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ICNZ SUBMISSION ON THE DRAFT CONTENT OF THE TREASURY'S LONG-TERM INSIGHTS BRIEFING – SUSTAINABLE AND RESILIENT FISCAL POLICY THROUGH ECONOMIC SHOCKS AND CYCLES

Thank you for the opportunity to provide a submission to the Treasury's consultation on the draft content of the Long-term Insights Briefing – Sustainable and resilient fiscal policy through economic shocks and cycles.

Te Kāhui Inihua o Aotearoa | The Insurance Council of New Zealand (**ICNZ**) represents general insurers. Our members accept the risks of over NZ$2 trillion of New Zealand's assets and liabilities. ICNZ's members provide insurance products ranging from those usually purchased by individuals (such as home and contents insurance, travel insurance, and motor vehicle insurance) to those purchased by small businesses and larger organisations (such as product and public liability insurance, professional indemnity insurance, cyber insurance, commercial property insurance, and directors and officers insurance).

ICNZ's has the core priorities of:

- Keeping insurance accessible and available
- Working collaboratively with stakeholders to minimise the protection gap by investing in reliance to natural hazard risks
- Ensuring regulation is cost effective and co-ordinated

We deliver on these by:

- Facilitating industry involvement in the Climate Adaptation Framework
- Convening sandbox sessions with government to develop initiatives that reduce the costs of events
- Enabling the exchange and use of meaningful data between the industry and key stakeholders
- Building our intelligence capability to help anticipate future industry risks and opportunities

- Increasing engagement with Local Councils to support smarter land-use planning decisions
- Delivering communications that empower consumers by educating them on risk, premiums and impact mitigation.
- Advocating for the establishment of fair warning system
- Impactful regulatory engagement

The Treasury's Briefing explores if, when and how fiscal policy can be used to buffer society from shocks and cycles and how to do so in a sustainable way.

We agree with the position set out in the Briefing that New Zealand faces ongoing risks from seismic hazards and increasing risks from weather-related hazards due to climate change. New Zealand is particularly vulnerable to natural hazard risks. Over the last 20 years, New Zealand is estimated to have spent more than 4% of GDP per year recovering from natural disasters.

Insurance has an important role to play in helping households and businesses recover from such events and in mitigating the economic disruption of these shocks on the wider economy and the overall cost to the Crown.

The Auckland Anniversary Weekend floods and Cyclone Gabrielle in early 2023 were the most devastating severe weather events ever recorded in New Zealand. The two events caused widespread damage over a large part of the North Island to homes, businesses, and critical infrastructure such as transport, telecommunications and electricity networks. The Treasury estimated the cost of these events to the New Zealand economy at between $9 billion and $14.5 billion. The number of claims handled by insurance companies was nearly three times larger than that of the Kaikōura earthquake, New Zealand's second largest insured loss event prior to 2023. The two events resulted in more than 118,000 private insurance claims with a total value of around $3.8 billion. This included $1.8 billion in house claims, $267 million in contents claims, $215 million in motor claims and $1.5 billion in business claims.

The Briefing's focus is on planning for the Government's potential fiscal response following crises such as natural hazard events. However, there are important opportunities for Government to develop policy prior to such events occurring to protect people and properties from such events.

Prevention is better than cure. As noted in the Briefing, high-quality investment in infrastructure should improve long-run economic growth prospects and could be used to improve New Zealand's resilience to future shocks and cycles such as those associated with climate change.

It is ICNZ's view that taking proactive steps to adapt now makes economic sense. It is generally far cheaper than recovery and rebuilding after a catastrophic event. The Global Commission on Adaptation found that every $1 invested in adaptation results in between $2 and $10 of net economic benefits. An NZIER assessment of the cost-benefit of flood protection infrastructure investment confirms a benefit-cost-ratio of 2-4 in the New Zealand context.[1] The future costs to the economy are likely to be far greater by delaying adaptation.

The insurance industry supports a broad political consensus that delivers a clear, co-ordinated and enduring climate change framework that ensures New Zealand avoids building in dumb places and that we invest in infrastructure to protect communities.

[1] https://www.gw.govt.nz/document/22612/nzeir-economic-assessment-of-climate-resilience-flood-risk-mitigation/

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

We also encourage the Government to consider a lead agency on climate adaptation to support this approach and bring together central government, councils, the private sector and communities to effectively mitigate risks and ensure sustainable adaptation measures.

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

By investing in solutions to mitigate and adapt to the changing climate and reduce risk, the Government can safeguard New Zealanders, reduce the costs to taxpayers and ratepayers, and help ensure New Zealand remains a well-insured country. Insurance can help households and businesses to deal with natural hazards events lessening the need for, or the cost of, any fiscal response from the Crown.

The Reserve Bank of New Zealand's recent general insurance industry stress test, which considered the impacts of a very severe seismic scenario, underlined the important role private insurance and reinsurance plays in responding to such an event and highlighted the potential costs to government to fund a rebuilding effort after a major seismic event. A sustainable and resilient private insurance market must be maintained for New Zealanders to support their recovery and to mitigate the potential future costs to the Crown.

As noted in the Briefing, in New Zealand there is high take-up of property insurance to cover for many hazards and risks. Given the insurance sector's important role in enhancing the community's resilience and to absorb shocks, it is critical that the Government's regulation of the insurance sector is proportionate so that New Zealand remains an attractive place for insurers to do business, competition is encouraged and insurance remains affordable and accessible.

Finally, we note that in assessing the appropriateness of various fiscal responses to shocks, the Treasury should consider the impact of private insurance pay-outs on the economy. The effect of these may depend on the size of the event. Following an extreme natural hazards event rebuilding may not always be a viable option for an affected community, i.e. insurance payouts may not be spent in the local community. Extreme events may also result in large population movements both within New Zealand and to other countries.

Ngā mihi,

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