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ICNZ Submission on Low-Emissions Economy Draft Report

ICNZ welcomes the opportunity to submit on *Low-emissions economy - Draft report* ("Draft Report") released by the Commission in April 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.

Introduction

ICNZ's focus in the climate change area is primarily on the implications of climate change and adaptation, though we acknowledge the terms of reference for this inquiry require it to focus on climate change mitigation. We agree there is an urgent need for countries to transition their economies to a low-emissions pathway and that progressively ambitious reduction measures will be needed globally to achieve the targets set in Paris in 2015. Climate change is a long-term risk issue with profound and widespread effects and such an approach is aligned to how insurers see risk.

ICNZ therefore supports a pathway that starts early and is predictable. We support the establishment of an independent climate focussed entity that takes a long-term view of risk and makes recommendations to Governments and monitors progress, as also articulated by the Parliamentary Commission for the Environment earlier in 2018.

Whilst we appreciate climate change adaptation is not at the centre of the Draft Report, it is important to remember the only reason mitigation is being addressed is because of the profound negative impacts of climate change. As greenhouse gas emissions are cumulative, some adverse consequences from climate change are already set, such as some sea-level rise. This is why adaptation is integral to any consideration of a transition to a low-emissions economy.

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. 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 May this year weather events had already caused an estimated $173 million of insured losses.

Appropriate adaptation measures to reduce the adverse impacts of climate change are fundamental to ensuring the affordability and availability of insurance in a range of areas and the availability of insurance in turn underpins most economic activities. We note Section 6.2 of the Draft Report discusses some of the physical risks of climate change with particular reference to coastal areas and potential linkages between this and future insurance coverage.

The role of investment

ICNZ agrees the financial sector through its products and investments will play a fundamental role with respect to both climate-change mitigation and adaptation. We welcome Chapter 6 of the Draft Report and the analysis in the bullets outlined on page 134. In addition to investment in mitigation and low emissions technologies though, there is also a need for significant investment that reduces risks to assets and infrastructure.

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 based on credible scenarios, conduct cost-benefit analysis of investment to ensure net benefit of investment on an NPV basis and 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 include[1]:

- 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.

It is critical to reduce the risks from climate change to infrastructure etc. 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 high[2]. Governments and public authorities play a crucial

[1] 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

[2] 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

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.

Mandatory climate-related financial disclosures

In our 2017 submission on the Commission's Issues Paper we proposed the Commission should consider the climate change disclosure obligations that should be provided for companies in New Zealand, in order to lead to transparent reporting of relevant risks. Accordingly, we welcome this matter being addressed in the Draft Report and support Recommendation 6.3 on page 154 - that the Government incorporate mandatory climate-related financial disclosures, in line with the recommendations of the Task Force on Climate-related Financial Disclosures, into existing regulatory instruments as appropriate.

Conclusion

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

Yours sincerely,

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Chief Executive

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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).