

IAG Comment

Report of the Minister for the Environment's Resource Management Act 1991
Principles Technical Advisory Group

17 August 2012

Introduction

This document is IAG New Zealand Limited's ('IAG') response to the Resource Management Act 1991 Principles Technical Advisory Group's ('TAG') recently released report '*Report of the Minister for the Environment's Resource Management Act 1991 Principles Technical Advisory Group*' ('Report').

Although no requests for feedback have been solicited, we believe that the matters raised are of such critical importance that we must provide our response all the same.

Our comments are limited to the TAG recommendations in relation to Natural Hazards, which IAG broadly support. Yet we believe more must be done to ensure New Zealand takes adequate steps to manage the risk posed to its built environment from its geography and climate.

We would be happy to discuss with the Ministry any of the points we raise.

Note: For consistency of understanding, the following terms are used in this document.

- *Likelihood*: the chance of a natural hazard occurring
- *Consequence*: the impact of a natural hazard occurring
- *Expected Loss*: the combined likelihood and consequence of a specific natural hazard event.
- *Level of Risk*: the combined likelihoods and consequences of all possible natural hazard events

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About IAG New Zealand Limited

IAG New Zealand Limited (IAG NZ) trades under the NZI, State and AMI insurance brands and underwrites general insurance for some of the country's leading financial institutions (including ASB, BNZ and PSIS). IAG NZ is New Zealand's largest general insurer, with a 42% share of the general insurance market, managing 3.8 million policies of 1.5 million New Zealanders. IAG NZ is a wholly owned subsidiary of Insurance Australia Group (IAG), Australasia's largest general insurer.

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Overall Comments

IAG supports the TAG's recommendations in relation to natural hazards.

New Zealand has a volatile geography and climate and must take proper account of the dangers they pose when placing our homes and businesses in the landscape. Getting these decisions right is a matter of economic and social importance, not just for households and businesses, but for communities and the nation as a whole - as Christchurch amply demonstrates.

IAG believes the TAG recommendations will rightly elevate natural hazards into the broad consideration applied to planning decisions and consents, support more coherent management of natural hazard risks, and provide stronger grounds for declining land-use proposals that are subject to excessive natural hazard risk.

The recommendations, if enacted, will trigger consideration of factors that - while perhaps matters of practice, are vital to sound natural hazard risk management. This includes: quality data on natural hazard risks; an integrated view of all risk-types; improved interpretation of risks; clear statements of risk appetite; and the need for periodic review.

These topics fall outside the scope of the review. However as the TAG acknowledges, waiting for practice to change is not good enough. IAG believes the government must give more direction on these matters. Our comments are grounded in this space

Positioning Our Comments

IAG is in the business of insuring New Zealand's businesses and households against the risks arising from Natural Hazards. Our focus in considering the TAG's recommendations therefore, rests squarely on the extent to which they may lead to a lessening of our built environment's vulnerability to natural disasters.

This is essential as New Zealand is a geographically young country, prone to natural disaster and exposed to climate change. There is a wide range of natural hazards that can imperil our built environment, which land-use and a changing climate exacerbate.

Moreover, as our population grows and our living patterns change, more built environment comes into harms way; increasing the impact on individuals, households, communities and our economy when disasters strike.

If we don't manage this growing risk well and the *level of risk* from natural hazards is seen to increase, the willingness of insurers and reinsurers to take on these risks will reduce; leading to natural hazards becoming uninsurable or the cover for them unaffordable as. Unchecked, the reduction or loss of insurance cover would have an unacceptable impact on economic health.

This is because insurance is not just about helping with the economic recovery of a region following a disaster – it also encourages economic development and growth before disaster strikes.

With insurance, banks can lend, businesses can take risks, budgeting for growth and development without the fear of large and unexpected costs arising. Individuals can have the confidence to purchase assets. People can understand

where risk resides and recover more quickly from the financial impact of unexpected damage or loss. By doing this insurance reduces the call on the public purse and helps make economic growth more stable.

For insurers to do this, Government must provide a sound regulatory framework that ensures natural hazard risks (amongst others) are effectively managed. This is why these recommendations are so important.

Yet the RMA is only one of the many pieces of legislation that governs the management of natural hazard risk. So while of critical importance, these recommendations are only part of the solution. Other legislative and practice changes are needed.

Response to the Recommendations

In our experience there are four critical elements that must exist for the TAG recommendations to have their intended effect: a consolidated view of natural hazard risks backed by quality natural hazard risk data, sound interpretation and a clear risk appetite, and a recognition that natural hazard risks are dynamic.

These will sit at the heart of the thinking Regional, District, City and Unitary Councils ('Councils') will need to do as a result of these proposals. We welcome this, but recommend that more is done to facilitate practice change required.

Natural Hazard Risk Data

Giving due weight to natural hazards requires sound data on the *likelihoods* and *consequences* of the associated risks. Without it Councils can not make good decisions about how land is used or what can and can't be afforded to mitigate the impact of natural hazard risks.

Sadly, experience and anecdote suggests that this data is not all that it should be. For example, when IAG sought flood data from Regional Councils, the availability and quality of information varied greatly, indeed one Council had no flood modelling.

Gathering this data is not without challenge or cost, but its value can be enormous. Christchurch is illustrative here, for although there are still issues to resolve, the currency and quality of geotechnical and hydrological data available can allow it to become New Zealand's most insurable community.

Obtaining this data is perhaps first and foremost about bringing research into Councils and sharing it amongst teams and specialists. To ensure plans are aligned, Councils must co-ordinate on gathering data where there are shared risks. To support this there must be a common set of standards for risk data. Current guidance on this is poor. IAG understands that the Ministry for the Environment is working in this space and strongly encourages it.

Councils should make their risk information available to organisations that work in the broader risk management space; emergency services; civil defence; insurers; EQC, network utility and life line providers. To allow this, Councils should be exempt from the constraints of any information sharing legislation. Importantly this should be a two way flow.

Further, Councils should be able to make this information freely available to the public with out fear of litigation, so that individuals businesses and households can make informed property decisions.

Consolidated View of Natural Hazards

Councils must ensure that all natural hazards are considered and their natural hazard risk reduction activity is coordinated. To that end we support the need for relevant policies and plans to have reference to Civil Defence and Emergency Management plans.

However there are many functions and disciplines within Councils that need to align to ensure a holistic view of hazards and associated risks. For example a consolidated view of storms should inform storm water management, river management, civil defence, planning and consenting. Similarly, storms can not be seen in isolation of flood and wind or indeed any other natural hazard risk present in a location. IAG is not confident that this level of consolidation and co-ordination is the norm across New Zealand. Consideration must be given to how this can be achieved.

We support the aim of having a regional view of disasters, but this must not limit co-ordination across regions where we expect natural hazard risks to materialise.

Interpretation and Risk Appetite

How risk is interpreted by Councils and what level-of-risk is deemed acceptable is critical. This is not achieved by a simple benchmark return period. While this provides an easy proxy, Councils must look at both *likelihoods* and *consequences* to understand the *level of risk* that must be planned for.

There are two reasons for this. First, the location of an event will have a significant impact on its *consequences* due to differences in its climate, physical make-up and the built environment it holds.

Second, as the return period increases (becomes less likely), the intensity increases as do the *consequences*. Understanding the relationship between *likelihood* and *consequences* in a location is critical. For example, the difference between a 1:100 and 1:200 year flood event could result in very different *expected losses*. Flood waters could remain below floor level or be halfway-up the lounge wall.

Therefore to inform their natural hazard risk management activity Councils must understand the *level-of-risk* that exists and critically, the *level-of-risk* they can accept. Put simply, how much loss and disruption can a community withstand in a given period? What is the maximum acceptable loss; their appetite for risk.

This is not about erring on the side of caution or seeking to avoid risk. New Zealand can not afford do that. Rather, in making planning and risk reduction decisions sound risk data must be used to inform and then balance the *level-of-risk* and acceptable loss with the cost of intervention. This will vary within and across regions and may mean that it makes more social and economic sense for a Council to use the 1:200 year flood (as above) as the benchmark in its planning and prevention activity.

To this end IAG supports the development of a NPS or NES for natural hazards to provide guidance to Councils on this. IAG also supports the definition of Natural Hazards, but believes a more informed and nuanced approach is needed in setting risk appetite than the continued use of return period.

IAG is also uncomfortable with the proposed use of the word 'significant' in s.6. The requirement should be to "manage the risks associated with natural hazards" and then let the data and appetite inform what risks should and should not be managed. The same is true for the use of 'significant' in s.106.

Review

Risks are not static. The likelihood of some is changing and impact is increasing as our built environment grows and become more heavily populated and invested with technology. This naturally means the benchmarks Councils will need to change, as will their decisions. Further, decisions made last decade may not be the same we would make today. Council must not employ a 'set and forget' mentality in relation to planning decisions or the existing built environment. Legislation should ensure this.