



IAG SUBMISSION

Resource Legislation Amendment Bill 2015

14 March 2016

1. INTRODUCTION

- 1.1 This submission is a response by IAG New Zealand Group (IAG) to the Resource Legislation Amendment Bill 2015 (the Bill).
- 1.2 IAG is New Zealand's leading general insurer. We provide more than a million insurance policies a year and protect almost \$450 billion of commercial and domestic assets across New Zealand. Our business is focussed on helping make the world a safer place, and we are committed to making sure that New Zealanders have the ability to protect themselves and their assets through easily accessible and affordable insurance.
- 1.3 Our submission focuses on the proposed amendments in relation to natural hazards, including the proposed changes to section 6 and section 106 of the Resource Management Act (the Act).
- 1.4 We welcome the opportunity to discuss our submission with the committee.
- 1.5 IAG's contacts for this submission are:

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About IAG New Zealand

IAG New Zealand is made up of IAG New Zealand Limited trading under the NZI and State brands, Lumley General Insurance (NZ) Limited and AMI Insurance limited. IAG New Zealand Limited also underwrites general insurance for ASB, BNZ and The Cooperative Bank and Lumley General Insurance (NZ) Limited underwrites general insurance for Westpac. IAG New Zealand Limited, Lumley General Insurance (NZ) Limited and AMI Insurance limited have a combined 42% share of the general insurance market, managing 3.8 million policies of 1.5 million New Zealanders. IAG New Zealand Limited, Lumley General Insurance (NZ) Limited and AMI Insurance limited are wholly owned subsidiaries of Insurance Australia Group (IAG), Australasia's largest general insurer.

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2. NATURAL HAZARDS ARE A STRATEGIC RISK

- 2.1 New Zealand sits just below the ‘roaring forties’ and atop the collision zone of two major tectonic plates, exposing New Zealand to forces that continue to shape our dramatic and beautiful landscapes.
- 2.2 Each year we are jolted by over 150 felt earthquakes, battered by numerous storms and tornadoes, inundated by floods, see our coastlines erode and hills slip, and are exposed to eruptions and tsunamis. These hazards are exacerbated by climate change, and the development of our natural and built environments amplifies their impacts and consequences.
- 2.3 While some of these hazards may be rare, the risk is ever present and the potential impacts can be extraordinarily large. This is why natural hazards are recognised as a national security risk.¹ For example, an eruption in the Auckland volcanic field is considered one of the risks with the most catastrophic potential, and could easily surpass the impact of the devastating Christchurch earthquakes.
- 2.4 It is not just the large and catastrophic we need to think about. The smaller events New Zealand experiences every year generate significant economic and social costs (see Table 1). The average annual cost from natural disasters has been estimated at \$1.6b over the long term.² Research by Deloitte shows that the total costs of natural disasters is at least 5 times the insured losses.³

Table 1: Costs of Recent Natural Hazards

Event	Costs (\$m)		
	Insured	Insured + Economic	Insured + Economic + Social
North Island flooding and storm (June 2015)	41.5	135.8	203.7
Otago flooding and storm (June 2015)	28.2	92.3	138.4
North Island storm (May 2015)	21.9	71.7	107.5
Northland - Coromandel storms (July 2014)	18.8	61.5	92.3
North and South Island storms (June 2014)	37.6	123.1	184.6
Storm and floods (April 2014)	55.3	181.0	271.5
North and South Island storms (March 2014)	22.5	73.6	110.5
Nationwide storm (September 2013)	74.5	243.8	365.7
Cook Strait earthquakes (July-August 2013)	31.1	101.8	152.7
Nationwide storms (June 2013)	39.3	128.6	192.9
Nelson/BOP storm and floods (April 2013)	46.2	151.2	226.8

Source: IAG Analysis

¹ *New Zealand's National Security System*, Department of the Prime Minister and Cabinet, May 2011

² *Lloyds Global Underinsurance Report*, Cebr, August 2012

³ *Building our nation's resilience to natural disasters and The economic cost of the social impact of natural disasters* by Deloitte Access Economics for the Australian Business Roundtable for Disaster Risk Reduction and Safer communities

- 2.5 Consequently **IAG supports the inclusion of natural hazards in the list of matters of national importance (clause 5)**. This amendment appropriately reflects the reality that natural hazards *are* a matter of national importance and should be taken into account when considering the development of our natural resources.
- 2.6 Given the scale of these costs and the impacts on communities they represent, it is essential that natural hazard risks are appropriately managed. New Zealand’s formal commitment to the Sendai Framework for Disaster Risk Reduction signals a clear intention to do this. The Deloitte research also shows the value of investing in risk reduction, citing case studies with paybacks ranging from 3:1 up to 15:1.
- 2.7 New Zealand’s ‘Four R’s’ approach to emergency and disaster management is a critical element in meeting this commitment. It places responsibility for the management of natural hazard risk within the remit of Local and Regional Government via the objectives, policies and rules they establish under the Act.
- 2.8 Consequently **IAG supports allowing refusal of subdivision consent where there is a significant risk from natural hazards (clause 133(1)), and the increased range of natural hazards that can be considered as conditions of sub-division consents (clause 141)**. These amendments appropriately enable Territorial Authorities to execute their responsibilities under the Act.

3. A QUESTION OF APPETITE

- 3.1 New Zealand must continue to develop and make best use of its natural resources if it is to prosper. However, we must be careful to do this in a sustainable way. This means ensuring that households and businesses are not unreasonably exposed to the impacts of natural hazards.
- 3.2 Natural hazard risk is created and shaped by the normal functioning of the development process; meaning development and risk are intrinsically linked. It is inevitable that development will lead to homes, businesses and infrastructure being in harm’s way, and with it the lives, wealth and wellbeing of New Zealanders.
- 3.3 The aim must be to ensure that any increase in expected loss from natural hazard risk created over the lifetime of a development is less than the value it creates. The key question is therefore ‘how much risk is it reasonable to create through individual developments and, more importantly, in aggregate within a given location?’ Getting this right is essential because the outcome must be informed risk accumulation.
- 3.4 IAG contends that the starting point must be a clear statement of New Zealand’s ability and desire to accept (or not accept) the losses - human, economic, social and cultural – that can be expected to arise from natural hazards. Without this, New Zealand and its Territorial Authorities do not have a clear or consistent basis on which to develop a strategy for sustainable development and the objectives, policies and rules that will best achieve it.

- 3.5 Underpinning this must be a robust, detailed and ever-improving understanding of the nature, likelihoods and consequences of the risks faced. This requires more than the traditional and simplistic approach of viewing risk as a single likelihood impact point for a single hazard. Under that scenario, anything above that point implies the risk is ‘acceptable’ (even though it may not be) or somehow disappears (even though it doesn’t). This traditional approach risks both under- and over-stating the policy response required for the true risk present in a location.
- 3.6 Instead, Territorial Authorities must understand the ‘curve’ that connects the likelihood-consequence points for a particular hazard in order to inform their policy and find the most appropriate threshold at which to trigger rules. They must acknowledge that the ‘curve’ is not the same in each location, as geography, along with other elements of the built and natural environment influence how hazards of different scale play out.
- 3.7 Taking this into account **IAG therefore considers that the guidance within clause 133 falls short of what is needed to make informed subdivision consent decisions.**
- 3.8 The term ‘significant’ in 133(1) is undefined and risks inconsistent treatment of hazards and application of the amended section. We note that natural hazards are targeted for greater national direction⁴ and suggest this is necessary for an amended s.106 to work effectively. Consequently **IAG urges the immediate development of national direction for the management of significant natural hazards.**
- 3.9 In addition, clause 133(2) implies that only one impact point on the likelihood scale needs to be considered in assessing natural hazard risk. **IAG recommends that clause 133(2) be amended to ensure that more than one likelihood and consequence combination is considered in undertaking an assessment of natural hazard risk.**
- 3.10 IAG would like to see risk assessment, risk thresholds and policy responses included in national guidance on natural hazard risk. We would welcome the opportunity share our thinking on this and to be involved in its creation.

4. THE IMPACT OF POOR RISK DECISIONS ON INSURABILITY

- 4.1 Insurers are typically willing and able to offer insurance cover for natural hazard risks where they can be certain to meet their commitments to policyholders and generate an adequate return to investors over the medium-to-long term.
- 4.2 The extent and price of this insurance cover depends on the frequency and scale of the natural hazards present and the resulting size of the financial losses. As the frequency and size of the losses increase for individual properties or in aggregate, insurers will look to manage their exposure (and protect their policyholders and investors) in one of two ways:

⁴ *A way forward for National Direction*, Ministry for the Environment, August 2015

- by increasing premiums to deal with the escalating scale and volatility of expected losses; and or
 - by reducing the level of cover provided through increased excesses, reduced policy benefits, or ultimately the total removal of cover where the expected losses become unacceptable.
- 4.3 These actions signal to property owners, central and local government, and communities the nature and scale of the natural hazard risks to which they are exposed. It allows them to factor this information into their decision making in relation to their property and or development regimes.
- 4.4 These actions also have consequences for home and business owners (and the economic and social wellbeing of their communities) as their ability to afford increased insurance premiums reduces and/or they are required to take on a greater proportion of potential losses through reduced cover.
- 4.5 New Zealand's high exposure to natural hazards requires good risk management to ensure that insurance for natural disasters remains available and affordable. The legislation, objectives, policies and rules that govern the development of the natural environment are central to this. We do not believe that the impact of natural hazards can be internalised or that the risk posed by natural hazards can be solely left to the private insurance market to resolve.
- 4.6 A regime that delivers well understood and well managed levels of natural hazard risks will help create an environment where insurers (and their re-insurers) are confident to invest their capital and can create insurance cover for natural disasters that is readily available and affordable. Ultimately, this will help create an environment where household, business and communities can be safe and prosper.