

## Householders

The past year has been one of the strongest in recent memory for householders insurance. Results were robust, with a net loss ratio of 60% and a combined ratio of 90%. These figures translated into an insurance service result of more than one billion dollars, the strongest outcome in more than a decade.

Two factors largely explain this.

First, insurers continued to reprice in response to inflation and rising claim frequency, with average written premiums increasing by 11%.

And second, at the same time, natural peril experience was again relatively mild, with claims coming in below allowances for the second year running.

Yet, behind the strong results lies a more complex picture. For many households, affordability remains a significant concern. Premium increases are leading some to reduce their level of cover, accept higher excesses, or drop out of insurance altogether. This is highlighted by a 2.2% fall in the number of risks written this year, following a 3.3% decline the year before. Some of the highest-risk properties are likely to be leaving the market altogether. That may reduce insurers' direct exposure to catastrophes, but it also raises difficult questions about how vulnerable communities are protected.

Other structural challenges are emerging as well. Lithium batteries continue to contribute to increasing working peril fire losses, through damaged devices igniting and in-home batteries acting as accelerants when fires occur due to other causes. Governments are moving to tighten standards, but these changes will only go so far, and insurers are likely to continue adjusting pricing and risk management practices in response.

Natural catastrophe risk, of course, remains ever-present. Even with two relatively contained years and emerging evidence that the Cyclone Reinsurance Pool is having its intended effect, Australia is still highly exposed to floods, cyclones, storms and bushfires. Government progress on policy reforms has been slow, with no formal response to the 2022 flood inquiry or to Treasury's consultation on standard contract definitions and standard cover.

In contrast, the industry itself has taken active steps. The response to Cyclone Alfred showcased improvements in disaster readiness — from community hubs and specialist support teams to faster claims handling — initiatives that earned recognition from APRA. The Insurance Council of Australia has reinforced this momentum with an extreme weather and disaster response charter and a broad industry action plan, designed to lift consistency and preparedness across the sector.

Looking forward, we expect the pace of premium increases to ease as inflation moderates and the reinsurance market softens. The real uncertainty, as always, is what the next season of natural disasters will bring — and whether a balance can be struck between industry sustainability and household affordability.