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Select Committee on the Impact of Climate Risk
on Insurance Premiums and Availability
PO Box 6100
Parliament House
Canberra ACT 2600

By email: climaterisk.insurance.sen@aph.gov.au

Dear Select Committee,

**Submission to Inquiry into the Impact of Climate Risk
on Insurance Premiums and Availability**

Good Shepherd welcomes the establishment of the Select Committee, and the scope of this important Inquiry.

About Good Shepherd

The Sisters of Good Shepherd was established in France over 400 years ago to respond to the needs of women and girls. We are now the largest, longest running organisation supporting women and girls, located in 73 countries, and with consultative status on women and girls at the UN.

We provide programs and services that support women, girls, and their families to be strong, safe, well, and connected. Our clients are at the centre of what we do. We are focused on responding to their emerging needs and on providing innovative, locally tailored responses. Our services are complemented by research, advocacy, and policy development that address the underlying structural causes of injustice and inequality to pave a way for a better tomorrow.

Insurance is a core financial wellbeing issue for Good Shepherd's clients

Improving financial wellbeing is one of five impact areas pursued by Good Shepherd. A lack of access to affordable, adequate insurance is a core financial wellbeing issue

for our clients. Adequate insurance is fundamental for building financial resilience – one’s ability to withstand financial shocks. Our clients are predominantly women and their children. We know from our program delivery experience that inadequate insurance disproportionately affects women and their children. For example, in our major No Interest Loan (NILs) program (comprising around 40,000 clients), 65% of clients are women. People use the NILs program following disasters, to replace essential household items not covered by insurance.

Good Shepherd has a long legacy of insurance-related services, including:

- supporting clients to build financial capability in assessing and managing their insurance needs
- developing a market-first affordable insurance product in partnership with Suncorp Group (‘Essentials by AAI’), which provided an affordable alternative to traditional insurance coverage for household essentials
- partnering with Resilience NSW to prepare a disaster financial resilience guide, which helps users navigate insurance coverage
- working with major insurers as part of our Financial Inclusion Action Plan program, to build financial wellbeing among insurers’ customers
- preparing a feasibility study into the establishment of an alternative insurer for low-income earners, funded by the South Australian Fire and Emergency Services Commission (SAFECOM).

Noting the Terms of Reference of this Inquiry, Good Shepherd is concerned about the following key issues.

Unaffordability of insurance in some regions due to climate-driven disasters

Good Shepherd practitioners frequently report that their clients struggle to afford home, contents and/or car insurance. Our practitioners note that insurance is typically one of the first things to go when the cost of other essentials is high, such as housing, energy and food.

Insurance coverage is particularly low among renters, who comprise the majority of Good Shepherd’s NILs clients (70% are social or private renters). A 2019 analysis of NILs clients found that only 6% of renters had contents insurance, versus the 39% of homeowners with home/contents insurance.¹ In the broader community, one study found that only 23% of public renters and 26% of private renters have contents

¹ Maury S and Lasater Z (2020) *Low-income households and insurance patterns: An analysis of insurance expenditures for NILS applicants in 2019*, Good Shepherd Australia New Zealand.

insurance, versus the 88% of mortgage-holders with home and contents insurance.²

Climate change is only exacerbating insurance affordability pressures. Our clients are living in places very exposed to climate-driven disasters. Good Shepherd sees these risks in its delivery of two national programs (NILs, and the Financial Independence Hub), and its delivery of place-based services in areas such as South East Queensland, Far North Queensland, and South Australia. We note that while 12% of all Australian households face home insurance affordability stress, rates are much higher in areas very exposed to climate-driven disasters.³ This includes the NSW Northern Rivers region, where 50% of the population faces home insurance affordability stress (defined as paying more than a month of gross household income for their annual home insurance premium).

Unavailability of insurance for some people due to climate-driven disasters

Some Good Shepherd practitioners have also reported that insurance is becoming unavailable in certain regions; that is, insurers are not providing coverage at all. Anecdotally, these areas include parts of northeast Victoria and Far East Gippsland, which were devastated by the 2019–20 Black Summer bushfires, and have since faced a series of intense rainfall events, floods, and/or further fires.

Insurance unavailability appears to be an emerging issue among our client cohort, and is consistent with forecasts of insurance unavailability in the wider community. For example, the electorate of Indi, which takes in northeast Victoria, is one of the top 10 Federal electorates most exposed to climate extremes and uninsurability; that is, where insurance is so prohibitively expensive that it becomes unavailable.⁴

We ask the Committee to consider both dimensions of insurance unavailability in this Inquiry – actual withdrawal of insurance from some regions, and effective withdrawal due to extremely high premiums.

The distributional impact of increases in insurance premiums across communities, demographics and regions

Based on Good Shepherd's experience with insurance affordability and availability pressures, we ask the Inquiry to consider how:

- **renters** are affected by a lack of insurance due to climate-driven disasters, whether that is renters' own contents insurance coverage, or landlords'

² Booth K and Tranter B (2018) 'When disaster strikes: Under-insurance in Australian households', *Urban Studies*, 55(14): 3135–3150.

³ Paddam S, Liu C and Phillip S (2023) *Home insurance affordability update*, Actuaries Institute.

⁴ Hutley N, Dean A, Hart N and Daley J (2022) *Uninsurable nation: Australia's most climate-vulnerable places*, Climate Council.

insurance coverage. For example, a lack of adequate insurance may prevent a landlord remediating a rental home, or covering tenant relocation costs

- **women** are affected by a lack of insurance due to climate-driven disasters. There is little or no analysis of the gendered impact of unaffordable or unavailable insurance in Australia in the context of climate change. Good Shepherd is concerned that women may be more exposed to insurance affordability pressures if they are disproportionately concentrated in high-risk regions because of very high housing costs and other circumstances, such as family violence. We observe that clients can be forced to move to housing in 'cheaper' regional areas at higher risk of climate-driven disasters, or move intra-regionally to areas at even greater risk (for example, from a regional town to an outlying area)
- increases in insurance premiums are distributed across **regional, inner urban, outer urban and peri-urban areas**, given the range of locations now exposed to climate-driven disaster risks (for example, flooding in Melbourne's western suburbs), and housing price pressures that are forcing families to move to urban fringe and peri-urban areas at risk of grassfires and bushfires.⁵

A new model for a new era

Australia currently relies on private insurance to recover from the destruction of household essentials and homes in climate-driven disasters. However, a purely private insurance model is breaking down amid climate change. Unaffordability is becoming more pervasive, and price signals cannot be acted on if our clients and others cannot afford to move to lower-risk locations. This leaves people stranded in high-risk locations without the protection of insurance, which can result in severe financial distress, little to no means of recovery, and potential homelessness.

In light of these growing pressures, Good Shepherd, funded by SAFECOM, joined with the consultancy 'Think Human' to propose a new model, which would comprise an insurance pool administered by government. A copy of the report is **enclosed**. In essence, the model recognises the inequity and impracticality of a purely private insurance model in the context of climate change. Private insurers are moving away from risk pooling, with insurance premiums increasingly based on individual household risk. This severely disadvantages people who can only afford to live in higher-risk places.

The proposed State-based model would create a new insurance pool for all

⁵ McKenzie F and Canterford S (2018) *Demographics for bushfire risk analysis: Regional Victoria and peri-urban Melbourne*, State of Victoria Department of Environment, Land, Water and Planning.

homeowners, including strata housing and caravan park residents. All homeowners would be required to pay into the pool, including landlords. To ensure equity, premiums could potentially be based on the ratable value of properties. The pool would be complemented by built environment mitigation measures, to reduce pooled risk and premiums over time.

The pool would insure the first \$100,000 of risk against hazards such as floods, storms and fires, and provide an additional resilience payment of \$20,000 for building mitigation measures. Renters in affected properties would be provided with payments to help pay for temporary accommodation, a bond in a new rental home, and other re-establishment costs. Beyond the \$100,000 cap, private insurance coverage would be required. The new insurance pool would therefore provide a minimum level of insurance coverage, including for those who cannot afford any level of coverage at present and into the future.

We recommend that the Inquiry considers the merits and feasibility of a national government-administered insurance pool, to manage the severe household financial risks arising from climate-driven disasters.

Good Shepherd would be pleased to discuss this letter in further detail with the Committee.

Yours sincerely,

Stella Avramopoulos

Chief Executive Officer

Good Shepherd Australia New Zealand

Feasibility study into the establishment of an alternative insurer for low-income earners in South Australia (consumer insurances)

December 2023

Authors: Mel Lambert and
Annabelle Butler, Think Human



Think Human



**Good
Shepherd**

Australia New Zealand

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- South Australian State Emergency Service – Chris Beattie, Priti Meda, Liz Connell
- Local Government Association - Regional Climate Partnerships – Andrew Nesbitt

Consumer advocates

Think Human
December 2023

- Choice – Bea Sherwood
- Community Legal Centres South Australia – Ippei Okazaki
- Financial Rights Legal Centre – Julia Davis
- Financial Counselling Australia – Peter Gartlan, Vicki Staff
- John Berrill – Partner Berrill & Watson Lawyers
- Denis Nelthorpe AM
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- South Australian Council of Social Service – Malwina Wyrą
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- University of Melbourne – Dr Antonia Settle

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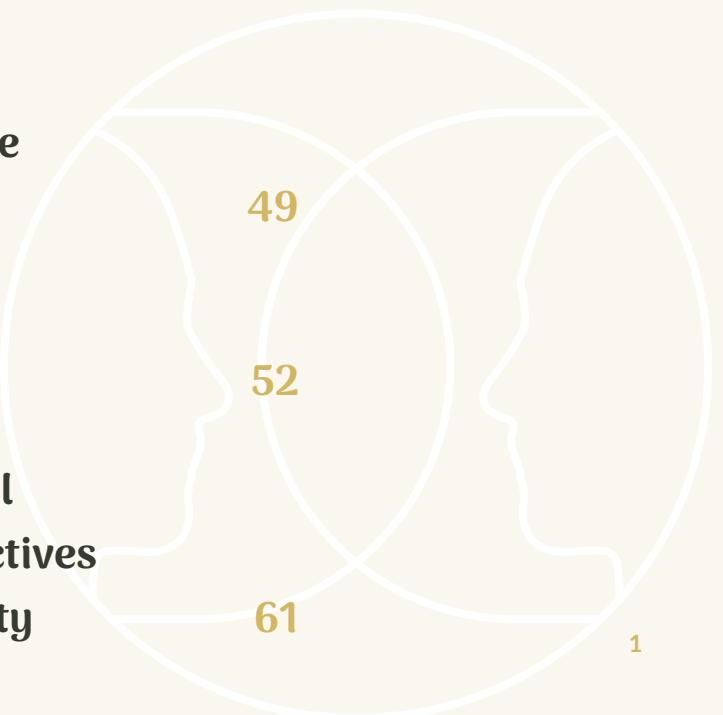
Views and findings associated with this initiative/project are expressed independently and do not necessarily represent the views of the funding bodies, individual informants or agencies, or members of the Project Steering Committee.

For any questions or enquiries relating to the contents of this report please contact:

Peter Collis, GSANZ National Program Manager, Financial Capability.

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Executive summary

Affordable insurance is a fundamental part of ensuring resilient communities. Affordable and available insurance mechanisms are key to supporting Australia's economy, now and into the future. Without it, individuals run the risk of "losing everything" financially, with potentially no financial means to recover, subsequently falling into poverty or at the extreme, becoming homeless.

It can also lead to loss of life. Post the 2009 Black Saturday fires, local support agencies observed that those who stayed to protect their homes were often uninsured. Sadly, many of these people died or suffered life changing injuries, both physical and mental.

The severity of natural disasters is increasing, in part due to climate change and increased urbanisation. Property insurance premiums are rising to reflect this increased risk, both in Australia and globally.

It has been shown that people on lower incomes are more likely to live in areas with higher risk of natural disasters as land/housing tends to be cheaper and often of a lower quality. Additionally, people on low incomes have fewer resources or less power to engage in mitigation measures, as they may be renting or simply cannot afford the associated costs. This paper aims to start the conversation around providing solutions to the problem of rising insurance premiums and the corresponding rising non-insurance rate, by identifying possible alternatives.

We examine the issue of access to, and affordability of, home building insurances in South Australia and propose some potential solutions for the next two decades, to reset the affordability pendulum to an acceptable level. Design concepts such as Safety by Design and Universal Design have been utilised as well as learning from lived experiences of South Australian residents and support agencies.

To inform this report, we engaged with a wide range of stakeholders to ascertain their thoughts on access to and affordability of home building insurance in South Australia. This has included identifying key trends and developments that are contributing to increasing noninsurance and underinsurance rates and their view on how this should be best addressed. Participants included experts from the insurance profession, consumer advocates, local community support services, Government and academics.

Desk top reviews of insurance systems overseas have also been undertaken to understand how other countries worldwide are managing this complex but important topic of public concern.

Key to our strategy for development of potential solutions has been the engagement of the South Australian community. A human-centred, future-focused co-design process has been adopted with deliberative and generative community engagement methods. Multiple workshops have been held both online and in person as well as the use of surveys to reach a wide audience. Focus has been placed on regional areas of South Australia - such as the Riverlands - that are seen to be at high risk from the outcomes of natural disasters and increasing climate risk, and lower-income areas, both metro and regional. Phase two engagement explored community needs, attitudes, priorities, barriers to access and systemic concerns. A set of community-centred design principles were developed and tested, which have informed the potential solution mooted in this paper. Phase three involved co-design with South Australian consumers. We took the design principles and proposed alternative models and tested them against realistic scenarios that participants have experienced to further refine our findings. This ensures the final recommended system and product are fit-for-purpose and meet the needs of low-income residents in South Australia.



Photo: River Murray in flood, December 2022.
Photo Mel Lambert

Key issues arising for South Australian communities in relation to insurance were increasing unaffordability; perceived poor value for money of insurance; challenges in navigating and understanding insurance; and low trust in the integrity of the insurance industry.

**“When it comes to insurance, it’s like a blur-”
“it’s in the too hard basket”**

An Interim Paper, mooting different potential options, was released for feedback to key stakeholders. This paper helped to inform a roundtable which was held with stakeholders representing Government, academia, consumers and insurers – where the refined model and proposition was presented, enabling feedback from different perspectives. This paper reflects feedback received.

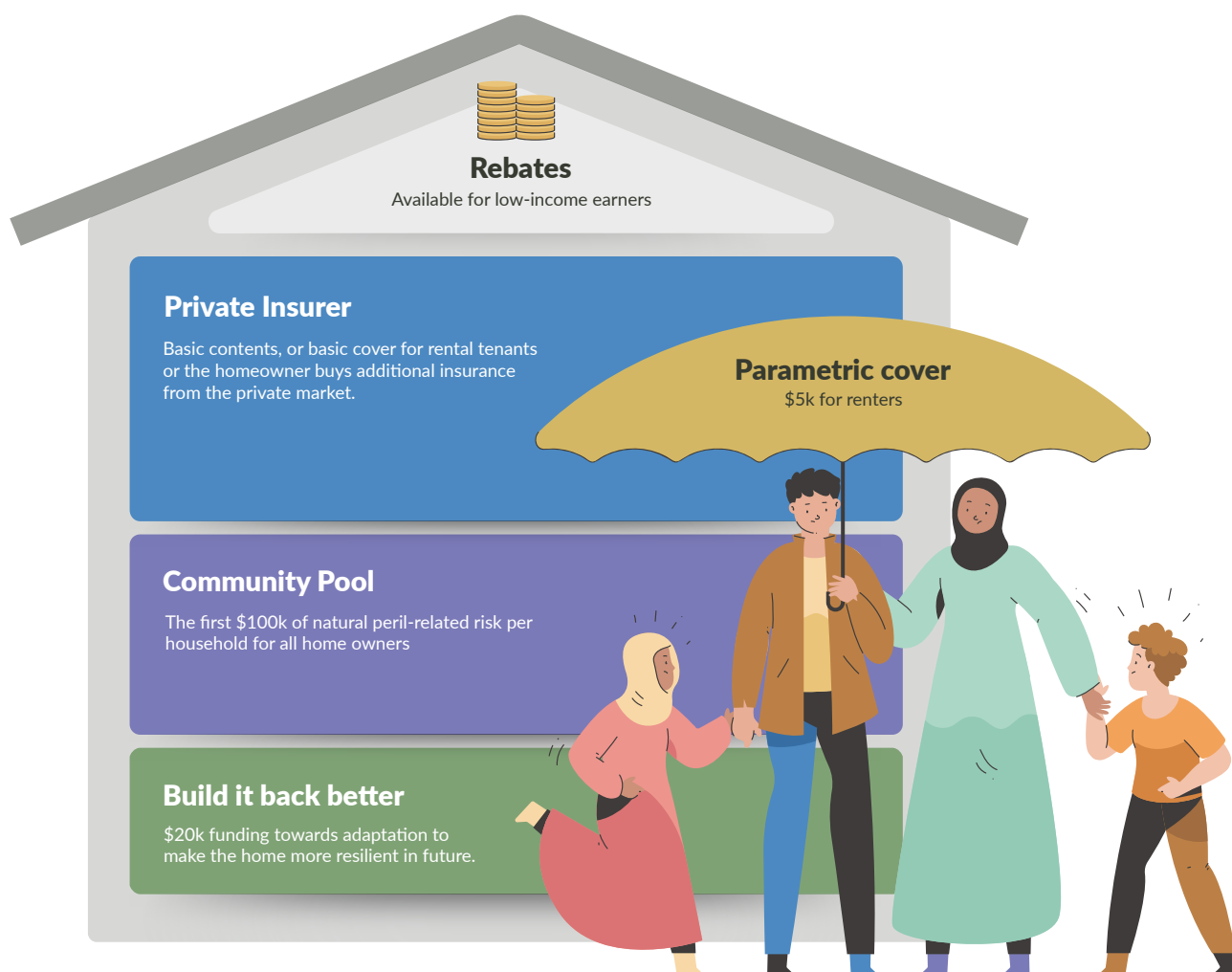
At its core this study recommends a change to the way building insurance is currently designed and priced. The study explores various options and concludes that to enable universal access to some form of building insurance for all South Australian homeowners, an element of technical risk pricing for natural perils needs to be removed for a period of time. This reduces the volatility currently seen in natural peril pricing for building insurances, essentially flattening this component out and socialising the risk across the whole portfolio. Included in the recommendation are two further components, a “build it back better” benefit to enable climate adaptation to improve building resilience in current housing stock and a small parametric benefit for renters.

A set of community-created Design Principles form part of the output of this work and are an integral part of how the proposed product should be designed and implemented.

Think Human
December 2023

Community-created Design Principles

- Prioritise sustainability and resilience in all aspects of the scheme
- See people as partners in risk reduction and insurance
- Keep it clear and simple
- Prioritise collectivism and universal access
- Safeguard affordability
- Build in rapid response and ongoing repair and resilience support
- Make it human!
- Pool the risk



Visualisation of the proposed insurance model

However, it is imperative that the investment by Governments into climate risk mitigation continues. Otherwise, the risk will continue to surge over time, as natural disasters increase in number and intensity – which could effectively make parts of South Australia “uninsurable”. Anecdotal evidence from community members consulted in this study indicates that this is already the case in certain high-risk areas.

This paper is the second paper to be developed, looking specifically at insurance access in South Australia. In 2022 the South Australian Council of Social Service published a paper, “Protecting the Basics: Insurance access for people on low incomes at risk from climate emergencies (Freeman, T 2022)¹. This study reflects and builds on the 2022 findings, however, research has also found that the issue of access is becoming more acute, as premiums for home building insurance continue to climb steeply.

¹ [Protecting the Basics: Insurance access for people on low incomes at risk from climate emergencies, South Australian Council Of Social Service](#)

² [Report on home insurance affordability reinforces the need for a national review prioritising people experiencing financial disadvantage. ACOSS](#)

“People on low incomes are impacted first, worst and longest by extreme weather events.

“Lower-cost housing, including rental properties, are often in areas that are more exposed to extreme weather. This leaves people on low incomes with fewer choices of where to live whilst also being without the financial means, or control if they rent, to mitigate risk.

“From the 2019/20 bushfires to the series of floods that have occurred across the country since, we have heard too many stories of the many people on the lowest incomes who couldn’t afford insurance and have now lost everything with no financial means to recover. Many are at risk of falling into poverty, have their poverty entrenched or ending up homeless.

“With catastrophic and unpredictable extreme weather events increasing in all regions across Australia, we need to do things differently when it comes to insurance, and we must find specific ways to support people and communities experiencing financial disadvantage.

“Insurance must be treated as an essential service. Government natural disaster planning relies on individuals purchasing appropriate insurance for their home, contents and vehicles.

“Subsidies to reduce insurance costs, improve building standards and, where necessary, support relocation for people on low-income will be critical. Investment in infrastructure to reduce risk, better land use planning, and avoiding development in high-risk areas must also be prioritised.

**Australian Council of Social Service,
Acting CEO, Edwina MacDonald 2022²**

Introduction

The concept of risk pooling is fundamental to insurance. By combining the risks of all policyholders into a risk pool, the premiums of lower-risk policyholders cross-subsidise higher risk policyholders who are more likely to make a claim, keeping insurance universally affordable. Historically, this is the fundamental premise of insurance, whether it's via public insurances, such as Medicare or Pensions, or via private mechanisms, such as home building insurances or car insurances.

However, advances in technology, and a growing sophistication in data science techniques, have enabled insurers to move away from this model, to set premiums that are more reflective of a consumer's individual risk profile. This is known as risk-based, risk-rated or actuarial pricing.

Across a range of insurance products there has been a trend away from broad risk pools and toward more granular pricing based on an individual's specific rating factors (i.e., their own risk characteristics) both locally and at a global level.

Risk-based pricing offers a range of benefits for consumers, including the potential for consumers with a lower risk profile to be offered a lower premium. It is assumed that it can incentivise consumers to improve their risk profile as the premium provides a price signal for their risk, enabling them to understand what they can do to lower their risk profile through individual mitigation and adaptation actions.

While there are a range of identifiable benefits, a move toward individualised risk-based pricing and away from risk pooling creates a range of negative outcomes for low-income and other vulnerable consumers, including those with a higher risk profile. For example, with home building insurances, in some cases consumers who reside in higher risk areas (such as those prone to flooding) are now being offered premiums above \$20,000 per annum³ in South Australia for average sums insured, where flood insurance is included. Similar outcomes post the 2019/2020 bushfire season were experienced by householders living in high bushfire risk areas across Australia⁴.

³ Based on anecdotal feedback from community workshop, Mannum, 25th July 2023

⁴ [Insurance premiums rising after long summer of bushfires, storms and floods, ABC News](#)

Low-income consumers in high-risk areas are more likely to be offered a higher premium, or be refused insurance altogether, because of the higher risk they present. For example, consumers living in an area with a high flood risk will be charged higher premiums for home building insurance. These consumers are less likely to have the means to be able to reduce their risk via adaptation (for example raising the property above a flood line or changing residences). For them, an objective price signal (via an insurance premium) for risk is meaningless; they have no realistic mechanism to reduce it. As a result, those arguably most in need of insurance are forced to opt out of cover, reduce cover, or 'self-insure'.

This exclusion from an individualised method to manage personal financial risk in a market-based economy, has the potential to, and is, increasing inequality.

Home building insurance products today are restorative. Traditionally, insurance products provide for "no betterment", the indemnity paid after an insured event only reinstates the property to its original condition, rather than upgrading it to improve its resilience. In Australia, Suncorp Insurance is currently the only insurer to provide a Build it Back Better Benefit⁵ in addition to the insurance indemnity of up to \$10,000. Flood Re in the UK has a similar benefit attached to their flood insurance. Anecdotal feedback has shown that the resultant risk reduces exponentially from the investment⁶. There is a clear opportunity for insurance products to improve resilience, by funding proactive adaptation for the built environment. Reduced risk and the resultant cost of claims will enable reduced insurance premiums.

⁵ [Build it Back Better, Suncorp](#)

⁶ [Build Back Better, Flood Re](#)

Who is the customer?

Some facts

No Interest Loans (NILS) Criteria – Good Shepherd Australia New Zealand

- Earn less than \$70,000 annual income (before tax) as a single person, or
- \$100,000 annual income (before tax) if you have a partner or children, or
- Have experienced family or domestic violence in the last ten years, and/or
- Have a Health Care Card / Pension Card

According to ABS statistics, for SA (2021 Census Data⁷)

- Median household gross income - \$1,455 p.w. or \$75,660 p.a.
- Average gross household income - \$1,989 p.w. or \$103,428 p.a.
- Average disposable income - \$1,038 p.w. or \$53,976 p.a.
- Percent of households receiving less than \$650 p.w. (\$33,800) – 19.6 percent
- SA has the 2nd lowest level of disposable income by State/Territory in Australia.

It is assumed from the Terms of Reference for this study that the insurances being researched are consumer household insurances, i.e. home and/or contents and comprehensive motor vehicle insurance. Homeowners and renters are included. Further research has discounted motor vehicle and contents insurance. An alternative micro product for comprehensive motor vehicle insurance already exists in the market – Essentials by AAI⁸ -which is designed specifically for people living on low-incomes. Likewise affordable contents policies also exist in the market.

Small and Medium Enterprise business insurances, health and life insurances (including funeral) have been excluded, as well as pet insurances. It is worth noting that life and health insurances are still very important to local communities (established through community consultation) – especially those with families and older Australians.

⁷ [2021 South Australia, Census All persons QuickStats, Australian Bureau of Statistics](#)

⁸ [Essentials by AAI](#)

An affordability measure

In 2022, the Actuaries Institute released their first Green Paper in relation to climate risk, changing insurance premiums and the challenge of creating resultant social equity, Actuaries Institute - Home insurance affordability and socioeconomic equity in a changing climate Green Paper 2022⁹. Through this work the Actuaries Institute developed an affordability measure for home building insurances and a subsequent Index to help inform the conversation. It mainly focuses on flood risk, as it's currently one of the main drivers of increased natural peril pricing.

The Green Paper was updated in 2023, providing more contemporary data.

The Actuaries Institute (the Australian Actuaries Home Insurance Affordability Index [AAHIA]¹⁰) uses an affordability measure of a home building premium being less than 4 weeks gross income – i.e. building insurance premium is less than \$7,956 p.a. for an average South Australian Household. It should be noted however that this is a measure of *extreme financial pressure*. Low pressure is considered by AAHIA Index to be 1.1-1.8 times weekly household income, estimated to be 19 percent of households across Australia; no pressure (up to 1.1 times weekly household income) is estimated to be 49 percent of households, as of March 31 2023¹¹. Please note that there is no current international standard for affordability of home insurance premiums. It is assumed that the insurance coverage will include all natural peril risks that are available in the market, including flood/riverine flood and bushfire.

According to the Home Insurance Affordability Update, most South Australian households can afford their premiums. However, data for the paper was collected prior to large premium increases being put through the South Australian insurance books (mainly driven by substantially increasing re-insurance costs and changing capital needs due to the changing risk profile of the books). Recent cost-of-living increases have exacerbated this issue from a consumer perspective. Additionally, the subsequently introduced practice of “red lining”¹² certain areas of South Australia – such as the Riverland areas¹³ started to occur as private insurers began to limit their pool's exposure to climate risk (principally flood for property/building insurances).

⁹ [HIA Green Paper 2022, Actuaries](#)

¹⁰ The AAHIA Index measures the ratio of the annual home insurance premium to the annual gross household income, expressed in weeks.

¹¹ [Home Insurance Affordability Update, Actuaries](#)

¹² Red lining is the practice of refusing to underwrite a risk

¹³ Based on anecdotal feedback from community focus groups in the Riverland area where they have found it difficult to obtain home building insurances in late 2022/2023

As part of the research methodology, an online survey was sent out to South Australians. The demographic coverage of the survey was diverse (please see Figure 1 below). Of respondents, 71 percent either owned their own home outright or had a mortgage, with age groups, family status, geography and income spread across the spectrum. 40 percent of respondents had a household income of greater than \$80,000 per annum, i.e., income was greater than South Australia's median gross household income of \$75,660, meaning that 60% had an income below the median gross household income.

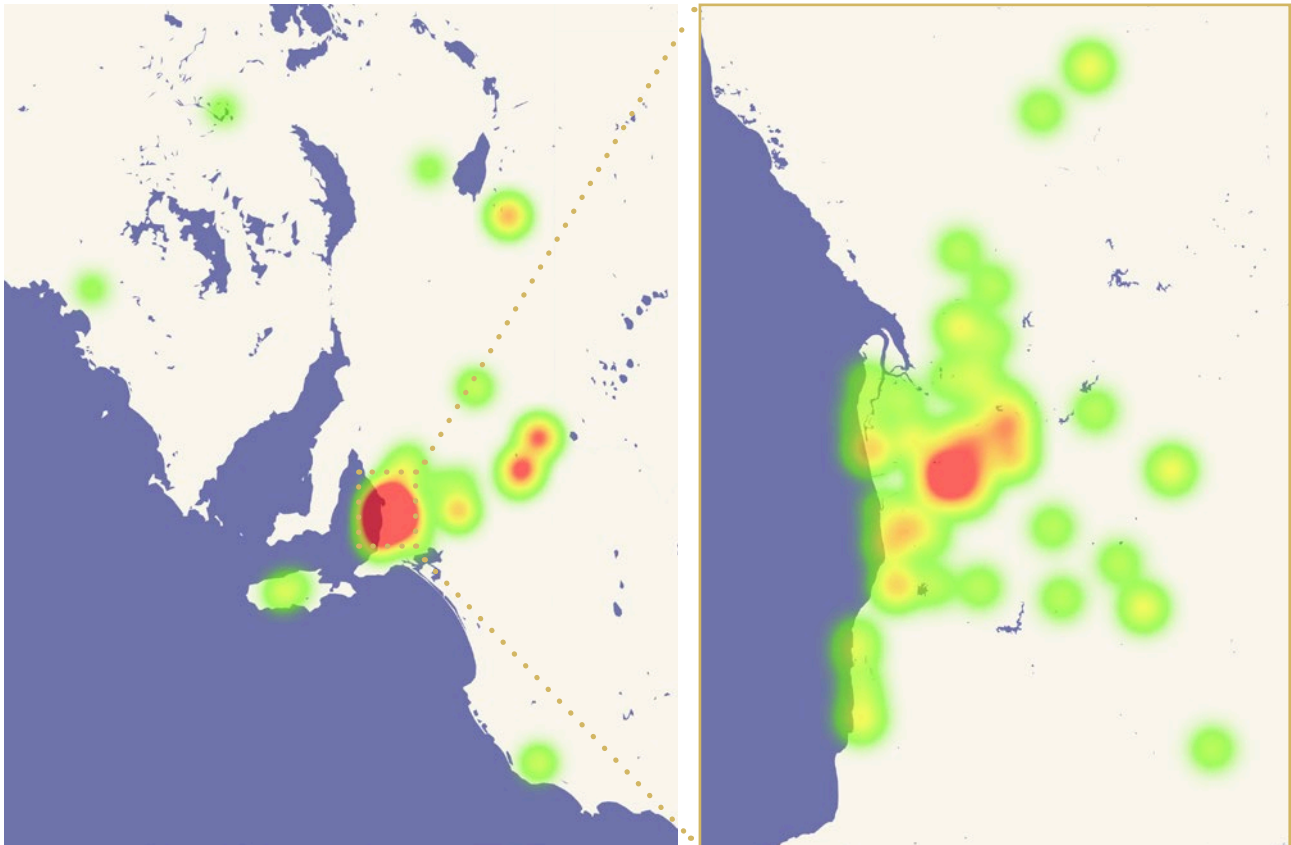


Figure 1: Geographic Spread of South Australia – Insurance Survey Respondents 2023

The survey results regarding affordability and financial stress reflect recent research by Melbourne University (Settle & Ananyev 2023)¹⁴ showing that for households that are liquidity-constrained, insurance is used as a method to manage the household balance sheet. In other words, those households where recent changes to the cost-of-living post-COVID have affected their contractual expenses, they are using¹⁵ non-contractual expenses, including insurance, to manage their balance sheet. This is leading to greater rates of non and under-insurance. Ostensibly these households are absorbing greater levels of risk because of financial stress, which ironically reduces their overall financial wellbeing and ability to absorb long-term financial shocks. Alarmingly, the research shows that under/noninsurance is a growing problem for middle-income and relatively wealthy households as well as low-income households, as a wider range of households fall into financial stress.

Customer story

Michelle lives in a town along the Murray, due to its proximity to medical facilities. Michelle has a neuro-degenerative disease. She worked as a professional in human services prior to becoming unwell and unable to work. Her house is now her only asset. Her only source of income is the disability pension. Michelle is proud that she was able to buy her own home. She insures her home as it's her only asset and she wishes for the capital from it to be used to pay for her funeral and to leave her family some money. Unfortunately, she cannot afford the insurance premiums given her limited income, so has been using her superannuation to pay for them. However, her super is running out and she doesn't know how she will pay for this year's renewal, given the cost.

The Riverlands area, although more recently affected by premium rises, is just one of the higher-risk areas of South Australia. In 2022 the Climate Council released their research, *Uninsurable Nation: Australia's Most Climate Vulnerable Places*¹⁶. Their overall finding was that insurance will become increasingly unaffordable or unavailable in large of parts of Australia due to worsening extreme weather. The report looked at all natural perils, including bushfire by geographic zones. The Climate Council found that Hindmarsh was the most at-risk Federal electorate in South Australia (by 2030) where 11.1 percent of properties were deemed to be high risk. 9.5 percent of properties were at risk of riverine flooding, whilst 1.2 percent were at high risk of surface flooding water.

¹⁴ Settle, A. & Ananyev, M. (2023) *Absorbing shocks by accumulating risk: Do financial stressed households take on underinsurance risk to manage liquidity constraint?* Melbourne Institute Working Paper #16/23, University of Melbourne.

¹⁵ Contractual expenses being those that must be paid, such as mortgages, rent, essential services, childcare

¹⁶ [Uninsurable Nation: Australia's Most Climate-Vulnerable Places](#), Climate Council



Photo: Flooded Torrens River at Linear Park, 2016¹⁷

Other research, such as the *Climate Valuation Climate Insight tool*¹⁸, highlights the risk of fire in South Australia, especially in the Adelaide Hills – predicting for example that of the 1,724 properties in Stirling 1,694 will have a moderate risk of fire by 2030.

In 2020/2021 GSANZ undertook two research projects to understand how low-income households engage with insurance products and their attitudes towards insurance. Stage one of this research examined patterns of insurance coverage in low-income households, using 2019 No-Interest Loans applicants (N = 20,405) – at the time, low-income households were defined by household income being less than \$48,000 per annum. The analysis showed that this group was under-insured, with only 42 percent having a policy. Car insurance (30 percent), funeral plans (11 percent) and house/contents insurance (8 percent) were most frequently held insurances. Demographic differences explained different patterns of insurance, with women, older people, homeowners, and those in higher income brackets more likely to be insured.

Stage two looked at how insurance is valued and how decisions are made. Decisions rested on:

- Cost – it is a major barrier for low-income households;
- Lack of trust in insurers;
- A recognised desire to protect some assets such as work tools;
- Complexity of design and language used – “just use clearer wording. Just be straightforward”.
- Suitable/flexible products;
- Cost versus benefit – awareness of risk, choosing to self-mitigate rather than pay.

The report states: “Ultimately the decision to insure in low-income households involves a series of financial trade-offs, with choices to insure, reflecting lifestyle priorities which often change across the life course”¹⁹.

¹⁷State Library of South Australia, B 76267/11

¹⁸ [Climate Insight Tool, Climate Valuation](#)

¹⁹ [The perceived value of insurance for low-income households. Stage 2: Understanding how insurance decisions are made. – Good Shepherd](#)

The South Australian context

These findings almost exactly mirror the main messages from participants in the South Australian focus groups undertaken as part of this research project.

Affordability

Community members spoke widely of affordability concerns when it comes to paying for insurance. This includes people who have never had insurance because they feel they cannot afford it, those who are concerned that their current insurance is inadequate if they needed to draw on it, and those who are becoming concerned for the first time about affordability. The ongoing nature of the costs of insurance is a real concern, as well as the fear that people will not be able to afford the excess, should they need to draw on their insurance.

Survey responses seemed to reinforce this concern. The percentage of respondents who held insurance was high (88 percent), however 34 percent stated their home insurance premiums were greater than \$2,000 per annum, only 23 percent stating that their premiums were less than \$1,000 per annum. Of the 88 percent who were currently insured, 33 percent indicated that they are considering reducing their insurance cover, and of them, the majority expressed an affordability-related issue as the reason.

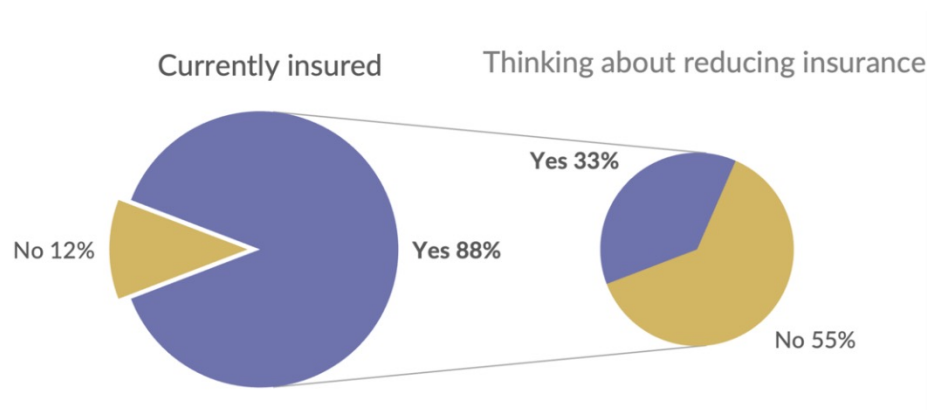


Figure 2: Intention to reduce insurance cover amongst South Australians, October 2023

“You can’t afford it - or you can only afford it if you give up other things to have it. It’s a gamble - do you take out less or no insurance and try to save, or just hope... ?”

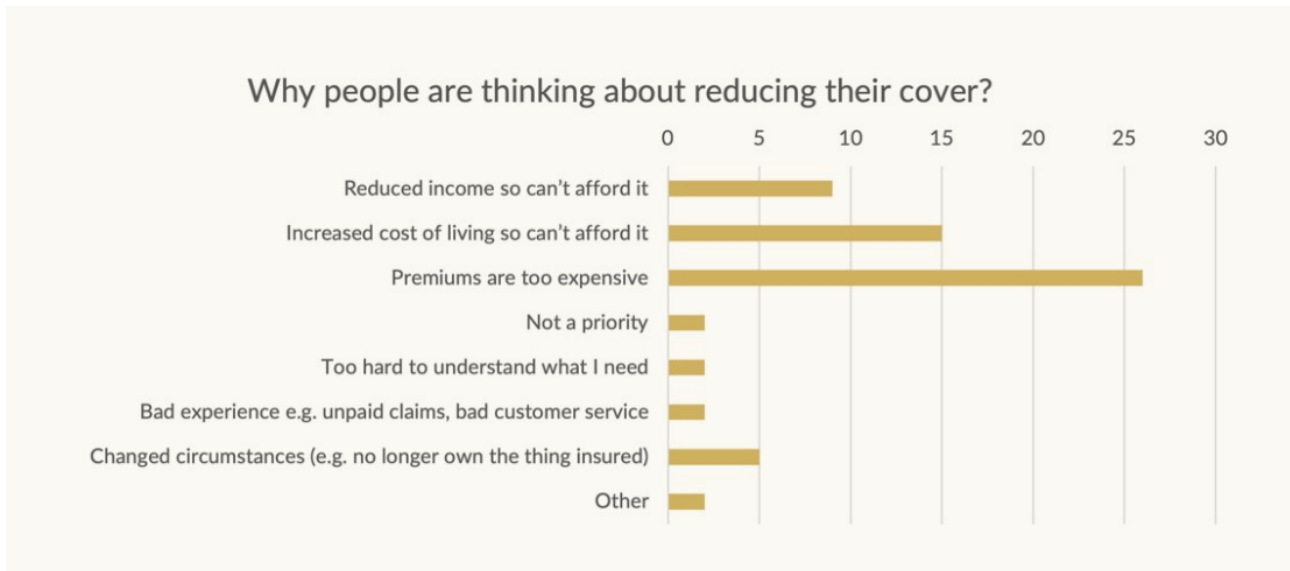


Figure 3: Reasons for reducing insurance cover amongst South Australians, October 2023

Feedback from the Riverlands area, as part of our community consultation, revealed it is difficult to obtain flood insurance at an affordable price; examples of the flood component of the premium now costing more than \$20,000 have been highlighted by distressed consumers, who are on fixed incomes, i.e., have no ability to raise extra funds. They are now effectively uninsured – no policy, or uninsured for their property’s highest natural peril risk – if they have purchased a policy that does not cover riverine flooding. A community member on Kangaroo Island who had ‘built back better’ and well in excess of the required fire-rating requirements after loss from the 2019 bushfires had experienced a three-fold increase in their premium, making insurance their single most expensive annual household cost.

Value for money

In all focus groups, a small number of people raised concerns that insurance was a waste of money. A man in the Riverland expressed frustration at the amount of money he had paid out on car insurance over a 25-year period and saw nothing back from it: he felt that it was a game of gambling and weighing up the odds of something going wrong in the years ahead.

“All the goal posts shift over time. The value of it decreases and cost goes up.”

Affordability summary

Due to the growing lack of discretionary income for most households, the concept of an affordability measure such as four times weekly household income (at the extreme end of 'affordability') or even 1.8 times, has been discounted. For lower income households (those whose household income is less than \$650 per week), 1.8 times weekly income is still unaffordable. Other mechanisms such as concessions for this group need to be considered.

Renters

Evidence suggests that renters are disproportionately non-insured. Currently available Landlord insurance policies do not contain any cover for the tenant. In 2023, Choice issued *Weathering the Storm: Insurance in a changing climate*²⁰. Their analysis shows that 49 percent of renters with insurance policies have been affected by an extreme weather event, compared with 36 percent of homeowners with insurance, highlighting structural climate risk inequity for lower income households. Under tenancy laws, a tenancy ceases when a home is declared uninhabitable. However, the tenant often does not have the financial means to raise additional funds to rent a new property and is often forced to leave the area, causing them to be displaced from their communities, work, schools and family support. This can lead to negative mental health effects and a reduction in their overall financial wellbeing. Tenants, via product design, are included in the customer base for this proposed product.

Customer Story

George who resides in the Riverland had been out of his home for eight months when the researchers met him. He is a health worker. He and his family had been offered support by a local church and were living in an old cottage at the back of the church hall, using the church facilities to cook and toilet. The cost of a portable shower had been covered by a minimal pay-out from insurance but that had been exhausted many months before. His plan was to buy out the owner of the property they had been renting, once the insurance company pays out for the damages, but eight months on, this is not resolved, and he and his family are effectively homeless. He knows that the property will now be uninsurable (for flood), but he cannot afford anything else and wishes to stay living close to his extended family.

²⁰ [CHOICE Weathering the Storm: Insurance in a changing climate 2023](#)

Other renters shared experiences of having lost contents in previous natural peril-related incidents due to poor property maintenance, floods etc. They spoke of a sense of powerlessness in trying to work towards a solution with their landlords.

“We were so nervous about losing our rental property, so we didn’t pursue it.”

Participants in co-design workshops also wished for renters to be included. They felt that specific attention should be paid to ease access and support for them, as often they are particularly powerless and vulnerable if their place of residence is damaged or becomes uninhabitable.

Balancing the book

For any insurance pool/product to be financially sustainable over a longer period, the pool needs to be balanced. A pool that only contains high risk will either need to charge very high premiums to enable it to be sustainable or draw off another source of finance/capital. Otherwise (for example Northern Australian Cyclone Reinsurance Pool model which is underwritten by a \$10 billion Federal Government Guarantee) the taxpayer will need to prop up any shortfalls.

As demonstrated by the Actuaries Institute: Home Affordability Update 2023²¹ currently South Australia overall is a relatively low climate risk area in Australia. There are clear pockets of higher risk, such as some low-lying coastal areas, flood prone areas (Riverlands) or bushfire prone areas (Adelaide Hills), however the majority of South Australian households are seen as low risk. Pulling in those lower risk households allows the book to be balanced and enables it to create a cross-subsidy between low and high-risk households.

Otherwise, the South Australian Government runs the risk of continually having to subsidise high-risk households for their insurance costs from their/community funds – which will not be sustainable in the longer term.

Participants of the co-design workshops supported this view – the scheme should be for everyone regardless of income or where they lived. Participants wanted a foundational principle of fairness and equity to shape any potential solution to improving access to building insurance. They were concerned that if the scheme was only for lower income earners, then it may drive stigmatisation of participants.

²¹ [Home Insurance Affordability Update, Actuaries](#)

Please note the provision of building insurances has not been considered for Government-owned assets such as social housing. Other insurance schemes are already in place to protect such assets.

Conclusion

It is concluded that the customer base will be all South Australian households including tenants. Tenants, however, will not be required to purchase insurance; protections for their financial risk will be built into the building insurances purchased by their landlord, including a small amount of parametric cover for contents/relocation costs.

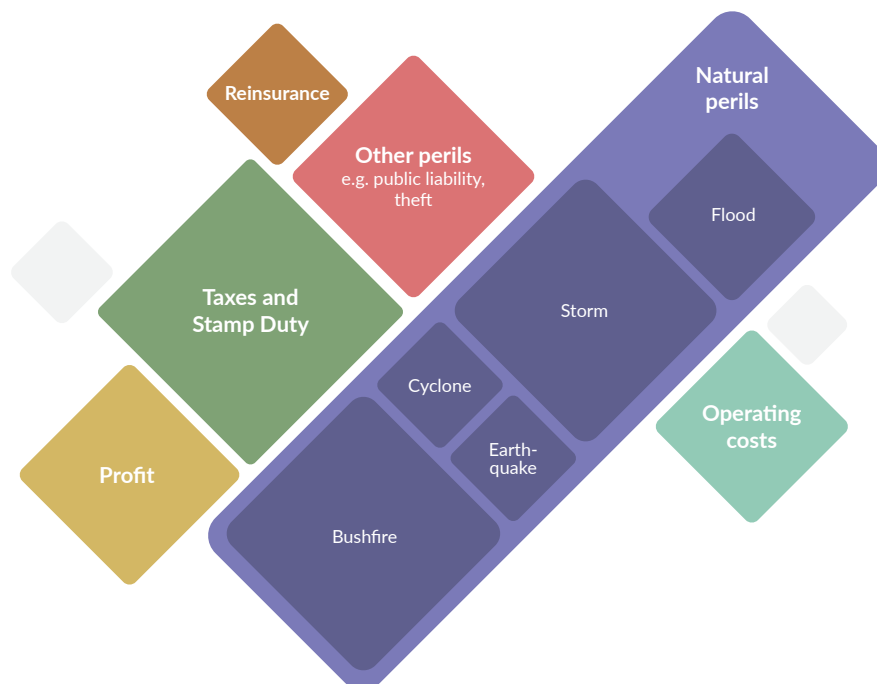


Photo: Renmark, South Australia, Photo by Zac Edmonds

Briefly – how are building/insurance premiums priced?

The “premium stack”

A premium for a home insurance policy is made up of multiple components. The below figure demonstrates at a high level how a policy is priced. Contained within the bands for pricing are additional concepts such as the sum insured (how much damage is covered), property vulnerability (age, construction etc.), exposure hazard (the exposure of the property to the hazard), concentration of risk charges (if applicable), etc. The following explanation is written at a high level. Today, the premium of a home building insurance policy can be made up of hundreds of components.



Please note the above diagram is for illustrative purposes only – pricing for each component varies from household to household and by State (taxes and charges).

Figure 4: Premium stack

The Actuaries Institute – Home Insurance Affordability Update²², constructs a technical view of retail premiums across Australia, breaking them down by State and component. Table 1 below summarises their findings for South Australia and compares them to the mean and median across Australia.

Peril	SA Estimated mean	Australia Mean	Australia Median
Storm	76	278	255
Flood	99	149	0
Cyclone	0	86	0
Earthquake	50	39	42
Bushfire	16	38	0
Other insurer cost components ¹	824	1,168	1,077
Stamp Duty, Levies ² and GST	235	475	353
Total Premium	1,300	2,234	1,894
Stamp Duty	11per cent		

¹ Non-natural perils (e.g. accidental damage), expenses, net cost of reinsurance, profit margin

² South Australia does not charge a levy via household insurances for Emergency Fire Services Levy

Table 1: South Australia, Home insurance premium components (2023 values as at March 31, 2023)

Please note, premiums for Queensland and the Northern Territory are substantially higher currently than other States/Territories. As a mean is used, variance from the natural peril costs can vary widely across the State.

Natural perils

Natural Perils are those perils that are caused by nature. Data sources such as bushfire maps, flood maps, vegetation maps, topography maps, and claims history for the property are all used to create a price for this part of the premium stack. Riverine flooding is often offered as an optional cover (it is priced separately to other forms of flood) and is a large driver for high premiums in flood risk areas.

Other perils

These tend to be man-made and can vary from policy to policy, for example it is common for a property policy not to contain accidental cover as standard, often offered as an extra cover for an additional premium.

²² [Home Insurance Affordability Update, Actuaries](#)

Reinsurance

To ensure ongoing liquidity, insurers use reinsurance to offset part of their risk of the book. This is in addition to the capital that the insurer holds. Reinsurance is ostensibly an insurance policy that an insurer buys from a reinsurer to help them manage the financial risk of the book. Reinsurance costs for general insurers have been rising exponentially in the last few years. As ongoing costs from natural perils have risen from large climate events, such as recent fires in Europe and storms in the United States of America, resultant upward pressure has been put on premiums (the reinsurance market is global). For Australia, following on from ongoing natural disasters in the last decade, reinsurers are also starting to re-assess local climate risk, and are pricing accordingly.

Taxes and stamp duty

All building insurance policies are subject to GST and other charges. In South Australia, additional stamp duty is applied to the premium, currently at 11 percent. This cost is universal, there are currently no concessions in place in South Australia for low-income earners.

Australian insurers use very sophisticated methods for risk pricing for natural perils and other forms of risk. This is a result of a significant revolution in the last two decades of data availability (including satellite imagery), improved abilities to analyse data (via new technologies – most recently artificial intelligence and machine learning) and geocoded property location.

For home building policies, this has led to the pricing of risk at an individual address level, rather than at postcode level. The outcome has been a removal of the cross-subsidy that once existed between properties at postcode level for natural risk, leading to a widening variance between the costs of home building policies. Today premiums can vary for an average home between \$1000 - +\$45,000 per annum, (for those living on flood plains with a non-adaptive property, for example built on a concrete slab rather than being elevated).

Ways to reduce insurance premiums

Unfortunately, there are limited levers that can be used to reduce home insurance premiums.

Reduction of risk – this is key

Mitigation

Climate risk globally is increasing at an alarming rate. For South Australia, increasing fire, flood and storm risk are the most acute natural perils, as well as earthquake. This is demonstrated by the breakdown of premiums published by the Actuaries Institute Home Insurance Affordability Update 2023. Mitigation is possible and needs to be a focus of any solution, as reducing risk is the key to reducing insurance premiums over the longer term, as well as to protecting households. Without this, the risk will continue to rise. There is also an ethical and social/climate equity dimension; as demonstrated, generally lower income housing tends to be in higher risk areas, as land is initially cheaper to purchase and/or ongoing costs of housing remains more affordable.

Reduction of risk/risk mitigation is the key to any long-term improvement in South Australia's risk profile; without concerted actions to achieve this from all levels of Government, the risk profile for households will continue to rise, with increased risk of catastrophic financial outcomes at both household and community levels and potentially food sources and human/animal lives being needlessly lost. Modelling published in 2022 by the Insurance Council and Finity²³ demonstrates for South Australia a predicted financial return on risk mitigation investment of 46 percent (including social costs, health, direct financial costs etc.) for a commitment of \$30 million over 5 years. Since this time, the Federal Government has established the Disaster Ready Fund²⁴ and in partnership with the South Australian Government (in Round 1), circa \$40 million has been invested in various projects including physical risk reduction, improved predictive data for flood and fire and new firefighting equipment.

²³ [Reaping the rewards of resilience, Insurance Council of Australia](#)

²⁴ [Disaster Ready Fund - Round One 2023-24](#)

However, mitigation also takes time, for example, relocating housing requires new infrastructure such as roads, sewage, energy, community facilities (schools, health etc.) to be built. To address the current need to provide affordable building insurance for low/middle income earners in South Australia, other options have been considered in conjunction with risk mitigation.

Land use and planning/national construction code

For future building it is imperative that housing should not be developed in high/extreme risk areas, otherwise the merry-go-round of increasing risk and associated costs continues, creating greater social inequity. In December 2022, National Cabinet agreed that a national standard for considering disaster and climate risk as part of land-use planning is needed and tasked State Planning Ministers to develop it. This is a key step in reducing the built environment's future risk profile. The other element is the National Construction Code. It needs to be expanded to include preservation of both life and assets. A focus on the preservation of assets now and into the future (taking into account modelled future state of extreme weather events), would increase the resilience of the built environment to climate risk.

Government direct cost reduction

One option to manage increasing costs is Government subsidies to householders for their building insurance costs, whether via taxation or another mechanism (e.g., property rates). These could be targeted subsidies offered to lower-income households. However, middle-income householders are also finding it more difficult to pay for insurances, as reduction of non-contractual household spending is used to balance household budgets to counteract rising fixed costs (such as rent/ mortgages or energy).

If governments want to intervene in this manner, they should consider doing so through direct subsidies based on both premium level and income eligibility requirements. An advantage is that direct subsidies have the ability to work in a targeted way to quickly relieve some of the acute affordability and cost of living pressures facing consumers in higher risk areas.

However, there are some risks to using direct subsidies; for example, these could be absorbed by insurers over time (as they price to what is predicted to be affordable at household level – known as price optimisation, as well as technical risk – which is designed to create cross-subsidies in insurance pools). Principally as with other forms of subsidies (such as first homeowner grant schemes) it can drive a distortion in the market with the net result of costs to consumers rising even more – whether directly or via taxation.

It also will not help those households who currently are unable to purchase suitable home building insurance (i.e. their property has been red-lined).

Therefore, this option has been discounted.

Government - the insurer of last resort

Under this model, Government pays for natural peril claims where a consumer is uninsured.

This option has been discounted due to the very high risk of creating moral hazard. Consumers may be less likely to pay premiums, if they knew that Government would pay for their claim if they were uninsured. Consequently, it could add significantly to the already severe impost on South Australia's balance sheet following natural disasters.

Product design

Unfortunately, to reduce premiums via traditional home building product design is a challenging activity. As seen, the major pricing factors which affect building insurance are the cost of the natural perils included in the product (storm, fire, flood etc.) for higher risk areas and the sum insured. To significantly reduce the premium the cost of natural perils would need to be removed, or alternatively, lower sums insured - leading to an acute underinsurance issue.

Therefore, this option has been discounted.

Risk pooling

Until recently - with the introduction of the Cyclone Reinsurance Pool, Australia was seen to have one of the purest market approaches to insurance in the world (Christophers, B. (2019)²⁵. Australia has historically faced a high level of extreme weather events, which as predicted, are growing in intensity as climate change takes effect. Unlike most countries, other than the recently introduced Cyclone Pool, Australia does not have government-guaranteed, mutualised catastrophe insurance pools for its major climate risks, such as flood or bushfire. Instead, the individual bears the risk and can offset that risk through the private insurance market.

Overseas, it is standard for the Government to run some form of pooling to help manage the costs for the most acute risks for the individual, such as flooding (Flood Re in the UK) or earthquake (Japanese Earthquake Reinsurance Co. Ltd (JER)).

Australia

There are currently two Federally-run insurance pools in operation, the Terrorism Reinsurance Pool, which was established after 9/11 as reinsurers stopped issuing terrorism reinsurance globally, and the Cyclone Reinsurance Pool for cyclone and related flood damage. As both are reinsurance pools, Australian insurers who underwrite assets in Australia can access them for reinsurance.

The Cyclone Reinsurance Pool is mandatory for all insurers who write building insurances in certain areas of Northern Australia – to ensure the cost savings are passed back to consumers. This also allows the pool to be balanced, with a mixture of risk.

Currently there are no risk mitigation or adaptation measures associated with the pool.

United Kingdom Flood Re²⁶

One in four properties in the UK are at risk of flooding (JBA Risk Management).

Flood Re is a re-insurance Scheme that makes flood cover more widely available and affordable as part of home insurances for property owners in the United Kingdom. It is a not-for-profit fund.

Flood Re supports households at the highest risk of flooding. Flood Re is legislated to exist for 25 years. Post this point insurers will be offering policies based on the actual risk of the property again.

²⁵ [The allusive market: insurance of flood risk in neoliberal Britain, Brett Christophers](#)

²⁶ [Flood Re - A flood re-insurance scheme](#)

Every insurer that offers home insurance in the UK must pay into the Flood Re Scheme. This Levy raises £135m every year that is used to cover the flood risks in home insurance policies. It is also invested into adaptation measures such as Build it Back Better (see below).

When home insurance cover is purchased, the insurer can choose to pass the flood risk element of the policy to them for a fixed price.

If a claim is made, the insurer pays the claim and Flood Re reimburses them.

Pricing is based on the tax band of local council for each insured policy (rateable value), additionally insurers are charged a levy which provides a subsidy.

In conjunction with the flood claim payment up to an additional £10,000 is made available for the claimant to future proof their property from flood damage by installing Property Level Flood Resilience measures, this is known as Build it Back Better²⁷. Such measures reduce future claims costs. This is in addition to mitigation investment and flood defence maintenance at both LGA and Westminster level (for example flood gates, levies).

479,000 UK householders have benefited from policies backed by Flood Re since its launch while 4 out of 5 of those with previous flood claims have seen a price reduction in their insurance premium of more than 50 percent since the Scheme's inception in 2016.

New Zealand - Toka Tū Ake EQC²⁸

EQCover provides natural disaster insurance for residential homes and some areas of residential land after earthquakes, landslips, volcanoes, tsunami and hydrothermal activity. It also provides cover for storm or flood damage for residential land – a multi-peril pool

The cover is automatically built into home building insurance policies. The premium paid to the private insurer includes the EQCover premium.

EQCover is capped at NZ\$300,000 + GST, additional cover is then provided by the private insurer.

The private insurer manages the claim on behalf of Toka Tū Ake EQC and the private insurer is reimbursed up to the cap.

Pricing is a flat rate - \$16c per \$100 of EQCover amount and is capped at \$480 ex GST.

Currently there are no risk mitigation or adaptation measures associated with the pool.

²⁷ [Build Back Better - Flood Re](#)

²⁸ [The foundation from which we stand strong, together, Toka Tū Ake EQ](#)

Canada

Think Human
December 2023

A National Flood Pool is in development with a target date of 1 April 2025.

It will offer flood insurance to all Canadian households.

Pricing is risk based, however, premiums of those households in high-risk areas will be directly subsidised by the Federal Government – ostensibly capping the cost of the policy – current thinking is at CA\$3000 for CA\$300,000 of cover.

1.5 million households in Canada live in areas of high flood risk (Insurance Bureau of Canada).

It is expected that once implemented earthquake cover will also be included.

Although separate from the pool, the Canadian Government has developed the National Adaptation Strategy, to help Canada become more resilient and to prepare for the impact of climate change.



Photo: Art installation in Toronto Canada. Photo by Justin Ziadeh

The proposed model and product

As part of the community engagement and co-design workshops, design principles were developed with participants. These are drawn directly from community members' experiences and priorities and underpin the type of insurance scheme that they feel will be fair, accessible, affordable and trustworthy.

This is in stark contrast to current perceptions of insurance; community members typically find the insurance industry hard to navigate; common phrases included “technical language”, “hard to understand”, “hidden clauses”, “fine print” and “confusing”. One person said that the more they shopped around, the more confused they got, while others described the complexity of trying to do comparisons across insurance companies and products, as there is no standardised structure, language, inclusions or exclusions.

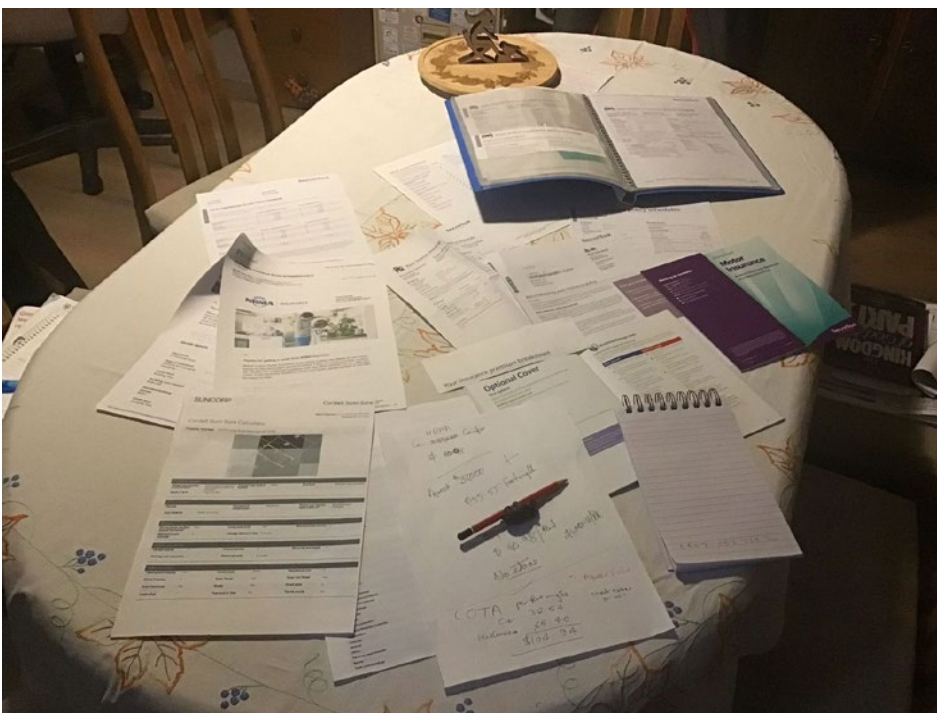


Photo: Mannum resident's dining room table as they try to compare insurance products.

The development of a set of design principles ensures that community-centred values, rules or guidelines are at the centre of design, to avoid the sort of outcomes and experiences people currently have in relation to insurance.

Should there be an appetite to explore an alternative model for home insurance in South Australia, the following table outlines the consolidated principles, defined by the communities of South Australia, that should guide the next steps and continue to guide the implementation of the model over time.

Each principle is an active statement of intent, against which the system designers and those charged with implementation can check their decision-making. Each has a set of supporting questions that can assist in this process.

Design principles for the model

Prioritise sustainability and resilience in all aspects of the scheme	<p>Are we doing all we can to ensure financial sustainability?</p> <p>Are we investing money in ways that align with the environmental sustainability and resilience goals of the scheme?</p> <p>Are we encouraging and enabling people to build back for the environment in which they live?</p> <p>Are the right voices at the table to help us build sustainability and resilience?</p>
See people as partners in risk reduction and insurance	<p>Are we enabling the community to work with us as equal partners in risk reduction and insurance?</p> <p>Are we doing all we can to help people learn how to minimise their risk?</p> <p>Are we ensuring that, as equal partners, communities have clear visibility of what is happening, how it works, how decisions are made and how money is spent?</p>
Keep it clear and simple	<p>Are we checking all our communications for clarity?</p> <p>Could we make each stage and step simpler – onboarding, payment and claims process?</p> <p>Are we connecting with existing systems where possible?</p>
Prioritise collectivism and universal access	<p>Are we making decisions that support statewide climate resilience?</p> <p>Are we retaining and communicating a whole population focus, with benefits for all?</p> <p>Are we prioritising messaging that describes how we are working together as a statewide community to face a challenging future?</p>
Safeguard affordability	<p>Are we regularly checking for affordability and access for those who need it most – i.e. high-risk and low-income households?</p> <p>Are flexible payment options at no extra cost - for premium and excess – easy to find, access and guaranteed for life?</p> <p>Are we doing all we can to keep the excess as small as it can reasonably be, while retaining a fit-for-purpose scheme?</p> <p>Are we being proactive to ensure all those who should be getting concessions are getting them?</p>

Build in rapid response and ongoing repair and resilience support	<p>Are we ensuring that the response times at the time of an incident are as short as they can be, and that the response is adequate to let people move forward?</p> <p>Is there unnecessary red tape we could reasonably remove?</p> <p>Are we enabling longer-term responses and preventative measures to happen easily and affordably?</p> <p>Are we ensuring 'build back better' is the default and that preventative action is available to everyone?</p>
Make it human!	<p>Are we making it easy to contact and deal with a human at times of need?</p> <p>Are we ensuring those working in and with the scheme are trauma-informed and are providing empathetic responses to the stress and anxiety of loss?</p> <p>Are people able to prioritise the things that matter to them, including pets?</p>
Pool the risk	<p>Are we regularly monitoring and realigning to changing risk profiles across the State?</p> <p>Are we ensuring people aren't being penalised for living in a high-risk area?</p>

The following proposed model has been developed utilising the above principles and other desired characteristics for a new home building insurance model. Please see Appendix 3 for more detail on the community-centric characteristics of the model, as described by community focus groups and co-design workshops.

The pool

A new insurance pool would be created. This pool would be for all homeowners in South Australia (including residential strata). It is also envisaged that the pool will include relocatable homes that are situated in Caravan Parks.

All homeowners would be required to pay into the pool, including those who own investment properties and units that are part of a residential strata. This is to ensure inclusivity, including for renters.

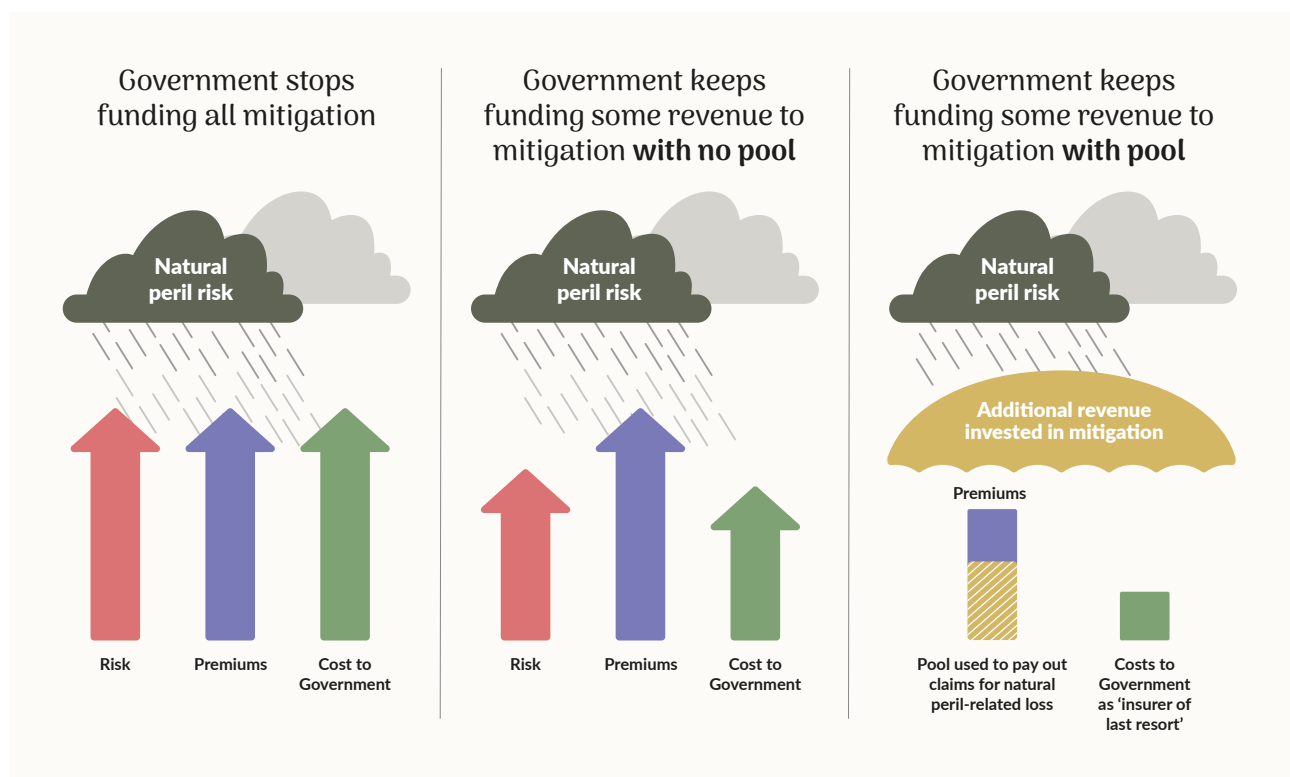
The pool would be implemented alongside the current South Australian Government building risk reduction/mitigation strategy. This is key. If the overall climatic risk is not reduced for buildings, the premium payable into the pool will continue to rise over time as the risk increases and more buildings are affected by climate change.

Lifespan

Think Human
December 2023

It is proposed that the pool should be established for 20 years. Reasoning is twofold. The pool takes away the price signal for risk for properties. Having an end date on the pool will continue to provide focus on risk mitigation projects for South Australia from an affordability of insurance focus. Secondly with an end date, this will discourage the building of new properties in known areas of risk, such as flood risk, unless those buildings are built to withstand that risk, for example they are elevated above future modelled flood lines. Otherwise, once the pool ceases, the same issue will reoccur.

The schematic below demonstrates how this type of intervention into the market will affect premiums over the short to medium term.



Please note the above diagram is for illustrative purposes only – to demonstrate the effectiveness of a joint mitigation/pooling strategy

Figure 5: Impact of intervention over time

Feedback from stakeholders has indicated that a ten-year period would be more preferential, to provide impetus for built environment resilience-building, to lessen peril risk. Some also expressed a need for an exit strategy to be developed at the outset.

The basic cover provided

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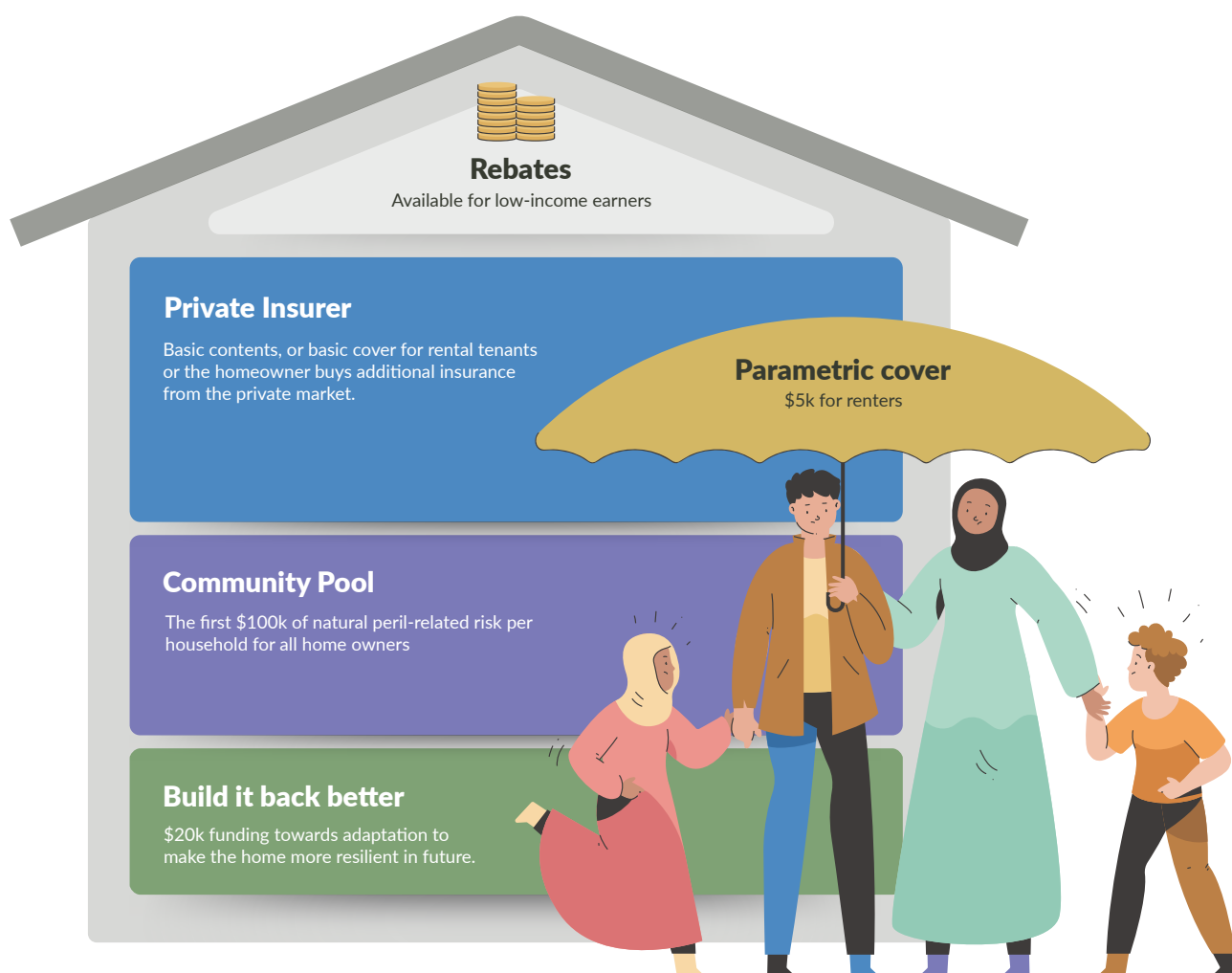


Figure 6: Visualisation of the proposed insurance model

Building

The pool would insure the first \$100,000 of risk for natural perils only, per building. It would not, for example, insure accidental damage, or for landlords' rent default.

The South Australian Government would ostensibly become the "insurer" for the first \$100,000 of insurance per household for natural peril risk.

If the homeowner wished to increase their insurance above \$100,000, they would supplement their policy with a home building policy from the private market, up to the level of cover required, as well as additional covers, such as for accidental damage. It is assumed that most consumers would purchase additional cover, as they do currently; however, for the 15-25 percent of consumers who do not currently purchase any home insurance, they would now have a small amount of cover.

Feedback from stakeholders indicated concern about underinsurance for those who do not buy additional cover from the private market. Insurance Council of Australia data show that the average claim cost from SE 225 – River Murray Floods was \$192k²⁹ which is unusually high. Overall, it was felt that some cover is better than none; Consumer Advocates highlighted the success of the Resilient Lismore *Two Rooms & a Bathroom scheme*³⁰. This initiative, led by Resilient Lismore and supported by the Reece Foundation, has enabled uninsured Lismore residents (estimated to be 50% of affected households³¹) to move back into their own homes post the 2022 flood event, preventing further homelessness.

It has also been recommended that the benefit cap should increase over time in line with CPI.

Build it Back Better – the home building policy would also include a mandatory resilience benefit of up to \$20,000. This additional money would be used to improve the resilience of the property itself from future risks such as flooding. Simple alterations to properties could include moving of electric power points to mid wall level, replacing carpeted floors with tiles, the purchase and installation of flood barriers to doorways, ember protections for roof cavities and metal gutters and gutter guards.

Contents

Although initially mooted in the Interim Paper, contents cover has now been discounted. Currently, low-cost ‘Contents Only’ policies are available. Essentials by AAI³² provides a unique contents policy specifically designed for low-income earners. Removing contents policies from the proposal simplifies claims processes and reduces the premium.

Renters

It is proposed a small amount of parametric insurance cover would be provided for renters (\$5,000) where the building policy is for an investment/tenanted property. This would be included in the policy paid for by the property owner. Parametric insurance is a trigger-based insurance solution. When a particular trigger or parameter is reached (for example in this instance when a tenancy is uninhabitable), a pre-set payment is made, in this instance to the renter. The amount of the payment is designed to help a tenant re-establish themselves quickly (for example to help pay for a bond, temporary accommodation or potentially replace key assets such as work tools e.g. computers and phones). It is not designed to replace a contents policy.

²⁹ [Insurance Catastrophe Resilience Report 2022–23, Insurance Council of Australia](#)

³⁰ [Two Rooms & a Bathroom scheme](#)

³¹ [Uninsured Lismore homes stay mud-caked and unrepaired, The West Australian](#)

³² Similar to the design of Essentials by AAI [Contents insurance – a micro contents policy](#)

Public liability

The policy would contain up to \$20 million public liability insurance for the homeowner/renter. This liability cover would continue to operate if a property was affected by an insured event, so the owner is covered for any unforeseen liability occurring during the rebuild/repair phase of the property. The overall sum insured (of up to \$100,000) would also remain intact, to protect the property from further events.

The mechanics

Pricing

The cost of the insurance could be based on the rateable value of the property, similar to that used for the SA Emergency Services Levy calculations. It would not be risk-based. This means that the volatility in premiums driven by technical risk-based pricing for perils will be smoothed out and for those in lower value housing, the premium would be lower.

Additionally, it is recommended that capping could be explored, to ensure that the premium is affordable for the consumer. Although the Actuaries Institute Home Insurance Affordability Index³³ recommends that the total premium (in this instance both the Pool premium plus the private market premium top-up) needs to be no more than four times weekly household income, to prevent financial stress, as we have seen for low income households, (19.6 percent of South Australian households are receiving less than \$650 p.w.) there is little non-contractual income available, as demonstrated by the low level of savings for this cohort. Current increases in the cost-of-living pressures where essential services/goods such as loan repayments (including mortgages), rent, energy, food etc. have been disproportionately affected has meant for people living on lower incomes, there is little if any discretionary income³⁴.

It is also recommended that those consumers who are eligible for a concession regarding their Emergency Services Levy [ESL] payments, would also be entitled to a concession for their building insurance. This would support those who are reliant on pension/other forms of welfare income to have home building insurance.

This study does not model potential premiums. It is recommended that if the South Australian government were to develop this concept further, then an actuarial firm be employed to model premiums as per the above pricing mechanism.

³³ [HIA Green Paper 2022, Actuaries](#)

³⁴ [Hungry or Homeless –Tough Choices in a Cost-of-Living Crisis, Anglicare](#)

How would the premium be collected?

Revenue SA could be responsible for calculating and collecting premiums from homeowners similar to their role for the collection of the Emergency Services Levy. This model was chosen as Revenue SA already has access to rateable property values to calculate the building's ESL bill each year, concession status of each homeowner, and has the ability to charge and collect monies from South Australians.

The premium would need to be payable in instalments, without a financial penalty, to allow households on lower incomes to smooth out the payments over the year.

How would a claim be made against the pool?

Post event, the consumer would apply to the pool for indemnity, up to the sum insured of \$100,000. The South Australian Government could choose to run its own claims business; however, they could also outsource this to a general insurer or a large broker who has the capability to manage these claims. The advantage of outsourcing is the workforce/IT systems etc. are already in place. Using a Not-for-Profit was considered, however the startup costs and unique capability to manage claims meant that this option has been discounted.

Any amount in addition to the sum insured, where the insured has additional cover from the private market, would need to be a separate claim to their insurer. This is common overseas, for example, the New Zealand EQC.

Alternatively, if a consumer held additional cover a claim could be lodged with their private market insurer, the insurer would handle the claim (potentially for a small claims handling fee) and the insurer could then apply to the pool for reimbursement. The advantage of this approach is the consumer only needs to interact with one pool, simplifying the process.

How would a claim be paid?

If an insured event affected a property, the proposal looks at only paying in cash to the consumer for their claim to provide indemnity. It is not intended that the claims manager would need to project manage repair or rebuild work.

The advantage of this approach is that payments can be processed expediently, enabling the building owner to repair their property or a tenant to claim their costs quickly. For homeowners who hold additional property insurance with the private sector, and where the indemnity amount is higher than \$100,000, they can then either accept a further

cash settlement from the private insurer or contribute their payment towards the total cost of indemnity – enabling flexibility for the consumer in how they wish to be indemnified for their loss.

This aligns with the needs expressed by the community in the focus groups and workshops. One of the most consistent priorities raised in every session was the importance of timeliness in the response at times of loss. Many people shared experiences of insurance assessments and eventual pay outs taking too long, which in itself caused significant stress, disruption and in some cases heightened vulnerability. The ability to keep the wheels of life turning and keep yourself, your family (including pets) fed, watered and with safe shelter without a delay was paramount. Likewise, the ability to retrieve items of value and store them somewhere secure is important, especially if people are temporarily in shared accommodation.

“[It would] pay quickly and makes it easy - not much paperwork. Helps you move on quickly.”

Additionally, managing rebuilds and repairs requires a different set of capabilities, which are hard to source. If there were two insurers involved in the rebuild/repair, (for example the total indemnity due from both was greater than \$100,000), the complexity of managing this would add cost and time leading to inefficiencies and consumer frustration/disadvantage.

It needs to be noted that feedback from some stakeholders does not support this approach. Concerns raised included potentially vulnerable consumers not being able to manage a repair/rebuild or being unable to access reasonably priced builders etc. Concern regarding the quality of repairs and indeed if the repairs were actually carried out, was also raised. It is recommended that this concept could be further explored if the South Australian Government wished to consider this proposal further, with the potential to consult with system administrators in the UK involved in the Flood Re scheme to learn from their experience.

Deeming laws

Any payment from the pool should be treated in the same manner as an insurance payment, under the Social Security Act 1991, otherwise pensions can be affected under the deeming provisions. **Private insurance cash settlements are currently exempt from the deeming provisions for the first 12 months, and this can be extended, where the claimant demonstrates that they were unable to spend the insurance indemnity within 12 months for reasons beyond their control (which for the 2022 flood events has been a common issue due to well-known resourcing and supply chain challenges).**

Enhancing consumer understanding and self advocacy

Feedback from community workshops has highlighted the importance of understanding the insurance product and transparency of pricing. Participants spoke of the difficulty in understanding what they were covered for when they had purchased home insurance. Insurance Product Disclosure Statements are long, often written in legal jargon. They are difficult to compare and assume a high level of consumer literacy.

The product therefore needs to be simple in its design, without a myriad of exclusions. It is recommended that documentation should be in an “Easy Read”³⁵ format. Documentation should also be available in multiple languages, audio and braille to ensure inclusivity. Community members and stakeholders also emphasise the importance of human interactions in accessing the product to ensure ease of access and use for all.

Additionally, as the pricing mechanism removes the “price signal” for risk, it is recommended that the known natural peril risks for the property should be displayed on the documentation, utilising an easy-to-understand traffic light system. Information could also be included on how to improve building resilience, helping owners adapt their own properties to their future increased climate risk.

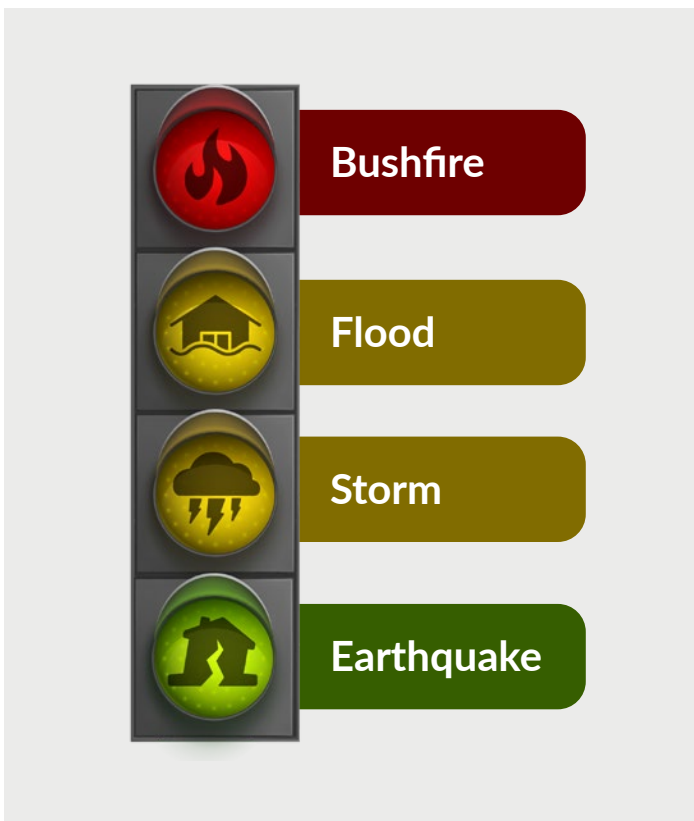


Figure 7: Example of a traffic light disclosure of natural peril risk

³⁵ [Easy Read, Australian Government Style Manual](#)

South Australian communities want to be partners in the scheme and wish to see community education and upskilling built into the system. People spoke of wanting support and advice to improve their property's resilience to natural peril, but also did not seek a solution that would 'take over'; as one person said, "let me still do what I can do to help myself!"


A number of community members spoke of neighbours and other community members who were 'in denial' about their risk, and welcomed a scheme that was proactive in spreading community education and advice. One householder in the Adelaide Hills showed the researchers around their property, highlighting a range of fire defence mechanisms they had put in place. Whilst some of these came at considerable cost, the family had sought out grants (e.g. from the steel industry to replace wooden fences with steel ones) and had a range of clever 'hacks' they would use if a fire came through their property, such as using leaf blowers to repel spot fires. In an ideal world, the scheme would be able to access and activate well-informed community members such as this family to spread local knowledge and wisdom.



Photo: Metal fences on an Adelaide Hills Property.

The product in practice.

The table below provides some examples of how the product would work in practice for various households across South Australia, regardless of their risk rating.

 Low-income renter with basic contents insurance	Renter without contents insurance
Context	Home is uninhabitable due to natural peril
The product	Automatic \$5000 parametric payment from landlord's policy to help them in the immediate/short-term needs
Additional insurance cover	Draws on own low-cost contents insurance for replacement of lost/damaged belongings
Other support	No additional insurance cover Other appropriate responses from government and NGO sector to support response, recovery and mitigation.

 Homeowner	
Context	Home is damaged due to natural peril below \$100,000 value
The product	Cover for up to the value of loss (sub \$100,000) Up to \$20,000 Build Back Better funding to enable increased resilience to deal with future natural peril threat
Extra support	Draw on private insurance for contents only
Other support	Additional cover from private market to cover total value of loss – building and contents Other appropriate responses from government and NGO sector to support response, recovery and mitigation.


 Landlord	
Context	Rental properties damaged due to natural peril (still habitable)
The product	Cover for up to the value of loss (up to \$100,000 for each property) Up to \$20,000 Build Back Better funding for each property to enable increased resilience to deal with future natural peril threat
Extra support	Additional cover from private market to cover total value of loss (if over \$100,000)
Other support	Other appropriate responses from government and NGO sector to support response, recovery and mitigation.

Table 2: Sample case studies of how the product would work for various households in South Australia.

Advantages and disadvantages of proposed model

Advantages of the proposed model for consumers/ householders

- One clear advantage is universal access. Every person (including renters) would have some form of insurance to help manage their own personal financial risk driven by climate change.
- Financial wellbeing – Insurance is designed to provide financial resilience and peace of mind in the face of an unexpected financial shock. For 66 percent of the population³⁶ who in the 2021 Census reported owning their own home (with or without a mortgage), their home is their largest financial asset. Home ownership in South Australia is above the national average, 68.4 percent, compared to 66 percent nationally. The mean level of savings per household in 2022-dollar value is \$21,000³⁷ for South Australia – an insufficient amount to enable a homeowner to get back on their feet financially if their property was severely damaged by a natural disaster and they were uninsured. Having insurance for major assets improves an individual's financial resilience significantly and improves their economic security.
- The model reduces what is known as the “Poverty Premium”. The Actuaries Institute: Home Insurance Affordability Update³⁸ shows that the estimated average premium for home building Insurance in South Australia is \$1,300 p.a. Although data is not available to understand how many South Australian policy holders are paying periodically, rather than annually, the ACCC Northern Australia Insurance Inquiry 2017-20 Second Interim Report 2019³⁹ shows that policy holders are being charged up to 20 percent in addition to their base premium if paying monthly. This is in addition to other known facts, for example, lower income housing tends to be in higher risk areas (as land is cheaper), therefore by the virtue of risk-based pricing, lower income and more vulnerable households are paying often significantly more than others.

³⁶ [Housing Occupancy and Costs, 2019-20 financial year, Australian Bureau of Statistics](#)

³⁷ [HIA Green Paper 2022, Actuaries](#)

³⁸ [Home Insurance Affordability Update, Actuaries](#)

³⁹ [Second interim report, ACCC](#)

- The model reduces climate risk inequity. The below diagram shows the vicious cycle of climate change inequity. Empirical evidence shows that exposure to the adverse effects of climate change is largely determined by the location where people live. Lack of income compels lower income households to live in locations that are more exposed to climate risk, such as along riverbanks, low lying coastal areas or in high fire risk areas. This inequity is exacerbated by those households not being able to afford to buy building insurance to offset this risk, forcing them to absorb the entire loss, further undermining their asset position.

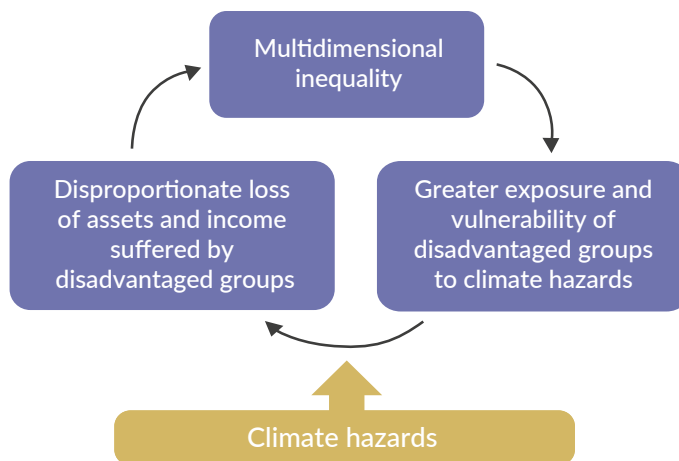


Figure 8: Climate Change Vicious Cycle⁴⁰

- As cited earlier, risk mitigation and adaptation measures are key. When designing these measures, it is imperative to ensure that they benefit lower/middle income households. For example, experience from the Home Buy Back scheme (as part of the NSW Resilient Homes Program⁴¹) has shown that due to the higher costs of purchasing less flood prone properties in the local area, participants have ended up rebuying in higher risk areas. Market distortion has also occurred, increased demand for lower risk properties has driven up asset values thus further exacerbating the issue. As the model proposes socialisation of risk across the South Australian community, enabling universal access for all households, it promotes equity.

⁴⁰ [UN-DESA Policy Brief #45](#)

⁴¹ [Resilient Homes Program, NSW Government](#)

- Financial resilience and wellbeing are strongly linked to mental health. A 2022 study commissioned by ASIC and Beyond Blue⁴² has shown that in 2020, rates of mental distress were four times higher for people experiencing financial stress, compared with people who did not. Therefore, building financial resilience and well-being, by enabling access for all of the community to a low cost, building insurance policy to protect from financial shocks, may enhance mental resilience and health or at the very least, prevent deterioration.

Disadvantages

- For part of the community – those who are currently low risk, they potentially will be paying a slightly higher premium than currently for the product. However financial offsets such as lower operating costs, no charge for reinsurance, no requirement to provide shareholder returns etc. should alleviate this issue.
- Potentially, depending on the quantum of the claim, two claims may need to be lodged.

Advantages of the proposed model for insurers

- The suggested model would reduce insurers' reinsurance/capital costs significantly in South Australia. Anecdotal feedback has shown that the cost of capital (to provide the prudential support for the insurer – i.e. having enough money to pay the claims via investment) is becoming more expensive as interest rates have risen. This is a natural outcome of market structures, which for insurers is exacerbated by the volatility of returns due to climate risk (good years and bad). Additionally, reinsurance costs for Australian insurers are rising rapidly (due to the shift in the Global Risk experience/outlook), this model would negate this effect on the insurer's profit and loss and subsequent pricing of the policy.
- As the Pool is tied to mitigation and adaptation investment, over time, the risk should be reduced or at a minimum remain at today's level. This will help insurers manage their relationships with customers and to provide affordable, trustworthy products for the market into the future. Reducing the transference of risk to an affordable level for households, without causing financial stress, reduces the need in the longer term for a Government Pool to ensure affordability, enabling the private market to re-enter. The proposed concept has a timeframe (20 years) attached in recognition that once the peril risk is reduced for households, the need for a role of government should reduce as premiums become more affordable in the longer term.

⁴² [Money and mental health Social research report – executive summary, Beyond Blue](#)

- Taylor Fry's Radar FY2023⁴³ has reported that the householders insurance class continued to experience a loss in the 2022/23 financial year across Australia (-\$200 million) driven by increasing catastrophic losses combined with claims inflation (input costs significantly increased, e.g. labour and materials). This is despite significant premium increases across the insurers' books (increases averaging 13 percent in FY2022/23). IAG has recently indicated that they will continue to raise premiums at a book average of 20 percent in FY2023/24, and it is probable that other insurers will follow. Removing a layer of this risk from the South Australian home books for a period of time, will help improve the profitability situation for insurers in this state, whilst risk mitigation measures are implemented.

Disadvantages

- Insurers operating in South Australia will have to redesign their product offerings in this State to accommodate the Pool. Products already do vary from State to State (as local law requires certain inclusions), however new Product Disclosure Statements will need to be drafted and issued.
- Pricing for building policies will need to take into account the removal of the first slab (\$100,000 and \$20,000) of natural peril risks. However separate pricing models already exist elsewhere, for example in NSW.

Advantages of the proposed model for the South Australian Government

- Arguments for targeted policies to reduce premium stress include increasing the take-up of insurance (transferring uninsured risk from the South Australian balance sheet), creating funds for research and mitigation, reducing government expenditures on post-event recovery, reducing intangible costs (such as mental health impact) in the event of loss from the 'peace of mind' that insurance can provide, and increasing overall economic activity by enabling development.
- In 2017, Deloitte Access Economics estimated that the total economic cost of natural disasters in South Australia over the past decade averaged \$300 million a year. Hail accounted for 48 percent of this cost, bushfire for 45 percent and storm for 7 percent. At the time of writing Deloitte estimated that total economic cost of natural disasters in South Australia will reach \$700 million a year by 2050, a growth rate of 3.6 percent per annum. This estimate, (in a

⁴³ [RADAR FY 2023, Taylor Fry](#)

low emissions scenario), has since been revised to \$750 million per annum⁴². The proposed model, with the attached mitigation and adaptation programs should significantly reduce this number.

- Climate change will also lead to changes in the types of natural disaster threats regions face. In South Australia, Deloitte Access Economics has stated⁴⁴ that the council areas of Charles Sturt and Port Adelaide Enfield, will see a significant increase in costs associated with floods, which currently make up only a minor share of total disaster costs in these areas. Some coastal areas will also see a significant increase in costs associated with coastal inundation events. These areas are traditionally lower-income and under the current market structure and affordability challenges may be uninsured privately, putting further pressure on government funds.
- Enhances social equity - climate change is not just an environmental and financial issue, but also one of socioeconomic equity. Households that are already struggling to pay home insurance premiums will also suffer most from the impacts of climate change on home insurance premiums. The above product aims to rebalance the cost of basic home building insurance to counteract the increasing climate risk cost for low-income households for a period to enable climate mitigation to occur.
- The proposed product and model provide for inclusive design for all South Australian residents, regardless of income levels.
- The model aligns with the United Nations Sustainable Development Goals⁴⁵ (SDGs) which provide a framework for the implementation of policies to address the underlying causes of poverty, vulnerability and the risk to climate change simultaneously. SDG 10 calls for the reduction of inequality and SDG 13 calls for actions towards climate change mitigation and strengthening adaptive capacity and resilience to climate hazards. Interlinkages between climate change and inequalities are well reflected in most of the SDGs in recognition of the fact that it will be much harder for countries to make substantive development progress in key areas (such as poverty eradication, food security, healthy lives, among many others) unless people and communities are resilient to the negative impacts of climate hazards.

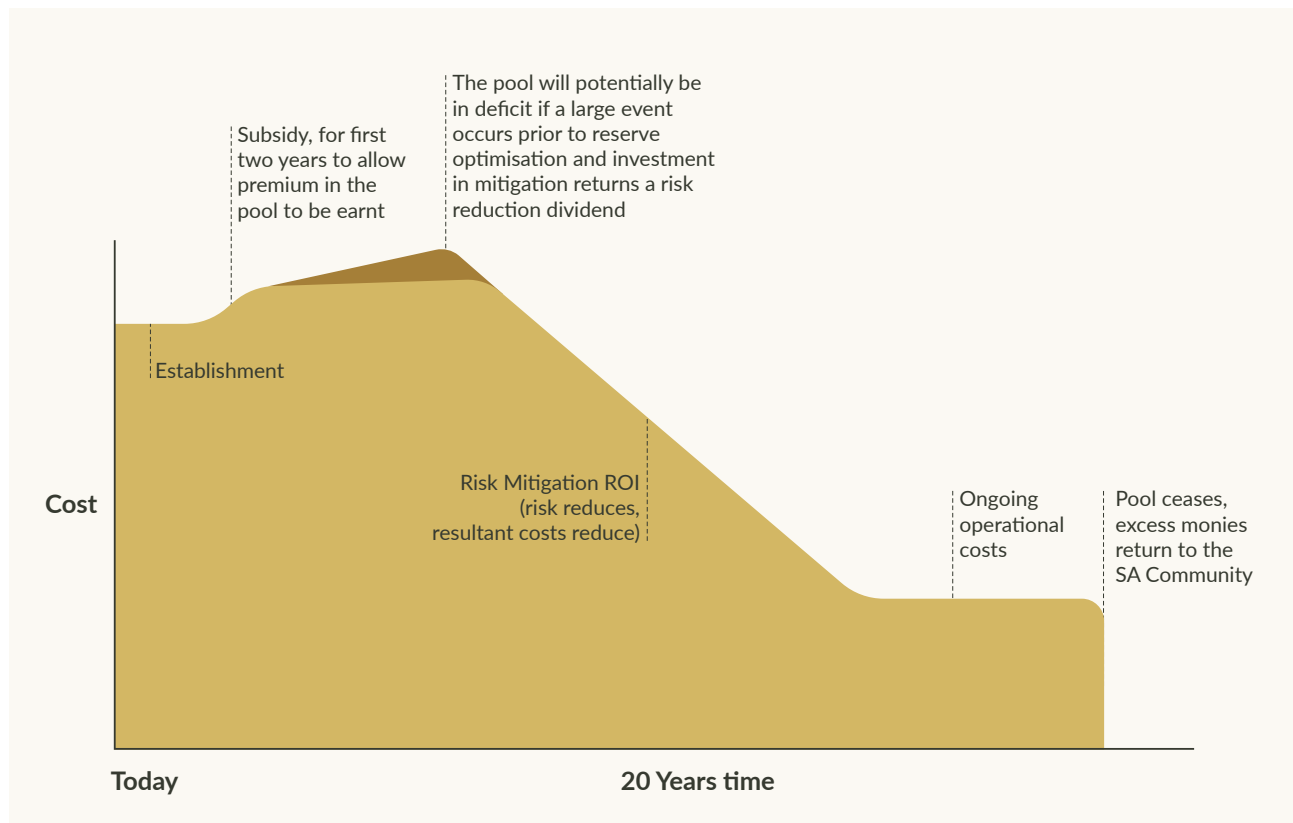
⁴⁴ [Special report: Update to the economic costs of natural disasters in Australia](#)

⁴⁵ [United Nations Sustainable Development Goals](#)

Disadvantages

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- Need for Investment - to establish the new pool and product, the South Australian Government will need to invest. Flood Re cost £20 million to establish, however it is not thought that this scheme would be as expensive, as existing billing and pricing mechanisms would be employed. However as per the schematic below shows (Figure 9), there could be potentially a period (especially if a large event occurred in the short-term) where the Government could be required to subsidise claims costs.



Please note the above diagram is for illustrative purposes only – to demonstrate potential investment needs

Figure 9: Cost of scheme over time

Next steps

Explore the appetite to set up a State-wide peril-related insurance scheme for South Australia.

Think Human recommends that Good Shepherd Australia New Zealand (GSANZ) continues the dialogue with the South Australian Government about the appetite to explore this concept for South Australia. Think Human researchers had very positive initial conversations with The Honourable Joe Szakacs MP, Minister for Emergency Services; The Honorable Nat Cook MP, Minister for Human Services; and with a Senior Advisor for The Honourable Susan Close MP, Deputy Premier and Minister for Climate, Environment and Water. The Ministers have requested a copy of the final report be sent to them for further consideration and discussion.

Undertake financial modelling for set-up and administration costs for the scheme.

Whilst outside the scope of this feasibility study, Think Human recommends that some initial draft financial modelling be undertaken to give an indication of set up and operational costs over time. GSANZ may wish to work with an actuary to undertake this modelling subject to the outcomes of the further discussions with the South Australian Government.

Continue the dialogue about and co-design of the product with key stakeholders, including South Australian residents.

This report represents a starting point in the development of an affordable and equitable insurance scheme for South Australians. The principles applied to this work should continue throughout the design, implementation and evaluation of the product, whereby the voice and experience of the South Australian community continues to be at the centre; the design principles should shape the decision-making in design and implementation; and ongoing dialogue and partnerships with key stakeholders from across the insurance, Government and not-for-profit sectors be built upon to ensure widespread buy-in.

Think Human will share a condensed version of this report with community participants in the research as part of our practice in 'closing the loop' and honouring the community's generous participation.

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Appendix 1 – A Think Human methodology for Good Shepherd Australia New Zealand Affordable Insurance project

Think Human's approach draws on our deep experience in co-design and deliberative and generative community engagement methods.

How do we define co-design?

"Co-design is about working with the people closest to the solutions, prioritising relationships, being honest, making sure people feel welcome, using creative tools, balancing idealism and realism, and building and sharing skills. Co-design uses inclusive facilitation that welcomes and works with many ways of knowing, being and doing [...] Co-design has a 'co' bit (e.g. community, co-operation) and a 'design' bit. Both bits (community and design) are important but neither have all the answers."⁴⁶

This project had a three-phase process, followed by the development of this report. The process engaged widely with community and key informants from Government, the insurance sector and the not-for-profit sector.

⁴⁶ ["What is co-design? Beyond Sticky Notes"](#)

Methodology overview

Phase 1: Scoping

In the Scoping phase, Think Human worked closely with GSANZ and engaged two subject matter experts: Annabelle Butler (insurance sector) and Kathryn Eaton (marketing and communications) to define outcomes and key outputs, and identify key communities and sector informants to engage in phase two.

Community members in South Australia to target in phase two included:

- Potential users of a microinsurance product
- People who are currently un-insured, or under-insured
- People who live in high-risk areas
- Key potential partners from the Not-for-Profit and Government sectors

Phase 2: Engagement

Through a series of focus groups and community conversations Think Human explored community needs and priorities, surfacing barriers and enablers to accessing insurance generally, and specifically home and contents insurance. We also explored systemic and legislative opportunities and challenges for a microinsurance not-for-profit through the work of the insurance SME. Conversations were held in the following regions of South Australia:

- Adelaide Hills
- Riverland
- Kangaroo Island
- Salisbury
- Online (capturing broad geographical spread)

At the end of the Engagement phase, we developed a set of draft community-centred principles to further refine through co-design workshops. The refined principles will be shared prior to the roundtable for consideration.

Based on the interactions and conversations with the community Think Human developed a set of personas to use internally as part of our design process in refining the model and designing the next phase.

Phase 3: Co-design

In Phase three we undertook three co-design sessions with South Australian communities. In the first two co-design sessions, we shared a high-level concept of the model and asked participants to contextualise this in a realistic scenario that they could imagine impacting their home and/or contents. This is an important aspect of the co-design approach, that we are using scenarios that are personally meaningful in order to evoke considered, personal responses. Participants explored the model through a number of lenses, as follows:

- 1. Drawing on the scheme:** if this situation arose, and you had to draw on this scheme or product, what would you prioritise for an immediate response, longer term resolution, and what would constitute 'just enough'?
- 2. Using the scheme for mitigation and adaptation:** how would you prioritise who could access support to mitigate and adapt? Looking at the design challenge through a lens of equity and fairness and exploring options.
- 3. Paying for the scheme:** who should be responsible for paying for this scheme? Exploring the responsibility of different players, from the individual resident and/or homeowner, through the three levels of Government to those who contribute to climate change.

The third session built iteratively on the previous two, to ensure the model moves forward to a higher level of fidelity.

An Interim Paper was also released to key stakeholders for comment.

Following the community co-design sessions, we undertook a final 'roundtable' with South Australian Government, not-for-profit sector, insurers, academics and other key stakeholders to align the community's co-design expectations and design principles, the draft model and the broader policy context in South Australia.

Appendix 2 - Summary of online survey results

Demographics

Please note that the demographic statistics below only relate to those who completed the online survey. Workshop and focus group participants were not asked to provide demographic details as part of their participation.

Age Group	Count	Gender	Count
18-29	13	Female	77
30-39	16	Male	25
40-49	20	Non-binary	1
50-59	22		
60-69	27		
70-79	5		

Do you identify with any of the following statements?	Count
I identify as Aboriginal or Torres Strait Islander	0
I am from a non-English speaking culture	5
I identify as Australian	60
I am living with disability	12
I identify as LGBTIQ+	1
I'd rather not say	1
I am a new migrant to Australia	2
Other	2

What are your living circumstances?	Count
Living with partner/other adult (without children)	28
Adult living alone	25
Living with partner/other adult and a child/children full-time	27
Single adult living with a child/children part-time	5
Living with partner/other adult and a child/children part-time	3
Single adult living with a child/children full-time	13

Which of the following best describes your current housing situation?	Count
Homeowner without mortgage	35
Homeowner with mortgage	35
Renter in private housing	9
Retirement Village (renter)	1
Renter in public housing	3
Renter	16

What is your annual household income?	Count
Disability Pension/carers allowance only	11
Job Seeker	9
State Pension only	2
\$20,000-\$40,000	12
\$40,001 - \$60,000	15
\$60,001 - \$80,000	13
\$80,001-\$100,000	7
\$100,001-\$120,000	4
\$120,001-\$140,000	2
More than \$140,000	13
Not sure	1
Prefer not to say	9

Insurance

Do you have any insurances at the moment?	Count
Yes	91
No	12

Why do you not have insurance at the moment?	Count
Never thought about it	1
Can't afford it	9
Not a priority	1
Too hard to understand what I need	3
Bad experience in the past e.g. unpaid claims, bad customer service	1
Don't trust insurance companies	2
I don't need it	0
Other	1

Do you have other back-up plans instead of insurance?	Count
Yes	1
No	11

What sort of insurance do you currently have?	Count
Home	70
Contents	68
Car	78
Pet	12
Health	66
Life	25
Phone	2
Work equipment	7
Public liability	21
I don't know	0
No insurance	0
Other	9

What would be your preferred payment period for your insurances?	Count
Monthly	26
Fortnightly	9
Not sure	2
Aannual	16
Quarterly	10
Twice a year	1

Why would this be your preference?	Count
More convenient	28
Would help with affordability	25
Not sure	4
More flexible	3
Other	4

How much does your home insurance cost you per year?	Count
\$500-\$1000	17
\$1001-\$2000	31
\$2001-\$4000	17
\$4001-\$6000	5
More than \$6000	3
Not sure	16

Have you cancelled any insurances in the last 2 years?	Count
no	69
yes	21
not sure	1

What type of insurance have you cancelled in the last 2 years?	Count
Home	4
Contents	7
Car	5
Pet	2
Health	4
Life	2
Phone	1
Work equipment	2
Public liability	2
I don't know	0
Other	5

Why did you cancel your insurance?	Count
Reduced income so can't afford it	5
Increased cost of living so can't afford it	7
Not a priority	0
Too hard to understand what I need	0
Bad experience e.g. unpaid claims, bad customer service	2
Changed circumstances (e.g. no longer own the thing insured)	3
Other (including cost-related issues)	2

Are you thinking about reducing your insurances in the next year?	Count
Yes	34
No	57

Which type/s of insurance are you thinking about reducing in the next year?	Count
Home	13
Contents	11
Car	12
Pet	3
Health	10
Life	5
Phone	1
Work equipment	1
Public liability	5
I don't know	0
Other	3

Why are you thinking about reducing your cover?	Count
Reduced income so can't afford it	9
Increased cost of living so can't afford it	15
Premiums are too expensive	26
Not a priority	2
Too hard to understand what I need	2
Bad experience e.g. unpaid claims, bad customer service	2
Changed circumstances (e.g. no longer own the thing insured)	5
Other	2

Climate change and climate risk

	Strongly agree	Agree	Not sure	Disagree	Strongly disagree
Climate change poses a serious risk to the planet	48	14	1	1	4
Climate change poses a serious risk to South Australia	45	17	1	1	4
Climate change poses a serious risk to my household	28	22	14	2	2
I think climate change is impacting the cost of living	37	23	4	2	2
I think climate change is impacting the cost of insurance	46	10	7	3	2

Do you consider yourself to live in a high-risk zone for climate-related risks and/or extreme weather events?	Count
Yes	45
No	45
Not Sure	13

What type of climate-related risk do you have?	Count
Bushfire	27
Wind	21
Hail	8
Sea / coastal	5
Extreme heat	17
Flood (rain)	7
Flood (river/creek)	9
Not sure	1
Other (storm drains)	1

Have you experienced damage or loss as a result of this climate-related risk?	Count
Yes	24
No	21

How worried are you about future damage to your property as a result of climate or weather-related risks?	Count
0 (Not at all worried)	0
1	0
2	2
3	3
4	4
5	2
6	7
7 (Very worried)	10

What are you most worried about losing as a result of climate-related risks and/or extreme weather events?	Count
Home (building)	19
Home contents	18
Pets	11
Car	11
Income	9
Health	12
Work vehicle	1
Work equipment	4
Nothing	0
Other	3

Appendix 3 – an alternative model for home insurance – the perspectives of the South Australian community

Characteristics of the model

Throughout the community conversations and co-design workshops, a number of key priorities emerged that should characterise any model that is developed.

The value-base

The South Australian community wishes to see the development of genuinely customer-focused policy to guide the model and an assurance that it is there to protect the customer and community first, not shareholders. The default should be an assumption of assistance first, not a stance of minimising the support and assistance that can be offered, or 'getting out of' supporting people altogether in times of need. This includes a range of common-sense initiatives and inclusions, such as having access to support if you can't access your home, even if your home is not damaged. This would include examples in the Riverland, where people could not access their home due to river crossings being closed.

People talked about simplicity in the design and implementation, including the concept of a 'one stop shop' where you could get information, advice and support simply and easily.

Community members want the scheme to be responsive to who they are and what is important for each household to recover from loss. For some, pets are central to their health, wellbeing and social connectedness; for others, being able to continue to work without interruption is critical to ensuring they do not fall into further vulnerability. The scheme will need to be responsive to people who may be particularly vulnerable in natural peril-related incidents, such as those living with disability. Lessons may be learned from agencies such as SA Power Networks which maintains a register of vulnerable customers who require additional support during power outages.

Finally, a commitment to equity was a key priority across all conversations. This included comments about concessions for those on low incomes, flexible payment options and a strong equity lens on how money was allocated to mitigation and adaptation (see **Mitigation** section below). One group suggested a flexible payment option that would be appealing for low income households would be something akin to a savings account, where you could pay in a minimum amount a month to your dedicated 'insurance account' but could do it on your own schedule based on cash flow; they also wondered if this could have a certain percentage that could be a 'redraw' facility dedicated to preventative measures and adaptation. The logistics of this may prove too complex; however, it illustrates the depth of thought and creativity that community members put into the exploration of a viable solution.

The interpersonal experience

South Australian communities are clear that the scheme needs to feel approachable and 'human' at every point of contact. This includes highly skilled operators at the end of the phone who can respond to people with heightened emotions, stress and anxiety.

"Provide some counselling and support – you are not at your best when things go wrong."

Focus group participants wished to see the 'human face' of the scheme, including:

- Trained people to deliver information and education sessions in communities
- People who can come out in times of crisis to talk through options and help you work out solutions
- Consistency in who you are dealing with in a crisis – and excellent record-keeping so that if you do deal with a new person, they know the facts of your case!

- Staff who can talk you through what is happening and why at every stage in the process, and help you know what will happen next
- A sense that everyone you interact with has “your best interests at heart”
- Involvement of people with lived experience
- Staff who model empathy and compassion at all times, and some staff with specialist skills e.g. understanding mental ill-health.
- Sensitivity to gender preference /suitability

Communication and clarity

In stark contrast to the current perceptions of the insurance industry, the South Australian community wishes to see a scheme that is free of jargon and complex language. Plain language, and access to information in all the main languages spoken in South Australia, is critical. Participants suggested the use of short videos and case studies to help people understand and see people accessing the scheme who were relatable.

Contracts should be simple and straight forward and overall people want to see less documentation.

Rapid response and follow-up

One of the most consistent priorities raised in every focus group was the importance of timeliness in the response at times of loss. Many people shared experiences of insurance assessments and eventual pay outs taking too long, which in itself caused significant stress, disruption and in some cases heightened vulnerability. The ability to keep the wheels of life turning and keep yourself, your family (including pets) fed, watered and with safe shelter without a delay was paramount. Likewise, the ability to retrieve items of value and store them somewhere secure is important, especially if people are temporarily in shared accommodation.

The ability to access money to buy necessities and access temporary accommodation immediately is hugely important to people; for those on lower incomes even a temporary break in income can cause a major challenge to survival, so the ability to replace a computer or phone quickly to continue working were offered as tangible examples of what a suitable scheme would need to cover. Likewise a number of participants on low incomes described their practice of buying in bulk when food items are on special; this often means they have thousands of dollars of food supplies in freezers and store cupboards which it would take them months or years to replace in full without financial support. They reported this as common practice amongst their peers.

In rural areas, access to a car is particularly critical and whilst this scheme is not focused on vehicle insurance, people wanted their need to travel to places of work and education with minimal disruption to be considered.

“[It would] pay quickly and makes it easy - not much paperwork. Helps you move on quickly.”

Following a rapid response for the short-term necessities, South Australian community members want the reassurance that the scheme is with them for the potentially long journey of recovery. In terms of rebuilding, they want to see an intentional prioritisation of local businesses to provide support, including building, removals and adaptation and mitigation efforts. This is particularly true following a community-wide natural peril event, such as the 2022 Riverland floods or 2019 Kangaroo Island fires, where local industry needs the support. For community members, they want to interact with people who have good local knowledge in times of challenge, and they seek a coordinated, on-the-ground response.

“Government should protect locals first.”

Additional support that the scheme could link with includes mental health support to help people process the emotional impact of the events; again, this is particularly true where the event has a widespread and potentially traumatic community impact.

Education and upskilling

South Australian communities want to be partners in the scheme and wish to see community education and upskilling built into the system. People spoke of wanting support and advice to improve their property's resilience to natural peril, but also did not seek a solution that would 'take over'; as one person said, "let me still do what I can do to help myself!"

A number of community members spoke of neighbours and other community members who were 'in denial' about their risk, and welcomed a scheme that was proactive in spreading community education and advice. One householder in the Adelaide Hills showed the researchers around his property, highlighting a range of fire defence mechanisms they had put in place. Whilst some of these came at considerable cost, the family had sought out grants (e.g. from the steel industry to replace wooden fences with steel ones) and had a range of clever 'hacks' they would use if a fire came through their property, such as using leaf blowers to repel spot fires. In an ideal world, the scheme would be able to access and activate well-informed community members such as this family to spread local knowledge and wisdom.



Metal fences on an Adelaide Hills Property.

People commented that in areas where there had been a recent incident, such as Kangaroo Island, community education initiatives had increased; however, a well-designed system would be proactive in upskilling and resourcing communities to increase resilience to natural peril before significant loss is incurred, to minimise the damage. Some even suggested that attendance at information sessions should be mandatory to get your insurance approved; whilst it is hard to see how this could be workable in practice, it reflects the strength of community sentiment to upskill and educate local communities and ensure they are informed about their risks and their options.

People sought access to proactive risk assessments of their propriety and wondered if this sort of service could be particularly focused on high-risk and low-income households who would be most vulnerable if they lost everything. This would allow them to identify measures they could take to reduce their risk and educate them on key steps they could take to prepare.

Examples of small steps that any household could take that were shared in the focus groups included:

- SES / CFS escape plan and fire action plan
- Having an emergency kit - e.g. fire blanket, full tank of fuel, water supply, sunscreen, essentials
- Creating a Memory box and 'grab and go' folder

“The weather is getting worse and worse – do I get storm shutters on the windows?”

Mitigation and prevention

Think Human
December 2023

South Australian community members who attended focus groups were very supportive of mitigation and adaptation being baked into the scheme. One person who contacted the research team had lost everything in the 2019 bushfires. They reported having their insurance policy increase threefold despite having built back better, and well in excess of the required Government standards for bushfire resilience. A Riverland couple, both on fixed pensions, had been refused insurance from their long-standing insurer of over 20 years. A second insurance company quoted them \$20,000 for flood cover, despite their property being on a cliff, well above the 1956 flood line and having never made a flood-related claim.

Consequently, people want to have access to advice and support to 'build back better', and to have reassurance that they will not be penalised for living in a higher risk area of the state with extortionate premiums.

The Adelaide Hills couple previously mentioned had put in place undertaken extensive measures to protect their new-build home from fire; however, they recognised that not everyone had the means to do this from their own pocket. They also raised the conflicting issue of native vegetation and the related legislation that means roadside verges cannot be cleared by householders. Whilst they were in sympathy with the intent of this legislation, they were concerned that the verdant roadsides would creating fire tunnels to enable the spread of bushfire, as well as trapping people's only exit routes. This was echoed by a family on Kangaroo Island who had flown over the devastated west end of the island a couple of weeks after the fire; they described the 'vein-like pattern' of the roadways which had facilitated the spread of the fires.

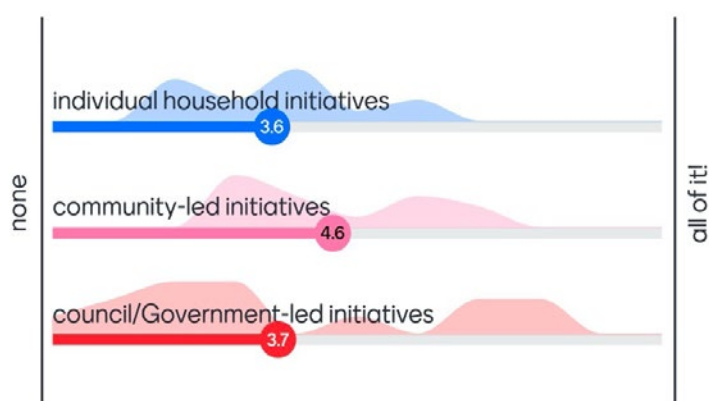


Photo: A roadway in the Adelaide Hills.

Particularly in the Riverland, locals spoke of known breaches in the levies and expressed frustration that much of the loss and damage could have been averted if repairs had been undertaken and existing resilience measures maintained. Whilst community members see this sort of maintenance as sitting squarely in the remit of Local and State Governments, there was a desire for a community scheme to enable local communities to have a voice to highlight known vulnerabilities for action and remediation.

One damage limitation option that a number of groups suggested for inclusion was access to resources via the scheme to help people move their belongings to safety before something happens. Whilst many in the Riverland communities did this prior to the 2022 floods, it is particularly hard for people on low incomes to take this sort of damage limitation step without support.

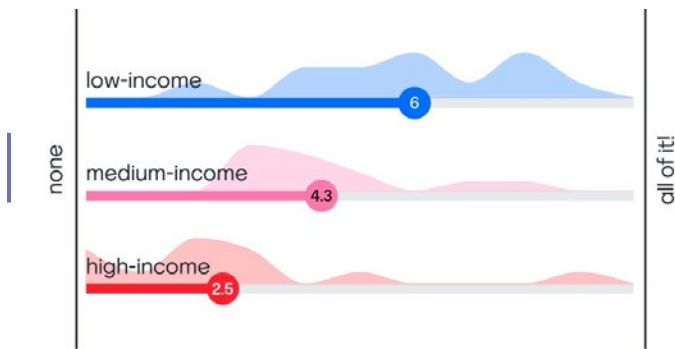
In the final co-design workshops, community members were asked to consider how they would divest mitigation and adaptation funds, if they were in charge. How they chose to distribute the funds is captured below.



How would you divide the 'bucket of money' between individual, community-led or Council and Government-led initiatives?

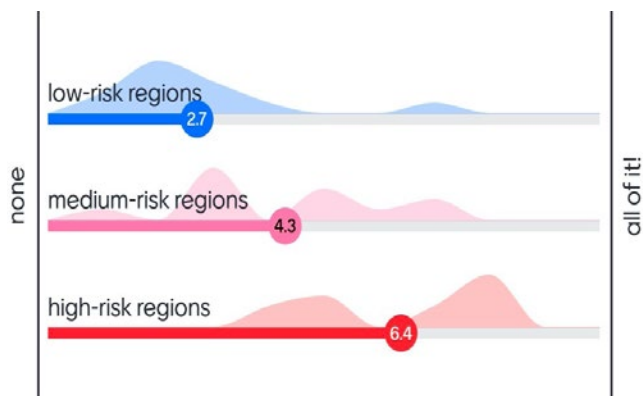
Participants wanted to see all three types of initiative included, with a slight preference for community-led initiatives. In discussion, this reflected their high trust in community and not-for-profit sector to know and work well alongside local communities and represent their interests. However, most felt that Local and State Government offered a level of resourcing, strategic State-wide oversight and 'rapid response' that would also be important, with a need to support and enable individual households to also take positive steps to minimise risk and prevent significant loss in future. Ideally, this could be accessed proactively and not only to 'build back better' in response to an incurred loss.

"The risk with Government is that they blame the last government. But community is in the mud with us!"



How would you divide the 'bucket of money' between low, medium and high-income households?

Participants acknowledged that those on low incomes would probably find it hardest to recover if they incurred significant loss due to natural peril. However, they were also clear that this scheme needed to support everyone; some voiced concern of it reinforcing stigma if it was seen as a 'handout to the poor', whilst others acknowledged that the overall costs of damage and repair for a higher-income household was likely to be higher, assuming their property was larger and built of higher quality materials. Participants felt that if the 'bucket of money' was genuinely about building resilience for South Australia as a whole, then all needed access to its resources, regardless of income.



How would you divide the 'bucket of money' between low, medium and high-risk regions?

This was the question that saw the greatest variance in how the money should be divested between different risk profiles, with a clear bias towards supporting high-risk regions. However, a clear caveat to that was the need to undertake ongoing monitoring of the changing risk profile of different regions as conditions change and aligning mitigation and adaptation investment to match the up-to-date risk profile of any given region. One co-design group proposed that supporting low-risk regions might over time prevent them becoming higher-risk regions. This group also felt that increased availability of data on risk profiles of regions and individual households would be helpful to enable people to make more informed choices about where to live and/or how to prepare.

The customer base

As indicated above, the participants in the co-design workshops all agreed that the scheme should be for everyone, regardless of income or where they lived.

It was particularly important to the groups who participated that renters be included and specific attention be paid to ease of access and support for them, as they are particularly vulnerable and powerless if their place of residence is damaged and uninhabitable.

Some groups spoke of the widening gap between rich and poor and were concerned that without including everyone, including high income households, the scheme could inadvertently lead to vilification and further stigmatising of those on low incomes.

“It is the only fair way to do it.”

In discussing the instrument for calculating an appropriate cost for each household, most agreed that linking this with the Emergency Service Levy made most sense, but a small number expressed some concern that it could miss the mark if linked to the rateable value of the building, and some higher income households may get a better deal if they live in more basic accommodation. However, as it is a state-based initiative most recognised that it had to link to something that already existed within the state system, to avoid additional red tape and bureaucracy. Overall, people wanted a foundational principle of fairness and equity to shape the solution.

Messages for the Insurance Industry

Whilst this engagement was not aiming to reform the private insurance sector, participants naturally wanted to share their experiences and hopes for insurance more broadly. A number of comments and ideas that emerged from the community engagement are included below.

The key concern raised in relation to this concept was the perceived risk that insurance companies would put up their portion of insurance premiums to make up for their lost revenue, meaning that people would end up paying more overall to be fully insured.

Community members felt it was a requirement for Government to regulate the insurance industry's response to ensure this did not happen.

Flexibility in insurance products

- “I want to be able to go to my insurance company and say: ‘this is my budget and this is what I want you to cover. What can you do for me?’”
- Bundles of products/ services to suit you
- “Cover for ten things”, OR, “cover for everything but...”
- A system where you can pick and choose what sort of cover you want. E.g. car in garage therefore no hail damage. Tailored for the individuals – to what matters most to you.
- Greater focus on adaptation and rewards for it.

Support for insurance decision-making

- Raise awareness of role of insurance brokers and how they can help people deal with industry
- Access data of ‘Average \$\$ for a household like you’ (contents) to help people work out what they need

Transparency

- Greater transparency in how insurance companies price, and how they assess risk.
- Loyalty scheme for you for sticking with them. Often new customers get new rates but existing customers don’t (comparison of banking industry).
- Standard layout for all policies across the industry
- Clear terms and conditions in plain, everyday language.

