The Climate Penalty: Persistent Reluctance to Finance Adaptation Across Hazards and Risk Levels

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Abstract

Household climate adaptation is essential and typically requires upfront investment, yet uptake of adaptation loans remains low. We investigate why, focusing on how the renovation's purpose—climate adaptation versus routine maintenance—affects willingness to finance. Across four preregistered experiments (N = 2,607) with U.S. homeowners participants were less willing to fund upgrades purported to protect their home from a looming climate disaster than from a comparable maintenance problem. The effect generalized across flood and fire domains and persisted under both moderate and high reported risk. Mediation analyses showed that the climate adaptation penalty was explained by lower perceived risk and lower perceived efficacy of climate-purpose upgrades. Even when explicit efficacy information was provided, the climate penalty persisted, indicating that efficacy beliefs are sticky and not easily changed. These results identify important barriers to climate adaptation finance and highlight risk and efficacy beliefs as levers for policy and practice.

Track: Consumer Behaviour