

Executive summary of the full report

# Will you be able to get home insurance by 2035?

How climate change is affecting your house and contents insurance bill

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## About Consumer NZ

Established in 1959, Consumer NZ is an independent, non-profit organisation dedicated to championing and empowering consumers in Aotearoa.

Consumer has a reputation for being fair, impartial and providing comprehensive consumer information and advice.

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# Executive summary

## ■ Will you be able to get home insurance by 2035?

Consumer NZ has investigated how climate change is affecting the cost and availability of house and contents insurance in Aotearoa.

Since 2000, the cost of house insurance in this country has increased 916%, according to Stats NZ consumer price index data.

Our own research is showing a trend of customers dropping their house insurance policies because of cost. In 2022, of those policyholders who dropped house insurance, around 7% had done so due to cost. This year, that percentage climbed to 17%.

Our recent research also shows that the cost of insurance has risen to be the fourth most pressing financial concern for New Zealanders, behind housing, food and overcoming household debt.

We're also seeing low levels of trust in the insurance industry, dissatisfaction with the claims process and no impetus on insurers to complete claims in a timely fashion.

Compounding this is a lack of transparency about risk-based premium pricing and no avenue for customers to challenge prices. Yet, we know insurers have got prices wrong in the recent past, with the Financial Markets Authority (FMA) regulator taking several insurers to court for pricing errors.

It's also getting hard to shop around for insurance because of the difficulty comparing policies, the lack of real choice of provider and the fact that, in some areas, consumers can't get quotes online. And, if a homeowner had a significant natural hazard affecting their home, insurers may not want their custom.

While more frequent weather events are certainly costing insurers, the insurers' profit margins continue to rebound strongly after events. An analysis of publicly available financial records suggests customers are paying more in Aotearoa than their Australian counterparts for policies underwritten by the same insurers. The analysis also suggests industry assertions of the expense of reinsurance (which results in customers paying more) may be overstated.

We recommend the FMA review the pricing of house and contents insurance to confirm New Zealanders are being charged fairly, based on accurately assessed risk, and to ascertain why householders here are paying more than Australians.

We also recommend the Commerce Commission conduct a market study into the competitiveness of the house and contents insurance market.

## The need for a climate adaptation framework

For insurance to be affordable and available, the industry (along with policy experts, scientists and academics) tells us the country needs effective climate adaptation legislation and a related framework. Such a framework would clarify which homes are at risk and whether mitigations, adaptation or retreat is the best way to keep people and property safe.

Without such a framework, insurers might retreat from insuring homes, communities, cities and even entire countries if the risk proved too great.

We agree with the call for an effective climate adaptation framework and echo the sentiment by other thought leaders that government should be leading the charge.

If insurance became prohibitively expensive or were no longer available, it would have huge social and economic implications for the country. We need government leadership to navigate keeping New Zealand homes insured through the challenges of climate change.

Households also need to be involved, and aware, of the risks of climate change to their homes and insurance cover. Our research shows 86% of respondents hadn't received any information from their insurer about the impact of climate change on their home insurance policies.

While the government has made some steps towards sketching out climate adaptation legislation and a related planning framework, the idea falls over when it comes to who will pay for it. Yet it's vital we have a plan.

Our research has shown 72% of respondents think we need a plan to help communities adapt to climate change. When we asked who should pay for such an adaptation plan, respondents said the costs should be shared between central government, local councils, insurance companies and homeowners.

Similarly, respondents think the cost of property buyouts for homes that are neither safe nor practical to repair after a natural disaster should be shared between insurers and central government in the first instance, with local government and homeowners also expected to chip in.

An effective climate adaptation framework would enable local councils to prepare their communities for the impacts of climate change and provide certainty as to what happens in the wake of natural hazard events. It will also reassure communities that hazard mapping is based on consistent and robust data. Hazard mapping assesses land for its exposure to natural hazards, such as floods, landslips or sea level rise. It's an important step in identifying which areas are vulnerable to particular hazards and helps local authorities make robust plans.

We recognise this as an opportunity for insurers to work more proactively with local authorities and share any hazard map information they hold.



## Review required for natural hazards scheme

We want to see the Natural Hazards Commission reviewed to ensure it's up for the challenges of climate change and offers an equitable reimbursement scheme. The commission administers the country's natural hazards insurance cover, which helps with the costs of rebuilding or repairing homes after a natural disaster.

There is potential for the scheme to be expanded to include cover for flood damage to homes, which could reduce premiums because the scheme would be taking on more risk than private insurers. However, without an effective climate adaptation framework, this could create a moral hazard, with people continuing to live in at-risk areas.

What is clear is that we can't afford to ignore how climate change is impacting our ability to insure our homes. While some homeowners have dropped insurance, others have simply opted to under-insure their dwellings. Treasury figures from 2016 state that 85% of homes could be under-insured by an average of 28%. Given these figures are nearly 10 years old, we can expect them to have increased since climate change induced weather events have been more prevalent over the past decade, and more households are facing economic hardship.

Our research from April this year shows that 16% of respondents don't think they have enough cover to rebuild their home.

Insurance is a powerful tool that enables individuals and communities to withstand financial setbacks and rebuild after natural disasters. Going without or with limited house insurance puts our biggest asset (for most of us) at risk in the case of a disaster. Should a natural disaster strike, with properties damaged or destroyed, homeowners who don't have insurance could be stuck with mortgaged homes that are unsafe to live in and impossible to sell.

If this happens on a wide scale, it has the potential to exacerbate existing inequalities and destabilise our property market and even our economy.

Without serious intervention in the form of a government-led adaptation framework, with cross-party support, it's possible that many New Zealanders will not be able to get insurance by 2035.

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