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National Disaster Resilience Strategy submissions
Ministry of Civil Defence & Emergency Management
PO Box 5010
Wellington 6145

Emailed to: NationalStrategy@dpmc.govt.nz

ICNZ submission on proposed National Disaster Resilience Strategy

Thank you for the opportunity to submit on the proposed *National Disaster Resilience Strategy* ("Strategy"), which was released for comment in October 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.

Submission

Overarching comments

ICNZ and insurers actively engage with central and local government and other stakeholders to raise awareness of natural hazards and promote New Zealand's resilience and so we support the approach outlined in the proposed Strategy. The focus on managing risks, effective response to and recovery from emergencies, and strengthening societal resilience is appropriate.

In 2014 we released a position paper "Protecting New Zealand from Natural Hazards - An Insurance Council of New Zealand perspective on ensuring New Zealand is better protected from natural hazards" in which we proposed fifteen actions to reduce risks and improve resilience. While a number of these have been implemented, and the Strategy represents part of this, there is an ongoing need to work on improving risk management and resilience. Subsequent to this has been the global agreement to the *Sendai Framework for Disaster Risk Reduction 2015-2030*, which amongst many sensible recommendations includes promotion of mechanisms for disaster risk transfer and insurance and we recognise the Strategy also addresses a number of these. Government has traditionally been strong at responding to disasters but has been less successful on reducing risks in advance or on swiftly

and effectively progressing recovery and so we welcome the proactive and all-encompassing approach outlined in the Strategy.

While we cannot control the forces of nature, we can reduce their impact significantly by building our capacity to withstand and recover from natural disasters. This is achieved by identifying and planning ahead on how to adapt or mitigate in order to reduce the risks we face. Numerous studies show that investment in those measures before disaster strikes saves much more than trying to pick up the cost afterwards. Reducing risks also helps to keep insurance available and affordable and high levels of insurance cover in turn benefits society by sharing the risk and reducing the cost individuals, businesses, local and central government would otherwise have to meet and improve an economy's ability to recover after a disaster.

Given New Zealand's exposure to natural disasters it is critical that New Zealand maintains access to international risk-capital to support both private insurers and the Earthquake Commission (EQC). Constructive and proactive efforts to reduce risks and increase the swiftness of response and recovery, such as outlined in the Strategy, are a welcomed step in this regard.

Role of insurance in responding to disasters

New Zealand is one of the most vulnerable countries in the world to the impact of natural disasters for an economy of our size, with a recent Lloyd's report rating our exposure as having the second highest level of annual expected losses as a percentage of GDP.¹ The insurance industry (insurers and re-insurers) has provided more than \$30 billion to New Zealand people and organisations to help recover from the Canterbury and Kaikōura earthquakes.² This has represented a significant proportion of the overall financial costs of these events.

We remain at risk from further earthquakes, volcanoes and tsunamis and from weather events, with 2017 and 2018 New Zealand's most expensive years for weather-related events. Climate change will increase the risk of flooding in parts of the country and drought in other areas. Coastal areas will be more vulnerable as sea levels rise and we can also expect more severe windstorms in the west. Seismic risks will however remain New Zealand's biggest exposure, given the ability for individual events to cause national level impacts and involve multi-year recoveries.

When natural catastrophe strikes it takes a heavy social toll. Lives can be lost, homes destroyed, sanitation and communications systems wrecked, businesses bankrupted and jobs lost as well as the trauma and stress families suffer as they try to put their lives back together. Insurance plays a key role in helping families and businesses recover from natural disasters, this includes insurance for:

- residential property (homes and apartments)
- personal contents in residential property
- motor vehicles
- commercial property (buildings and equipment)
- business interruption insurance

¹ A world at risk, Closing the insurance gap, October 2018, available from <https://www.lloyds.com/news-and-risk-insight/risk-reports/library/understanding-risk/a-world-at-risk>.

² This includes funds that have been provided by private insurers to their personal and business customers and by re-insurers to EQC.

We note that these types of insurance can respond to almost any type of disaster. The cover provided by the EQC also responds to a range of events also, noting that in relation to flood events, which are the most common type of disaster, EQC does not respond to property damage, only to land damage.

ICNZ and the insurance industry aim to make New Zealand more resilient to natural hazards and disasters by educating the public about the risks they pose and by providing insurance to help manage those risks. We have for some time been raising awareness on the need for a coordinated, adaptation approach from the top of local government down to individuals for better management of natural hazards so as to keep the transfer of risk to insurance affordable and available for all New Zealanders long into the future.

Recommendations

As noted above we strongly support the proposed Strategy. We do have some recommendations as to additional matters to reflect in the Strategy that relate to the role of insurance and insurers and on the importance of implementation.

The Strategy is rightly focussed on human and societal impacts, however, it is important to remember that for people and communities to recover post an event it is critical they have homes to live in and businesses/workplaces to work from. The Strategy references the role of insurance in relation to risk-transfer and the high-level of insurance penetration in New Zealand. Given that high level, in the event of any disaster most of the financial costs will be met by insurance and in a large event this will be billions of dollars. The sooner insurance can respond, the sooner the inflow of insurance settlements that are critical to restoring properties and supporting the economy can occur.

It is critical that post-disaster the responsible authorities engage early and constructively with the insurance industry. This should occur at a general level so that government agencies leading response and recovery understand how insurance will respond and what they can do to facilitate, and avoid hindering, a swift insurance response so as to benefit their communities. There are also specific issues that require engagement and collaboration, such as facilitating access to properties to assess damage or sharing information at a regional or community level on disaster impacts, needs and vulnerabilities.

Given this we consider this critical role of insurance and the need for authorities to engage and collaborate with the insurance industry should be explicitly reflected in the Strategy. The involvement of EQC should not be seen as a proxy for insurance involvement given the many differences that exist between the specific coverage provided by EQC and the more diverse and extensive coverage provided by private insurers (e.g. coverage for businesses and commercial property and in future personal contents). We also note that, as occurred in response to the 2016 Kaikōura Earthquake, insurers may continue in future to manage their customers' EQC claims on behalf of EQC in the interests of more efficient claims responses and better customer outcomes.

In the section on Managing Risks on page 24, Objective 5 sensibly provides that it should be ensured that development and investment practices, particularly in the built environment, are risk-sensitive, taking care not to create any unnecessary or unacceptable new risk. We support this as increasing the resilience of buildings to disasters through improved building standards and planning plays a key role in managing risks.

We note the commentary to this Objective refers specifically to earthquake prone building remediation meeting required timeframes and standards. Completing this work is important but greater aspiration is required in this area and the focus needs to move from addressing the tail, strengthening the most vulnerable buildings considered "earthquake prone", to over time ensuring

that all buildings are highly-resilient to earthquakes. To really improve the resilience of our built environment it is necessary to achieve a step-change in the resilience of buildings and fundamentally changing the New Building Standard (NBS) so that as well as protecting life safety, buildings are serviceable following a major seismic event, will be a critical step to achieving this. Given its risk profile this is perhaps the most important single action New Zealand can undertake to improve future resilience to disasters. The need to demolish buildings following a major earthquake has massive financial costs and means it takes years for communities to rebuild and recover.

As a final point, central and local authorities also need to be mindful of taking actions, particularly after a disaster, that increase moral hazard and potentially dis-incentivise the uptake of insurance in future.

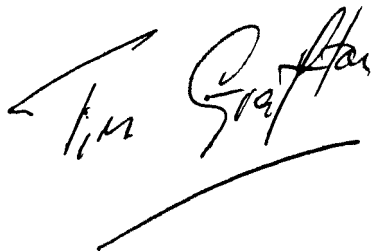
Effective implementation of the Strategy will be critical to achieving its objectives. There are many activities outlined in it that will require significant effort to be undertaken and implemented by a range of agencies within central government, local government and beyond. It is therefore essential that Government provides the funding and focus necessary to implement the Strategy.

Conclusion

Thank you again for the opportunity to submit on the proposed Strategy. Insurers have long experience in this area and ICNZ and our members welcome opportunities to work with government agencies on these matters.

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