The climate insurance question that needs a public answer

By Dr Sophie Taysom, Founder & CEO, Keyah

Climate risk is changing faster than economies can redesign the systems that share that risk.

Flood Re, the public-private scheme that has kept flood insurance affordable for some of the UK's highest-risk households, ends in 2039. It was always designed as a transitional mechanism, with the assumption being that adaptation investment would reduce risk fast enough to make it unnecessary.

That assumption has not held.

But Flood Re is not the story. Rather, it is the entry point to a deeper question about how societies should pool and share the costs of climate risks. These risks are systemic and accelerating, and we don't share these risks equally. This is a question being asked across multiple countries, and the UK is not ahead in terms of answering it.

Building that consensus requires understanding the interests of citizens, affected households, businesses, insurers, policymakers, and government. It also requires a process with democratic legitimacy. Insurance is not a technical detail. It is critical infrastructure for social and financial resilience across households, communities, and economies.

The report with insurance running through it

In May 2026, the UK's Climate Change Committee issued its fourth independent assessment of UK Climate Risk, A Well-Adapted UK. The headline figures are stark - by 2050, 92% of homes are likely to overheat, and peak river flows will be up to 45% higher. The CCC estimates that adaptation will require around £11 billion a year; without it, the cost of climate change could reach £60 to £260 billion annually.

As it stands, the UK's insurance protection gap is around 29% in 2024, with an average of 22% over the last decade. The concern is that without a scheme like Flood Re, that gap will grow. The Climate Change Committee is explicit on this – the gap should not grow. Meeting the needs will require new risk pooling mechanisms, continued government involvement, and a clear view on which properties sit outside any insurance mechanisms.

The CCC's citizens' panel, brought together for this project, found public opinion divided on a foundational question: should those less affected by climate change contribute to adaptation costs in higher-risk areas? Most eventually agreed that some shared responsibility mattered, but only within limits, and it would need to be conditional on full transparency about where the money goes. The panel did not resolve the question.

The growing gap: The problem beyond borders

The UK's insurance protection gap sits within a much larger picture.

According to the European Insurance and Occupational Pensions Authority's (EIOPA) dashboard, only around 25% of losses from extreme weather and climate events in Europe were insured between 1980 and 2024. And at the property level, the figures are even worse, with only 17% of respondents to the 2025 Eurobarometer holding coverage for damages caused by natural catastrophes. This is a function of actual or perceived unaffordability and availability of insurance, and expectations that the state will step in in the case of significant events.

These figures need to be set against a backdrop of mounting losses, with these set to increase. The concern is that this will lead to a further shrinking of the availability of insurance, and increase costs, further widening the insurance protection gap.

The assumption that governments will step in, either by establishing pooling arrangements such as the UK's Flood Re, France's Catastrophes Naturelles (CatNat) scheme, or Spain's Consorcio de Compensacion de Seguros (CCS) scheme, is a rational one, particularly where they are already in operation. But such schemes are increasingly coming under financial pressures due to costs associated with a rising number of climate-related insurance claims.

How other markets are drawing the line

For those tempted to conclude that returning higher-risk policyholders to the private market is the best option, or even perhaps the fairest, the experience of countries further along this curve is instructive and sobering. Each offers a distinct lesson about what happens when the cost question goes unanswered.

Australia shows what affordability stress looks like at scale.

In Australia, an annual home and contents insurance premium of AUD $30,000, roughly £16,000, is no longer an outlier in high-risk areas. Much of this is driven by increased risks associated with hazards such as floods, severe convective storms, and bushfires. For households in the most exposed locations, this can represent more than 5% of the total value of their home, assuming they can get insurance.

Approximately 1 in 7 Australian households are now experiencing "insurance affordability stress", where home insurance premiums exceed four weeks of gross household income. For those households, the average premium comes in at 9.6 weeks of gross income. And it's likely this will only get worse, with the Australian Prudential Regulatory Authority saying that 1 in 4 homes may be uninsurable by 2050.

The lesson for the UK is clear: once affordability stress becomes

widespread, it is extremely difficult to reverse. The time to design the successor to Flood Re is before the market reprices.

Affordability is one dimension of the problem. Availability is another. Insurance retreat, where coverage becomes partially or fully unavailable on the private market, is already happening.

New Zealand illustrates the availability problem, and the political limits of solutions. Estimates suggest that on current trajectories, around 10,000 coastal properties in Auckland, Wellington, Christchurch, and Dunedin alone could become uninsurable by 2050. And that may be a conservative figure.

The UK faces the same tension. The adaptation logic points toward managed retreat from the most exposed locations but political logic resists it.

California offers a third lesson: the danger of regulating insurance pricing.

By the time the Los Angeles wildfires hit in January 2025, several major insurers had exited the California market. The trigger was Proposition 103 – a measure requiring state approval before insurers could change their rates. Unable to price risk accurately, a number of insurers stopped writing new policies. When adjustments were eventually permitted, premiums that reflected actual risk levels became unaffordable for many.

The lesson for post-2039 UK policy design is direct: suppressing pricing signals does not eliminate risk. Instead, it transfers it to the households who find themselves uninsured, or significantly underinsured, when the losses arrive.

The financial chain nobody is following to its conclusion

The logic is clear – homes that are uninsurable are unmortgageable; unmortgageable homes lose value, with the costs falling on the homeowner.

When it comes to growing climate risks, the chain of consequence specifically for insurance and insurability, either through the private market or via pooling schemes such as Flood Re, is also direct. As climate-related costs and risks increase, they become harder to pool across policyholders; it simply becomes too expensive.

Not all of these risks are new. What is new is having to negotiate a context where climate hazards are increasing in frequency and intensity, and carry with them wider impacts on households, communities, and economies. And these risks have accumulated over decades, not only in response to climate change. They involve our planning decisions, infrastructure investments, and developments in places that are now exposed. As the Executive General Manager of Business at a major insurer in New Zealand put it in an OpEd, “Let’s stop building in dumb places”.

In addressing the insurance issue, these are not technical questions with optimal solutions – there is no ‘right’ answer. These are instead political and democratic questions about how we, as a society, share the costs of climate-related risks. Not least of all, the question that needs to be asked is where the balance of costs should sit – with government, with insurers, with households, with communities?

It is here that I make the case for having wider conversations and taking a deliberative approach. The CCC’s citizens’ panel is instructive as a mechanism, and a meaningful one, to start having these conversations.

The questions that need to be asked are not abstract. They include:

Should lower-risk households continue to cross-subsidise the higher-risk ones, and if so, on what basis and up to what level?

Should households receiving support through pooled schemes such as Flood Re be required to implement resilience measures in return?

Should some properties, those on coastlines projected to become indefensible, those in areas of acute surface water risk, those at high risk of wildfires, be treated differently from the rest of the market?

And for those homes which already are, or will become, indefensible, do we consider some form of buy-out scheme?

These are not questions that government, industry, or technical experts can answer on behalf of the people most affected by them. The distribution of climate risk costs is a question of democratic legitimacy, not of actuarial modelling.

The CCC's citizens' panel demonstrated that the public can engage with this complexity seriously. Panels specifically convened on these questions are not a soft option. It is the appropriate mechanism for a decision of this scale and consequence.

What needs to happen, and when

The CCC has proposed a specific target: the UK insurance protection gap should not grow due to climate change through to 2050. Meeting that target will require significant adaptation in the built environment, new risk pooling mechanisms, continued government involvement in insurance markets, and a clear-eyed account of which properties and communities sit outside what any insurance market can sustain.

Every year of delay narrows the options and increases the likelihood that the cost distribution question gets answered not by deliberate policy but by market withdrawal, political crisis, and the households left holding assets the system has quietly abandoned.

The financial chain from climate risk to insurance to lending to value is already in motion. The question is whether the policy framework catches up to it before the repricing does. Climate change is making our homes harder or impossible to insure, and there is a price we will all have to pay. Avoiding that conversation now only makes it more expensive later.

We are not starting from scratch. Australia, New Zealand, and the United States are all further along this curve than the UK. There is genuine learning available - about what has worked, what has failed, and crucially, who has ended up bearing the cost.

The question of who pays is ultimately a political choice. It does not have to be resolved by default or by crisis. The financial chain from flood risk to insurance to mortgage availability to property value is already in motion. The only question is whether the policy framework catches up before the market decides the answer for us.

About the author

Dr Sophie Taysom is founder of Keyah, working at the intersection of climate risk, real estate, and insurance to help investors, lenders, and developers understand what a changing climate means for assets. She also co-edits peer-reviewed research on sustainable real estate and writes for institutional audiences across the UK and EU.