
Storm	396	156	339	76	254	239	149	290	278	255	
Flood	192	76	251	99	25	146	70	86	149	0	
Cyclone	6	0	269	0	0	1,701	0	157	86	0	
Earthquake	41	50	14	50	72	47	20	48	39	42	
Bushfire	56	21	36	16	10	20	76	43	38	0	
Other insurer cost components ¹	1,155	1,064	1,620	824	1,534	447	1,003	878	1,168	1,077	
Stamp Duty, Levies and GST ²	754	287	503	235	189	546	277	315	475	353	
Total premium	2,600	1,654	3,032	1,300	2,084	3,145	1,594	1,817	2,234	1,894	
<i>Stamp Duty</i>	9%	10%	9%	11%	0%	10%	10%	10%			
<i>Emergency Services Levy</i>	17.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%			