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ICNZ submission on Our Climate Your Say: Consultation on the Zero Carbon Bill

Thank you for the opportunity to submit on *Our Climate Your Say: Consultation on the Zero Carbon Bill* ("Discussion Document"), which was released by the Ministry for the Environment in June 2018. ICNZ represents general insurers that insure about 95 percent of the New Zealand general insurance market, including over half a trillion dollars' worth of New Zealand property and liabilities.

Please contact Andrew Saunders (andrew@icnz.org.nz or 04 914 2224) if you have any questions on our submission or require further information.

This submission is in two parts:

- Overarching Comments
- Responses to Selected Questions in the Discussion Document

Overarching comments

ICNZ welcomes the emphasis being given to climate change issues through the development of the Zero Carbon Bill. Climate change is a long-term risk issue with profound and widespread effects and such an approach is aligned to how insurers see risk.

The Paris Agreement of 2015 requires action on both climate change adaptation (risk reduction) and mitigation (greenhouse gas emission reduction). ICNZ considers there should be an equal focus on both issues. It is important to remember the only reason mitigation is being addressed is because of the profoundly negative impacts of climate change. As greenhouse gas emissions are cumulative, some adverse consequences from climate change are already set, such as sea-level rise. Regardless of New Zealand's success in achieving greenhouse gas emissions reductions, the country faces significant adaptation challenges.

The Zero Carbon Bill must therefore address adapting to climate change as New Zealand needs joined up action on both climate change mitigation and adaptation. There are greater risks of fragmentation if mitigation and adaptation go down different paths, noting climate change is a national risk issue and

much of the decision making around adaptation is made at local government level and implemented through planning instruments. A joined-up approach to adaptation also increases the likelihood that opportunities to maximise co-benefits are taken advantage of.

While ICNZ's focus in the climate change area is primarily on the implications of climate change and adaptation we agree there is an urgent need for countries to transition their economies to a low-emissions pathway. We recognise that progressively ambitious reduction measures will be needed globally to achieve the objectives set in Paris in 2015.

We don't take a specific position on the three targets proposed in the Discussion Document but ICNZ supports policy that underpins a credible pathway, which starts early and is predictable. We note the synthesis technical report highlights the conclusions as well as the uncertainties, assumptions and limitations of the available economic modelling work and that under the targets explored the economy will grow more slowly to varying degrees. We also note the technical report takes no account of the cost of not adapting nor the significant economic, social and environmental benefits of adaptation. This suggests that more work and ongoing consideration is needed, and a degree of flexibility is warranted, but this does not mean delaying action.

While in principle the option for net-zero emissions across all gases is the ultimate aspiration, more information on the impact of stabilising short-lived emissions versus a net-zero position is needed. Overall given the uncertainties involved we believe the way forward should be principles-based around the following:

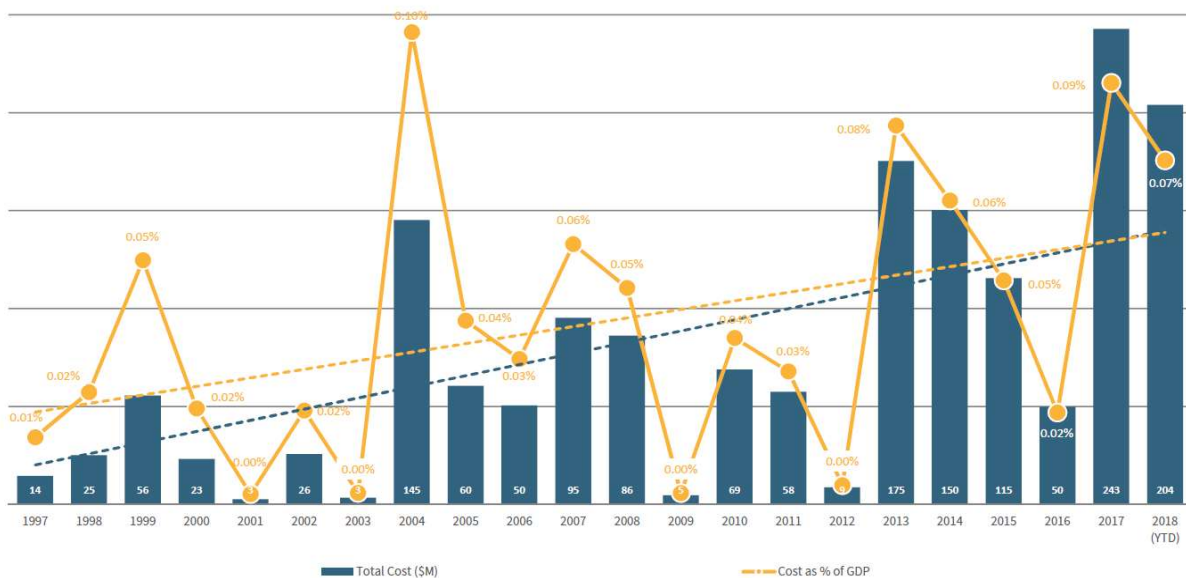
- Change must be planned, transparent and predictable.
- There should be clear price signals to enable as far as possible for market investment responses to avoid both investors risking a lock-in or stranding of their assets, or alternatively investments being delayed in expectation of greater certainty being available in the future.
- Regulatory frameworks should support innovation by removing barriers to uptake of low emissions technologies.
- Government R&D spending should align with priority mitigation and adaptation areas e.g. methane vaccines, afforestation, transport, reducing risks to physical assets, and changing land uses.
- Acknowledging the need to assist those heavily impacted by changes e.g. those on low income, affected sectors etc.

As identified in the Discussion Document, it would also be appropriate to include in the legislative framework an ability to change the legislated target should the circumstances justify it (e.g. significant changes or unexpected developments in the economy, the understanding of the science, the technology available or to take account of international developments). The criteria for any change would need to be rigorous and the process thorough and open. Whilst introducing controlled flexibility arguably reduces certainty it is better to be able to make changes subject to known and predictable processes in an orderly manner. Otherwise there is a risk the whole framework is called into question should circumstances start to suggest the prescribed target for 2050 is unachievable, or that ad-hoc legislative changes are made, the prospect of either of which would cause even greater uncertainty. It is also important to recognise that the target is not necessarily an endpoint and that as 2050 approaches it will in any case be necessary to consider how it relates to obligations/policy for subsequent periods.

As outlined above ICNZ's considers it critical adapting to climate change is appropriately provided for. Accordingly, we are pleased that Government is proposing to include adaptation in the Zero Carbon Bill and the scope of the Climate Change Commission. Beyond this it remains important for the

Government to continue to show strong leadership and for government agencies to take an integrated approach to climate change issues. Relevant work should also be progressed now rather than waiting for Bill to be progressed and the Commission to be established.

We note last year was the most expensive year on record for weather-related losses in New Zealand, with total insured losses of approximately \$243 million, and as at the end of June this year weather events had already caused an estimated \$204 million of insured losses. Insurance losses from major weather-related events in New Zealand over the period 1997 – 2017, and with data for 2018 to date, are shown in absolute terms and as a percentage of GDP in the following chart.



Taking steps to adapt to climate changes is unavoidable because even if the objectives of the Paris Agreement are achieved (i.e. no more than a 1.5°C rise) there will still be material climate change and the effects of this will require adaptation. What is uncertain is the extent to which global mitigation efforts will be successful, the resulting evolution of climate systems and therefore the extent to which the climate will change in areas of New Zealand over coming decades and beyond and consequently the required pace and potential extent of adaptation required.

Given this uncertainty it will be important to have regard to a range of potential scenarios so as to inform consideration of what may be required and the costs and implications. We note that while the economic modelling has estimated the costs of transition for mitigation it is equally important to factor in adaptation costs, so total costs are estimated and a balanced approach taken to prioritisation of spending.

Undertaking appropriate adaptation measures to reduce the adverse impacts of climate change to property and people will be fundamental to ensuring the affordability and availability of insurance in a range of geographic areas exposed to the consequences of climate change (e.g. increased risks of flooding or coastal inundation). This is critical as the availability of insurance in turn underpins most economic activities and investments. Government and public authorities play a crucial role in enhancing resilience and adaptation measures and so to enable an affordable transfer of risk to the insurance sector a holistic approach to adaptation involving central and local government will be necessary.

It is critical to reduce the risks from climate change as if the risks become too great, insurance will become unaffordable or unavailable. The consequences of this can be severe so taking steps earlier, when they are often less costly, is vital to enable risks to continue to be transferred through insurance. As well as taking proactive steps the simplest action is to stop investing in new assets and infrastructure that are inherently vulnerable to climate change risks, particularly given the value of vulnerable infrastructure is already high¹.

Given the massive costs of reducing risks from climate change to vulnerable infrastructure and communities, innovative financing options are going to be required to support investments in resilience and risk reduction. There is a need to identify the long-term risk for relevant communities and infrastructure based on credible scenarios, conduct cost-benefit analysis of investment over suitably long timeframes and where necessary develop financial products that monetise the value and provide funds for up-front investment. Innovative approaches that seek to incentivise resilience, make funds available, and also provide an insurance element to manage risk include²:

- Insurance-Linked Loan Packages – Concessional loans from public bodies with integrated resilience conditions.
- Resilience Impact Bonds – A bond with outcome-based repayments focused on resilience and social goals.
- Resilience Bonds – A catastrophe bond (cat bond) where bond coupon payments are reduced when resilience measures are implemented.
- Resilience Service Companies – An entity that invests in upfront resilience measures in exchange for a share of future insurance premium savings.

We welcome the recent recommendations³ of the Adaptation Technical Working Group and that their proposals for a National Climate Change Risk Assessment and National Adaptation Plan are provided for in the Discussion Document. We comment on these specific matters further below in the second part of this submission. ICNZ also supports the Adaptation Technical Working Group's other recommendations outlined in their May 2018 report being progressed and looks forward to the Government officially responding to these recommendations later in the year.

¹ A NIWA report from 2015 undertaken for the Parliamentary Commissioner for the Environment showed that the replacement value of buildings within 50 centimetres of the spring high tide mark is \$3 billion and that of buildings within 150 centimetres of the spring high tide mark is approximately \$20 billion (<http://www.pce.parliament.nz/media/1384/national-and-regional-risk-exposure-in-low-lying-coastal-areas-niwa-2015.pdf>).

² Refer to the following document for more information on these concepts - Innovative finance for resilient infrastructure, Preliminary findings, Centre for Global Disaster Protection & Lloyd's of London, 2018, available from <https://www.lloyds.com/~media/files/news-and-insight/risk-insight/2018/innovative-finance-for-resilient-infrastructure.pdf>

³ Adapting to climate change in New Zealand: Recommendations from the Climate Change Adaptation Technical Working Group, May 2018.

Responses to Selected Questions in the Discussion Document

Question 13. The Government has proposed that Climate Change Commissioners need to have a range of essential and desirable expertise. Do you agree with the proposed expertise?

ICNZ supports the proposed scope of expertise for the Climate Change Commissioners outlined on page 45 of the Discussion Document. In order to fulfil the Commission's proposed functions in relation to adaptation, which we strongly support, it is important there is expertise in terms of risk management, addressing adaptation challenges like planning and insurance and in infrastructure and engineering. Engaging communities and communications will also be important in relation to the Commission's adaptation related functions.

Question 14. Do you think the Zero Carbon Bill should cover adapting to climate change?

ICNZ considers it is vital adaptation issues are covered by the Zero Carbon Bill.

It would be inappropriate for the key climate change legislation to focus on mitigation only, given that a certain level of adaptation is inevitable. As outlined above in the first part of this submission we consider there should be equal focus on mitigation and adapting to the impacts of climate change. The Zero Carbon Bill is a logical place for providing a framework for considering and managing adaptation risks and has the benefit of promoting a joined-up narrative about mitigation and adaptation.

We accordingly support adaptation being equally within the ambit of the Climate Change Commission and the membership and resourcing of the Commission will need to reflect this. ICNZ does not favour the approach of a having an "Adaptation Sub-Committee", as adopted in the United Kingdom. We have a concern that such an arrangement inherently gives a lower priority to adaptation issues and risks adaptation not receiving the focus required.

Question 15. The Government has proposed a number of new functions to help us adapt to climate change. Do you agree with the proposed functions?

ICNZ supports the proposals in the Discussion Document to:

- undertake National Climate Change Risk Assessments; and
- develop and maintain a National Adaptation Plan and then regularly review progress towards implementing it.

National Climate Change Risk Assessments

We support National Climate Change Risk Assessments being undertaken. It is appropriate the Risk Assessments are undertaken by the Climate Change Commission, but we support the initial one being undertaken by central government to allow this to be undertaken sooner than would otherwise be the case.

Given the multifaceted nature of climate change impacts (i.e. to people, the economy, infrastructure and the natural environment) it is important the appropriate range of government agencies are involved in the development of the first Risk Assessment to ensure relevant matters are considered in depth. It also crucial the approach is suitably aligned and integrated with other government work on managing risks. Consultation with a range of stakeholders in development of the Risk Assessment will be important. The insurance industry in particular will welcome the opportunity to be involved in this process. Expertise with adaptation/vulnerability reduction is a strong domain of the insurance industry.

The concept of updating the Risk Assessments in-sync with the National Adaptation Plan is logical. We however suggest the six-year cycle outlined by the Parliamentary Commissioner for the

Environment (PCE) in his report⁴ earlier this year may be more appropriate for New Zealand given our three-yearly election cycle.

Develop and maintaining a National Adaptation Plan and regularly reviewing progress towards implementing it

We support the development of a National Adaptation Plan. As identified by the PCE, New Zealand is one of a small number of OECD countries not to have already developed a strategy for national adaptation and this gap needs to be filled. It is appropriate the National Adaptation Plan is developed by Government and reviewed by the Climate Change Commission.

As with the Risk Assessment it will be important a range of government agencies, including those responsible for economic issues and infrastructure, are involved in the development and review of the National Adaptation Plan. We support the matters of scope and process outlined in the bullet point list on page 49 of the Discussion Document and the intention to develop the National Adaptation Plan in consultation with local government and other stakeholders, which should include the general insurance sector.

As noted above a six-yearly rather than the proposed five-yearly update cycle may be appropriate.

Question 16. Should we explore setting up a targeted adaptation reporting power that could see some organisations share information on their exposure to climate change risks?

In order to inform the Risk Assessment and Adaptation Plan it will be necessary, amongst other things, to have information on the level of preparedness of key sectors to climate change, at a sectoral and national level. Accordingly ICNZ supports Government further exploring setting up a targeted adaptation reporting power that could see some organisations (councils, infrastructure owners etc.) share information on their exposure to climate change risks and the adaptation actions being undertaken in response.

As well as gathering information, and allowing efforts on undertaking adaptation to be gauged, reporting requirements are likely to encourage a focus on considering risks and taking appropriate action. From the perspective of the insurance industry, greater information will assist in promoting more informed insurance underwriting decisions.

In exploring a targeted adaptation reporting power further, it will be necessary to consider first what information will be required to inform the Climate Change Risk Assessment and Adaptation Plan, whether this is the appropriate method to gather some of that information and whether the benefits would outweigh the costs imposed on the subject entities. In terms of entities potentially subject to reporting, an initial focus on entities that control infrastructure vulnerable to the effects of climate change appears appropriate (e.g. ports, road/rail, water and energy generation/transmission/distribution related infrastructure).

Consideration needs to be given to how a reporting requirement of this kind would relate to the recommendations of the Task Force on Climate-related Financial Disclosures, which the Productivity Commission recommended in its recent report⁵ are integrated into existing regulatory instruments as appropriate. The Task Force's recommendations are mitigation focussed but adaptation activities are also within scope.

⁴ A Zero Carbon Act for New Zealand: Revisiting Stepping stones to Paris and beyond, Parliamentary Commissioner for the Environment, March 2018.

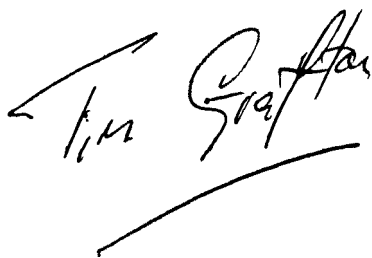
⁵ "Low-emissions economy: Draft report", New Zealand Productivity Commission, April 2018.

We note the United Kingdom introduced its “Adaptation Reporting Power” in 2008. It has gone through two (five-year) cycles of this and recently consulted⁶ on its review of the process to date, including the costs of reporting, and the proposed approach to conducting an upcoming third round. The Government’s view there is that the reporting requirements have provided benefits but there have been gaps in coverage (they are not mandatory), varying quality in reporting and a lack of quantified evidence describing how actions taken help to reduce future vulnerability.

Conclusion

Thank you again for the opportunity to submit on the Discussion Document. If you have any questions, please contact our Regulatory Affairs Manager on (04) 914 2224 or by emailing andrew@icnz.org.nz.

Yours sincerely,



Tim Grafton
Chief Executive



Andrew Saunders
Regulatory Affairs Manager

⁶ “Consultation on the government’s proposed strategy for the third round of the climate change Adaptation Reporting Power”, DEFRA, February 2018, see https://consult.defra.gov.uk/environmental-quality/adaptation-reporting/supporting_documents/strategyarp12022018.pdf.