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Housing in Australia:

Financial Journeys Through Affordability, Retirement and Climate Challenges

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For delivery at the "Opening Doors: data and analytics shedding light on housing challenges" joint conference hosted by the Australian Bureau of Statistics and the Reserve Bank of Australia, 23-24 June 2025.

About the Author

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Leading the Actuaries Institute as Chief Executive, Elayne Grace has driven influential research across multiple domains including climate change, intergenerational equity, AI and the digital economy, retirement, and insurance affordability. A strategic advisor to government panels and recognised in AFR's 100 Women of Influence, Elayne brings data-driven perspectives to complex public policy challenges requiring long-term economic and social sustainability frameworks. Elayne is a graduate of the Australian Institute of Company Directors and a Fellow of the Institute of Actuaries and of the Institute and Faculty of Actuaries (UK).

About the Actuaries Institute and the Profession

As the peak professional body for actuaries in Australia, the Actuaries Institute represents the profession to government, business and the community. Our members work in a wide range of fields including insurance, superannuation and retirement incomes, enterprise risk management, data analytics and AI, climate change and sustainability, and government services.

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 and they'll look at the full picture. Actuaries analyse the data and model scenarios to form robust and outcome-centred advice.

Acknowledgement of Country

The Actuaries Institute acknowledges the traditional custodians of the lands and waters where we live and work, travel and trade. We pay our respect to the members of those communities, Elders past and present, and recognise and celebrate their continuing custodianship and culture.

About the Paper

This Paper examines Australia's dual housing challenges — rising unaffordability in metropolitan areas and climate-driven value decline in vulnerable regions. Drawing on Actuaries Institute analysis, the Paper explores how these challenges impact financial journeys from young adulthood through to retirement and intersect with another societal megatrend of the ageing population and funding of retirement years. The Paper outlines how financial services providers will need to adapt their products, services and risk frameworks to support Australians navigating increasingly complex housing pathways due to these challenges and trends.

The Paper was published by the Actuaries Institute as part of its Public Policy Thought Leadership program. Enquiries should be directed to the Institute's Public Policy Team at public_policy@actuaries.asn.au.

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Executive Summary

The faces of housing inequality

Australia's housing market presents a paradoxical dual crisis: rising prices relative to wages in metropolitan areas create intergenerational inequity while climate-driven price declines in high-risk regions create geographic inequity. Both trends are reshaping the financial journeys of Australian households and pose significant implications for both Australians and the financial services industry.

Although not explored in this paper, we acknowledge housing supply constraints remain a primary driver of affordability challenges.

Rising house prices: Creating intergenerational inequity

The traditional path to financial security through home ownership has become increasingly inaccessible. Home ownership among Australians aged 25-34 has fallen sharply from over 50% to just 37% in two decades, with the steepest declines affecting lower-income groups. This represents a fundamental shift in the financial life journey of young Australians, who face house prices multiple times higher than what previous generations encountered at the same age. Many now pay rents higher than potential mortgage payments and cannot accumulate sufficient deposits, increasingly relying on parental support or government programs to enter the housing market.

For financial institutions, this trend creates a growing segment of perpetual renters with different product and service needs. Banks face a shrinking pool of traditional mortgage customers among younger generations, while wealth management firms must develop strategies for clients whose financial planning no longer includes home ownership.

The consequences extend into retirement. Homeowners over 65 enjoy disposable incomes 2.5 times higher than non-homeowners, highlighting how housing wealth amplifies retirement inequality. The Australian Actuaries Intergenerational Equity Index shows that the gap between the 25-34 and 65-74 age bands widened dramatically from 2006 to 2018, with housing being the largest contributor to this disparity.

For those who reach retirement without housing assets, government and the financial services industry must consider alternative solutions. Over one-third of non-homeowners in retirement require social housing support, creating pressure on an already strained system and highlighting the critical importance of housing in determining retirement outcomes. Additionally, more Australians are carrying mortgage debt into retirement, challenging the traditional model of debt-free retirement.

Falling house prices: Climate risk and regional inequity

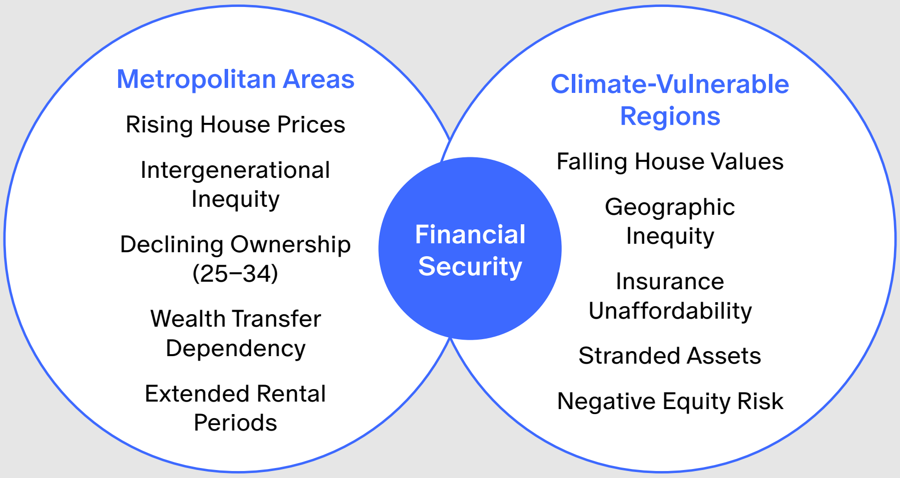
Simultaneously, a different housing crisis is emerging in regions vulnerable to climate change. In these regions, homes are becoming vulnerable to losing value as insurance becomes unattainable, creating a more atypical situation where housing wealth diminishes rather than appreciates over time.

As at March 2024, approximately 15% of Australian households (1.61 million) were experiencing extreme home insurance affordability stress, requiring an average of 9.6 weeks of gross annual income on premiums. These pressures are not distributed evenly, with extreme affordability issues concentrated in regional Western Australia, Northern Territory, South West Queensland, and the Northern Rivers region of NSW.

For homeowners in these regions, the financial life journey takes a difficult path. Around 5% of households with home loans face extreme insurance affordability pressures, representing approximately $57 billion in outstanding loan balances. If (or, indeed, when) natural disasters strike these communities, concentrations of uninsured properties could trigger widespread property devaluation, creating “disaster-vulnerable property markets” with abandoned properties, distressed sales, and negative equity.

For the financial services industry, this represents industry-wide vulnerability. Some mutual banks and regional lenders with geographically concentrated portfolios face elevated exposure to potential property devaluations. Without intervention, these trends could create regional property markets where existing homeowners cannot exit increasingly risky homes and investments, effectively creating increasingly illiquid properties (or stranded assets).

Figure 1: Australia's Dual Housing Crisis



Australia's housing challenges require integrated solutions across government policy, financial services, and individual planning.

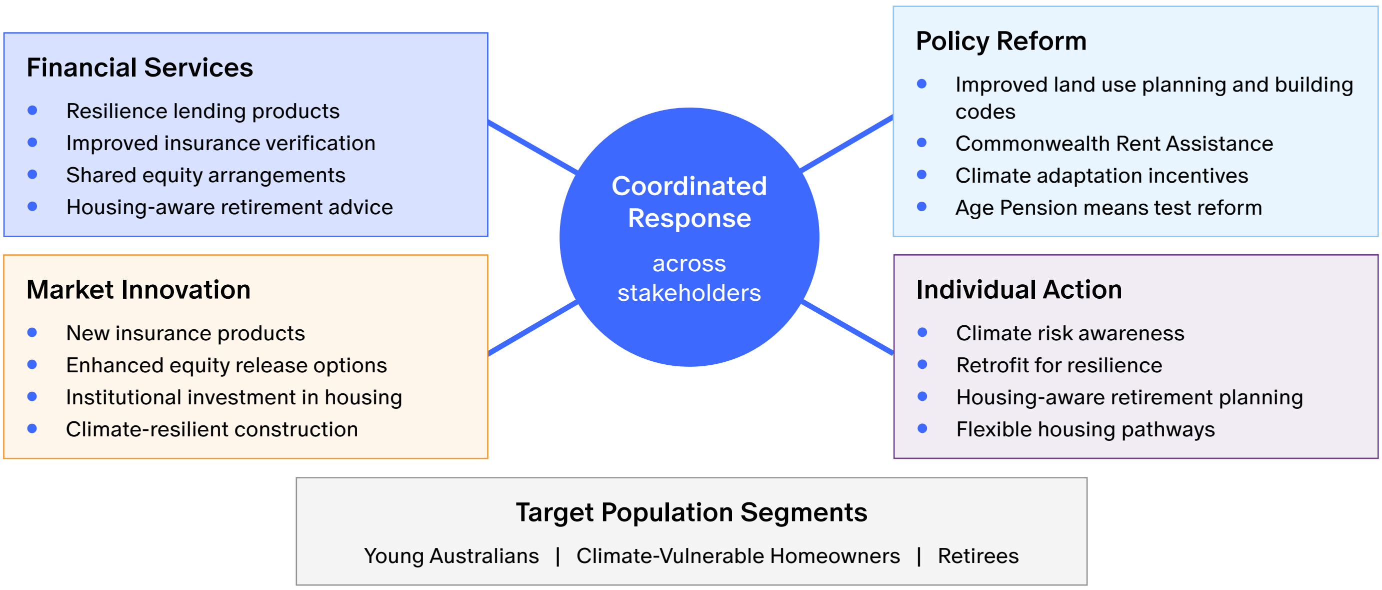
The customer life journey and financial services response

These dual housing crises fundamentally alter the financial life journey for many Australians and the role financial institutions should play to support customers:

1. **Young Australians** face extended rental periods, delayed home purchases, and greater reliance on intergenerational wealth transfers, where accessible. Financial services are encouraged to adapt through innovative lending products, shared equity arrangements, and retirement planning for non-homeowners.
2. **Homeowners in climate-vulnerable regions** face declining asset values, insurance affordability challenges, and potential negative equity. Financial institutions should consider developing resilience lending for property retrofitting, improved integration of insurance and mortgage products, and new approaches to managing concentrated regional risks. Government must consider policy and support for climate adaptation (including property retrofitting), land use planning, building codes, and managed retreat in the most extreme situations.
3. **Retirees** can increasingly face one of three situations: substantial housing wealth that age pension rules can discourage from being accessed (either through downsizing or lump sum equity release products); significant housing debt requiring decisions on debt payoff versus ongoing servicing; or rental insecurity requiring significantly higher retirement savings. Superannuation funds should consider housing status when developing retirement strategies and product offerings.

Without coordinated action across financial services, government, and individuals, these housing inequities will continue to deepen, potentially creating lasting societal impacts that extend well beyond housing outcomes. The fundamental transformation of Australia's housing landscape represents one of the most significant challenges to both intergenerational and geographical equity facing the nation today.

Figure 2: Integrated Solutions to Australia's Housing Challenges



1. Housing Inequality: From Australian Dream to Generational and Socio-Economic Divide

Key points

- **Declining ownership:** Young Australian home ownership has fallen from over 50% to 37% in two decades, primarily affecting lower-income groups.
- **Geographic divide:** City housing markets show persistent concentrations of advantage and disadvantage.
- **Renter disadvantage:** Renters face higher costs (18.2% vs. 13.3% of income) and move four times more frequently than homeowners.
- **Social housing crisis:** Social housing declined to 4.1% of total stock, with 169,000 waitlisted, while homelessness rates rose 37% among youth since 2001.

1.1 The shifting dream of home ownership

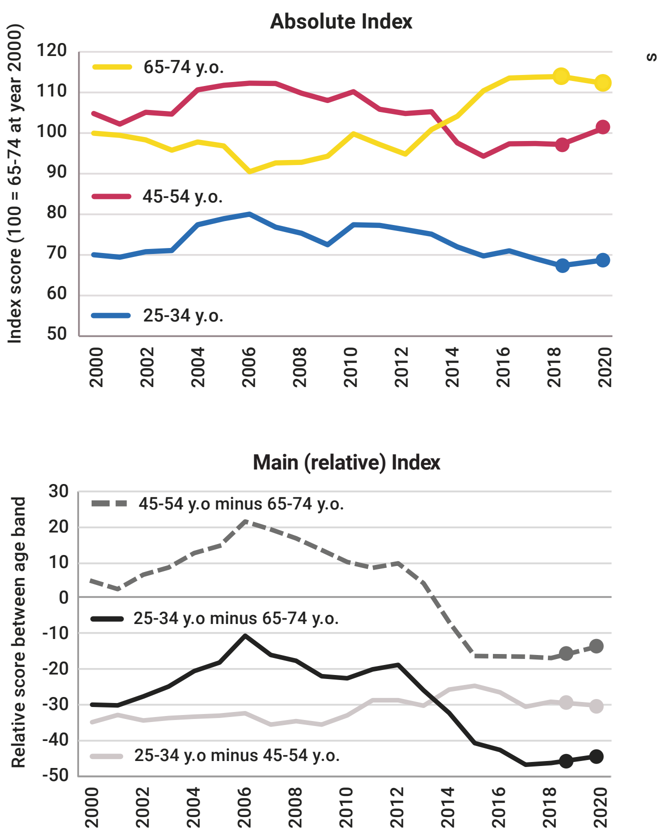
Australia's housing landscape has undergone a profound change, reshaping social and economic realities across generations. What was once considered a cornerstone of the Australian dream – home ownership – is increasingly becoming an elusive goal for many young Australians.

Intergenerational inequality

The story begins with a stark reality: young Australians face dramatically different housing prospects than their parents or grandparents did. Where over half of Australians aged 25-34 owned homes two decades ago, barely more than a third (37%) do today. This shift reflects the escalating cost of housing relative to incomes,[1] with house prices for today's Millennials reaching approximately double the price-to-income ratio compared to the 1980s.

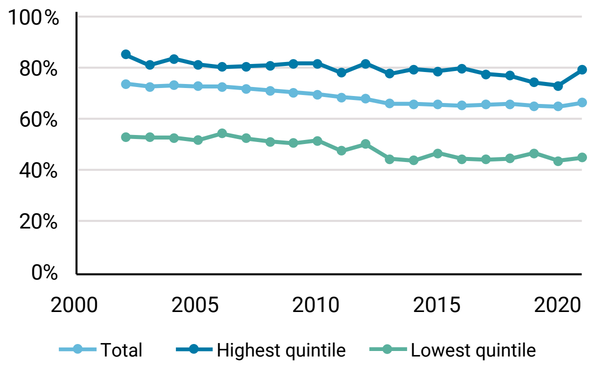
This decline isn't uniform across society; it's the younger and poorer Australians who are being left behind. As previously stated, home ownership has fallen significantly for those aged 25-34 in the lowest income bracket, while rates among wealthy near-retirees have remained virtually unchanged. The Australian Actuaries Intergenerational Equity Index (AAIEI)[2] shines a light on differences in wealth and wellbeing across age bands in Australia and how these have been changing over time. The Index shows that the difference between the 25-34 and 65-74 age bands has widened substantially from -9 around 2006 to -47 in 2018, with housing being the single largest contributor to this disparity.

Figure 3: The Australian Actuaries Intergenerational Equity Index – Main Results[3]



The Household, Income and Labour Dynamics in Australia Survey (HILDA)[4] shows the total rate of adults living in a home owned by them (or family members) has fallen about eight percentage points. The fall is not dramatically larger for lower income groups within age bands but the 34 percentage-point difference between the quintiles remains very large.

Figure 4: Home Ownership by Equivalised Disposable Household Income Quintile Over Time, Age 35-54 Band[5]



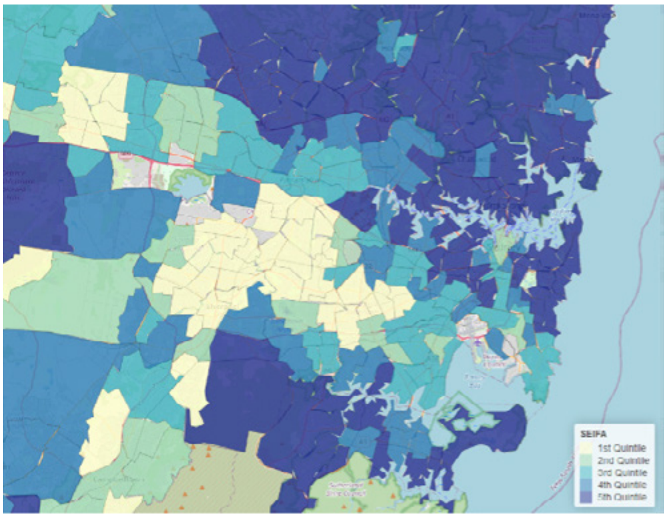
Source: Analysis of HILDA data

Geographic inequality

The geography of our cities tells the inequality story visually. Sydney's landscape illustrates this division most clearly, with advantage clustering around the harbour and eastern and northern suburbs while disadvantage concentrates in western and southwestern areas. This pattern repeats across Australia's urban centres, creating what researchers call "geographic stratification" – a physical manifestation of inequality that becomes harder to escape with each passing generation.

Figure 5: Geographic Clustering of Inequality: Sydney, by Socioeconomic Status Quintile

(SEIFA, 1 = most disadvantaged)[6]



Source: ABS SEIFA 2016

While supply issues are often cited as a key driver of high prices, and some progress has been made with increased completions in Sydney and Melbourne (particularly in apartment developments), it continues to be a significant challenge. Most housing experts consider improving supply far more effective in promoting ownership compared with demand-side interventions like grants to first homeowners, yet progress remains inconsistent across urban centres.

1.2 The Reality of Housing Stress and Vulnerability

Housing stress – the inability to pay rent or mortgage costs – has been rising since 2015, particularly among those with the lowest incomes. While the overall trend in housing stress has decreased slightly over the past 20 years, households in the lowest income quintile have seen concerning increases between 2015 and 2020, with only a temporary reprieve during COVID-19 due to temporary support measures and then a further increase due to high interest rates and rising rents in recent years.

The burden falls especially hard on vulnerable populations, with people with disabilities nearly twice as likely (1.8 times) to struggle with housing costs compared to those without disabilities. Housing costs represent a larger fraction of household budgets for those on lower incomes (for both owning and renting households), effectively amplifying income inequality when considering post-housing disposable income.

The rental market offers little refuge. Renters dedicate a significantly larger portion of their income to housing (18.2% of household gross income) than homeowners with mortgages (13.3%), creating an ongoing financial disadvantage. Beyond the financial burden, there's the instability – renters move four times more frequently than homeowners, with a striking 56% of renters relocating within a two-year period compared to just 14% of homeowners, with each move incurring costs that further hinder deposit savings. Meanwhile, ongoing low rental vacancy rates make property hunting significantly harder. This mobility gap between renters and owners is now the highest of the Organisation for Economic Co-operation and Development countries.

Government assistance programs struggle to keep pace. Commonwealth Rent Assistance covers only a fraction of typical rents, while the social housing system supports just over 423,000 households with another 169,000 on waiting lists. More troubling still, social housing has declined as a proportion of total housing stock, dropping from 4.8% in 2011 to 4.1% in 2023. During 2022/23, just over 32,400 households were newly allocated social housing, with 12,800 of these allocations going to those experiencing homelessness and classified as having the greatest need. While priority applications are usually housed within a year, non-priority applications typically face waiting periods exceeding two years.

The inability of those on benefits or low incomes to sustainably afford housing has contributed to observed increases in homelessness over the last twenty years, as reflected in both Census results and numbers seeking support from specialist homelessness services. Among young people, the homelessness rate[7] has increased from 62 per 10,000 people in 2006 to 71 per 10,000 people in 2021.

People experiencing homelessness and at risk of homelessness are among Australia's most socially and economically disadvantaged. According to the 2016 ABS work estimating homelessness,[8] lower socio-economic groups experience a higher percentage of homelessness (2.1%) compared to the highest socioeconomic group (0.3%).

Research in NSW[9] shows increased homelessness risk among those:

- receiving welfare for extended periods of time
- who identify as First Nations
- who are female
- who are younger
- with a particularly high rate for those aged 15-18.

Australia also has the issue of "hidden homelessness", where those experiencing homelessness are hidden from sight. The visible "rough sleepers" make up only 7% of the homeless population.

As covered later in the paper, the consequences of housing inequality extend deep into retirement, where housing status becomes a primary determinant of financial security.

1.3 Future Housing Trends and Implications

Looking to the future, these trends point to a society increasingly divided by housing wealth. As property becomes a primary determinant of economic opportunity and social mobility, privilege becomes entrenched among those with property. The growing dependence on the "Bank of Mum and Dad"[10] for home deposits and guarantor loans highlights the intensifying link between parental wealth and children's ability to enter the housing market.

As housing transforms from a universal aspiration to an inherited privilege, the challenge for policymakers is to develop interventions that address both immediate affordability concerns while ensuring sustainable and equitable access to housing for future generations. Financial institutions can seek to adapt their product offerings, advice models, and risk frameworks to serve a market increasingly divided between property haves and have-nots. Banks, insurers, and superannuation funds can look for integrated approaches that recognise how housing status fundamentally shapes financial journeys from young adulthood through to retirement.

2. Beyond the Three Pillars: Housing's Critical Role in Retirement Security

Key points

- **Housing is the fourth pillar of retirement.** Homeowners enjoy 2.5 times higher retirement incomes than non-homeowners but more retirees now carry mortgage debt.
- **Super and housing complement each other.** Policy options under consideration include super for deposits, super fund investments in housing, and equity release products.
- **Policy reform needed.** Changes needed for Age Pension tests, renter support, retirement income planning, and inequality reduction.

The conventional view of Australia's retirement income system as resting on three pillars — the Age Pension, compulsory superannuation, and voluntary savings — is increasingly insufficient to address the complex challenges facing retirees. We now recognise that housing status and home equity represent a critical fourth pillar that fundamentally shapes retirement outcomes.[11] This integration of housing and retirement planning is essential to supporting Australians through complete financial lifecycles, particularly as traditional patterns of housing accumulation and debt-free retirement become less attainable for younger generations.

2.1 Housing Status as the Primary Determinant of Retirement Adequacy

The importance of housing status for retirement outcomes cannot be overstated. Actuaries Institute research demonstrates that homeowners enjoy significantly better retirement outcomes across multiple dimensions. Homeowners aged over 65 typically[12] have disposable incomes 2.5 times higher than non-homeowners. Homeownership provides greater financial security and flexibility in retirement and enhanced capacity to manage unexpected expenses and better access to credit. The family home represents both a source of stable accommodation and potential retirement funding through equity release.

In stark contrast, non-homeowners face severe challenges in retirement that extend beyond financial strain. Even with a full Age Pension and maximum Commonwealth Rent Assistance, many experience significant financial stress, with about 50% of people over 65 who are renting experiencing poverty, compared to 10% for owner-occupiers.[13] Retired renters lack security of tenure, with elderly tenants particularly vulnerable when forced to relocate —an 80-year-old receiving notice to vacate would experience considerable difficulty. While 76% of homeowners aged over 60 wish to age in place,[14] renters often cannot, compromising their community connections. This disparity represents one of the most significant equity issues in the Australian retirement system.

The changing profile of home ownership and retirement readiness

While home ownership rates remain strong for current retirees (approximately 76% of those aged 65+), rates have been falling significantly for younger cohorts. This trend suggests future generations of retirees may face fundamentally different housing circumstances than previous generations. Geographic stratification of housing markets, also noted in the previous section, risks creating entrenched patterns of advantage and disadvantage that often persist into retirement. These changing patterns suggest that retirement planning and policy must evolve to address a future where housing circumstances may be fundamentally different from historical norms.

The growing challenge of mortgages in retirement

An emerging trend of concern is the growing proportion of Australians entering retirement with substantial mortgage debt. This represents a fundamental shift from historical patterns where most Australians retired with unencumbered home ownership. Many retirees[15] are now using lump sum superannuation withdrawals to pay down housing debt and some are extending working lives specifically to manage housing debt.

This trend directly impacts retirement adequacy by reducing the asset base available to generate retirement income and creating ongoing housing costs during retirement years, potentially forcing premature liquidation of retirement investments and increasing vulnerability to interest rate fluctuations.

The increasing use of superannuation to pay off mortgages at retirement has significant implications for retirement income adequacy and may contribute to house price inflation by enabling higher levels of indebtedness over a lifetime. This practice also intersects with Age Pension eligibility, as it creates incentives to keep wealth in the home rather than in assessable superannuation accounts. For those with inadequate superannuation balances, home equity release options and initiatives like the Government's Home Equity Access Scheme[16] offer innovative solutions that allow retirees to tap into home equity while remaining in their homes.

Home equity as a retirement funding source

As the population ages, there may be growing desire for home equity release products that allow retirees to access part of the wealth stored in their homes. The Government's Home Equity Access Scheme represents a significant option in this space, providing a way for retiree homeowners to draw down home equity to supplement their retirement income. Since its 2022 revamp, uptake has increased, though many more eligible homeowners could potentially benefit from this program.

Policy opportunities include support for the development of more home equity release products with appropriate consumer protections and enhanced financial literacy programs focused on housing-retirement interactions. The Actuaries Institute supports measures which allow retirees to keep their home while accessing equity to boost retirement incomes, more effectively recognising both the financial and emotional benefits the family home provides.

Appropriate consumer protections are important for all types of equity release products, especially given the potential for cognitive decline amongst elderly homeowners. As highlighted in *More Than Just a Roof*,[17] these protections should consider standardised disclosure requirements, cooling-off periods, independent financial advice requirements, and specific safeguards for vulnerable consumers.

Providers of equity release products can face significant reputational risks acknowledging the financial and emotional factors in housing decisions. These risks must be carefully managed through product design, pricing transparency, and ongoing customer and regulator engagement.

2.2 Superannuation and Housing: Competing or Complementary Priorities?

The relationship between superannuation and housing has sometimes been viewed as one of competing priorities — should Australians prioritise retirement savings or home purchase? However, this framing fails to recognise the complementary role these asset classes play in delivering retirement security. Key considerations in this relationship include several important dimensions that affect policy and individual decision-making.

Early access to superannuation for home deposits

The debate around using superannuation for housing deposits highlights the complex trade-offs involved.

Potential benefits:

- Access to a greater deposit than otherwise possible for marginally positioned households
- Earlier entry to home ownership with potentially smaller loans
- Non-financial benefits of stable housing during working years and into retirement
- Facilitating continued access to the stability, security, and financial advantages that homeownership provides throughout retirement.

Potential risks:

- Upward pressure on property prices if increased demand without increased supply translates quickly to price growth
- Only higher income households will have accumulated enough super at younger ages to make enough of a difference
- Reduced compound growth in superannuation balances
- If repayment of the funds accessed to the super fund is required, there would be complexity in both calculating appropriate repayment rates to compensate for foregone investment returns and administration for the super fund providers.

This suggests that any such policy would need careful design to ensure it benefits those most in need while minimising market distortions. Critical considerations include implementing other housing market reforms simultaneously to minimise price effects, developing clear guidelines for super repayment rates that account for investment returns, establishing appropriate incentives for repayment and penalties for non-compliance, and carefully targeting eligibility to maximise positive impacts on retirement outcomes.

Superannuation funds as housing investors

Superannuation funds represent a potential source of institutional investment in residential and affordable housing. Potential benefits include diversification of funds' investment portfolios and access to long-term returns, more affordable and secure housing for essential workers and vulnerable groups, improved geographic distribution of housing opportunities and potential for steady, inflation-linked income streams suited to retirement income provision.

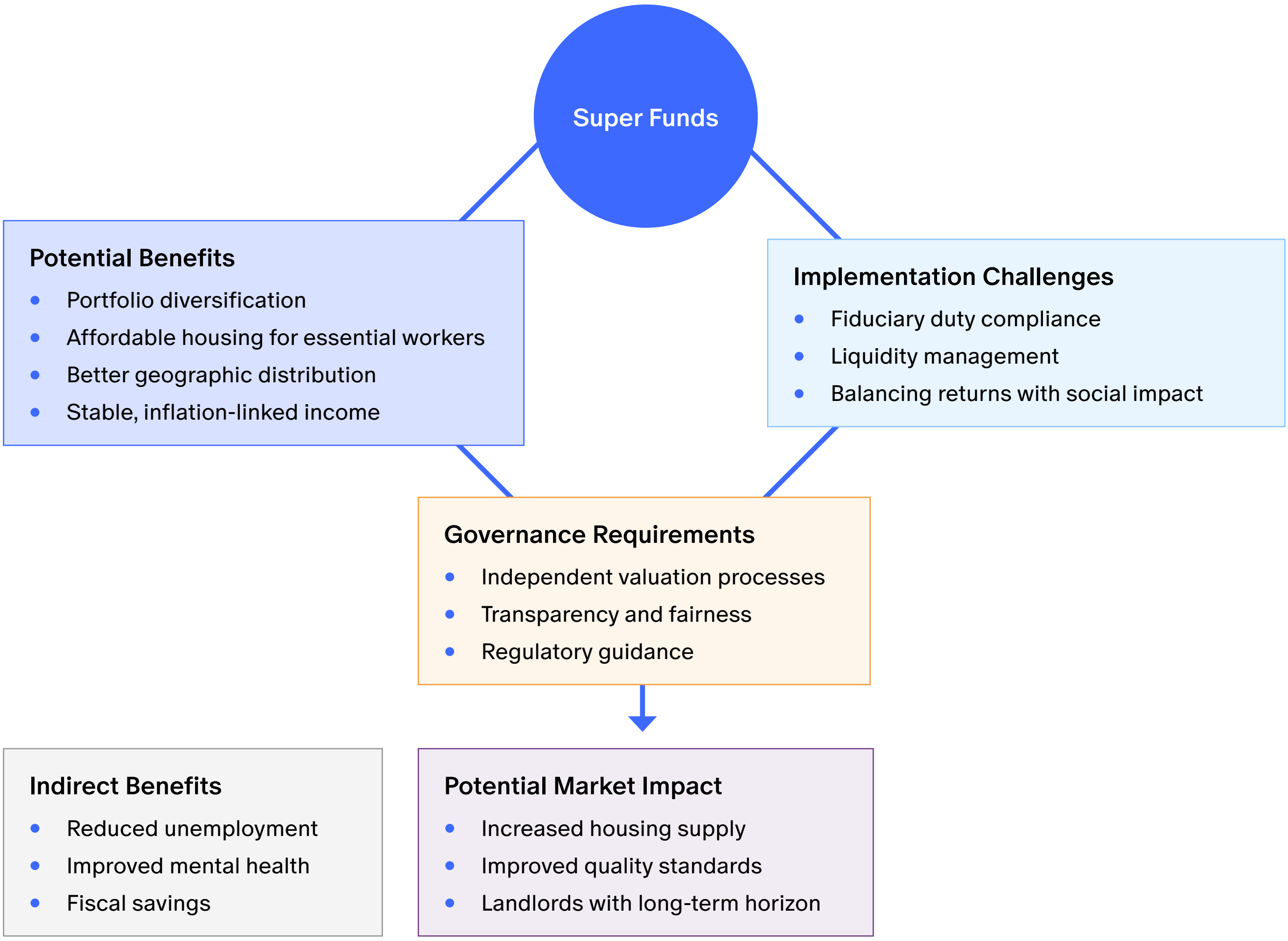
Implementation challenges include ensuring investments meet fiduciary duties to members, managing liquidity requirements and valuation governance, balancing commercial returns with social impact objectives, economies of scale and developing appropriate investment vehicles and partnerships. Government support may be required to generate a competitive return to make it attractive for super funds.

The Actuaries Institute believes superannuation trustees should be able to invest in residential and social housing where such investments meet their obligations to members, including appropriate risk-adjusted returns. Trustees have a fiduciary obligation to act in members' best financial interests. Any investment in residential or social housing must demonstrate competitive investment returns, otherwise trustees risk regulatory scrutiny and potential class action litigation. Policy frameworks should provide clarity regarding how trustees can appropriately balance financial and social considerations in such investments.

Sound governance around unlisted asset valuations represents a critical consideration for superannuation funds investing in residential housing. Unlike publicly traded securities, housing assets require robust, independent valuation processes to ensure transparency, accuracy, and fairness to all fund members. Regulatory guidance will be needed to establish best practices for valuation frequency, methodology, and disclosure requirements specific to residential property investments.

Increased investment in residential housing by super funds, already visible in the growing institutional build-to-rent sector, could impact the rental property market by increasing supply, potentially improving quality standards, and introducing institutional landlords with longer time horizons than individual investors. This could help address affordable housing shortages, particularly in high-demand employment centres, enabling essential workers to live closer to their workplaces. The potential indirect fiscal benefits include reduced travel time and costs, helping reduce household stress if more people can live near ongoing employment opportunities, and improved mental health outcomes with corresponding reductions in healthcare system costs.

Figure 6: Superannuation Funds as Housing Investors



2.3 Policy Considerations for Housing and Retirement

The Actuaries Institute has identified several policy reforms needed to better integrate housing and superannuation in delivering retirement security.

1. Age Pension means test reform and stamp duty

The current treatment of the family home in the Age Pension means test can create perverse incentives around housing decisions, while stamp duties discourage mobility. Both lead to inefficient use of housing stock as older homeowners may remain in larger homes than needed due to the costs of downsizing. This reduced mobility contributes to the overall housing supply challenge while being less economically efficient compared to alternative approaches like land taxes. The Institute has suggested as a potential reform that part of the value of homes above an indexed threshold could be included in a revised Age Pension means test,[18] subject to resolving issues around significant variations in home values across Australia.

2. Support for non-homeowners

For renters, the Institute advocates for significant increases in Commonwealth Rent Assistance as well as increased supply of social housing. The growing challenges faced by retired renters require both immediate support measures and longer-term structural solutions.

3. Expanded Retirement Income Covenant

The Institute supports the Retirement Income Covenant incorporating housing circumstances as a key consideration in retirement planning. While recognising the data challenges funds face in collecting and maintaining current housing information, superannuation funds should be encouraged to factor in members' housing status when developing retirement strategies and product offerings.

4. Enhanced financial guidance and advice

The Institute supports policies and innovations that make financial guidance on retirement more accessible and affordable, particularly regarding the complex interactions between housing, superannuation, and the Age Pension. This includes the Government's announced expansion of the MoneySmart website, which will offer independent retirement guidance. The Institute also encourages tools and calculators that incorporate housing considerations into retirement planning.

5. Addressing inequality impacts

As noted in the Institute's 2023 Report on inequality,[19] intergenerational wealth transfers through housing assets are becoming increasingly significant in determining lifetime economic outcomes. Policy considerations could include whether modest taxation measures might help balance intergenerational equity while minimising incentives for avoidance. Any such measures would need to be carefully designed to target excessive wealth concentration without discouraging appropriate family support mechanisms.

Conclusion

Australia requires coordinated policy reform across superannuation, social security, and housing to address the complex interactions between housing and retirement outcomes. Recognising the practical challenges of policy coordination across departments, budgetary constraints, and managing transitional impacts, these reforms nonetheless remain vital. Such reforms could enable financial services providers to develop more integrated approaches supporting customers throughout their entire financial lifecycle — from initial home purchase or investment decisions, through working life, and into retirement — recognising housing as foundational to wellbeing.

3. Insurance Affordability and Climate Risk: Emerging Challenges

Key points

- **Growing affordability stress:** 15% of Australian households (1.61 million) experience home insurance affordability stress.
- **Geographic concentration:** Extreme pressures concentrated in regional Western Australia, Northern Territory, South West Queensland, and Northern New South Wales.
- **Climate change impact:** Insurance losses increasing in frequency and severity, with climate impacts projected to triple under a high emissions scenario.
- **Multiple solutions needed:** Requires resilience and adaptation investment, market innovation, consumer education, and policy reform.

A different housing crisis is emerging in regions vulnerable to climate change, where the problem is not high prices but rather declining property values as insurance becomes unaffordable. This creates a second dimension of housing inequality that intersects with, and sometimes compounds, the first.

3.1 Insurance Affordability Pressures and Geographic Distribution

The Actuaries Institute's latest analysis[20] reveals concerning trends in home insurance affordability across Australia. As of March 2024, approximately 15% of Australian households experienced home insurance affordability stress, up significantly from 12% in March 2023 and 10% in March 2022. This represented about 1.61 million households facing insurance premiums that cost more than four weeks of their gross annual household income - a 30% increase in affected households in just one year. Affordability-stressed households faced premiums, on average, of 9.6 weeks of their gross income on home insurance — seven times more than non-stressed households.

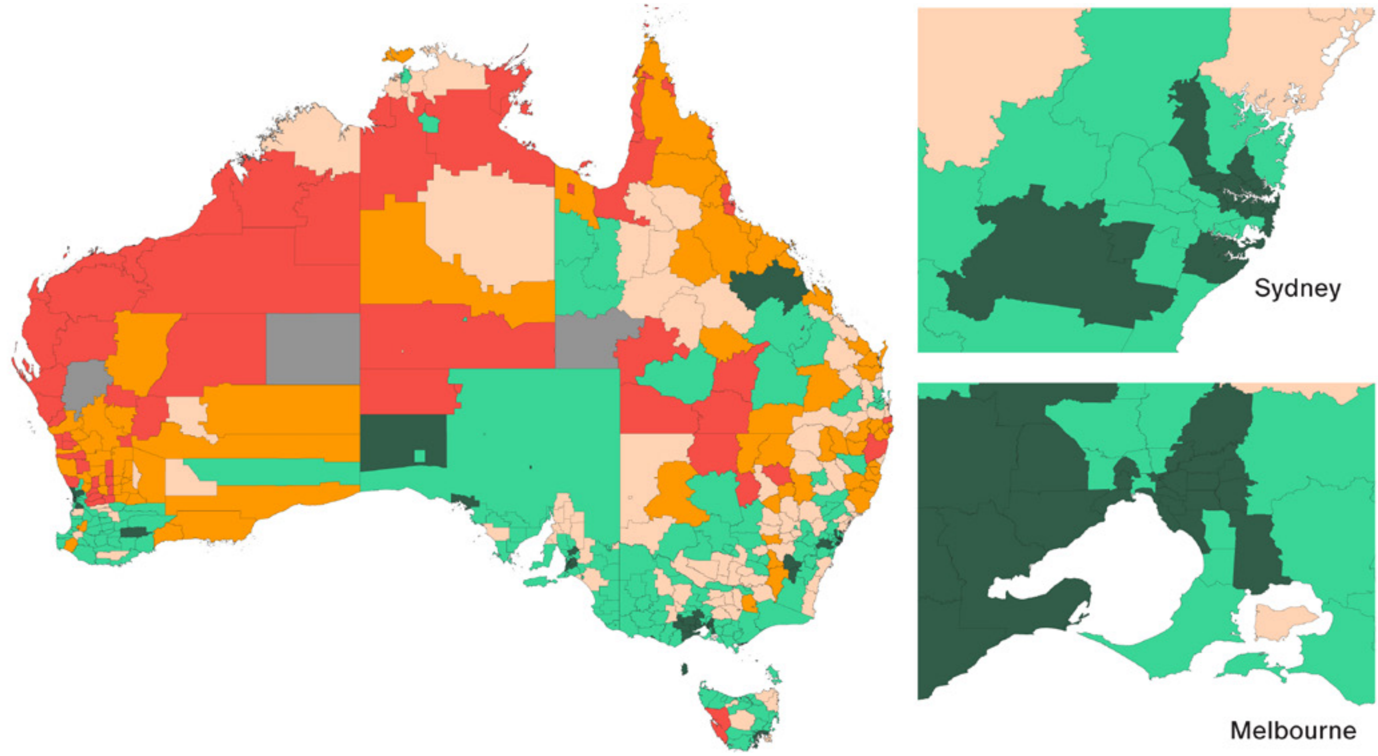
This trend represents a critical inflection point in the customer financial journey. For households in high-risk areas, insurance affordability pressures begin a potential downward spiral; as premiums become unaffordable, properties become uninsurable, which reduces their marketability and (absolute or relative) value, further diminishing household wealth and financial resilience. This could also lead to feedback loops where declining property values further reduce investment in resilience measures, increasing vulnerability to climate impacts.

The burden of rising premiums is not distributed evenly across the population. While the median increase in home insurance premiums over the year to March 2024 was 9%, with a mean increase of 13%, the highest risk properties saw much steeper increases. Premiums rose by more than 30% for the 5% of households facing the highest premiums, reflecting a growing divergence between low and high-risk properties.

Insurance affordability pressures show distinct geographic patterns across Australia:

- Extreme affordability pressures are concentrated in regional Western Australia, Northern Territory, South West Queensland and the Northern Rivers region of New South Wales.
- Areas with medium affordability pressures are more widespread, driven by combinations of lower household incomes and higher flood risks.
- Metropolitan areas generally face lower pressures due to reduced perils risks and higher average incomes, though pockets of pressure exist within capital cities.

Figure 7: Geographic Distribution of Home Insurance Affordability Pressure



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

3.2 The Impact of Climate Change

The Actuaries Institute's research indicates that climate change is already driving increased frequency and severity of extreme weather events in Australia. The Australian Actuaries Climate Index[21] tracks changes in the frequency of extreme high temperatures, heavy precipitation and changes in sea level whilst reporting in addition on consecutive dry days (as a proxy for drought), extreme low temperatures and extreme wind, mainly concentrating on the 99th percentile of observations. The components of the Index were chosen due to their link to risk because extremes have the greatest potential impact on people and assets and can have large costs to the economy.

Figure 8: Australian Actuaries Climate Index and Component Graphs

Australian Actuaries Climate Index: Composite Index

5 year rolling average · Positive index values · Negative index values

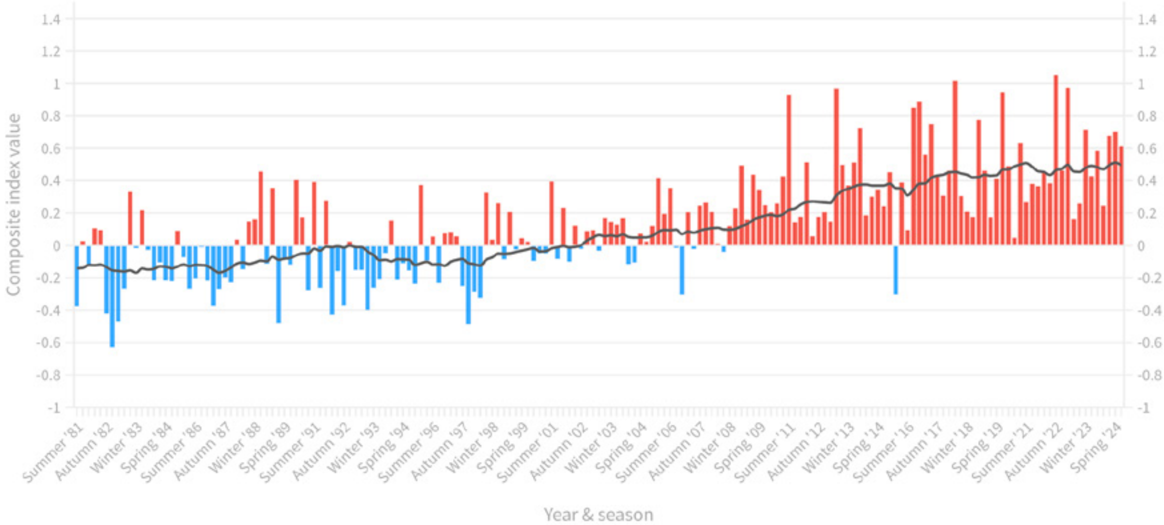
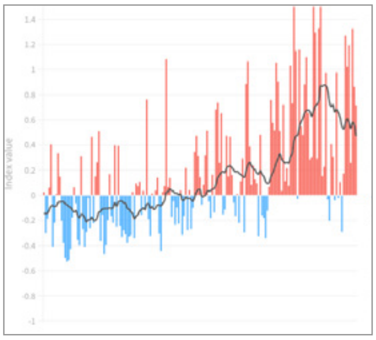


Figure 8: Australian Actuaries Climate Index and Component Graphs (cont.)

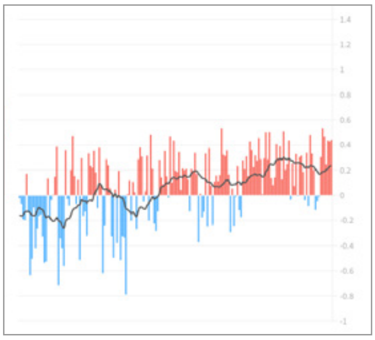
Australian Actuaries Climate Index: Sub-Indices

5 year rolling average | Positive index values | Negative index values

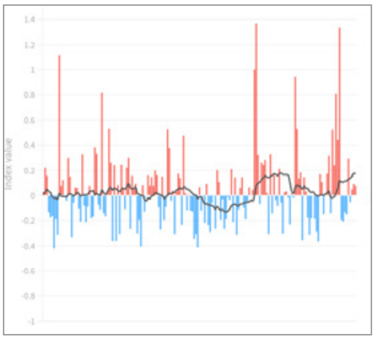
Warm Temperature



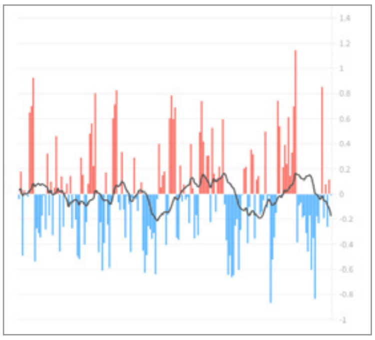
Cool Temperature



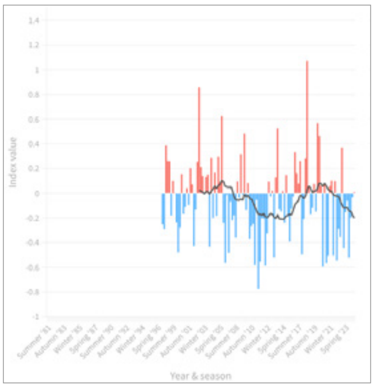
Rainfall



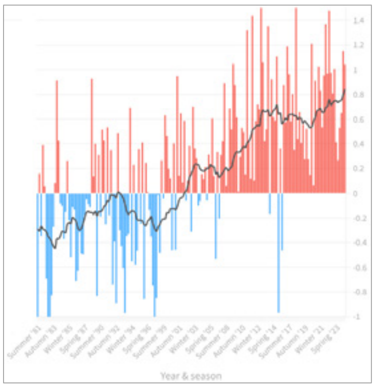
Consecutive Dry Days



Wind



Sea level



This climate change trend is reflected in insurance losses, which have grown significantly compared to long-run historical averages, even after adjusting for housing stock growth, inflation and increasing costs of labour and materials to repair damage. Climate modelling suggests these trends will continue, with higher emissions scenarios resulting in greater pressure on home insurance affordability. Key findings from the Institute's climate analysis include Insurance losses from extreme weather events are increasing in both frequency and severity, and climate change impacts are projected to be three times worse for already affordability-stressed households under a high emissions scenario.[22] Without significant adaptation and mitigation measures, insurance may become unaffordable for an increasing proportion of properties.

3.3 Regulatory Response and Market Evolution

Financial regulators have recognised these emerging risks. In particular, the Australian Prudential Regulation Authority (APRA) is assessing potential impacts of climate change on home insurance through its Insurance Climate Vulnerability Assessment[23] program. Around the world, financial regulators are increasingly focused on monitoring systemic risks and the threats to financial stability arising from climate change, including from insurance affordability pressures (a discussion of risks to banks is in the next section).

Tackling insurance availability, affordability, and climate risk management requires coordination between multiple stakeholders (including homeowners, lenders, insurers and government) and long-term planning. A comprehensive approach is essential for the ongoing stability and sustainability of Australia's housing finance system.

The Actuaries Institute's research suggests several potential responses:

- **Investment in resilience**

  There are currently around 11.3 million dwellings in Australia.[24] The slow growth in stock of houses, with around 170,000 new homes being added per year in recent times (1.5% p.a. growth) means that building resilience in the existing housing stock will have a much greater impact than measures ensuring new builds are resilient.

  Through supporting individual property resilience retrofit measures (including targeted programs that educate homeowners about what the specific risks to their property are and how to cost effectively retrofit their homes) and the development of community-level protection infrastructure (such as levees or upgrading drainage in flood prone areas), resilience can be improved for many homes. Resilience financing mechanisms could also be designed to encourage landlords to invest in resilience of rental properties.

  Improved building standards and land use planning are also important, however ensuring these are required not just for new builds but for renovations and repairs over a certain value could mean they have more impact.

- **Market innovation**

  This could be through development of new insurance products that better reflect resilience measures, integration of climate risk into lending practices and greater use of risk-based pricing to incentivise adaptation, noting also the importance of responsible lending obligations.

- **Consumer education and financial literacy**

  This could be through enhancement of consumer understanding of climate risks and insurance options, development of transparent risk and climate performance information systems for property buyers and renters, and integration of climate risk education into financial literacy programs.

- **Policy reform**

  Policy could go a long way to protect renters and homeowners from climate change. Through review of building standards in high-risk areas, mandatory disclosures when advertising rentals or properties for sale, minimum resilience standards for rentals, consideration of government support for high-risk insurance pools, development of coordinated national approach to climate adaptation and, in some cases, direct affordability support for vulnerable households.

  When designing government insurance support or "insurer of last resort" programs, careful attention must be paid to avoid creating moral hazard. Such programs should explicitly discourage continued risk-taking behaviour by excluding coverage for new builds in high-risk areas and providing incentives for risk reduction measures.

  For financial services providers, these challenges require a rethinking of product design, risk assessment, and customer engagement.

Of course, solutions are likely to combine aspects of all four of these dimensions: policy reform, consumer education, market innovation and investing in resilience. Take, for example, rules in the Australian Capital Territory (ACT) relating to energy efficiency rating of homes for sale and rental properties: since 2007 there has been a mandatory disclosure policy for energy efficiency ratings (EER) when advertising rental properties and properties for sale. The results of several studies of this policy show that the property market values energy efficiency and can benefit from the disclosure of EER on existing homes.[26] Real estate agents report that consumers find the current EER reports easy to understand (as they provide specific and actionable information), that the EER rules have increased market literacy of energy efficiency in the ACT, and have also led to buyers upgrading their homes post-purchase.[27]

4. Insurance Affordability and Mortgage Markets: Connected Risks

Key points

- **Mortgage exposure:** 5% of Australian households with home loans face extreme insurance affordability pressures.
- **LMI implications:** Property devaluation and insurance affordability issues heighten LMI provider risks.
- **Market vulnerability:** Uninsured properties can trigger regional property devaluation after natural disasters.
- **Combined approach:** Solutions include resilience lending, improved rating systems, and government support mechanisms.

The intersection of insurance affordability and mortgage risk reveals another dimension to the housing situation, although it is at an earlier stage. Unlike metropolitan areas where high prices block entry, in climate-vulnerable regions, homes are at risk of losing value as insurance becomes unaffordable. Financial institutions may need to help customers navigate the challenge where housing wealth diminishes rather than appreciates over time.

The Actuaries Institute's analysis[28] of Australia's $2.3 trillion home loan market as of March 2024 revealed important structural connections between insurance affordability, natural disaster vulnerability, regional property valuation risks and credit risk.

4.1 Scale and Geographical Distribution of Housing Risks

Approximately 5% of Australian households with home loans at that time were experiencing extreme home insurance affordability pressure, representing approximately $57 billion in outstanding loan balances.

Credit risk implications

These "home loans at risk" create a new dimension of credit risk requiring careful consideration. The geographic distribution of this risk presents particular challenges for the lending sector. While the national average of home loan assets at risk is 3%, the proportion varies from 0% to 16% depending on the region. This uneven distribution means certain regional property markets face substantially higher risk of value deterioration following natural disasters. Mutual banks and regional lenders with geographically concentrated portfolios in these high-risk areas face particularly elevated exposure to potential property devaluations.

The Commonwealth Bank's 2024 Climate Report[29] illustrates this geographic concentration, identifying approximately 35,000 properties (with mortgages worth $11 billion) assessed as having high risk of exposure to cyclones, 41,000 properties ($17 billion) at risk of floods, and 4,000 ($2 billion) at risk of bushfire. Overall, approximately 5% of the bank's home loan portfolio was classified as high risk to one or more peril, highlighting the potential for significant regional impacts on property values following disaster events.

Lenders in Australia generally require borrowers to have home buildings insurance as part of their lending terms. Indeed, for the value of the collateral provided by the property to be recognised, APRA APS 220 requires that the properties "are appropriately insured at the time of origination and that this insurance is maintained under the contractual term of the exposure".[30] This is intended to transfer any perils risk to the insurer leaving the lender with only credit risk (and risks that are not covered by home insurance, such as coastal hazards). While lenders typically verify insurance coverage during loan origination and refinancing, ongoing compliance monitoring is often limited. This practice developed during periods when property values were less vulnerable to climate-related impacts. However, as the frequency and severity of natural disasters increase in certain regions, these assumptions may no longer hold, creating the potential for significant property value declines in affected areas.

Lenders Mortgage Insurance

Lenders typically prefer borrowers to have a 20% deposit when buying property. This protects them if borrowers can't make repayments or if property values drop. If borrowers have less than a 20% deposit, most lenders will require Lenders Mortgage Insurance (LMI). LMI is insurance that protects the lender — not the borrower — if the borrower can't make loan payments, and/or the property sells for less than the outstanding loan balance.

For LMI providers, the evolving landscape presents specific considerations. Insurance affordability challenges could result in both property devaluation and mortgage servicing difficulties, increasing claim likelihood. LMI premium pricing may need to evolve to account for these emerging risk factors, potentially further affecting affordability for borrowers with less than 20% deposit.

4.2 Customer Impact and Regional Property Market Implications

For the approximately 180,000 households that experienced extreme home insurance affordability pressure as at March 2024, the implications extend beyond individual financial stress to broader property market dynamics.

For these households the average home insurance premium as at the end of March 2024 had reached $5,216 annually compared to the market average of $2,124. This substantial difference creates affordability pressures that may lead some borrowers to reduce coverage or discontinue insurance altogether.

Table 1: Households with Home Loans by Home Insurance Affordability Band[31]

	Households		Loan balance			Sum insured		Premium	
Pressure band	(m)	%	Total ($b)	%	Average ($000s)	Total ($t)	Average ($000s)	Total ($b)	Average ($)
No pressure	2.37	63%	1,737	77%	733	1.29	546	4.13	1,741
Low pressure	0.72	19%	316	14%	439	0.41	566	1.59	2,218
Medium pressure	0.26	7%	93	4%	354	0.15	566	0.67	2,560
High pressure	0.21	6%	65	3%	303	0.12	562	0.61	2,846
Extreme pressure	0.18	5%	57	3%	309	0.10	570	0.96	5,216
Total	3.75	100%	2,267	100%	605	2.07	553	7.96	2,124

When natural disasters strike these regions, the concentration of uninsured or underinsured properties can trigger property devaluation across communities, not just for directly affected homes. Instead of rebuilding and recovery, these regions could experience abandoned properties, distressed sales, and negative equity situations.

Even if lenders do verify home buildings insurance on an ongoing basis, it is still unlikely that they would foreclose on customers who have not purchased insurance, even if it is breach of lending conditions. In such circumstances we understand that many lenders would treat such customers under their vulnerable customer frameworks.

However, the marketability of properties in these vulnerable regions may decrease as potential purchasers recognise the dual risks of both natural disasters and declining property values. New buyers must demonstrate insurance coverage to secure financing, while lenders apply additional scrutiny to properties in known high-risk areas. The reduced pool of potential purchasers could create “stranded assets” where existing homeowners cannot exit their increasingly risky investments.

This potential impact is particularly pronounced for vulnerable populations. The extreme pressure band[32] contains a high proportion of households who own their houses outright — likely including retirees with less financial flexibility. These homeowners face not only insurance affordability challenges but also the risk that their primary asset may substantially decline in value following regional natural disasters.

Financial institutions will need new frameworks for managing these vulnerable customers through their property lifecycle. What begins as an insurance affordability challenge could quickly transform into mortgage serviceability issues, potential negative equity situations, and ultimately the risk of stranded assets — a trajectory that requires coordinated responses across insurance, lending, and financial advice functions, as well as governments and regulators.

4.3 Regulatory Landscape and Disclosure Requirements

Australian financial regulators have recognised the potential systemic implications of home insurance affordability. The Reserve Bank of Australia acknowledged in its Financial Stability Review in October 2023 that declining insurance coverage due to affordability pressures would lead to larger downstream impacts on household and business finances following risk events.[33] The RBA also recognised that lenders are likely to reduce lending where borrowers cannot obtain insurance coverage.

As noted in APRA’s Climate Vulnerability Assessment of Australia’s five largest banks in 2022 all lenders will need to develop additional capability to understand and assess these risks.[34]

At the time of writing this paper, under mandatory climate disclosure laws, starting this financial year lenders will need to disclose climate-related risks in annual sustainability reports. The specific requirements are set out in the Australian Sustainability Reporting Standards (ASRS). Under these requirements, larger lenders need to quantify assets at risk to climate, including their exposure to properties without insurance as part of their assets vulnerable to climate-related physical risks.

This regulatory evolution requires capacity building within lending institutions. Some lenders may lack estimates of home insurance premiums for their customers and do not routinely require evidence of ongoing insurance coverage. All lenders will need to develop additional capability to understand and assess these risks and integrate broader climate risk considerations within their risk management frameworks.

4.4 Policy and Market Responses

Addressing these interconnected challenges requires coordinated action from multiple stakeholders. Several promising approaches have emerged that could help mitigate risks while supporting affected homeowners.

Resilience lending represents one of the most promising market-based solutions. These specialised loan products fund retrofitting or other works to reduce property vulnerability to perils — for example, raising floor heights for flood protection or improving roofing for storm and cyclone protection. Resilience lending can help customers by reducing the financial impact of perils and providing a pathway to affordable insurance. For lenders, it can reduce risk while providing additional revenue streams. We acknowledge resilience loans will be suitable for only some customers and lenders must comply with responsible lending obligations.

The Resilient Building Council's rating system demonstrates how resilience lending could be implemented in practice. The system provides a self-assessment app that evaluates peril risks based on consumer-provided data, offering a current rating and recommending actions to improve the property's rating. Recently, Suncorp and NRMA announced they will recognise RBC-certified ratings in home insurance premium pricing, while NAB has a pilot program for discounted interest rates on resilience lending. Other lenders have also introduced resilience lending programs.

Such lending could also be aggregated and securitised through climate adaptation bonds, addressing potential demand from investors seeking sustainable finance opportunities. The Actuaries Institute strongly encourages the inclusion of climate resilience and adaptation measures within the Australian sustainable finance taxonomy as a high priority.

Government support mechanisms may be required for households that cannot afford resilience measures. State governments may need to invest in social housing quality and resilience to perils, either directly through individual home resilience programs and/or through infrastructure measures such as levees that protect multiple properties. Governments could raise funds for such resilience works through climate adaptation bonds or other sustainable finance instruments.

Enhanced insurance status disclosure and monitoring frameworks will be essential for managing this evolving risk landscape. While lenders rarely foreclose on uninsured properties despite loan condition breaches, they need improved data to identify and support financially stressed homeowners through their vulnerable customer frameworks.

5. Conclusion

Australia faces a future defined by two distinct but interconnected housing challenges. In metropolitan areas, consistently rising prices have transformed housing from an accessible aspiration to an inherited privilege, reshaping financial journeys and entrenching intergenerational inequality. Simultaneously, in regions vulnerable to climate perils, the emerging crisis of insurance affordability threatens property values and financial security, creating geographical inequality that disproportionately affects lower socioeconomic groups.

These dual crises fundamentally alter the financial life journey for Australians:

- **For young Australians,** the traditional typical progression from renting to ownership has been disrupted, requiring new approaches to building wealth, securing housing, and planning for retirement. Financial products that support longer-term renting and shared equity arrangements will be increasingly important.
- **For established homeowners in climate-vulnerable regions**, the emerging challenges of insurance affordability and potential property devaluation create new risks that existing financial products are poorly equipped to address. Resilience lending, integrated insurance-mortgage products and, in the extreme, managed retreat strategies represent critical solutions needed to support these households.
- **For retirees,** housing status has become the primary determinant of financial security, creating a stark divide between those with housing wealth that can be leveraged and those facing rental insecurity with inadequate support. Bridging this divide requires both immediate policy interventions and longer-term structural reforms to the retirement income system.

For the financial services industry, these challenges demand a fundamental rethinking of products, services, and customer engagement models. Success will require:

1. **Integrated lifecycle approaches** that recognise home ownership as a foundational element of wellbeing from young adulthood through to retirement, but which is becoming less likely for a growing cohort of Australians.
2. **Climate risk frameworks** that better assess, price, and manage the interconnected risks of insurance affordability, property values, and mortgage security.
3. **Innovative housing finance products** including resilience loans, shared equity arrangements, and increased equity release mechanisms.
4. **Enhanced advice and education** that helps Australians navigate increasingly complex housing decisions throughout their financial journeys.

Without coordinated action across communities, industry and government, these housing inequities will continue to deepen, creating lasting societal impacts that extend well beyond housing outcomes. The transformation of Australia's housing landscape represents perhaps the most significant challenge to equity and financial wellbeing facing the nation today, demanding innovative responses that ensure housing continues to provide security and opportunity for all Australians.

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