

14 June 2024

Finance and Expenditure Committee
Parliament Buildings
Wellington

Dear Committee Members

ICNZ SUBMISSION ON THE INQUIRY INTO CLIMATE ADAPTATION

Thank you for the opportunity to submit to the Finance and Expenditure Committee on the Inquiry into Climate Adaptation.

Te Kāhui Inihua o Aotearoa / The Insurance Council of New Zealand is the representative organisation for general insurance companies in New Zealand. Our members collectively write more than 95 percent of all general insurance in New Zealand and protect well over \$1 trillion of New Zealanders' assets and liabilities. ICNZ members provide insurance products ranging from those usually purchased by individuals (such as home and contents insurance, travel insurance, and motor vehicle insurance) to those purchased by small businesses and larger organisations (such as product and public liability insurance, professional indemnity insurance, cyber insurance, commercial property, and directors and officers insurance).

ICNZ and its members are committed to supporting New Zealand in adapting to climate change and improving its resilience to natural hazard risks. The insurance industry is experienced in identifying and managing climate change risks. The sector supports communities impacted by climate-related natural disasters and wants to keep insurance affordable and widely available. We therefore strongly support risk reduction measures so that insurance products remain sustainable.

Objectives and principles for climate change adaptation in New Zealand

We support the development of a national climate change adaptation model to aid development of policy and legislation to address the need for climate adaptation. The urgency required cannot be overstated. The scientific evidence suggests that the global average temperature has already risen over pre-industrial levels¹. Even if fossil fuel emissions were reduced to net-zero today, we have already locked in decades of additional warming². As global emissions are unlikely to reach net-zero by 2050, the global average temperature is expected to continue rising for the foreseeable future. This means that, in the near term, every region in the world is projected to face further increases in climate-related hazards, and projected long-term hazard risk impacts may be orders of magnitude rather than incremental³.

¹ Intergovernmental Panel on Climate Change (IPCC): Climate Change 2023 Synthesis Report
(https://www.ipcc.ch/report/ar6/syr/downloads/report/IPCC_AR6_SYR_SPM.pdf)

² University of Colorado at Boulder: Two degrees of warming already baked in ScienceDaily, 2017
(www.sciencedaily.com/releases/2017/07/170731114534.htm)

³ IPCC: Climate Change 2023 Synthesis Report
(https://www.ipcc.ch/report/ar6/syr/downloads/report/IPCC_AR6_SYR_SPM.pdf)

New Zealand is particularly vulnerable to climate-related risks. As a nation with a very long coastline and a high proportion of urban development in coastal areas⁴, New Zealand is susceptible to sea levels rising, inundation, coastal erosion and other climate change impacts. A Lloyd's of London report classified New Zealand as the second most exposed country in the world to natural hazard risk, behind only Bangladesh⁵. Climate change is increasing many of those risks. Across New Zealand, there is growing evidence of more frequent and severe weather events, driven by climate change⁶. These events pose a risk to lives, livelihoods, social wellbeing, mental health, the natural and built environment, and economy.

There is a high probability (75-85% likelihood) that extreme climate-related events will increase in either frequency, severity, or both. While the *frequency* of tropical cyclones is projected to decrease, the *severity* is projected to increase. Drought intensity is projected to increase markedly. Atmospheric rivers, which was responsible for the Auckland Anniversary Weekend flooding, are projected to get larger and carry more moisture, which can result in highly destructive precipitation. River flooding is also projected to increase. The frequency of coastal overtopping and inundation due to storm surge and waves will increase as sea levels rise, causing more frequent coastal flooding⁷. Sea levels in New Zealand are projected to rise 30 centimetres between 2015 and 2065, which will result in current 1 in 100-year coastal flooding events occurring every four years at the port in Auckland, annually in Wellington and Christchurch, and every other year in Dunedin⁸.

In short, we are already living in a changed climate and can expect it to continue changing, even if the most optimistic scenarios of climate mitigation efforts eventuate. New Zealand's exposure to natural hazard risks makes it critical that we address adaptation needs urgently. We strongly support a consistent approach to allow central government, local government, the finance and insurance industries, the scientific community, the infrastructure system, the building and construction industry, emergency management, businesses, and communities to coordinate efforts. Central government has a critical leadership role to play in bringing agencies and sectors together.

We also support a national adaptation strategy with ambitious goals and clearly defined outcomes such as a defined level of resilience achieved by 2050. When considering its response to climate hazards, we suggest that a national adaptation strategy should ensure a range of scenarios are assessed with the level of uncertainty taken into account and the adoption of a precautionary approach. The cost of achieving these outcomes should be estimated as much as possible, so the funding required for adaptation is well-understood. If the cost is very large, running into the hundreds of billions of dollars, the need for sourcing funding both publicly and privately will become clear. The costs will likely need to be shared, and communities in areas of high risk may have to bear some costs.

We acknowledge the importance of considering community-led retreat, and the Environment Committee's recent inquiry on Community Led Retreat and Adaptation Funding. However, it is ICNZ's

⁴ Ministry for the Environment: Coastal Hazards and Climate Change: A Guidance Manual for Local Government in New Zealand 2008 (<https://www.mfe.govt.nz/sites/default/files/media/Climate%20Change/coastal-hazards-guide-final.pdf>)

⁵ Lloyd's: A World at risk: Closing the insurance gap 2018 (<https://assets.lloyds.com/assets/pdf-lloyds-underinsurance-report-final/1/pdf-lloyds-underinsurance-report-final.pdf>)

⁶ Ministry for the Environment: Our atmosphere and climate 2023 (<https://environment.govt.nz/assets/publications/Environmental-Reporting/Our-atmosphere-and-climate-2023.pdf>)

⁷ Ministry for the Environment: Our atmosphere and climate 2023 (<https://environment.govt.nz/assets/publications/Environmental-Reporting/Our-atmosphere-and-climate-2023.pdf>)

⁸ Preparing New Zealand for rising seas: Certainty and Uncertainty 2015 (<https://pce.parliament.nz/media/fgwie5fb/preparing-nz-for-rising-seas-web-small.pdf>)

view that a clear and broad adaptation strategy is required that sits above the various options available to address natural hazard risks. Retreat is one of those options and, and as the costliest and most complex, should be the last resort. Focusing on retreat may result in insufficient attention being first given to more appropriate adaptation measures. This will allow for planning to be right-sized and for the entire spectrum of potential adaptation measures to be considered and applied appropriately.

The nature of the climate adaptation problem New Zealand faces

The adaptation problem is complex and multi-faceted. As noted above, the changing climate and New Zealand's vulnerability to natural hazard risks combine to amplify the impacts likely to be experienced. Furthermore, New Zealand's rapid growth and the challenges faced by the planning system have allowed for development and densification in high-risk areas. New Zealand's first national climate change risk assessment shows that an estimated 675,500 New Zealanders live in areas already prone to flooding and over 72,000 are potentially affected by sea levels rising in the future⁹. In addition, nearly 50,000 buildings are currently exposed to coastal flooding and at the highest range of warming scenarios that could rise to nearly 120,000 this century. Preliminary research shows 125,600 buildings are at risk if the sea level rose 1 metre¹⁰, at a replacement cost of \$38 billion. It is fundamentally important New Zealand addresses the shortcomings of resource management legislation to prevent future development or densification in high-risk areas where the risk cannot be mitigated.

Planning for adaptation requires taking today's risks into account but also projecting future risk over long time horizons. Solutions will need to be flexible and adjustable for differing outcomes based on the best available and regularly updated science.

Investment and costs

We acknowledge that investment in climate adaptation is likely to be on a very large scale. We support adaptation funding from a wide range of sources, including the private sector, and the development of financial instruments such as resilience bonds¹¹. The inquiry should aim to identify and estimate the adaptation funding gap (i.e. the full cost to achieve clearly defined outcomes less the funding currently expected to be committed to adaptation) to ensure a sustainable long term investment plan is put in place.

It is ICNZ's view that taking proactive steps to adapt now makes economic sense. It is generally far cheaper than recovery and rebuilding after a catastrophic event. The Global Commission on Adaptation found that every \$1 invested in adaptation results in between \$2 and \$10 of net economic benefits¹². Research shows that improving the resilience of assets exposed to hazards would cause only an

⁹ Ministry for the Environment: National climate change risk assessment for New Zealand - Main report 2020 (<https://www.mfe.govt.nz/sites/default/files/media/Climate%20Change/national-climate-change-risk-assessment-main-report.pdf>)

¹⁰ MfE: National climate change risk assessment for New Zealand - Main report 2020 (<https://www.mfe.govt.nz/sites/default/files/media/Climate%20Change/national-climate-change-risk-assessment-main-report.pdf>)

¹¹ Global Center on Adaptation: What are resilience bonds and how can they protect us against climate crises? 2020 (<https://gca.org/what-are-resilience-bonds-and-how-can-they-protect-us-against-climate-crises/>)

¹² Global Commission on Adaptation: Adapt Now, a global call for leadership on climate resilience 2019 (https://gca.org/wp-content/uploads/2019/09/GlobalCommission_Report_FINAL.pdf)

incremental increase in the cost of power, water and sanitation infrastructure¹³. The future costs to the economy are likely to be far greater by delaying adaptation.

The cost of inaction has substantial impacts. There are the direct costs associated with the damage, disruption and immediate response to climate-related disasters such as extreme weather events. There are also further knock-on effects to the economy. For example, the cost of some fresh vegetables doubled after Cyclone Gabrielle¹⁴ and exacerbated the cost-of-living crisis.

Roles and responsibilities

Climate change is a societal problem. As outlined previously, adaptation will require coordination across central government, councils, the private sector and affected communities. We would strongly encourage central government to take a leadership role to bring all parties together to focus on an adaptation strategy. Planning will need to take a long-term view and will therefore require a commitment from successive governments to support a consistent and enduring approach to this matter.

The focus of our submission for roles and responsibilities will be on those relevant to the insurance market. As an association body for insurers, we are positioned to present some fundamental principles of insurance that may assist in understanding insurers' approach to natural hazard risk.

Insurance does not reduce risk. It is a risk-transfer tool. The higher the risk, generally, the higher the premium charged. An insurer has a responsibility to be sustainable in its risk management decisions so that it can meet claims when the time comes. If, over time, risks are not addressed and allowed to become greater, they may not be sustainable. Increasing risk can result in increasing premiums, and, in extreme cases, cover for some risks may not be viable. Risk reduction, on the other hand, can result in lower premiums. Risk management through adaptation to increasing climate risks, therefore, will positively impact insurance affordability.

Insurance operates on the pooling principle, that is "the many paying for the unfortunate few." This works well for a wide range of sudden and unforeseen events. However, it is far less sustainable for wide-scale, predictable climate-related disasters. When losses do occur, and insurers are there to meet them, a general understanding of insurance cover is important. Insurance policies provide cover for direct physical loss that has occurred and generally do not offer cover for the cost of preventing potential future damage.

Part of adapting to climate change is understanding that we will continue to experience climate-related disasters. The ability to recover will be vital, and insurance plays a critical role in recovery. The Auckland Anniversary Weekend floods and Cyclone Gabrielle are estimated to have caused between \$9 billion and \$14.5 billion in total¹⁵. Included in this are approximately \$3.8 billion in insured losses¹⁶, meaning the insurance sector put \$3.8 billion back into the economy that allowed people, businesses, and communities to recover. International research supports the benefit of insurance as a key part of recovery. A 2020 report from the University of Cambridge Centre for Risk Studies analysed catastrophe case studies from around the world. It found a striking gap between how quickly communities recover

¹³ World Bank: Lifelines, the Resilient Infrastructure Opportunity 2019

(<https://www.worldbank.org/en/news/infographic/2019/06/17/lifelines-the-resilient-infrastructure-opportunity>)

¹⁴ Beca: The high cost of inaction: why climate adaptation can't wait 2024 (<https://www.beca.com/ignite-your-thinking/ignite-your-thinking/april-2024/the-high-cost-of-inaction-why-climate-adaptation-can-t-wait>)

¹⁵ Treasury: Impacts from the North Island weather events (<https://www.treasury.govt.nz/sites/default/files/2023-04/impacts-from-the-north-island-weather-events.pdf>)

¹⁶ ICNZ: ICNZ Sitrep 15 2024

after a disaster based on how effectively those recoveries were managed. Significantly, countries with higher insurance penetration experienced better and faster recoveries than those with lower insurance penetration¹⁷.

Given the industry's significant role in recovery, it is ICNZ's view that New Zealand needs a clear and comprehensive framework for recovery from future events and insurers should be well-integrated into the country's approach. This will allow for more certainty in response and recovery when it comes to information sharing, access to impacted areas, efficiencies in the logistics of processing customers' claims, and access to skilled technical experts. This would give insurers the opportunity to be better prepared to scale up resourcing and be more efficient in recovery outcomes.

New Zealanders understand the value of insurance, and this is demonstrated by consistently high levels of insurance penetration. However, the prospect of more frequent and intense climate-related disaster events will have an impact on insurance affordability and accessibility which in turn will be felt across the economy. Generally, banks and other lenders require insurance to be in place for property securing lending as this ensures there are funds available if something goes wrong. Substantial lending is also secured against commercial properties. If insurance and therefore lending is reduced due to climate change risks, this will restrict growth, reduce peoples' and businesses property values and harm New Zealand's economic prospects and wellbeing. This demonstrates the importance of New Zealanders working together to respond proactively to climate adaptation to build a resilient, sustainable and inclusive economy.

Conclusion

In summary, the insurance industry has a critical role in helping address the challenges posed by climate change and enhancing New Zealand's resilience to natural hazards. The ICNZ is well-placed to advocate for measures that support communities, businesses, and individuals in adapting to a changing climate.

The urgency of the climate crisis cannot be overstated, with scientific evidence indicating escalating climate-related risks. New Zealand's vulnerability to these risks requires a coordinated and proactive approach to adaptation. ICNZ supports the development of a national climate adaptation strategy to guide policy and legislation, emphasising the need for collaboration across government, business, and community sectors.

Central to effective adaptation is the recognition of the complex and evolving nature of climate-related risks. Planning must account for current vulnerabilities while also anticipating future challenges based on updated scientific assessments. Investment in adaptation is crucial, with the costs of inaction far outweighing those of proactive measures. The insurance industry, as a key player in risk management and recovery, stands ready to contribute to a comprehensive framework for adaptation and resilience building.

The interconnected nature of climate adaptation also emphasises the need for cross-sectoral collaboration and long-term planning. By working together, government, industry, and communities can ensure a sustainable and resilient future for New Zealand in the face of climate change.

¹⁷ Cambridge Centre for Risk Studies and AXA XL, 2020. Optimising Disaster Recovery: The Role of Insurance Capital in Improving Economic Resilience (<https://axaxl.com/-/media/axaxl/files/optimizing-disaster-recovery.pdf>)

Thank you again for the opportunity to submit on this inquiry. ICNZ would like to appear before the committee to speak to our submission. Please contact Sean (sean@icnz.org.nz) if you have any questions for require further information.

Yours Sincerely

A handwritten signature in black ink, appearing to read 'Kris Faafoi', written in a cursive style.

Hon. Kris Faafoi
Chief Executive

A handwritten signature in black ink, appearing to read 'Sean Fullan', written in a cursive style.

Sean Fullan
Resilience and Recovery Manager