



HOUSE INSURANCE & CLIMATE CHANGE

What is insurance retreat?



How much is my insurance likely to go up?



Can I stay where I am without insurance?



What happens if I lose insurance?



How do I know if my house is exposed?



Where can I find out more?

Climate change is a slow-moving disaster that will affect all communities across Aotearoa. It might hit some of us this year, or in the next 10 years, or it might eventually take out a home we have deep historical attachment to. Here are some answers to common questions about insuring your home in the face of sea level rise and other climate hazards.

Changing with our climate

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DEEP SOUTH CHALLENGE RESEARCH DISCUSSED HERE:

- Belinda Storey (Climate Sigma), “Climate change and the withdrawal of insurance”
- Ilan Noy (Victoria University of Wellington), “Extreme weather, climate change and the EQC”
- Catherine Iorns (Victoria University of Wellington), “Sea level rise, housing and insurance”
- Deep South Dialogue Report (Motu Economic and Public Policy Research), “Insurance, Housing and Climate Adaptation: Current Knowledge and Future Research”

Within our four largest cities, at least 10,000 houses currently sit within a 1-in-100-year coastal flood zone. Nationally, around 450,000 houses are within 1km of the coast. These homes are likely to be affected by more frequent and intense storms and by sea level rise.

Worsening coastal hazards are not yet fully reflected in homeowners’ decisions to purchase, develop or renovate coastal property. New Zealand is also still building new residential developments in climate-risky locations.

What does this mean for our house insurance?

In Aotearoa, we insure the majority of our houses

Most banks won’t let you take out a mortgage unless you’ve insured your house.

Mortgages often last between 25 and 30 years, but insurance premiums are set annually and can rise, sometimes steeply, from one year to the next.

Most homeowners have insurance, but many don’t have enough to fully replace their home

We expect this to get worse.

Hazardous homes will become expensive to insure. Insurance policies may well “unbundle” climate risks, and increase premiums or withdraw insurance altogether for particular climate hazards.

Insurance “retreat”

When an insurance company calculates that it’s likely to have to pay out more than it earns from a property, it may decide your house is “uninsurable” and withdraw insurance altogether. When this insurance “retreat” starts, properties may lose insurance for climate hazards quickly. If you don’t have insurance, your home won’t be protected and you are likely to be in technical default on your mortgage.

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YOUR QUESTIONS ANSWERED

It's important to have a long-term plan for your major asset, so it doesn't become a major liability. Is your home a forever home? Do you plan to sell it, in order to move up the property ladder or to fund your retirement? What timeframes are you thinking about?

Planning will help your financial security as well as your community's resilience. Your plan needs to consider how the climate is likely to impact your area and what actions others – such as your insurance company or your local council – may or may not take.

How do I know if my house is exposed?

Local and regional councils have useful information, including through Land Information Memorandums (LIMs) or regional plans. These include information on potential climate hazards, sometimes down to an individual house or street level. However, it's important to know that the quantity and quality of information held and disclosed by councils varies.

If you live on the coast, one important factor to consider is your local tidal range. Modelling shows that locations with smaller tidal ranges are more exposed to storm surges, and will likely experience the impacts of sea level rise earlier than areas with larger tidal ranges.

Other important things to consider for your home are its floor height and construction materials, and whether your property is on steep land that's vulnerable to slippage (also made worse by climate change).

How do insurance companies assess flood risk?

Among other factors, insurance companies work with Annual Exceedance Probabilities (AEP) to decide what to charge and when not to insure a property. A 1% AEP event is likely to occur once in 100 years, a 2% AEP event will occur probably once in 50 years, and a 5% AEP event will likely occur every 20 years.

Sea level rise allows storm surges to reach further inland. Just 10cm of sea-level rise in Wellington, for example, will change the probability of a flood event by five times. That is, an event that might have occurred once every 100 years will soon occur every 20 years.

What are insurance companies likely to do about increasing risk?

International experience and anecdotal evidence from those in the industry suggest that companies start pulling out of insuring properties at around 2% AEP. By 5% AEP insurance is completely unavailable. That is, insurance companies withdraw insurance from an area when disasters (like floods) begin to occur between every 50 to 20 years. This is probably a conservative estimate.

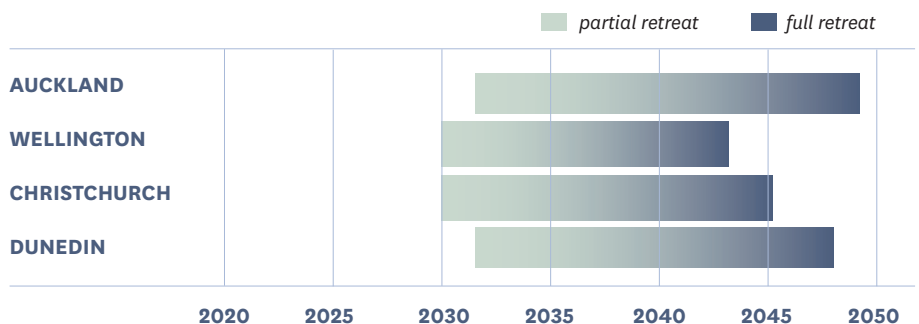
If the probability of your hazard increases five-fold, from 1% to 5% AEP, your premium and/or excess will go up and you'll find it increasingly difficult to renew your insurance for that hazard.

What do “unbundling” and “risk-based pricing” mean?

Insurance firms in Aotearoa currently tend to insure all hazards together. This may change and policies may be “unbundled” as insurers move towards more strict “risk-based pricing”. Particular hazards could be targeted first – so homeowners may still have insurance for wind damage, for example, but face increased premiums or lose insurance for damage connected to a storm surge.

How quickly might my insurance company respond to increasing risk?

Extreme sea level analysis for the Auckland, Wellington, Christchurch and Dunedin coastlines has been done using coastal flood inundation maps. Analysis indicates that many homes that might currently flood only once every 100 years are likely to experience insurance retreat over the next 15 years.



What’s the difference between full and partial insurance retreat?

Insurance retreat happens when a private or public insurer declines insurance coverage or stops renewing existing coverage, because of a property’s exposure and vulnerability to a hazard.

Partial retreat is where an insurer transfers a significant proportion of a property’s risk back onto the policy holder. An insurer might do this by increasing excesses and/or premiums, or by reducing the extent of coverage through monetary caps or by excluding specific hazards.

How much is my insurance likely to go up?

It’s difficult to know with certainty how insurance companies will respond, though there are strong indications from some in the insurance sector about a move towards more strict risk-based pricing.

If the probability of a hazard increase by five times (i.e. from a 1% AEP to a 5% AEP) then you should expect your insurance premium to increase and to find it harder and harder to retain insurance of that hazard.

It’s important to note that the methodology underpinning this research has stated caveats and limitations. We encourage you to read all research reports carefully, for the complete picture.

Can I stay where I am without insurance?

If you have a mortgage, banks require you to hold insurance. Without insurance, you will likely fall into technical default.

Insurance retreat also has implications for your ability to sell your property. If a future purchaser can't get insurance, they would be unlikely to secure a mortgage (assuming they needed to do so).

In the face of increasing climate hazards, local councils may eventually decide to stop maintaining infrastructure (such as sewerage, roads or sea walls) or to remove it altogether. You need to consider these factors in your long-term planning.

"Existing use rights" mean that it is currently difficult for local councils to force you to move away from climate hazardous areas, even if they believe that you or your home is at risk.

Can insurers handle the increasing risks of sea level rise and flooding?

Insurers are required to be solvent following a 1 in 1000-year earthquake and for 1 in 250-year non-earthquake risks, including storms and floods. To deal with increasing climate hazards, it is likely that insurance companies will reduce cross subsidization and move towards more strict risk-based pricing, increasing premiums for specific climate hazards.

“ People tend to be very good at ignoring low-probability events. This has been noticed internationally, even when there is significant risk facing a property. Although these events, such as flooding, are devastating, the low probability makes people think they’re a long way off. ”

BELINDA STOREY

FOR MORE ADAPTATION PLANNING INFORMATION
FROM OUR RESEARCH:

www.deepsouthchallenge.org.nz