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ICNZ SUBMISSION ON THE SECOND EMISSIONS REDUCTION PLAN

Thank you for the opportunity to submit on the Second Emissions Reduction Plan.

Te Kāhui Inihua o Aotearoa / The Insurance Council of New Zealand is the representative organisation for general insurance companies in New Zealand. ICNZ 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, and directors and officers insurance).

In this submission we provide general feedback from a General Insurance industry perspective on the second emissions reduction plan as well as considerations that relate to insurance products. We then make limited comment on parts of the plan (by sector) that have an intersection with insurance. We leave it to other more closely connected stakeholders to respond to the more specific and detailed aspects of this consultation.

OVERARCHING COMMENTS

ICNZ and its members are committed to supporting New Zealand in its approach to climate change and the path to net-zero by 2050. The insurance industry experiences the impacts of climate change firsthand through the increased frequency and severity of climate-driven natural disasters and coastal inundation caused by sea level rise. We are, today, coping with the results of greenhouse gas emissions from decades ago. Reducing emissions is therefore a critical part of managing the risks of the future and will reduce the level of adaptation required to protect New Zealand.

We note that there is a narrow margin for error in meeting the second emissions budget but recognise the importance of remaining on track to meet longer-term targets. We acknowledge the investment required to keep New Zealand within the emissions budget, such as more electric vehicles (EVs) and EV chargers, better public transport, increasing renewable energy, and other innovations. This investment balances against the future economic impacts of failing to reduce emissions globally – the higher cost of adaptation to reduce risk and the cycle of recovering from climate-related natural disasters. For this reason, insurers support honouring New Zealand's commitments under the Paris Agreement to do our part in reducing global emissions.

This balance of climate change mitigation and adaptation crucial to how New Zealand approaches the problem of climate change. The challenges on both sides are considerable, and wherever possible, our

actions should aim to achieve both goals: reducing emissions while improving resilience. This will create efficiencies and costs savings and better enable solutions at scale.

TRANSPORT SECTOR

Transport plays a significant role in reducing New Zealand's emissions. Insurers recognise the role they play in the transport sector. In line with new requirements for entities to disclose climate-related risks and opportunities, insurers have expanded their measurement of emissions from their own organisations to that of their suppliers as well. Several ICNZ members are currently piloting software that allows their contracted collision repairers to easily measure and report their emissions resulting from insurance-funded collisions repairs. This produces data that the sector and its suppliers can use to make informed decisions about how to reduce emissions throughout their supply chains in the future. While this effort is limited to collision repairers now, in future, insurers will look to expand the capability to other suppliers, such as home repairers.

The increase in the number of EVs is a factor in achieving New Zealand's emissions targets over the short and long term. The insurance market for EVs is growing in New Zealand as it is globally, but there are known near-term challenges[1]. As the number of EVs in New Zealand increases, insurers note that EVs are substantially more expensive than their internal combustion counterparts. And, while EVs are generally known to have lower cost of ownership over their lifetime from a maintenance perspective, they are more expensive to repair after a collision. While the trend is heading in the right direction, EV batteries remain difficult to repair and costly to replace[2]. Overseas, insurers have encountered significant challenges that hinder EV repairability: an absence of standardised repair procedures, costly battery and electrical components, scarcity of authorised parts, and limited visibility into original equipment manufacturer (OEM) battery data[3]. The lack of repairability and increased claims costs may contribute to higher insurance premiums as insurers will need to meet higher claim costs for repair and replacement as well as higher sums insured reflecting asset values. Some OEMs, such as General Motors, Nissan, and Ford have implemented strategies to mitigate repairs costs. These include offering third-party access to battery data, streamlining battery designs, introducing simplified repair methods, providing repair kids to authorised collision repairers, and offering training for technicians[4]. Here in New Zealand, the insurance industry supports the importation of vehicles from manufacturers that design vehicles with repairability in mind.

Beyond the increased cost of repair or replacement, insurers also note that EVs represent an increased fire risk. Relative to internal combustion counterparts, EVs with lithium-ion batteries, if they catch on fire,

[1] Swiss Re Institute. Insuring Electric Vehicles: a growing opportunity but with near-term challenges 2024. https://www.swissre.com/institute/research/sigma-research/Economic-Insights/insuring-electric-vehicles.html

[2] Interest.co.nz. Production costs to drop at the expense of pricier repairs: analysts Gartner map out EV manufacturing trends 2024. https://www.interest.co.nz/technology/126746/production-costs-drop-expense-pricier-repairs-analysts-gartner-map-out-ev

[3] Frost & Sullivan. Electric Vehicle Insurance Market in North America and Europe Looks to Overcome Rising Repair Costs and Increased Write-Offs 2024. https://www.frost.com/growth-opportunity-news/electric-vehicle-insurance-market/

[4] Frost & Sullivan. Electric Vehicle Insurance Market in North America and Europe Looks to Overcome Rising Repair Costs and Increased Write-Offs 2024. https://www.frost.com/growth-opportunity-news/electric-vehicle-insurance-market/

are at risk of a process known as a 'thermal runaway,' which is difficult to contain [5]. This can impact EVs while in transit (impacting insurance cover for cargo), while operating, and while parked or connected to a power source. This increased risk may also be reflected in insurance premiums.

Insurance premiums are an important consideration in the cost of ownership of a vehicle. The increased cost pressure from higher insurance premiums relative to those for internal combustion engine counterparts may affect EV uptake.

FORESTRY

Insurers are supportive of a net-based approach including the use nature-based solutions. The emissions reductions plan points out that forestry can capture and store carbon in an affordable and scalable way. From a resilience perspective, the insurance industry encourages, at minimum, a balanced approach to afforestation that acknowledges the trade-offs of exotic monocultures compared to the restoration of native forests.

Relative to indigenous reforestation, exotic monocultures can result in increased erosion and soil loss – especially after the trees have been harvested. After Cyclone Gabrielle, it was found that standing exotic forests were less effective than indigenous forests in controlling erosion during the intense rainfall brought by the cyclone[6]. Cyclone Gabrielle also highlighted the fact that forestry slash and soil lost during flooding can increase the damage to crucial infrastructure like drinking and wastewater facilities,[7] and soil deposited on land after such flood events can contain contaminants[8]. From an insurance perspective, contaminated floodwater can result in homes being uninhabitable, greater scope of insurance reinstatement, and more disruption to those impacted.

For the reasons above, insurers also support carbon sequestration through resilient non-forest measures, such as wetland restoration and coastal vegetation management. Nature-based solutions such as these serve a dual purpose of carbon-capture and can increase New Zealand's resilience. In addition to being high carbon-density ecosystems, wetlands are a critical part of ecosystem-based adaptation practices designed to build community resilience and reduce disaster risk. Wetlands also play acritical role in retaining water on the landscape, maintaining local climate and water cycles and reducing temperature extremes[9]. Coastal vegetation is among the range coastal adaptation options available to New Zealand and the importance of natural defences is recognised in the New Zealand Coastal Policy Statement. Saltmarshes, mangroves, and seagrass meadows not only capture carbon, but can mitigate coastal hazards such as flooding, erosion, and wave impacts[10].

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[5]Stuff. How worried should I be about EV fires? 2023 https://www.stuff.co.nz/motoring/131659626/how-worried-should-i-be-about-ev-fires

[6]McMillan A, Dymond J, Jolly B, et al. Rapid assessment of land damage – Cyclone Gabrielle. Wellington, NZ: Manaaki Whenua - Landcare Research, 2023.

[7] Laing D. *Hawke's Bay Today* 2023 16 March 2023. https://www.nzherald.co.nz/hawkes-bay-today/news/wastewater-still-a-battle-for-napier-city-council/J63Y63T3PFCDVL5ROUXNMZOI7U

[8] Hawke's Bay Today. Cyclone Gabrielle: Health warning issued over dust, floodwaters. *Hawke's Bay Today* 2023 21 February 2023. https://www.nzherald.co.nz/hawkes-bay-today/news/cyclone-gabrielle-health-warning-issued-over-dust-floodwaters/AWKTYXVWCJDWVLY5WPGSEZ3PDY/.

[9] Ramsar Convention on Wetlands. Wetland Restoration for Climate Change Resilience 2018. https://www.ramsar.org/sites/default/files/documents/library/bn10_restoration_climate_change_e.pdf

[10] New Zealand Coastal Society. Coastal Adaptation: Adapting to coastal change and hazard risk in Aotearoa New Zealand 2022. https://www.coastalsociety.org.nz/assets/Uploads/files/SP5-Coastal-Adaptation-Complete-reading-version.pdf

Lastly, insurers would encourage the forestry sector to adequately mange fire risk where forest blocks boarder the built environment. Along with increased risk of extreme weather events, flooding, and sea level rise, climate change is projected to increase drought intensity. Longer and more intense hot, dry periods will increase fire risk that could impact life and safety and the built environment. Further, loss of forests to fire results in release of the carbon they were planted to sequester.

In summary, the insurance industry recognises the need to reduce our emissions and stay on track to meet our targets. However, we consider it vital that our mitigation efforts align with the need to be resilient and adapt to the physical risks of climate change. The balance between mitigation and adaptation can provide synergies and cost efficiencies where some measures achieve both goals.

Thank you again for the opportunity to submit on the second emissions reduction plan. If you have any questions or require further information, please contact Sean (sean@icnz.org.nz).

Yours Sincerely

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