



Home insurance affordability

Calise Liu, Saroop Philip, Sinead Keane

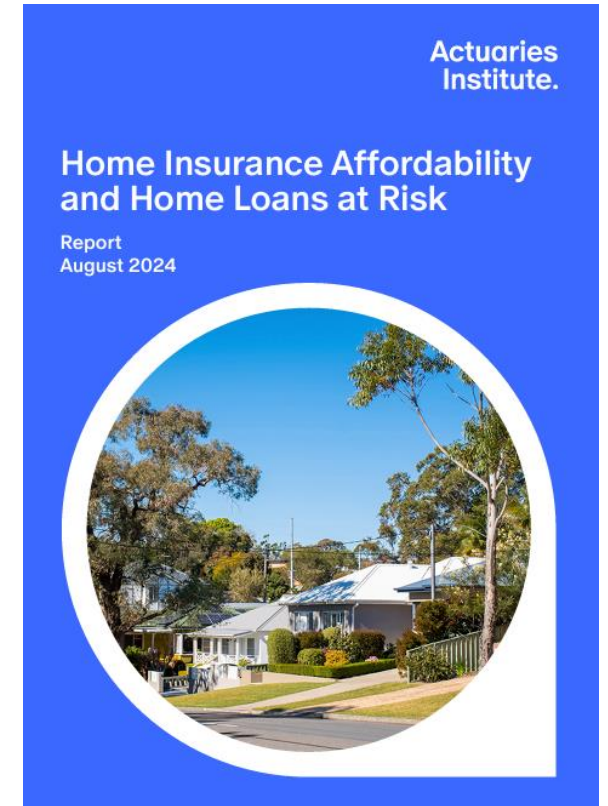
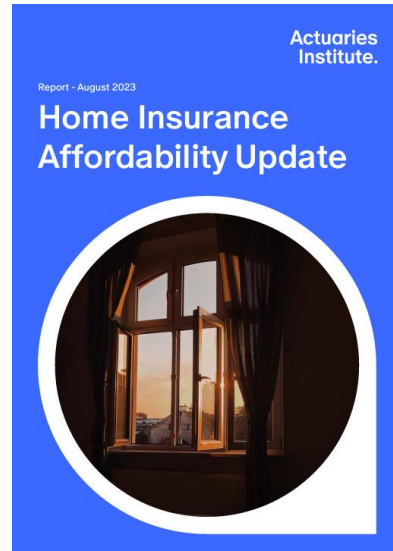
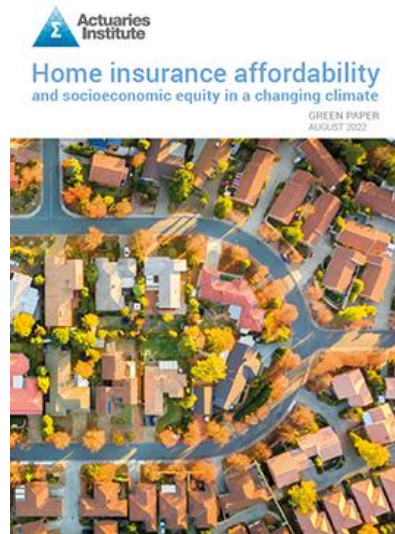
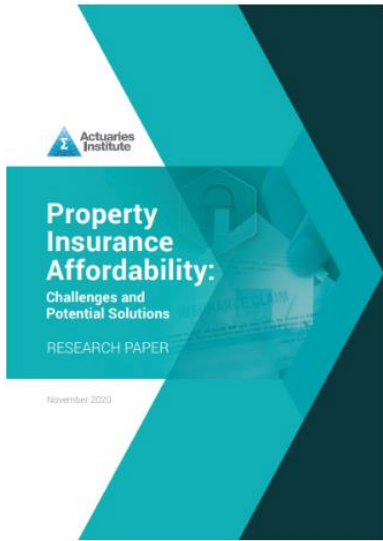
Finity Consulting



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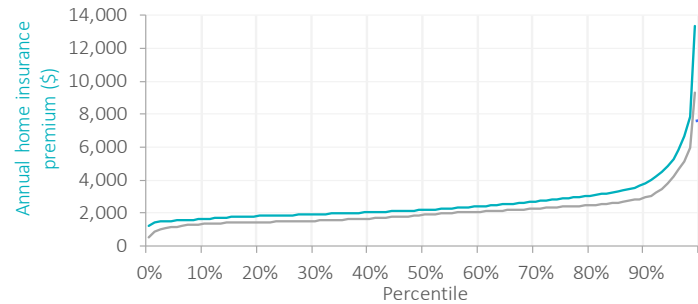
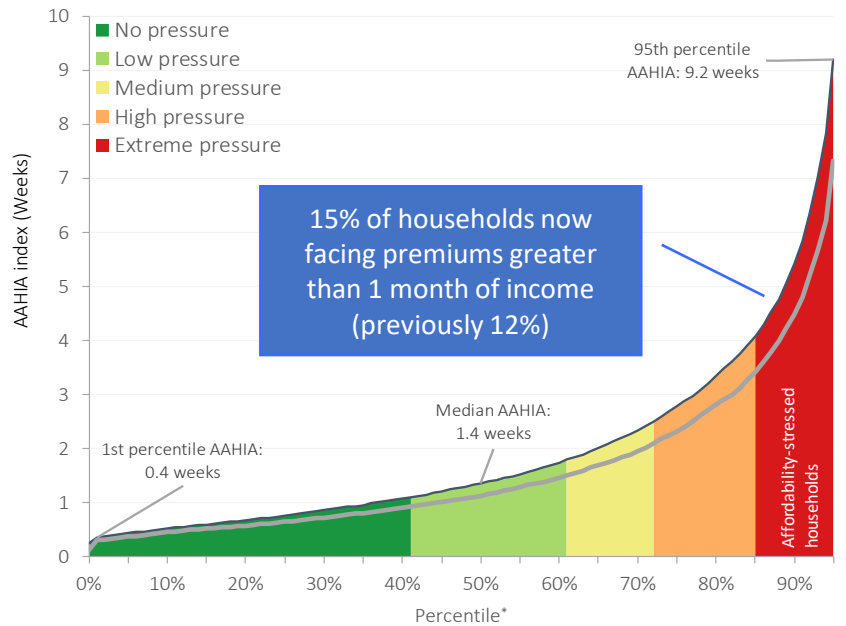
- Australian Actuaries Home Insurance Affordability Index
- Changes in home insurance premiums
- Drivers of affordability pressure
- Potential solutions

Home Insurance Affordability Reports

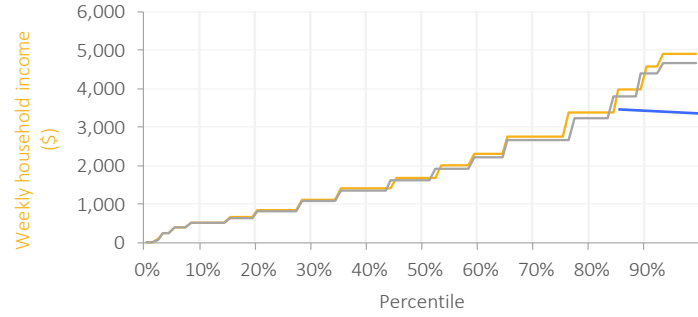


Home insurance affordability pressures continue to increase with 1.61 million households now facing premiums greater than one month

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



Premium increases across all households, but higher increases for higher risk homes



Household income increases remained less than premium increases across all households

AAHIA Index
Annual Home Insurance Premium
Weekly Household Income
Previous (2023 Report)

Pressures on premium increases have reduced, but rate increases have exceeded increases in household income

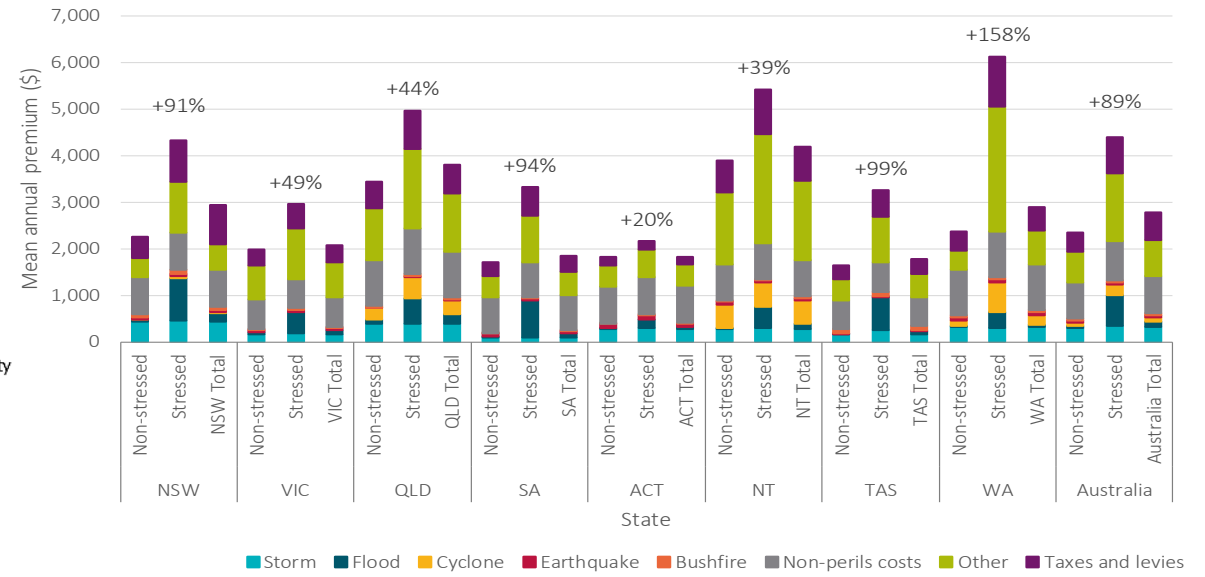
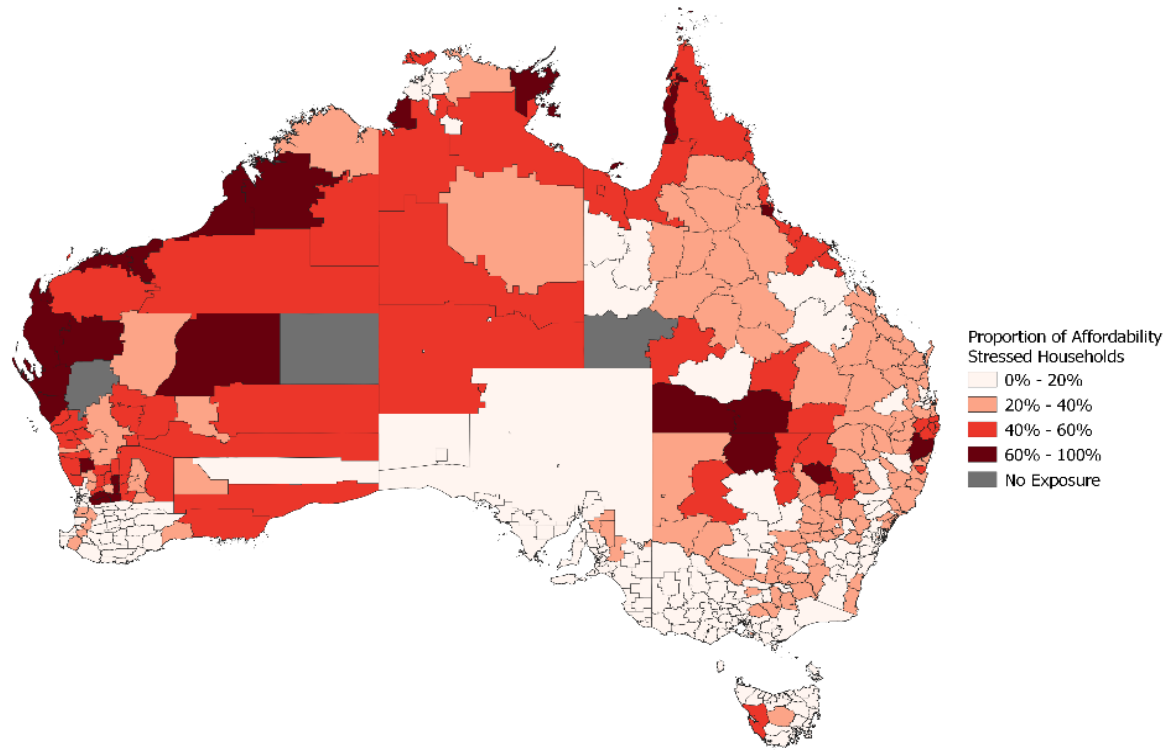
Premium rate changes in the year to March 2024

	Median	Mean
Building cost inflation impact on sum insured indexation	1% (14% 2023)	2% (14% 2023)
Increase in other insurer cost components (expenses, profit margin, net reinsurance costs)	7% (12% 2023)	10% (22% 2023)
Overall increase in premiums*	9% (28% 2023)	13% (46% 2023)

* Rounding differences
2023 included increases due to updated natural perils modelling of 1% median and 9% mean

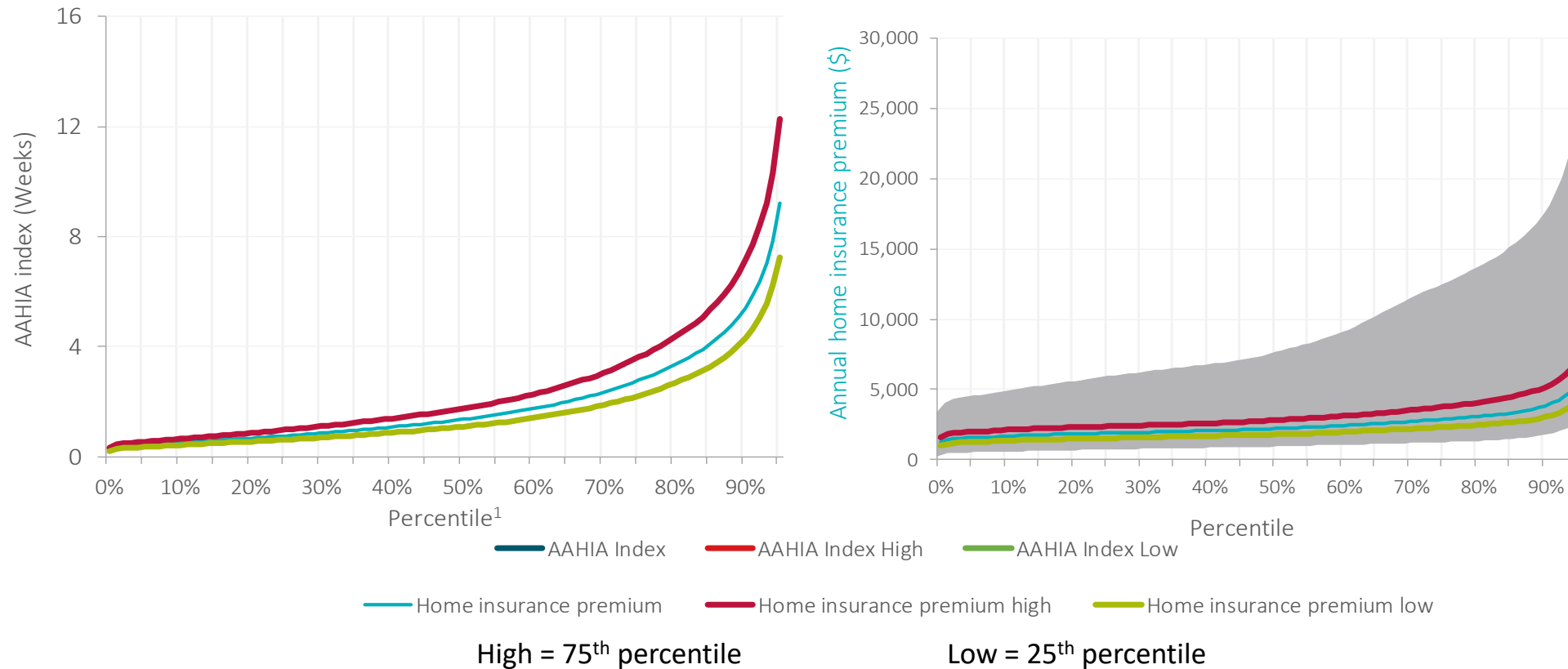
- Buildings cost inflation has reduced compared to 2023 as the market normalises
- Lower rate of increase on other insurer costs compared to 2023
- While 2023 has relatively few catastrophes, ongoing deteriorations from 2022 losses continue to exert pressure on premium rates
- Lower reinsurance premium rate increases over the twelve months to March 2024 as markets look to have stabilised
- Longer term expect reinsurance costs to rise due to climate change increasing peril risk

Highest affordability issues still in Northern Australia (cyclone), but also within Northern NSW and South Queensland (Flood)



Flood continues to be the main driver of affordability issues.

Large range of premiums offered by insurers reflecting different views of, and appetites for, risk.



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.

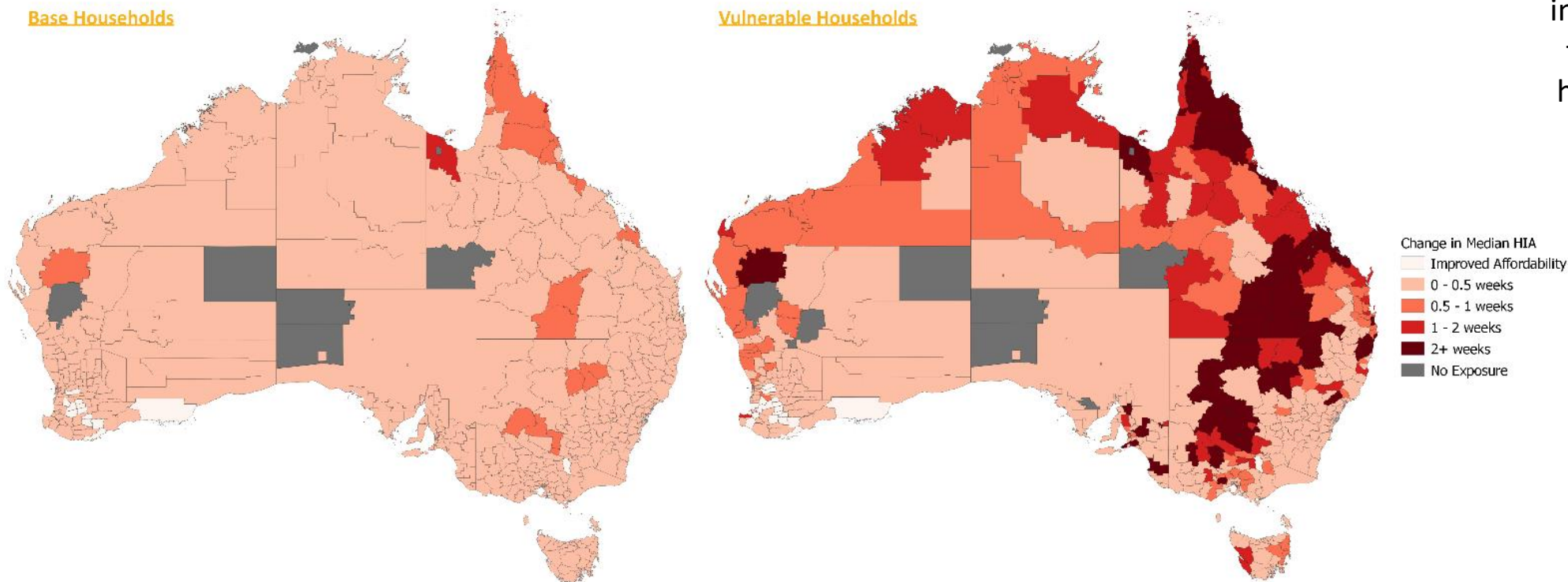
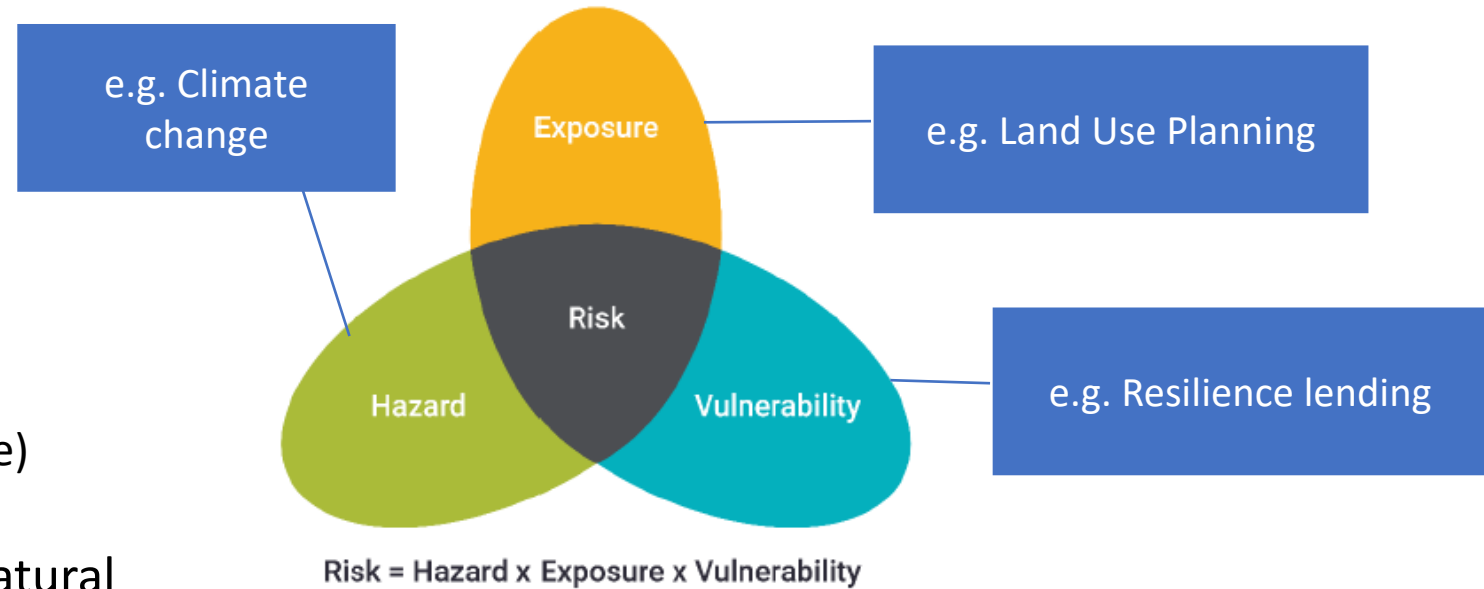


Figure: Increase in median AAHIA under a high emissions scenario

Home insurance affordability – looking to the future

- What will the AAHIA look like in 2035?
- Drivers of change from a natural perils perspective
 - **Where** we build (exposure)
 - **What** we build (vulnerability)
 - Changes in the **hazard** (changing climate)
- Combine this with the income of the communities who live in areas of high natural hazard risk
- How do we balance the property affordability crisis in Australia with appropriate levels of risk controls around planning?



Land use planning: Flood

- There is no standard level of risk tolerance for flood planning across Australia
- Two hypothetical new-builds in Sydney, both compliant with planning controls at the 1% AEP level can have widely different home insurance premiums

Characteristic	Site A: Wilberforce	Site D: Toongabbie Creek
Land use zone and flood control	Proposed floor levels are above the modelled 1% AEP flood level and the site lies either outside the 1% AEP or within 1% AEP hazard scone H1/H2/H3	Floor level at least the 1% AEP flood level plus 500mm freeboard
Hypothetical development	Site in the H3 zone on fringe of the 1% AEP extent. Floor level simulated at 1% AEP flood level	Site is on 1% AEP flood fringe. Floor level is 500mm across 1% AEP flood level
Indicative flood insurance premium for a \$500k sum insured house	\$3,720	\$550
Insurance premium expressed as weeks of locality's mean household income	1.65x	0.26x

Source: Addressing Resilience in Land Use Planning (IAG, AECOM, 2022)

Resilience lending – a key pathway as part of the solution

Collaboration towards common goals of risk reduction
Empower households with risk information and resilience options

	Households	Banks	Insurers	Investors	Government
Benefits	<ul style="list-style-type: none"> • Safer homes • Affordable insurance • Ongoing finance 	<ul style="list-style-type: none"> • Reduced risk • Increased lending volumes • Potentially lower cost of funding 	<ul style="list-style-type: none"> • Ongoing revenue • Reduced claims 	<ul style="list-style-type: none"> • Investment in climate resilience and adaptation 	<ul style="list-style-type: none"> • Reduced disaster costs • Focus on lower income communities • Focus on community level resilience measures
Actions	<ul style="list-style-type: none"> • Undertake resilience improvements • Utilise resilience lending products 	<ul style="list-style-type: none"> • Offer resilience loans • Securitise resilience lending into Mortgage Backed Securities 	<ul style="list-style-type: none"> • Recognise reduced risk that is certified with reduced insurance premiums 	<ul style="list-style-type: none"> • Invest in securitised certified resilience lending 	<ul style="list-style-type: none"> • Climate adaptation taxonomies and other supporting regulation

Common resilience rating framework and certification process – e.g. Resilient Building Council ratings

Questions?