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### **ICNZ submission on the draft National Adaptation Plan including Managed Retreat**

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Thank you for the opportunity to submit on the draft National Adaptation Plan including Managed Retreat.

By way of background, ICNZ's members are general insurers and reinsurers that insure about 95 percent of the Aotearoa New Zealand general insurance market, including about a trillion dollars' worth of Aotearoa New Zealand property and liabilities. ICNZ members provide insurance products ranging from those usually purchased by individuals (such as home and contents, travel, and motor vehicle insurance) to those purchased by small businesses and larger organisations (such as product and public liability, business interruption, professional indemnity, commercial property and directors and officers insurance).

ICNZ has made positive contributions and provided insights on climate change and its impacts to many forums. Its members have formed a specialist committee on climate change to draw upon a wide range of expertise and knowledge so that we can contribute to better understanding of the issues and play a constructive role in developing solutions to the challenges the topic presents.

This submission is in four main sections. The first addresses over-arching issues about the draft National Adaptation Plan (NAP), followed by a focus on Managed Retreat, Finance, and the Economy with reference to flood insurance schemes and the Built Environment.

## KEY POINT SUMMARY

Climate adaptation requires as much focus, including leadership, enabling legislation and funding from successive governments as greenhouse gas mitigation. This is not the case today. The National Adaptation Plan (NAP) must take a long view to risk reduction and be clearer about what needs to be prioritised. Specifically, the NAP must enable, and where there are higher risks from climate impacts ensure effective risk reduction measures are applied to avoid or control risks. It must ensure the best science information is available to inform adaptation decisions. It must avoid policies which add to the risks from climate impacts, and its approach to risk management should focus on reducing social, cultural, environmental, and economic loss. It needs to embrace the positive roles insurance can play and support the availability and affordability of insurance by effectively controlling and avoiding risks.

When considering its response to climate hazards, the NAP must ensure that a range of scenarios are assessed, the level of uncertainty taken into account, and a precautionary approach adopted. Managed retreat may not be feasible in some locations. Where managed retreat is a feasible option, a Dynamic Adaptive Policy Pathway (DAPP, explained later) approach needs to be taken involving multiple sectors.

When considering insurance and flooding, the NAP needs to reflect a better understanding of insurance and the positive contribution it can play informing adaptation measures and encouraging resilience. It should avoid disproportionate interventions in the insurance market that may result in unintended, adverse consequences. It should also avoid looking at broader climate challenges through a flood insurance lens.

The following key points are made in this submission:

### *1, Adaptation/Risk Reduction*

- explicitly require consenting authorities to give primacy to climate impacts where the risks will become intolerable over a 50-year horizon.
- acknowledge that the cascading and compounding impacts of climate change will require collaborative, cross-sectoral responses at local and national levels.
- ensure the Avoid, Control, Transfer and Accept (ACTA) risk management framework is consistently applied by consenting authorities.
- mandate a DAPP approach to coastal areas and flood plains where the risks will become intolerable over a 50-year horizon.
- stop new development in high-risk locations where the risks will become intolerable over a 50-year horizon.
- define intolerable risks and develop a consistent and equitable approach across Aotearoa New Zealand to managing them.

## *2. Managed Retreat*

- identify and prioritise those areas that are at highest intolerable risk.
- intolerable risk needs to be holistic (social, environmental, cultural, uninsured and insured economic loss taken into account)
- acknowledge that managed retreat will in almost all situations be a last resort if it is feasible, once all other adaptation measures are exhausted by taking a precautionary approach.
- apply a DAPP approach acknowledging the long lead time required to design, plan and execute flexible adaptation solutions that.
- a greater focus needs to be applied to roles and responsibilities for adapting to climate impacts which will lead to greater clarity about tackling managed retreat.

## *3. Flood Insurance*

- insurance is readily available and affordable for the vast majority of New Zealanders in flood prone areas, so an expensive and heavy-handed intervention is not required.
- implement flood protection and adaptation responses in higher risk areas to support the ongoing affordability and availability of insurance.
- adequately fund and implement national funding for flood protection with a catchment-wide focus.
- accelerate the availability of national flood mapping that provides standardised flood risk information.
- broaden the scope of the investigation into flood insurance to ensure the most appropriate and proportionate response to any issues and work with the insurance sector to ensure the future availability of insurance.
- avoid moral hazard risk and do not raise public expectations that unsustainable protection can be undertaken. Moral hazard risks cause more harm and increase political economy risks.
- where affordability may be an issue consider the range of existing policy tools, for instance, means-tested support to meet insurance costs and leave insurance to play its critical role of pricing risk.

## *4. Built environment*

- building codes and standards should prioritise resilience as a principle underpinning the design standards for flood.
- how we build and where we build will interact with adaptation initiatives including managed retreat.

- develop a simple resilience rating standard for all homes to reflect their vulnerability to key climate risks like flooding.
- develop an open-source portal that the public can access to assess their vulnerability to key climate risks like flooding.
- increase the use of sustainable drainage systems in developed areas and improve flood plain management and resilience measures for homes and businesses.

#### 5. *Some key observations about insurance*

- evidence of risk reduction measures helps support the affordability and availability of insurance, hence the critical role of controlling and avoiding risk.
- insurance modelling of future losses can help inform adaptation decisions.
- insurance signals risk and helps inform the need to reduce risk, but non-insurable risks are also critical triggers for adaptation.
- interventions in the insurance market to make insurance affordable in high-risk areas will encourage more people to live in areas that will cause them harm and must be avoided.
- simplistic views of insurance pricing should be avoided – acceptance of insurable risks will turn on more than one hazard, including the moral hazard of the insured.
- transferring risk to insurance does not reduce risk.
- insurance responds to unforeseen and sudden events, not certain and expected events. Sea-level rise (SLR) in and of itself is not unforeseen and is not insurable<sup>1</sup>.
- private insurance does not insure land.

### **Overarching Comments**

#### *Urgency needed now*

Adaptation to climate change is a global, national, societal, and local problem. Recently available research<sup>2</sup> shows for many parts of New Zealand the impact of sea-level rise will be sooner than previously expected, so fresh urgency is needed due to that aspect of climate change alone. Climate impacts are wide-ranging and uncertain, so all options should be considered in response and a precautionary approach taken. Where managed retreat is feasible and inevitable within the next two decades, the lead time for a well-planned, co-ordinated plan is short. We need to act now.

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<sup>1</sup> Insurable events are generally unforeseen and sudden. Sea-level rise is foreseeable and gradual. Other types of losses such as impacts on health and wellbeing arising for example from multiple flood events, environmental damage or a sense of cultural loss are also not insurable. The availability of insurance therefore needs to be understood in a wider context throughout the NAP.

<sup>2</sup> <https://www.searise.nz/maps>

It is also important to place climate impacts in the wider context of what is contributing to rising losses. The much more certain driver of risk, which surpasses the impact of climate by far, is the dramatic increase in the number and value of properties over the past decades, especially in areas of high-risk. As populations have migrated to cities and coasts, more and more homes and businesses are built in vulnerable areas prone to coastal flooding and on inland floodplains, and the wildland-urban interface where wildfire risk arises.<sup>3</sup> The point is not to diminish the impact of climate change, but to emphasise that humans create climate disasters by where they have chosen and are allowed to live.

### *The NAP's 2028 timeframe*

The NAP says that it will address how New Zealand will adapt to climate change up to 2028. Although the scope of the NAP is a six-year horizon, this should not mean that the plan does not address actions that will reduce climate impacts well beyond that timeframe. Indeed, the impact of sea-level rise, for instance, suggests action is needed now to respond to impacts that will emerge in the 2030s. The sooner the adaptation the better chance there will be to delay impacts and the more cost effective the response will be.

### *Dynamic Adaptive Policy Pathways (DAPP)*

This submission also supports the flexibility inherent in applying a Dynamic Adaptive Policy Pathways (DAPP) approach. DAPP is a flexible approach to reducing risk when confronted by the dynamic uncertainty of climate change. It requires long-term (over many decades) planning that continues to adjust to change. It incorporates short- and medium-term risk reduction initiatives at the same time as longer-term planning is contemplated, for instance, managed retreat where it is feasible. It selects risk reduction pathways and triggers for intervention and change that avoids maladaptation. The DAPP approach avoids the need to have firm 'predictions' or to use only one preferred scenario as a basis for decision-making.<sup>4</sup> A proactive, coordinated planned approach to risk reduction should be integrated into all planning processes where intolerable risks arise in the next 50 years. DAPP is particularly well suited to the challenges posed by sea-level rise.

### *Greater clarity about Government's role*

The NAP should be clear about the pivotal role of central government given the scale and nature of the problem to overcome over the coming decades. The draft plan falls short in

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<sup>3</sup> Climate Change is Not The Only Driver of Rising Natural Disaster Losses, [https://www.air-worldwide.com/publications/perspectives/climate-change-not-only-driver-of-rising-natural-disaster-losses/?utm\\_campaign=5480&utm\\_medium=email&utm\\_source=EloquaCAIRW00000062994](https://www.air-worldwide.com/publications/perspectives/climate-change-not-only-driver-of-rising-natural-disaster-losses/?utm_campaign=5480&utm_medium=email&utm_source=EloquaCAIRW00000062994), Roger Grenier, Verisk Solutions.

<sup>4</sup> See Coastal Hazards and Climate Change: Guidance for Local Government, Ministry for the Environment 2017, p 193-208 for a fuller explanation of DAPP.

this respect by conveying an ambiguous role for it caught between enabling responses to the long-term challenges and consideration of near-term responses, such as a flood insurance scheme, a disproportionate, inappropriate response to a barely articulated short-term 'problem', focussing on one symptom/outcome of climate-change rather than the underlying cause or wider consequences.

The draft plan acknowledges the costs of climate change. These costs will be significant, but by making several references to how central government will not bear the costs of climate change, it leaves open how those costs will be borne and over what time periods. All New Zealanders will pay and if adaptation is not properly funded the losses will be greater and will not be confined to personal, financial loss. New Zealanders' health and wellbeing will be detrimentally affected, there will also be social disruption, environmental damage, and cultural loss. The lack of clarity around who funds what needs to be addressed.

The plan does not reflect the cascading and compounding impacts of climate change. The sixth assessment of the Intergovernmental Panel on Climate Change (IPCC) states there is high confidence that multiple climate hazards will occur simultaneously, and multiple climatic and non-climatic risks will interact, resulting in compounding overall risk and risks cascading across sectors and regions. Some responses to climate change result in new impacts and risks. This will demand inclusive, integrated, and long-term planning at local, municipal, sub-national and national scales, together with effective regulation and monitoring systems and financial and technological resources and capabilities, to foster urban and rural system transition. This points to an overarching role for governments.

The Government's roles with respect to reducing climate impacts is to:

- ensure a comprehensive risk management approach is applied
- provide clarity around roles and responsibilities (including for funding)
- ensure legislation/regulation integrates and prioritises action
- support cross-sectoral collaborative responses
- define intolerable risk, so a consistent approach is taken nationwide

#### *Need for clear practical steps*

Neither is there clarity around the practical steps that need to be taken to reduce climate risk and build resilience. Instead, the draft plan is a piecemeal collation of current initiatives, such as the changes to the Resource Management Act (RMA), that can play a part in the response without clarifying how that is to be done or how the replacement legislation is intended to interact or together form an overarching cohesive plan.

Unfortunately, the suite of Acts to replace the RMA are not complete and no overarching strategy is evident to show climate change adaptation is a primary consideration across the legislation<sup>5</sup>. This means that development will continue to materialise in areas that face intolerable risk such as those prone to coastal erosion and flooding including densification in certain urban areas in response to housing demand. Current council policies and plans and their implementation are not providing the means by which ongoing sea-level rise, rising water tables, and increased coastal and compound flooding can be managed.<sup>6</sup>

Where councils rely heavily on mitigation actions and encourage further development, there is low awareness that these measures have a limited lifespan, so in time risks such as sea-level rise will affect more people and properties causing greater losses in the future. The NAP needs to include firm measures to ensure that further development does not occur in high-risk areas where mitigation will no longer be feasible. Adaptation options need to be tested against multiple scenarios and recognising the uncertainty around climate impacts measures, with a precautionary approach being taken. Councils should be empowered to act now if appropriate and not when the next district plan is up for review. There is strong public support for action to be taken. In May 2022, a representative survey of 1,000 people showed 79% thought there should be more controls on where properties are built so they are not at risk from flood.<sup>7</sup>

The NAP needs to convey a set of clear and overarching objectives and show how these can be achieved by adopting a holistic, and proactive approach that includes the identification of ways in which climate change impacts can be mitigated.

For example, flooding is the most frequent and impactful climate change hazard. This should be a focal point for prioritising action. National flood maps are urgently required to inform common understanding of risk and areas that are most at risk should be required to be assessed with a view to taking pre-emptive action. Councils should be required to undertake risk assessments to identify the full range of impacts and time periods of expected impact. They should be required to provide to central government a report identifying communities at high risk, their vulnerability priority, and a programme to undertake DAPP within a binding timeframe aligned with the Climate Change Response Act timelines for the monitoring of the NAP and the next National Climate Change Risk

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<sup>5</sup> We also note that, as we submitted to the Environment Committee on their inquiry into the exposure draft of the Natural and Built Environment Bill in August 2021, no priority has been given to natural hazard and climate change related risks and impacts in decision-making and it is unclear how these would stack up against competing considerations, [https://www.icnz.org.nz/fileadmin/user\\_upload/ICNZ\\_submission\\_on\\_Natural\\_and\\_Built\\_Environments\\_Bill\\_040821.pdf](https://www.icnz.org.nz/fileadmin/user_upload/ICNZ_submission_on_Natural_and_Built_Environments_Bill_040821.pdf). In our view, it is critical that the risks and impacts of natural hazards and climate change are managed so that they remain within tolerable levels.

<sup>6</sup> Enabling Coastal Adaptation, Dr Judy Lawrence, Sylvia Allan and Larissa Clarke, October 2021, p1

<sup>7</sup> SK Research nationally representative survey of 1,000 people undertaken for ICNZ, May 2022.

Assessment.<sup>8</sup> This should then form the basis of consultation with affected communities about the adaptation options under a DAPP approach, the cost-benefits and how these will be borne. Where retreat is feasible and inevitable, councils must start to plan now, be required to set aside funding and locate land for relocation. Retreat will be costly and will almost certainly require central government support on a case-by-case basis.

DAPP is designed to deal with future uncertainty so that adaptation occurs in a way that does not lock other future options or lock people and assets in hazard-prone areas. It provides flexibility for the timely adjustment of adaptation options. It demands close monitoring to identify triggers for changing to a different adaptation pathway. It assumes that adaptation actions have their limits. For example, nature-based solutions such as dune protection or greater protection of wetlands may be overwhelmed by sea-level rise. Infrastructural adaptation has its limits too. Larger stormwater drains may become ineffectual if the water they carry can no longer flow out to sea, lifting finished floor-levels may have limited utility if properties cannot be accessed by land or seawalls are eventually breached. Such adaptation measures may buy time for incumbent property until more permanent solutions like managed retreat become inevitable. We support moves for the DAPP process to be codified into law and implemented through statutory plans and planning processes.

Evidence of a DAPP approach which has an ongoing material impact on reducing risk will also support ongoing insurance availability and enhance the financial stability of communities as well as the wellbeing of residents. This is how insurance should be viewed within the ACTA framework.

### *Government leadership critical*

The problems are so profound that central government must provide leadership, but it should not attempt to act in isolation. The issues are complex, cross-sectoral and involve many actors who have a role to play in the solutions. Infrastructure owners, businesses and the financial sector need to be around the table if there is to be a fully considered response. Government must establish a new framework for collaboration between itself, other public sector organisations, territorial local authorities, and the private sector including the financial sector and insurers. Only in this way can holistic and novel solutions emerge through a common understanding of the risks, appropriate risk governance and investing in risk reduction.

### *Build adaptation around an appropriate risk management framework*

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<sup>8</sup> Ibid, p 4.



New Zealand is a signatory to the Sendai Disaster Risks Reduction framework. It offers guidance on the approach that should be considered. It outlines seven clear targets and four priorities for action to prevent new and reduce existing disaster risks: (i) Understanding disaster risk; (ii) Strengthening disaster risk governance to manage disaster risk; (iii) Investing in disaster reduction for resilience and; (iv) Enhancing disaster preparedness for effective response, and to "Build Back Better" in recovery, rehabilitation and reconstruction. It aims to achieve the substantial reduction of disaster risk and losses in lives, livelihoods, and health and in the economic, physical, social, cultural, and environmental assets of persons, businesses, communities, and countries.

Successfully adapting to climate change requires a comprehensive risk management framework to be deployed. We encourage the NAP to use the well-established Avoid, Control, Transfer and Accept risk management framework (ACTA). This makes it clear that not all risks can be managed, that the transfer of risk to insurance does not reduce risk, and that risk reduction can only be addressed by control (mitigation) or avoidance. We are aware of the Protect, Avoid, Retreat and Accommodate (PARA) framework used by public sector agencies. The PARA framework takes a very similar approach. However, its emphasis on retreat, an avoidance measure which may often be the most expensive last resort, may lead that to be considered ahead of other, more dynamic adaptation methods. PARA also does not directly address the transfer of risk, yet insurance issues have a special focus in the NAP.

That said, the basic approach to risk management requires a first step to quantify the problem and then overlay the ACTA framework and apply solutions in a targeted and proportionate manner to the scale of the problem. The first step has not been taken.

The ACTA framework can be used as a tool to determine trigger points for an adaptation pathway. For instance, a trigger for *avoiding* climate risk should be when the frequency or consequences make alternative solutions for managing the risk uneconomic. *Control* or mitigation of the risk ought to occur where there are practical and cost-effective measures that can mitigate the impact of climate events. *Transfer* where the residual risks posed by a hazard can be quantified and traded efficiently to reduce potential financial impacts. As noted in the first footnote, not all losses are insurable and so cannot be transferred. For those losses that can be transferred to insurance, they should be priced to reflect the risk. Pricing does not have to be at the individual residential property and can be at an area or regional basis, but however it is applied, it needs to reflect the broad range of hazards covered under standard house insurance. *Acceptance* of some level of climate risk will always remain where the hazards are either too frequent to price efficiently or treat by other means.

Within this framework, insurance plays one of its many roles, that of pricing and therefore signalling risk. It is critical to understand that when insurance accepts the transfer of risk nothing is done to reduce the wide range of climate impacts. These impacts include harm to social wellbeing, environmental damage, cultural loss, including to Māori as tāngata whenua and katiaki, uninsured economic loss and insured losses borne by the pool of insurance policyholders. Lives can also be placed at risk.

### *Triggers for action*

Thinking of climate risks in this way confirms that triggers for action to reduce climate change risks and build resilience are not determined by whether insurance remains affordable and available. Indeed, the time for action is now for those areas most at risk while insurance is still widely affordable and available throughout New Zealand. Early action deploying DAPP will be the most economically efficient way of reducing risks. Studies show that for every \$1 invested in risk reduction reduces post-event costs at least five or six-fold, so a targeted, preventative approach is recommended.

### *National standards and local risk tolerance*

Communities have a part to play in determining what level of risk they are willing to accept or tolerate, and by applying the ACTA framework, to reduce their risks, so that insurance remains readily available. It would though be inappropriate for a patchwork of different risk tolerances emerge across the country as it would cause relative inequity from location to location. Local input is required, but so also is standardisation of risk tolerance required. There needs to be consistent approaches to collecting and applying hazard information, and, where councils are currently not using best practice, finding means of accessing and updating such information. There is a role for central government to ensure a consistency of approach to inter and intra-generational equity in bearing the costs of change.

### *Central Government funding source*

It is noteworthy that the draft NAP refers to the \$4.5 billion Climate Energy Response Fund (CERF) suggesting this may be used to fund adaptation initiatives. The fund is sourced from actions designed to mitigate greenhouse gas emissions (GHG). GHG emissions are a direct cause of climate change and its impacts. Mitigation (GHG reduction) and Adaptation (climate risk impact reduction) are different sides of the same coin. This has been recognised in the Climate Change Response (Zero Carbon) Amendment Act which mandates action on both mitigation and adaptation. It is therefore appropriate for the CERF to be a source of funding for climate change. The public are not convinced the Government is investing enough in climate adaptation. The same survey referred to earlier that was undertaken for ICNZ shows only 23% of people believe the Government is investing enough to protect people and property from extreme weather events.<sup>9</sup>

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<sup>9</sup> Ibid.

It is noteworthy that in the United Kingdom, which also produces NAPs, its government has a £2.6 billion six-year capital investment programme to reduce flood and coastal erosion risk, which is estimated to provide over £30 billion in economic benefits, almost a 15-fold return.<sup>10</sup> New Zealand needs a new national funding model for flood protection as it is acknowledged that current funding arrangements for flood protection infrastructure are not sustainable.<sup>11</sup>

Flexibility in funding adaptation must be part of the government's thinking. Other ways of financing adaptation, which may be more appropriate for funding major projects, are the issuance of 'green investment' bonds. Thus far, the Government has only considered their application to initiatives for GHG emission reduction. These bonds need to be applied to climate adaptation too. A broader role for the Government's green investment bank, New Zealand Green Investment Finance, beyond emissions reduction should also be considered, noting it invests on commercial terms and this can take many forms from debt to equity.

#### *Insurance a part of the solution*

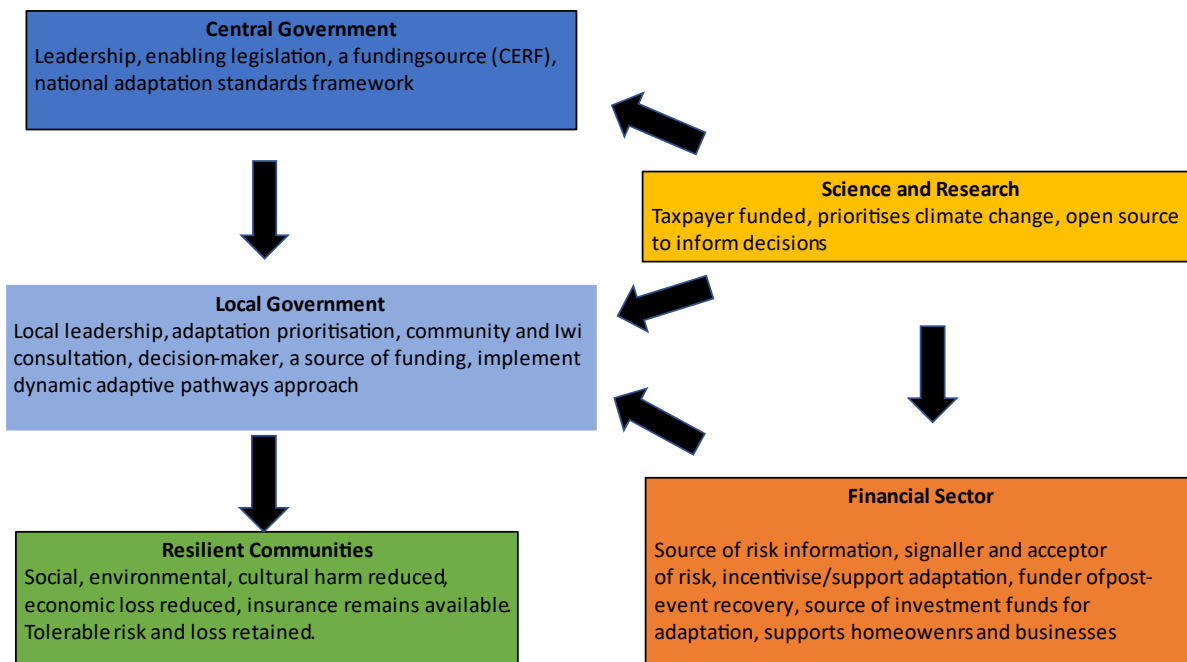
Insurance should be seen as a part of the solution to climate change adaptation. It signals risk, contributes towards community resilience and the financing of post-event recovery, informs customers about risk and how to reduce it. Often, this may require area-wide resilience solutions. Insurers can model expected losses from climate change with the potential to inform adaptation decisions. Insurers are not just underwriters of risk but along with banks they are a major source of investment that could be used to fund adaptation where a commercial return on investment applies.

While many actors will be involved in contributing to the complex response to climate change adaptation, the diagram below captures some of the principal ones and the roles they play.

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<sup>10</sup> The National Adaptation Programme and Third Strategy for Climate Change Adaptation Reporting, Department of Environment Food and Rural Affairs, July 2018, p 44.

<sup>11</sup> Cabinet Economic development Committee minutes on Improving Resilience to Flood Risk and Supporting the COVID-19 Recovery, p 6,



It is noteworthy that in 2020 the New Zealand Government declared a Climate Emergency existed. Much of the focus thus far to address the emergency has been on GHG emissions reductions leaving adaptation to climate change relatively neglected. ICNZ supports ambitious measures to reduce the risks of climate change, but the draft NAP falls short of this ambition.

### *Flood Re type Insurance Scheme*

The NAP shows little has been done to articulate the problem that needs addressing with respect to the proposal for an expensive Flood Re type insurance intervention scheme. Private insurance for flood losses is available and affordable throughout the country. ICNZ's regular surveys show 96-98% of homes are insured, demonstrating that New Zealand enjoys one of the highest levels of insurance penetration in the world. There is no failure in the flood insurance market that requires an intervention.

To have a narrow focus on residential insurance is to be blinkered to other consequences. A holistic lens would identify that homeowners will also be business owners and when businesses fail due to climate impacts homeowners will leave. The NAP gives no thought to the role businesses may play to adaptation solutions nor how infrastructure owners may contribute to adaptation measures.

We must think more broadly about the uninsurable risks and wider consequences for communities impacted by flooding. Adaptation needs to address far more than damage to a home.

Inevitably, affordability has and always will be an issue for those on the lowest incomes. To devise interventions that suppress the desirable risk signal insurance sends in order to maintain the affordability of insurance without reducing the underlying risks will only create a worse situation. The higher the risk, the less desirable such an approach would be as it will encourage people to remain in harm's way and minimise incentives to reduce risks. As these areas will be less desirable locations to live, it will lead to more vulnerable people living in them as property values fall.

If the intent is to ensure everyone under all circumstances has affordable insurance, then a Flood Re type scheme would be a grossly disproportionate response. A more appropriate approach would be to monitor affordability and availability of insurance and look to the range of existing policy options such as means-tested and targeted assistance as appropriate. It is important to reflect on the fact that insurance and affordability are driven by more than one peril or risk rating factor. It would be better to work with the insurance sector to develop appropriate and proportionate responses while enabling insurance to signal risk and help drive priorities for adaptation.

As flooding is New Zealand's most common natural hazard, there should in any event be a national funding programme for flood protection linked to catchment-wide risk reduction initiatives.

### **Managed Retreat**

Managed Retreat is a key focus of ICNZ's submission because it has been singled out for special consultation under the umbrella of the draft NAP consultation and as it examines the inter-play between flood insurance and managed retreat. It will also be used to inform initial stages of policy development for the Climate Change Adaptation Act (CCAT) which the draft NAP says will be introduced before the end of 2023. The NAP states that Natural and Built Environment and Strategic Planning Acts will enable climate change responses, but under the current draft of the Natural and Built Environment Bill there is no primacy given to climate adaptation among the list of potentially competing factors consenting authorities must consider when making consent decisions. Indeed, the absence of a strategy that identifies roles and responsibilities for adapting to climate change or even deciding who should drive the work has left a vacuum that is being filled by a singular focus on managed retreat. What is needed is a clear strategy under an ACTA framework. If the necessary and prior work were done on the adaptation strategy, then the approach to the highly complex issues around managed retreat would be easier.

Where future intolerable risks are identified climate adaptation must be given primacy over other considerations. It should not be assumed though that managed retreat is necessary

for a large section of the population. There may well be ways of accommodating the range of risks and this may be necessary where retreat is not feasible.

### *Role of insurance seems misunderstood*

ICNZ supports the CCAT on the basis that it will legally enable consenting authorities to take more proactive action to reduce climate change risks and provide certainty about how that can be funded. Managed retreat is one option among many others to manage climate risks though in some instances it will be an essential one of last resort. ICNZ is concerned though that the way in which the NAP addresses managed retreat seems to suggest that the availability or affordability of insurance would be a trigger for retreat, despite the fact that insurance premiums do not reflect long-term future costs. Insurance modelling though can help inform what future costs may look like to inform, for instance, investment in risk reduction measures. As noted earlier, the triggers for retreat must include consideration of loss of social wellbeing, environmental and cultural harm as well as economic loss, not all of which is insurable. Retreat should also be thought of as pre-emptive, so it is not enacted at the point when intolerable, disaster strikes. While the affordability and availability of insurance is important, adaptation planning should be designed to avoid that from occurring. Risk reduction measures support the affordability and availability of insurance and the benefits it brings. Transferring risk to insurance does not reduce risk.

### *The problem is poorly defined*

The draft NAP defines the problem of managed retreat poorly by simply describing the number and value of properties that may be at risk from climate change. There is no clarity on the nature and scale of intolerable risk. Intolerable risks needs to be defined as it would assist identifying where and when retreat may be required if it is feasible to do so. The problem needs much a clearer definition and further consideration of other options that may accommodate where retreat is not feasible. It also needs to call out that these impacts will come sooner based on the most recent research on seismic subsidence and should reflect the best available science and research.

### *The problem is getting worse.*

The NAP needs to state that current planning practices are not preventing and, in some instances, even encourage development in high-risk areas. It needs to describe the uncertainty of climate change over the decades ahead and demand a more sophisticated assessment of future risks.

It should state that the cost of addressing these risks is very large and explain that there is no established way of funding or allocating the costs of adapting to climate change. It

should concede that climate change adaptation is not given sufficient primacy in addressing future development, that the challenges will prove too much for local government to manage on its own. In short, current institutional arrangements and planning processes are incapable of addressing the problem.

It should be noted that flooding is not exclusively a coastal problem. Sea-level rise will exacerbate coastal flooding, but locations such as Franz Josef which lie a long way from the coast are highly vulnerable to flood. It has been suggested that the number of houses exposed to inland flooding is many times the number currently at risk from sea-level rise and flooding.<sup>12</sup>

Finally, the problem needs to admit that many New Zealanders continue to house themselves by choice in areas of increasingly high risk. There is therefore a fundamental societal disconnect between the risk and the reality of consumer behaviour today.

The NAP gives no consideration to communicating to New Zealanders with a view to changing societal views about these risks. Failure to change may encourage greater dependency on central and local government assistance in the future. This should be avoided, and a clear line drawn so New Zealanders understand that there will be no assistance if development occurs in higher risk areas.

### *Managed retreat*

ICNZ supports the way managed retreat is described as an approach to reduce or eliminate exposure to intolerable climate risk and its application to structures, activities, and places of cultural significance.

Managed retreat is complex, raising a wide range of contentious issues ranging from private property rights to compensation to social and cultural dislocation, intergenerational equity issues and is dependent on comprehensive and long-term planning, and that list is far from exhaustive. For these reasons, it will require proactive, co-ordinated, and holistic solutions with strong leadership to bring this about. While retreat will appropriately occur locally, there cannot be dozens if not hundreds of different outcomes which will manifest variable levels of equitable treatment. The Government must bring leadership to the table working with local government and private stakeholders, including insurers, to develop a national framework for approaching retreat. This framework needs to set out clear roles and responsibilities for all involved and determine funding sources to meet the costs. As far as possible, bi-partisan political agreement should be sought to maintain consistency and ensure the durability of the approach over time.

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<sup>12</sup> Researcher Belinda Storey as quoted in <https://www.newsroom.co.nz/greater-disclosure-of-climate-risks-on-way-for-home-buyers>

We note that the Government has stepped in to provide leadership around managed retreat in the past. The red zoning of many homes in Christchurch after the 2010 and 2011 Canterbury Earthquake Sequence (CES), the establishment of a Canterbury Earthquake Recovery Authority (CERA) with special powers and recovery funding occurred after a major disaster. We do not see this as a template for managed retreat, which ideally ought to be focused on pre-emptive action, but reference it as a precedent for response to a very large issue though one that was much smaller scale than climate change presents.

The draft NAP says that the Natural and Built Environments Act (NBA) and Strategic Planning Act (SPA) will help enable long-term, proactive planning for managed retreat. The Climate Adaptation Act (CAA), which is more than a year away from introduction to Parliament, is intended to provide tools and processes to plan and implement managed retreats. We acknowledge this suite of legislation has the potential to be pivotal to enabling managed retreat and indeed wider adaptation measures, there is no overall binding vision for them that clearly addresses the nature or scale of climate change impacts. The primacy of climate change adaptation is not spelled out. The NBA does refer to using a precautionary approach under certain circumstances, such as, to prevent irreversible harm to the environment by acting rather than awaiting absolute scientific certainty. This falls well short of what is required. It is critical that a DAPP approach is mandated and integrated into legal obligations under planning processes where intolerable risks are identified. This will enable a long view to be taken to managed retreat, ensure that it is well planned and co-ordinated and recognises that retreat may take two to three decades or more to implement. It also enables progressive adaptation pathways to be deployed which may buy more time before retreat occurs if that is the end point. Such an approach has implications for the other two Acts that will replace the RMA. For instance, the SPA should inform the long view taken by the NBA while the CAA will enable consenting authorities to address land right and land acquisition issues. Unless the NAP articulates how these three Acts will support the control and avoidance of risk over the long-term in this way, the legislation will not achieve what is required.

ICNZ notes that managed retreat will be considered alongside other options in the NAP designed to build resilience in situ. If this is the case, then it is critical that these other options are linked to a DAPP approach and acknowledge that in some areas, over time, all adaptation options other than retreat may be exhausted. Also, other measures in situ should avoid encouraging further development in high-risk areas to avoid increasing the risks and making future solutions even more challenging.



### *Objectives and principles of legislation*

The NAP focuses on the objectives and principles of an Act and funding that would enable managed retreat. It is silent on the principles and objectives that might guide managed retreat.

ICNZ views the objectives of managed retreat legislation in the NAP as a list of things that the law should do rather than a set of objectives. We recommend that the purpose of managed retreat is clearly articulated and propose that the purpose is:

‘To manage the gradual process of moving people and property from the intolerable risks of climate change where it is feasible to do so.’

We have noted the need to define intolerable risk and that it needs to embrace the broad range of social, cultural, environmental and economic risks, not all of which are insurable. Unless the term is defined, then it will be left to political choice, and this is unlikely to lead to broadly consistent outcomes for New Zealanders.

This wording makes it clear that managed retreat is not something that is triggered only after a catastrophic event but envisages that it should be seen as a gradual pre-emptive process and a last resort. This would accommodate a DAPP approach as various adaptations are deployed to buy time to manage the retreat. These adaptations are designed to keep social, cultural, economic, and environmental loss to within tolerable levels, but foresee a time when retreat will need to occur. These actions support the ongoing availability of insurance up until and through the actual process of retreat.

If the legislation is conceived in this way, then the current list of objectives needs to include specific reference to enabling the application of a DAPP approach. While we support the list of objectives in the NAP, it is not clear what will guide the setting of rules and responsibilities or whether these will be set by central or local government. The NAP must clarify these points.

We are also concerned that the objectives are not clear that where a managed retreat process is progressively occurring that further development does not take place within that area. To allow further development will only add to the number of people and properties exposed to the risk and magnify potential losses. An objective should be to prohibit further development in a managed retreat area.

We recommend that the NAP is clear about what it means by “efficient’ in the first objective. Is this economic/cost efficiency, timeliness, or something else? We also suggest inclusion of the term ‘proactive’ in the first objective.

We agree that beneath the purpose and objectives should sit principles. We believe some important principles to managing retreat are missing.

Importantly and consistent with the purpose, we recommend inclusion of a principle to protect human wellbeing.

Also, consistent with the purpose, we recommend a principle that conveys the sense of urgency and forward planning that is required so adaptation starts now and progressively until retreat occurs as a last resort. This means a principle of proactive action is required.

There are many actors who will be affected by a managed retreat process who will need to be involved and others who will need to provide input to the process to make it happen. This means a principle of co-ordinated action is needed.

The process itself will create benefits for some and losses for others and there will be challenges around who bears the costs today and in the future. So, we believe the principle of equity or fairness should be singled out on its own. Currently, fairness sits in a principle alongside efficiency and transparency, both laudable principles, but the most efficient approach may not always be the most suitable equitable approach.

Reflecting on the principles in the NAP, we propose a further amendment. We agree that all things being equal, nature-based adaptation solutions should be prioritised, but the way this principle is worded could mean that such solutions override other options that may be more appropriate. We recommend the principle reflects this.

Any managed retreat process should have the best information available at the time to inform decisions. Indeed, a DAPP approach will mean fresh information is available to determine triggers to a change in a current pathway. For these reasons, we believe the principle of applying the best available scientific evidence about future climate impacts should be included too.

### *Objectives and principles of funding*

Reflecting on the objectives, ICNZ has identified areas for improvement.

We support the sentiment in the first objective to reduce hardship due to the impacts of climate change. We question whether ‘hardship’ is the appropriate term and suggested it

be replaced by 'harm', a term that suggests a broader application. Harm occurs due to the exposure of a community to a hazard while hardship may only arise for some progressively over time. If hardship were to be a trigger for action, then its application will become more problematic and potentially focus on an individual's circumstances rather than the community as a whole.

As this submission has stated, the ACTA framework for risk management casts a far wider net than the role of that of banks and insurers. There are roles for central and local government as well as property owners in managing risk. A holistic and collaborative approach to adaptation is required to align all actors to meet the challenges leading over time to the endpoint of the managed retreat process. We recommend the fourth objective deletes the words 'banks and insurers' to make it clear that risk management is not their sole responsibility. It also implies that it is not possible to look at funding retreat in the absence of funding adaptation – risk management in this context is a continuum of actions where the endpoint is managed retreat.

Reflecting on the principles of funding, we identify tensions between principles and wonder whether they are regarded as a hierarchy in the way they are listed. It is of concern that limiting the Crown's fiscal exposure tops the list as it could be interpreted, consistent with the general tone of the NAP, that the Crown's contribution to funding will take the least possible route. We consider limiting society's liability to climate change risks would be more appropriate. As currently worded, when this principle is juxtaposed against the last principle which talks to sharing risks and responsibilities across many actors, it raises questions about how costs will be shared. It would not be appropriate for the Crown to position itself as a funder of last resort given the scale of the issues that confronts all New Zealand and the efficacy of engaging with these proactively. That is not to say there should not be transparent and meaningful triggers for Crown funding. There should be.

ICNZ supports the principle that the beneficiaries of risk mitigation should contribute to costs. It begs a question though how those costs will be borne, for example, will means testing be considered in terms of those contributions and to what extent will future generations contribute as they will benefit most?

ICNZ supports the principles of fairness and equity for and between communities and across generations. This principle is more easily expressed than implemented in a way that makes optimum economic sense when spreading costs across generations.

ICNZ support the principle of providing as much advance notice as possible. Acting early and applying a DAPP approach will better achieve minimising costs than simply providing advance notice.

We recommend additional principles. Climate adaptation requires a long view to be taken and a progressive approach that may result in managed retreat. Given retreat may materialise earlier for some communities than others and cause greater harm, funding needs to be prioritised. The principle of prioritising funding to reduce the most harm should be considered as an addition to the list.

The importance of drawing on best available science about climate change impacts is missing from the principles. Funding should be informed by best available science.

Finally, we recommend a principle of least regrets to inform funding decisions which should support the prioritisation of funds.

### *Managed retreat process*

ICNZ stresses the need for pre-emptive managed retreat to be regarded as an endpoint of a continuum of risk management measures applied under a DAPP process. We outline challenges associated with post-event retreat that need to be addressed in the insurance section below.

ICNZ agrees that legislation should enable councils to exercise restrictions on activities in areas where managed retreat is ultimately planned. This needs to explicitly prohibit new building development in these areas.

ICNZ agrees that all sectors will need to work together to address these issues in order to achieve a holistic, collaborative response. This strongly suggests establishing a forum at a national level to develop an over-arching approach to implementing the final NAP, but also for local broad stakeholder involvement will be needed to address community-based challenges.

### *Roles and responsibilities*

ICNZ agrees that greater clarity is needed on the roles and responsibilities, particularly with respect to central and local government around climate adaptation. As noted, earlier, ICNZ sees central government's role to extend beyond enabling legislation to include roles in funding and setting standards to achieve general consistency of outcomes around the country.

ICNZ strongly supports the view that a managed retreat system does not create financial or economic incentives that would stop individuals from taking action to reduce their risks. Indeed, this should apply to a community as a whole and not just individuals. One of the

key benefits of having a mandatory DAPP approach would be to ensure that risk reduction measures are undertaken before leading ultimately to managed retreat.

As noted, evidence of mitigation action helps support the affordability and availability of insurance. This adds to the incentives for individuals and communities to undertake risk reduction measures.

Two aspects of the managed retreat process that perhaps need more emphasis is the need to ensure communities understand the risks they face and the DAPP process. This communication is critical. Insurers can play a part in communicating this to their customers, but community-wide messaging will also be essential. Similarly, banks also need to understand the process to provide confidence about the terms and conditions of their loans which support strong local economies.

### *Property transfer*

Land transfer to enable retreat to occur will create many of the issues canvassed in the NAP. ICNZ notes that the red zoning of land in Christchurch led to similar sets of issues and potentially lessons can be drawn from that experience.

The NAP refers to structures being left on site. This may include houses that cannot be safely removed because the integrity of their structure is such that relocation may be inappropriate. It should be noted that unless the property is physically damaged by an insurable event, an insurance policy would not respond in these circumstances.

ICNZ notes the special issue that arises for Māori and the Crown with respect to the use of land and Te Tiriti o Waitangi obligations.

The NAP asks what circumstances should trigger the need to move. ICNZ's view is that the DAPP process informed by the best available science will provide an indicative timeframe for when other adaptation measures will be exhausted. This should mean that planning starts now for that eventuality, for instance, by preserving appropriate land for future relocation and by starting to build funds to support relocation. So, triggers should not be thought of as occurring at the point of crisis, but ought to be pre-emptive and well planned.

The NAP asks how much involvement renters have vis-à-vis property owners. All residents of a community should be involved in consultation processes about adaptation measures including managed retreat. As noted, climate impacts are far broader than damage to homes and affect all members of a community to varying degrees. However, a property owner has a special interest with respect to relocation of their property, its value and the related benefits to value that accrue through adaptation including managed retreat.

The NAP asks whether different treatment should apply to those who bought property before a risk was identified from those who bought afterwards. ICNZ does not support the consenting of further development in areas that will require managed retreat. If that is not addressed, then we would not support providing support to those who build in these areas. To do so would create a moral hazard for local and central government which is a key reason new development should be prohibited.

Those that purchase an existing property within an area that is ultimately zoned for managed retreat do not add to the risk exposure. And as long as appropriate adaptation actions are being taken, all things being equal, insurance will continue to be available. There may though be a timeframe, for illustration, if managed retreat is planned to occur within five years that those who wish to leave earlier are supported in doing so effectively starting the process earlier.

The NAP asks under what circumstances should the Government provide more or less intervention. ICNZ regards scale and cost of impact as well as the ability for local communities to fund adaptation responses including managed retreat to be among the critical considerations for intervention. ICNZ does not support intervention into the insurance market unless there is market failure. Market failure occurs when the risks have been allowed to increase to the point where flooding is expected so frequently that insurance is not offered or if it is offered, is unaffordable for a community to take out.<sup>13</sup> For coastal properties, this will play out over many years because damage to a home will remain unexpected, but where regular inundation occurs insurers are likely to decline new applications for insurance in a given area and impose higher excesses for existing customers. Ultimately, insurers, will decline all new insurance applications and all cover for loss of damage arising from sea water inundation/flood. Where properties are repeatedly damaged insurers may decline all new renewals. To avoid this scenario playing out, a process of continual adaptation supports insurance remaining in place up to and during the process of retreat which ought to occur before disaster forces the issue.

The NAP asks how land with historical or cultural significance be treated. ICNZ notes that insurers do not insure land, so there is no role for insurance to play in this regard. However, we acknowledge the impact of climate change may be more pronounced for Māori/Iwi. Of New Zealand's 800 marae, 80% are in low lying coastal areas and flood plains. A tāngata whenua (people of the land) and kaitiaki (guardians) of their ancestral and cultural landscape Māori will be disproportionately affected.

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We would envisage a DAPP process being applied to these areas, but ultimately if retreat is essential little can be done to move the land itself. We understand some marae are already planning retreat.

### *Implications for Māori*

The NAP says Māori have unique social, economic, and cultural circumstances with strong ties to the land. Māori are expected to be disproportionately affected by climate due to the remote location and the economic status of many communities. ICNZ agrees with this and supports these factors being incorporated into decisions that trigger adaptation measures and managed retreat. We note that Tē Tiriti o Waitangi places obligations on the Crown and local government to address these matters.

### *Roles of insurance*

The draft NAP raises the role of insurance with respect to managed retreat. As noted earlier, ICNZ sees insurance remaining available and affordable contingent on the appropriate decisions being made within the ACTA framework. Specifically, we support the DAPP approach where actions that are undertaken to manage risks are consistent with the ongoing availability of insurance. ICNZ sees insurers continuing to support their customers through the process of retreat to new, lower risk locations and thereafter subject to normal underwriting criteria.

The NAP is right to point out significant differences between pre-emptive and post-event retreat. Currently, from an insurance perspective pre-emptive retreat is more straight forward provided it is well planned for, understood, and appropriately funded.

Post-event retreat options are problematic. Following an event, insurers are pressed with the urgency of meeting their commitments to their customers to repair or cash settle their losses as soon as possible. Customers are likely to be housed in temporary accommodation which, while funded by their insurer under their policy, has a finite limit (typically, up to about six months).

Thereafter customers would need to meet their own costs. So, customers face additional costs if they are not rehoused within that time and also have a very strong desire to return to their homes. This means all the complexities of retreat must be addressed with haste and likely not in timeframes that would avoid further loss to residents.

In very few flood events will homes be damaged to the point of total loss. This means that if a decision is made to retreat, insurance can only pay a partial contribution to the cost of moving.

There is a further complication with post-event response situations. Insurance is there to restore loss and not provide betterment. Betterment creates moral hazard. So, following an event, insurance in combination with existing use rights for property owners will repair the property in situ. The property remains as vulnerable as it was before the event, so resilience is not improved.

### **Economy and Financial System**

ICNZ is disappointed that this section of the NAP frames insurance as a looming problem because of the risk that assets are becoming less insurable and because the potential value of assets at risk from climate change is large. In isolation of any action to reduce climate risk, this would be a problem in years to come. Today insurance is readily available and affordable for all perils around the country. Insurance is playing a valuable role protecting society and should be regarded as bringing solutions to the impacts posed by climate change. However, as stated repeatedly, insurance is only part of the ACTA risk management framework. By playing one of many roles as a signaller of risk it helps inform actions to control and avoid risk which if carried out supports the availability of insurance and its ongoing benefits.

The narrow view of risk management in this section is reflected on page 88, where the NAP states that a resilient financial system underpins economic stability and growth. Participants can identify, disclose, and manage climate risks (objective EF2). This means financial entities can identify, disclose, and manage the risks and insurance access and affordability is understood and well managed. The very point of an adaptation plan is to manage risk as we propose under an ACTA framework. That should be the core focus of the plan and by doing that it will most effectively support financial stability. To focus narrowly on insurance affordability and availability is to be blind to the wider issues this submission speaks to. It puts the cart of risk transfer before the horse of risk reduction. The time is now to act on risk reduction when insurance remains readily available and affordable.

The NAP states work is underway to better understand the scale and timing of insurance market changes due to improved information about risks supporting more granular risk-based pricing by insurers, and due to the increasing frequency and severity of flooding events being exacerbated by climate change. This work includes exploring options to support access and affordability of insurance for floods. The NAP says home insurance supports New Zealand's resilience to extreme weather events, such as floods, and helps manage climate change risks. The Government intends to develop options to ensure home flood insurance continues to play an appropriate role in supporting community resilience.

As ICNZ has noted we support maintaining the affordability and availability of insurance, but this will only occur if there is a proactive focus on controlling, avoiding, and accepting some



level of residual risk in the face of climate change. Significant, adverse consequences arise if the ACTA framework is focused solely on ensuring the transfer of risk remains affordable. Transfer of risk does not reduce risk and nor does it address the many other adverse consequences of climate change which are not insurable. If insurance is not priced to reflect risk, it will be unsustainable and will only encourage people and property to locate in high-risk areas with little incentive to reduce risk. As the adverse consequences increase, these areas will become less desirable locations to live. The consequence will be devaluation of property values and an increase in more economically vulnerable people living in these higher risk areas. Subsidising insurance costs will also encourage more people to live in these areas. Pursuit of this approach will place a greater moral burden and costs on future governments and generations as risks increase to intolerable levels and people demand that they be supported to retreat. These consequences should be avoided.

As noted, insurance remains readily available and affordable to homeowners providing cover for all insurable hazards. There is no evident problem that requires a major intervention in the insurance market with respect to flood insurance. Where governments elsewhere have supported special flood schemes it has arisen where insurance is not affordable or available. That is not the situation here.

ICNZ understands the exploration of interventions in the flood insurance market are being contemplated to pre-empt the possibility of insurance not being affordable or available. Even with the most extreme climate change scenarios, we do not anticipate this being a material issue for some years to come. This means there is time to take proactive action to reduce the impacts of climate change and so support the availability and affordability of insurance. We strongly recommend that the NAP avoids steps that include reducing incentives and masking market signals that could otherwise promote actions to reduce underlying flood risk. It is desirable and beneficial for insurance to signal increasing risk from climate impacts. Should premiums increase in the absence of risk reduction measures, and this leads to a decline in insurance uptake, then this should be carefully monitored to gauge whether a material affordability issue is emerging. That may mean that if insurance is deemed an essential purchase, then an assessment needs to be made at that time about what is the most appropriate policy response. A traditional response taken by governments has been to target support on a means-tested basis. However, if insurance signals the risks are too high, it makes little sense to provide ongoing support to subsidise insurance cover because it certainly means that other non-insurable risks are intolerable.

It is worth noting that insurers in New Zealand have not spun on a dime and made insurance unavailable due to climate change impacts. There are many examples where insurance has remained in place for residents in Matatā, in Edgecumbe and more recently in Westport. These are examples of how insurers take a longer and pragmatic view to support their existing customers.

Reference to the Flood Re scheme in the United Kingdom is of limited relevance to New Zealand's situation today. Flood Re was an initiative of the private insurance market arising from the unavailability of insurance in parts of the UK because insufficient investment had been made in flood risk reduction. It has a limited lifespan till 2039 when governments are expected to have invested sufficiently in risk reduction measures to return to normal insurance market conditions. New Zealand has the opportunity to avoid costly flood schemes that are not needed now and has time to develop a comprehensive adaptation plan to prioritise risk reduction.

It is noteworthy that in Australia actuarial firm Finity Consulting<sup>14</sup> has calculated the benefits of a five-year A\$2b investment programme commencing in 2022, with A\$200 million annual investment by the Australian Government and matching contributions from states and territories. As well as saving lives and reducing physical and mental injuries, this program is expected to reduce financial, health and social costs to the Australian Government and Australian households by at least \$19 billion by 2050 – almost a 10-fold return on investment. This speaks to the poor choice a flood insurance intervention would be against the benefits of investment in adaptation.

Also, in a mirror reflection of the situation in New Zealand, the Insurance Council of Australia has released a report *Flooding and Future Risks* which identifies that:

- current land use planning settings and associated building controls do not eliminate flood risk to modern properties
- the current building code does not consider building resilience to flood risk.
- there are key data gaps that prevent insurers and homeowners from building an accurate picture of flood risk, particularly in a changing climate.

These are the types of issues a comprehensive NAP should address and not significant costly and disruptive interventions in the flood insurance market when no market failure exists.

The NAP needs to make it very clear that maintaining the availability of insurance is dependent on the need to avoid and control risk. ICNZ is working constructively with The Treasury who are taking a lead on flood insurance issues.

We respond here to some specific questions in this section:

*44. In the context of other risk management options (e.g., flood barriers, retreat from high-risk areas), what role should insurance have as a response to flood risk? Please explain your answer.*

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<sup>14</sup> Reaping the Rewards of Resilience, Finity Consulting report for the Insurance Council of Australia, May 2022.

Insurance should price risk, inform customers about risk, inform decision-makers to inform cost-benefit assessments of adaptation options and support customers when they suffer losses. Insurance accepts the transfer of risk, and the ACTA framework supports the affordability and availability of insurance.

We respond to the following questions, noting that ICNZ is engaged in detailed consultation with The Treasury on these matters that are more comprehensive than the high-level approach taken in the following questions.

*45. Should the Government have a role in supporting flood insurance as climate change risks cause private insurance retreat?*

*Yes*

*No*

*Unsure*

*Please explain your answer.*

No. Flood insurance remains readily available and is expected to continue for the life of this NAP. Government efforts should target risk reduction measures and permit insurance to continue its vital role for society.

*a. Does your answer to the above question depend on the circumstances? (For example, who the owner is (e.g., low income), the nature and characteristics of the asset (e.g., residential or commercial property, contents and vehicles), what other risk management options are available and their cost/benefit, and where the asset is located?) Please explain your answer.*

No. This answer depends entirely on the urgent need for the Government to focus on a comprehensive risk reduction plan as this submission has argued.

*46. If you think the Government should have a role in supporting flood insurance as climate change risks cause private insurance retreat, how do you envision the Government's role, and how is this best achieved (e.g., direct support and/or indirect support such as reducing underlying flood risk)?*

If the Government were to have a role it would be essential for it to focus on reducing flood risk. ICNZ does not believe the Government should be contemplating such intervention at this time. As the focus of such intervention is solely focused on residential property, it begs the question whether policymakers believe retreat from the commercial property market is acceptable and what the implication of that may be.

*47. If the Government were to directly support flood insurance:*

*a. what is the best way to provide this direct support?*

If support is considered, it should be means-tested and targeted to those who cannot afford insurance in the specific areas of concern.

*50. should the Government's focus be to support availability or affordability of insurance, or both?*

It should focus on affordability where that is established.

*50. how should the costs of that support be funded, and by whom?* Direct support should be from taxpayers in much the same way as direct assistance is provide to beneficiaries.

*d. what are the benefits and downsides of this approach?*

A means-tested approach ensures that the Government is directing funding to those who most need it to address an affordability problem to the extent it exists. It avoids costly insurance market intervention when it is not needed and will incentivise it to invest in risk reduction to lower liabilities arising from this type of support.

*e. should this support be temporary or permanent?*

Support should always be temporary and aligned to risk reduction measures designed to ensure insurance remains affordable and appropriate climate change adaptation in broader terms.

*f. if temporary, what additional measures, if any, do you think would be needed to eventually withdraw this support (e.g., undertaking wider flood protection work)?*

Risk reduction measures are needed in any event and should always be associated with any support schemes.

*g. what would the risks or benefits be of also including non-residential property, such as commercial property?*

It would increase risks to the Crown's balance sheet and levels of dependency would rise exponentially. It would raise expectations that the business sector should also receive assistance for earthquake and other risk.

*h. what design features or complementary policies are needed so any flood insurance intervention retains incentives for sound flood-risk management (e.g., discouraging development in high-risk locations)?*

This question risks being misleading. Regardless of any flood insurance, the Government should focus on sound risk management.

*48. How effective do you think the insurance “price signal” (e.g., higher premiums or loss of insurance) is for providing incentives to reduce flood risk?*

Currently, the price signal is muted not just because of the one year ahead signal of risk of annual premiums, but also because house premiums include government levies and provide for all perils cover. The flood component of the premium is not transparent. However, that is not to say that much can be done by insurers among others to inform customers and communities about risks well beyond the next 12 months. The huge public response to the recently released research into land subsidence around New Zealand and sea-level rise speaks volumes about other tools that can be used to signal risk many years ahead. Consistent national flood mapping is needed in New Zealand and will likely generate similarly high levels of public interest.

*49. In your view, should a scheme similar to Flood Re in New Zealand be used to address current and future access and affordability issues for flood insurance? Why or why not?*

No for the reasons given in this submission.

*50. How do you think a scheme similar to Flood Re in New Zealand could support or hinder climate change adaptation initiatives in New Zealand?*

Climate adaptation measures are needed regardless of whether there is a Flood Re type scheme. There is no dependency on having a scheme to act now to mitigate the wide-ranging impacts of climate change that go beyond insured property loss. There is a very real risk that such a scheme will hinder climate change adaptation if people are supported and encouraged to remain in increasingly risky areas. A significant moral hazard will be created. The public will expect government subsidisation of insurance for all hazards including sea-level rise which of itself is not insurable.

## **Homes, Buildings and places – the Built Environment**

This section of the NAP states it seeks to reduce exposure to climate hazards and supporting businesses and communities to understand and respond to climate risks. It also seeks to

improve homes and buildings, so they can withstand the expected range of temperatures, rainfall and wind.

ICNZ supports these objectives though it finds the NAP could be more ambitious. It is noteworthy that there is no reference to flooding, New Zealand's most common natural hazard, but only to temperature, rainfall and wind impacts. Building codes and standards should prioritise resilience as a principle underpinning the design standards for flood. Additional research and development of products that can show a true reduction in risk to homes in flood zones is also required, whilst aiming to reduce the overall cost of flood-resistant construction and retrofit solutions. This approach is being advocated for in Australia following the worst floods in living memory this year. It should be incorporated into the critical action designed to address building property resilience – indeed flooding should be a primary consideration across all critical actions and future work programmes where properties are located in flood zone areas and close to the coast. The absence of the word flood in this section is palpable and suggests limited reflection on the key climate change risks.

ICNZ also notes that this section makes no reference to managed retreat. A joined up and comprehensive adaptation response would reference the need for the future built environment to avoid the need for managed retreat.

Other initiatives ICNZ sees that could be undertaken in the built environment area to improve resilience to climate change include:

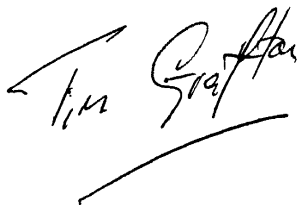
- developing a simple resilience rating standard for all homes to reflect their vulnerability to key climate risks like flooding.
- developing an open-source portal that the public can access to assess their vulnerability to key climate risks like flooding.
- promote consumer and business confidence in measures to reduce the impact of flooding on buildings, and on those who live and work in them.
- increase the uptake of sustainable drainage systems (e.g., permeable surface, ponds, storage tanks) especially in new developments.
- improve the resilience of properties at risk of flooding and the time it takes them to recover should flooding occur (e.g., installing flood gates or air brick covers or more substantial works such as fitting a pump, having solid floors or raising electrics in buildings).
- management of flood plains to provide temporary flood storage areas for rivers and the sea at times of high flow or tide, minimising the risk elsewhere.

Some of the above are approaches being undertaken in the UK.<sup>15</sup>The rating standard, open-source portal, and associated measures to encourage resilience are likely to be more accessible and understandable than requiring more information to be provided in LIMs. We also recommend more public advice be available to inform the public about the measures they can take to reduce the risks to themselves and their property for those in higher risk areas such as flood plains. This should be accompanied by greater investment in the availability of barriers to protect properties from low level flooding and early warning systems deployed across mobile devices.

## **Conclusion**

Thank you again for the opportunity to submit on the draft National Adaptation Plan including managed retreat. If you have any questions, please contact me on [tim@icnz.org.nz](mailto:tim@icnz.org.nz) or by phoning 027-270-9084.

Yours sincerely,

A handwritten signature in black ink that reads "Tim Grafton". The signature is written in a cursive style with a long horizontal stroke underneath.

**Tim Grafton**  
Chief Executive

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<sup>15</sup> Ibid, p 44-46.