

# Home insurance affordability and home loans at risk 2024

## Insights

Calise Liu, Saroop Philip and Ruby Smith

September 2024



# Important notice for all participants

This meeting is being conducted in accordance with Institute's Code of Conduct and attended by members in their professional capacity.

It is acknowledged that professional members in their employed capacity, may be active market participants in their respective industries who may compete with each other as defined by competition law.

Participants are, therefore, reminded that in accordance with their competition law compliance obligations they should not:

- discuss any matter that may be perceived as being cooperation by competitors in a market to influence that market;
- discuss any matters that could be regarded as fixing, maintaining or controlling prices, allocation of customers or territories, coordinating bids and/or restricting output or acquisitions in any circumstances;
- share commercially sensitive information relating to their employer; or
- share information for an anti-competitive purpose.



# Contents

- Australian Actuaries Home Insurance Affordability Index 2024
- Home insurance premiums
- Drivers of affordability
- Home insurance market
- Home loans at risk



# Home Insurance Affordability

01



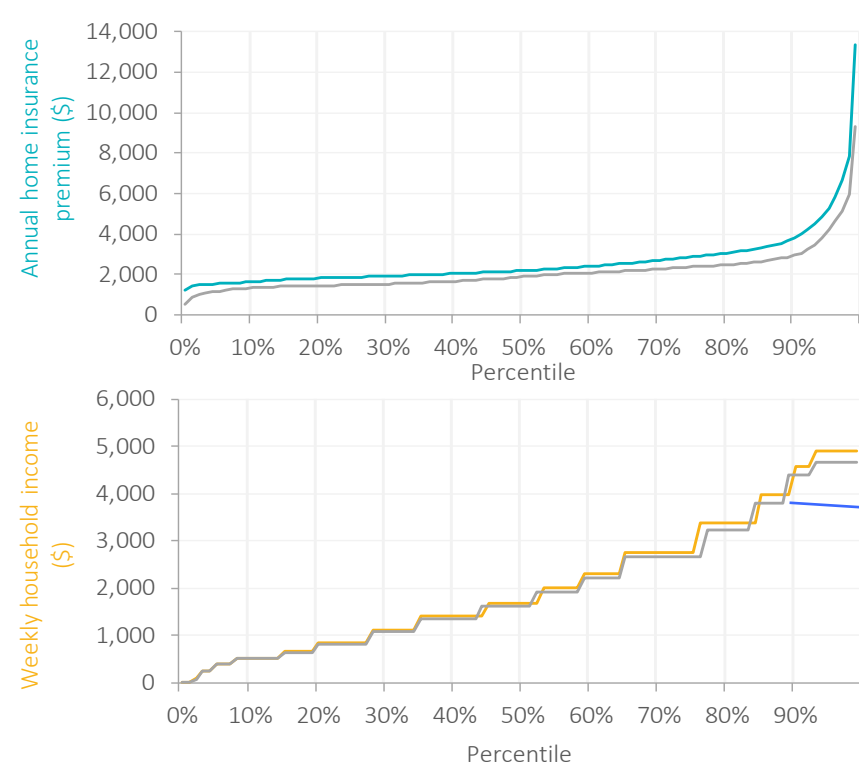
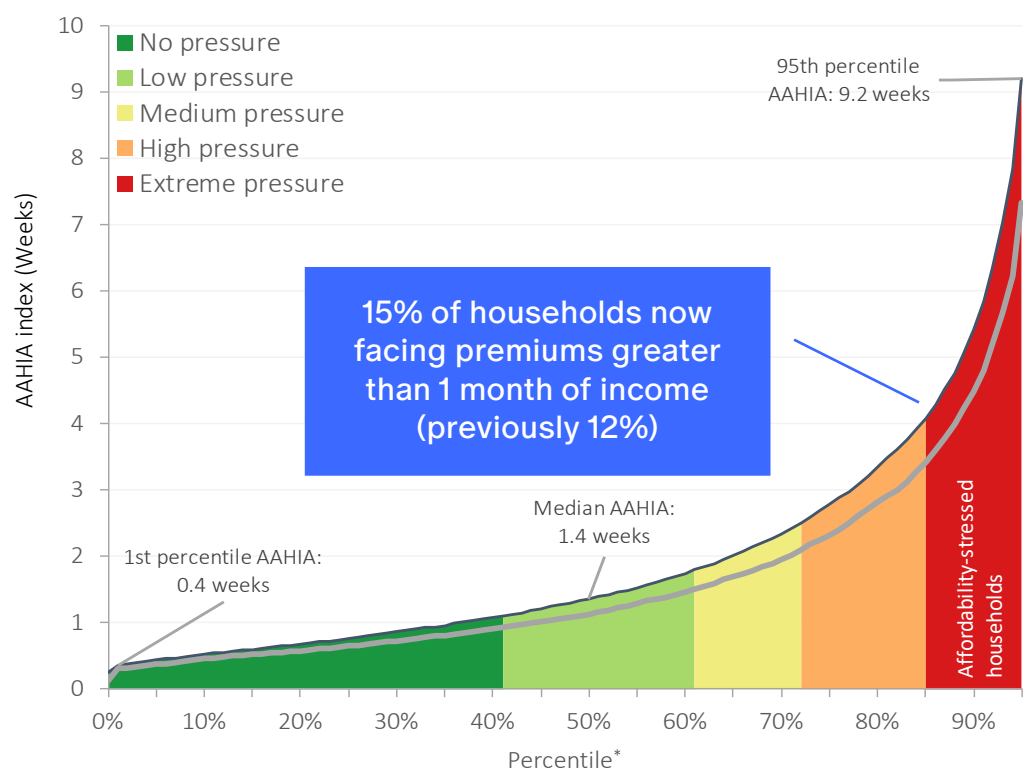
Actuaries  
Institute.

# Home Insurance Affordability Reports



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

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

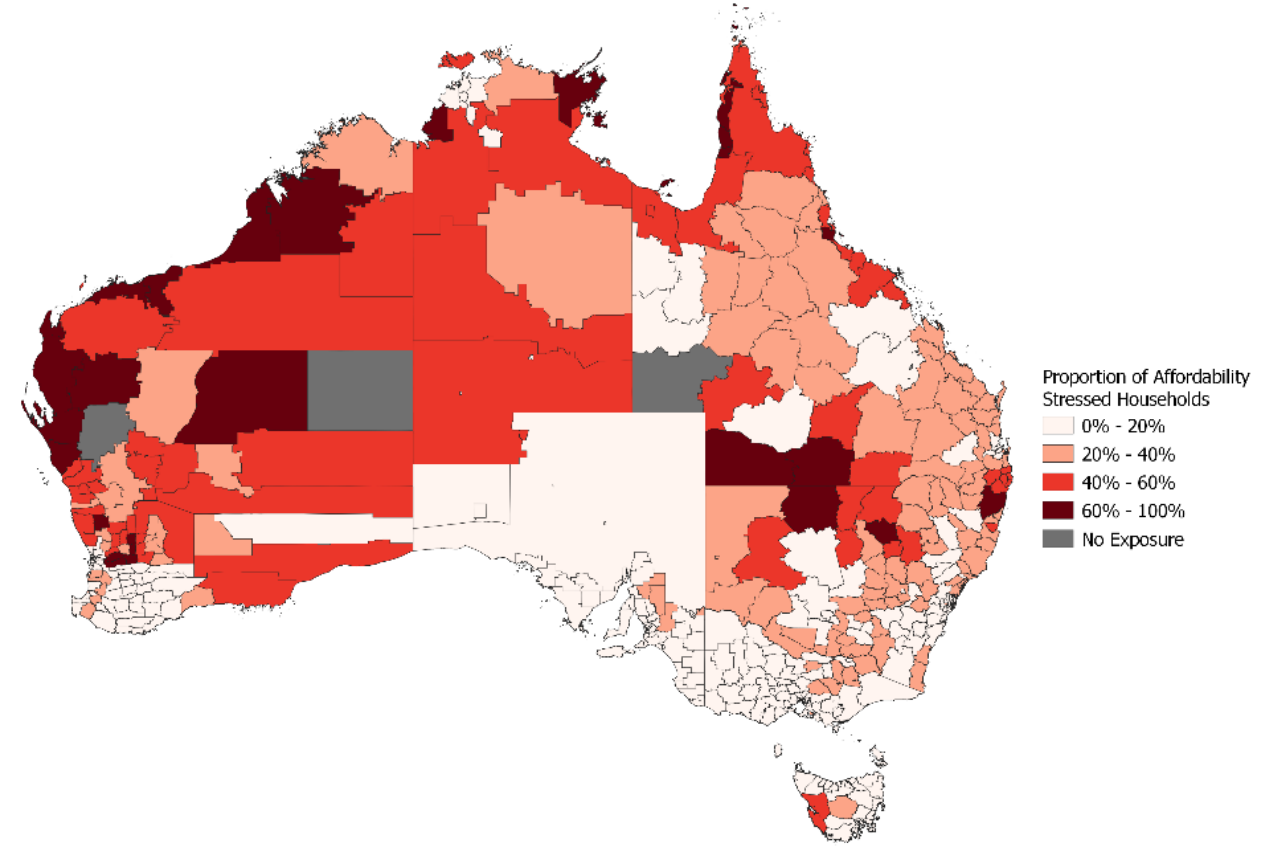
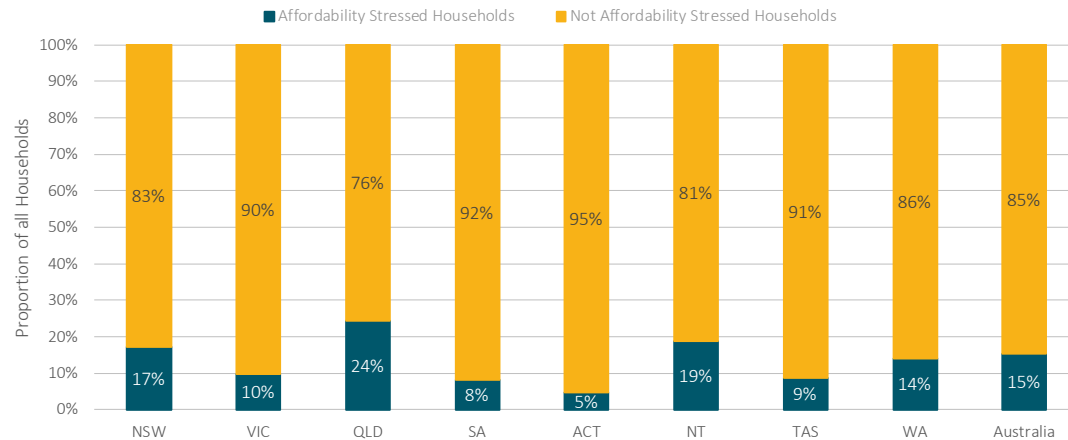
Premium rate changes in year to March 2024	Median	Mean
Building cost inflation impact on sum insured indexation	1% (14% 2023)	2% (14% 2023)
Increase in other insurer cost components (expenses, profit margin, net reinsurance costs)	7% (12% 2023)	10% (22% 2023)
<b>Overall increase in premiums*</b>	<b>9%</b> (28% 2023)	<b>13%</b> (46% 2023)

\* Rounding differences

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

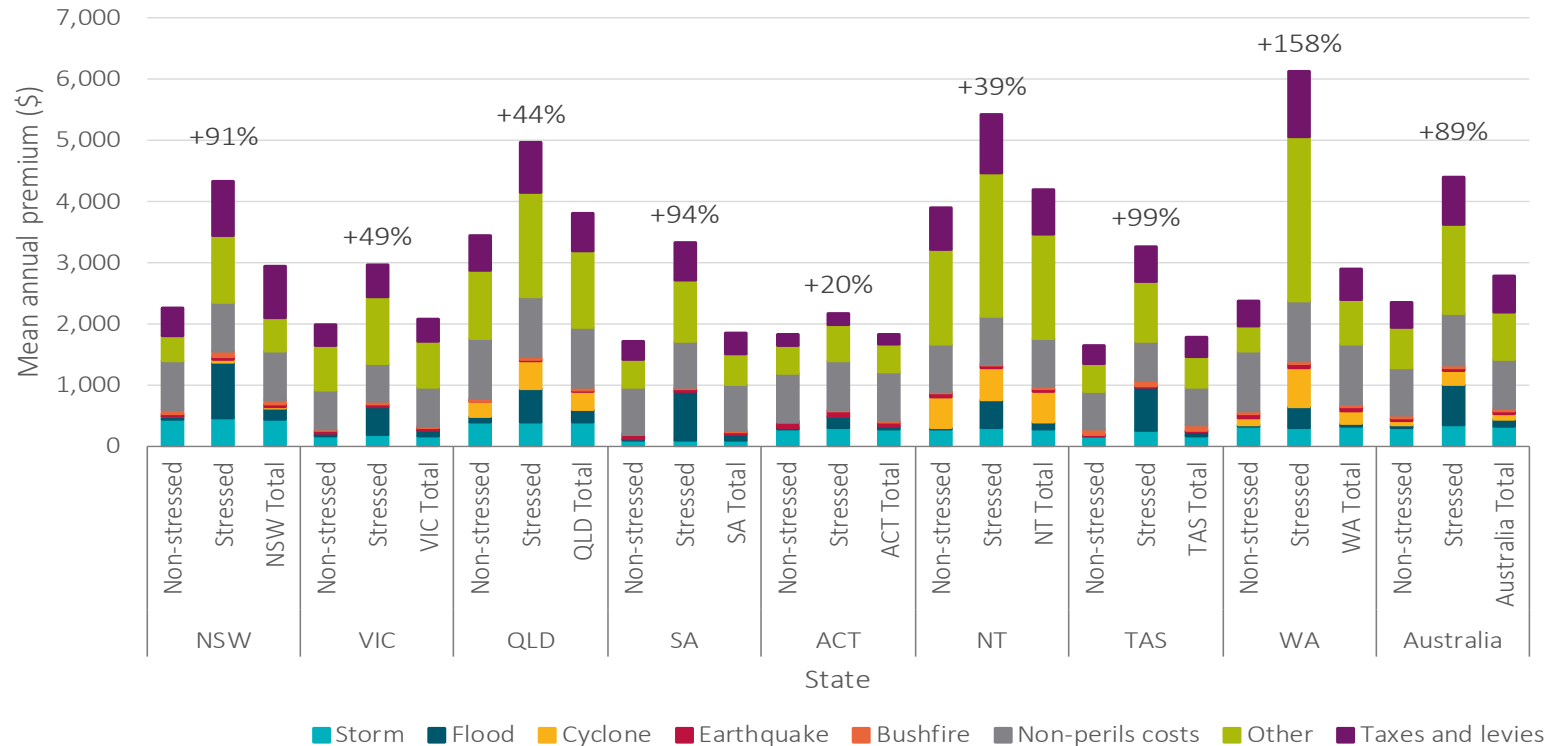
- Buildings cost inflation has reduced compared to 2023 as the market normalises
- Lower rate of increase on other insurer costs compared to 2023
- While 2023 has relatively few catastrophes, ongoing deteriorations from 2022 losses continue to exert pressure on premium rates
- Lower reinsurance premium 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)





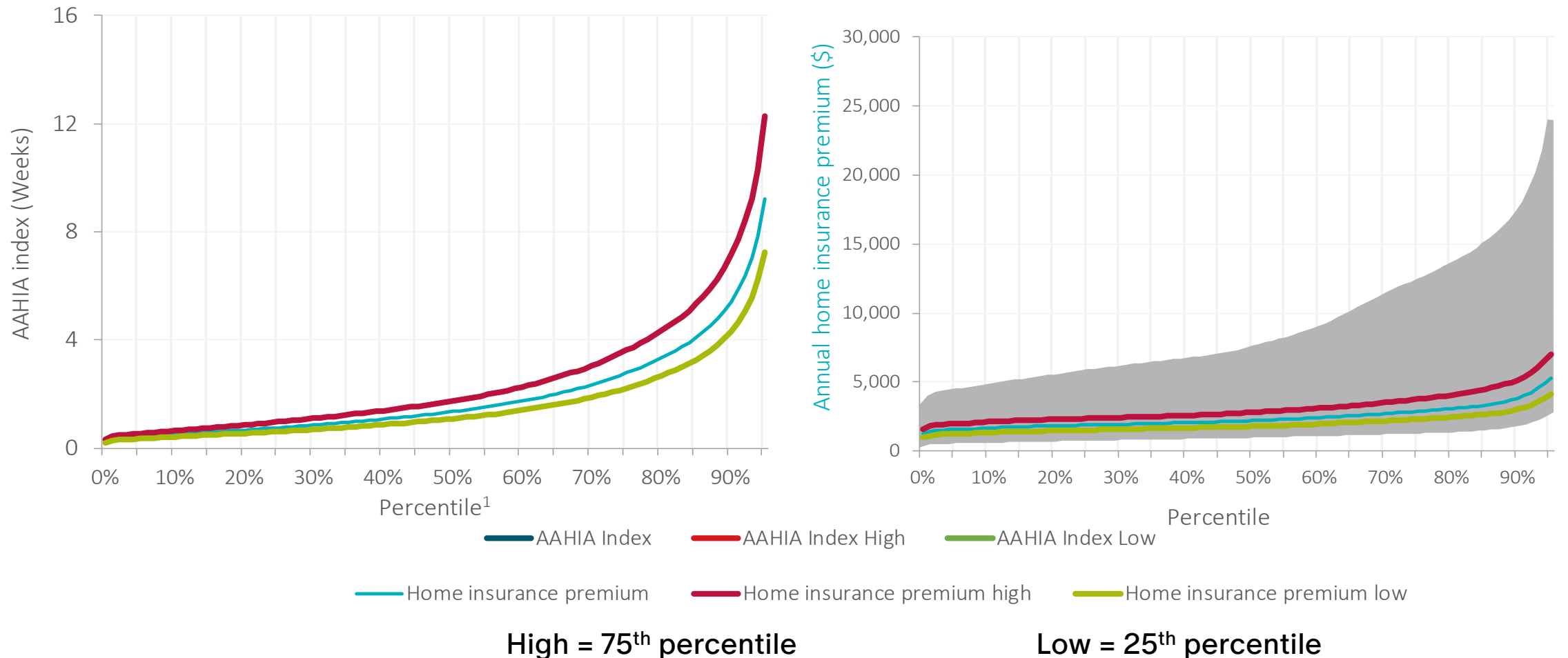
# Flood continues to be the main driver of affordability issues



Other includes expenses, profit margins and net reinsurance costs

- Natural perils make up a greater portion of premiums for affordability stressed households
- Average flood premium for stressed households is 16x higher than for non-stressed households
- Average cyclone premiums have reduced significantly since introduction of the CRP, which has closed the affordability gap in the northern states significantly

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



# Home loans at risk

# 02



Actuaries  
Institute.

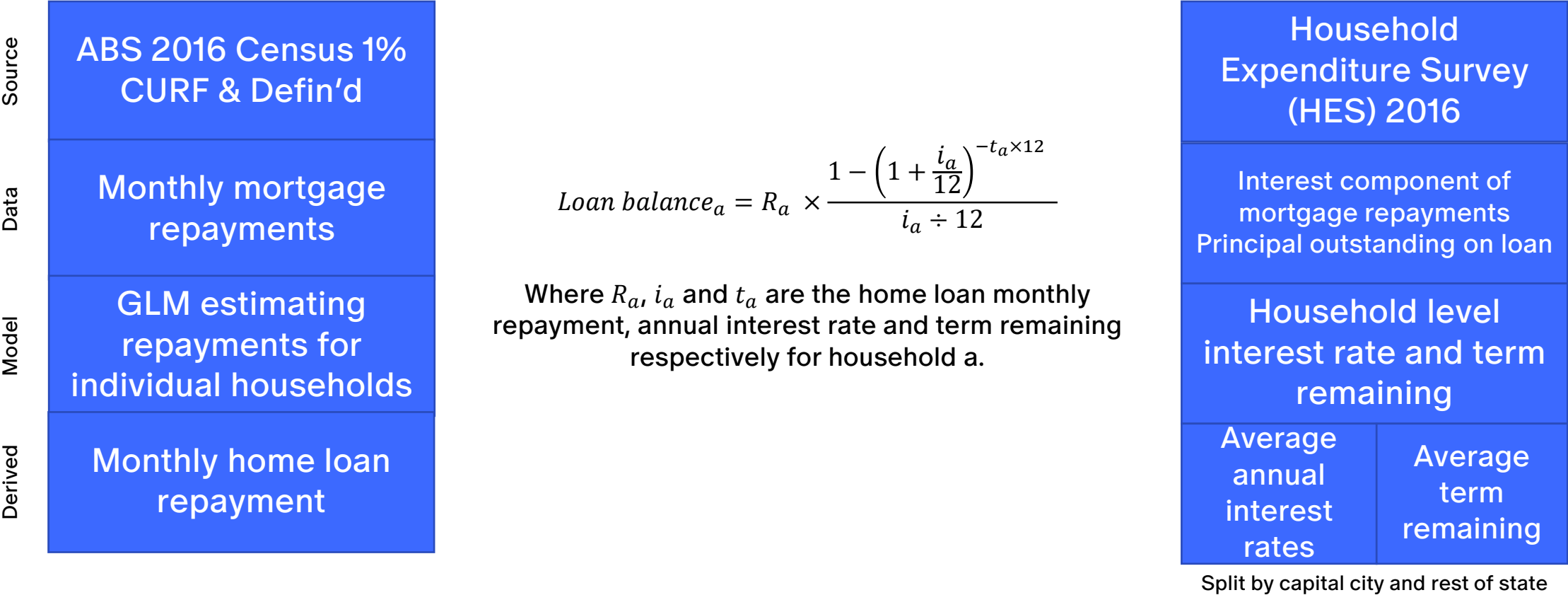
**5% of home loan customers face home insurance affordability stress, representing a potential systemic impact across financial services**

**5% home loan customers**

**\$57 billion in loan balances outstanding**

**3% of all home loan assets**

# Data and methodology used to derive loan balances



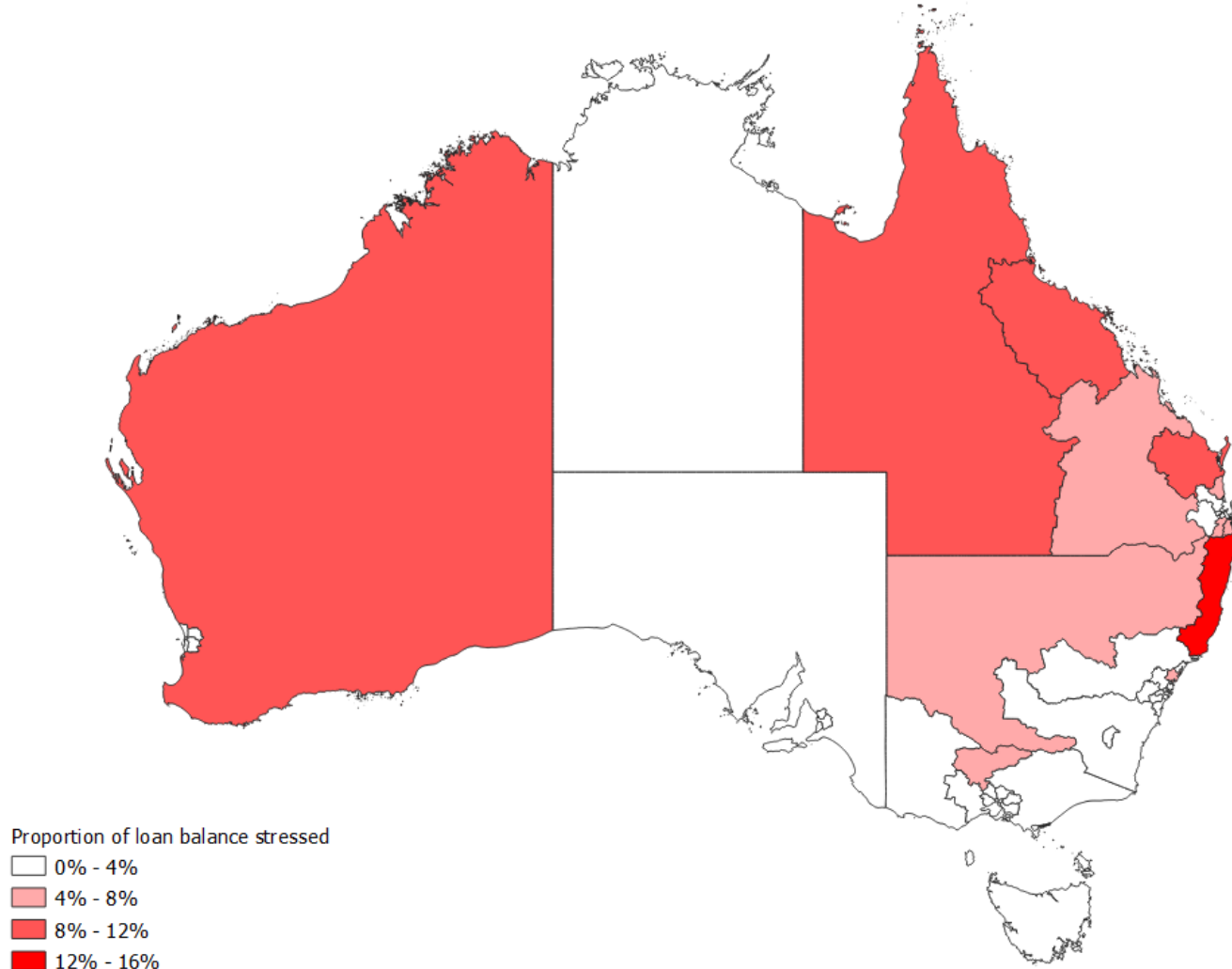
Calibrated to March 2024, using ABS data at a state level

# 5% of home loan customers face home insurance affordability stress, representing a potential systemic impact across financial services

Pressure band	Households		Loan balance		
	(m)	%	Total (\$b)	%	Average (\$000s)
No Pressure	2.37	63%	1,737	77%	733
Low Pressure	0.72	19%	316	14%	439
Medium Pressure	0.26	7%	93	4%	354
High Pressure	0.21	6%	65	3%	303
Extreme Pressure	0.18	5%	57	3%	309
Total	3.75	100%	2,267	100%	605

- 180,000 home loans, representing approximately \$57 billion (3%) of home loan assets have property securities with insurance premiums exceeding one month of gross household income
- When these homes are sold or refinanced, lenders may refuse to lend, resulting in stress on borrowers, property prices and credit quality (potentially into losses)

# Significant variation in home loans at risk across Australia. Lenders with regional concentrations may face up to 16% of home loans at risk.



Both home insurance affordability and home loans at risk are expected to continue to deteriorate due to the impact of climate change on extreme weather events.

# Implications for lenders, their customers, regulators, LMI, governments

## Lenders & their customers

- APRA APS 220 requires that properties "are appropriately insured at the time of origination and that this insurance is maintained under the contractual terms of the exposure"
- Banks generally don't check the renewal of insurance policies each year
- Climate change only going to increase the problem, banks should build their capacity to understand the scale of the problem

## Regulators

- How are regulators checking for compliance?
- Will regulators start to crack down?

## Lenders mortgage insurance

- Lenders mortgage insurance not impacted
- Indirectly exposed via property price falls

## Government

- Government needs to invest in the quality of social housing and its resilience to perils



# 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
<ul style="list-style-type: none"><li>• Safer homes</li><li>• Affordable insurance</li><li>• Ongoing finance</li></ul>	<ul style="list-style-type: none"><li>• Reduced risk</li><li>• Increased lending volumes</li><li>• Potentially lower cost of funding</li></ul>	<ul style="list-style-type: none"><li>• Ongoing revenue</li><li>• Reduced claims</li></ul>	<ul style="list-style-type: none"><li>• Investment in climate resilience and adaptation</li></ul>	<ul style="list-style-type: none"><li>• Reduced disaster costs</li><li>• Focus on lower income communities</li><li>• Focus on community level resilience measures</li></ul>
<ul style="list-style-type: none"><li>• Undertake resilience improvements</li><li>• Utilise resilience lending products</li></ul>	<ul style="list-style-type: none"><li>• Offer resilience loans</li><li>• Securitise resilience lending into Mortgage Backed Securities</li></ul>	<ul style="list-style-type: none"><li>• Recognise reduced risk that is certified with reduced insurance premiums</li></ul>	<ul style="list-style-type: none"><li>• Invest in securitised certified resilience lending</li></ul>	<ul style="list-style-type: none"><li>• Climate adaptation taxonomies and other supporting regulation</li></ul>
Common resilience rating framework and certification process – e.g. Resilient Building Council ratings				

# Q&A

Join at  
[slido.com](https://slido.com/join/2845228)  
#2845 228



# Feedback

Join at  
slido.com  
#2845 228





Actuaries  
Institute.

# Thank you

Sharanjit Paddam  
Calise Liu  
Saroop Philip  
Ruby Smith

Finity Consulting

Vanessa Beenders

Actuaries Institute