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## Australia's Insurance Pressure Sparks Economic Concerns

August 5, 2025

– Categories: Economics



Australia's financial system is facing increased pressure from rising insurance costs, with new research suggesting it could pose a risk to banking stability. A report by analytics firm Finity highlights that around 3% of bank loans estimated at A\$60 billion are tied to properties that may become uninsurable due to environmental exposure, creating vulnerabilities across the housing market and financial sector.

According to the report, insurance premiums have surged, with about 15% of Australian households, roughly 1.6 million, now spending more than a month's gross income on insurance. This marks a notable rise from 10% in 2022. The increasing cost burden is creating financial strain for homeowners and may result in banks being forced to deny mortgage applications for high-risk properties. This, in turn, could limit property resale options and weaken confidence in the housing market.

Small business owners are also at risk. Many use residential properties as collateral for commercial loans, meaning reduced insurability could restrict credit access. Sharanjit Paddam, principal at Finity, stated that without solutions, this could evolve into a broader economic challenge. Some reinsurance companies have reportedly scaled back operations in Australia, as repeated disasters impact previously diversified risk portfolios.

The issue also reveals a gap in the national approach to long-term planning. While upcoming mandatory climate-related disclosures may help banks and insurers assess risk more accurately, Finity's report emphasizes the importance of improving property resilience. Suggested financial tools include green bonds and targeted funding for home upgrades, especially in low-income areas where premium costs are highest.

Paddam indicated that better adaptation strategies may help reduce the insurance gap, but warned that without structured financial reforms, rising premiums and shrinking reinsurance capacity could continue to affect economic stability. The report does not make policy recommendations but suggests that both public and private sectors may need to coordinate closely to manage future risk.

Australia's situation is being watched by other developed nations. As insurance providers recalibrate their models, market mechanisms alone may not be sufficient. Ensuring stable property values and accessible lending could require a combination of financial innovation and strategic infrastructure investment.

