

Submission

to the

Environment Committee Komiti Whiriwhiri Take Taiao

on its

Inquiry into climate adaptation

1 November 2023



About NZBA

1. The New Zealand Banking Association – Te Rangapū Pēke (**NZBA**) is the voice of the banking industry. We work with our member banks on non-competitive issues to tell the industry's story and develop and promote policy outcomes that deliver for New Zealanders.
2. The following eighteen registered banks in Aotearoa New Zealand are members of NZBA:
 - ANZ Bank New Zealand Limited
 - ASB Bank Limited
 - Bank of China (NZ) Limited
 - Bank of New Zealand
 - China Construction Bank
 - Citibank N.A.
 - The Co-operative Bank Limited
 - Heartland Bank Limited
 - The Hongkong and Shanghai Banking Corporation Limited
 - Industrial and Commercial Bank of China (New Zealand) Limited
 - JPMorgan Chase Bank N.A.
 - KB Kookmin Bank Auckland Branch
 - Kiwibank Limited
 - MUFG Bank Ltd
 - Rabobank New Zealand Limited
 - SBS Bank
 - TSB Bank Limited
 - Westpac New Zealand Limited

Contact details

3. If you would like to discuss any aspect of this submission, please contact:

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Summary

4. NZBA welcomes the opportunity to give feedback to the Environment Committee Komiti Whiriwhiri Take Taiao (**Committee**) on its inquiry into climate adaptation (**Inquiry**). NZBA commends the work that has been carried out by the Ministry for the Environment and the Expert Working Group on Managed Retreat (**EWG**) on this matter.
5. NZBA recognises that climate change poses significant risks and opportunities for our economy and society, and we are committed to playing our part in developing a climate change adaptation regime that is equitable and durable.
6. NZBA also recognises the unique challenges and intricacies posed by the changing climate, not only to the banking sector but to the wider Aotearoa New Zealand community. In this ever-evolving landscape, collaboration, innovation, and proactive decision-making are essential. As the collective voice of the banking sector in New Zealand, we believe that it is imperative for the banking sector to align with both national objectives and the broader global agenda on climate adaptation.
7. We appreciate the Committee's invitation to make a submission to the Inquiry and we are keen to engage constructively with the Committee, the Government, and other stakeholders on this issue, and provide our insights and expertise.
8. Below is a statement of the principles to which NZBA believes any climate adaptation regime should adhere.
9. We then include a detailed submission organised into the following four themes:
 - 9.1. Adaptation funding and cost sharing.
 - 9.2. Community involvement.
 - 9.3. Risk assessment.
 - 9.4. Te Tiriti based adaptation system.



Principles for Climate Adaptation Regime

10. The banking sector's sustainability, its social licence and its long-term commercial success depend on the wellbeing of the communities in which it operates. NZBA submits that any climate adaptation regime should adhere to the following principles:
 - 10.1. **Risk management:** A climate adaptation regime should incentivise prudent risk management by making relevant information available to all market participants. This helps avoid sudden disruptive events, which may lead to risk avoidance in the form of sudden and widespread withdrawal from large areas. As such, the regime should aim to enable better risk assessment and communication and reduce the exposure and vulnerability of properties and assets to climate-related and other natural hazards, avoid creating or exacerbating moral hazard, and encourage prudent risk-taking by all market participants.
 - 10.2. **Certainty and transparency:** A clear pathway forward for affected parties and a transparent process on how decisions are derived reduces the risk of 'surprises', which lead to disruption. Therefore, the regime should provide clear and consistent direction and processes for planned relocation, including criteria for eligibility, timing, compensation and residual debt, and information on the roles and responsibilities of different parties involved in planned relocation. The regime should also provide reliable and accessible information on natural hazard risks and adaptation options.
 - 10.3. **Te Tiriti-based approach:** Te Tiriti o Waitangi supports the interests of Māori and their values like mātauranga Māori, i.e., indigenous knowledge. Consequently, the regime should reflect the partnership with e whenua and ensure that Māori rights and interests are respected and protected. The regime should also support iwi, hapū and Māori to exercise rangatiratanga over their whenua and taonga through a Te Tiriti-based adaptation system, and recognise and accommodate the diversity of Māori perspectives and aspirations for adaptation and planned relocation.
 - 10.4. **Fairness and equity:** Only an equitable system will be durable. Durability is a pre-requisite for success of the system, especially for banks and their customers to make prudent decisions in light of the long-term nature of lending (up to 30 years). The regime should ensure that the costs and benefits of planned relocation are equitably distributed among different parties, including property owners, lenders, insurers, local and central government, and future generations.
 - 10.5. **Avoidance of hardship:** Poverty and deprivation undermine social cohesion and the overall wellbeing of the communities in which banks operate and upon which they rely. Given the scale of the issue, a poorly designed or non-



existent climate adaptation regime will result in widespread financial hardship, which would affect banks in many ways, including their own staff as well as customers. Customers experiencing financial hardship are in a high stress situation and require intensive support from their bank. The regime must therefore ensure that the implementation and outcomes of the adaptation process do not impose undue burdens or cause unnecessary suffering to any individuals or communities involved. This involves proactive planning, equitable policies, robust support mechanisms, continuous assessment, and open feedback channels, all aimed at preventing material hardship and ensuring basic living standards for those who must adapt to climate change. While the banking sector may only have a limited role in addressing the emotional and cultural hardship that will likely result from community-led retreat, it can have a significant role in managing financial hardship.

- 10.6. **Flexibility and adaptability:** The regime should allow for different approaches and solutions to suit different contexts and circumstances, and be able to respond to changing conditions and new information (such as employing dynamic adaptation pathway planning). We acknowledge that this objective must be balanced against the need for clarity and urgency.
- 10.7. **Collaboration and engagement:** The regime should foster innovation, partnership, and collaboration across various levels of government, sectors, and stakeholders, and involve active participation and consultation with affected communities, especially iwi, hapū and Māori. It should also involve the private sector, including banks and the New Zealand Local Government Funding Agency, in the design and implementation of retreat solutions.



Adaptation Funding and Sharing Costs

Summary of submission

- **Allocation of Costs:** NZBA advocates for a comprehensive framework to delineate how climate adaptation costs are allocated among various stakeholders, including individuals, households, businesses, councils, and the Government. NZBA highlights the need for diverse cost-sharing solutions to address existing shortcomings in funding frameworks.
- **Decision-making Principle:** NZBA recommends that funding should be sourced from entities where decision-making or accountability resides. It contends that shared costs should involve contributions from both central and local governments.
- **Banking Sector's Role:** NZBA asserts that the banking sector, while not mandated to allocate public funds, plays a vital role in equitable cost-sharing and financial stability. It particularly emphasises the sector's responsibility to support mortgages.
- **Mortgagors:** NZBA calls attention to the far-reaching implications for mortgagors, particularly concerning secured property, insurance, and access to council services. It recommends an approach where decision-making entities finance related initiatives.
- **Reactive vs Proactive and Precautionary Approaches:** NZBA criticises reactive and fragmented climate adaptation strategies, advocating instead for proactive and precautionary approaches. It warns against the unsustainability of relying solely on insurance as a climate safeguard.
- **Banking Sector's Strategies:** In light of potential insurance withdrawal, NZBA acknowledges that banks may consider proactive retreat from high-risk areas or prepare for significant credit losses. It draws attention to the potential risks to financial stability and the emergence of vulnerable communities.
- **Data Asymmetry Concerns:** Data asymmetry in property purchasing presents challenges and could impact risk management. NZBA urges the Government to provide public access to vital and meaningful climate risk data, reducing data asymmetry in property transactions.
- **Sustainable Solutions:** NZBA supports the potential role of the Reserve Bank of New Zealand (**RBNZ**) in facilitating sustainable solutions, like lending flexibility for customers affected by climate adaptation challenges.
- **Collaboration:** NZBA emphasises the importance of collaboration with governmental entities for risk mitigation and financing climate adaptation efforts. It advocates for substantive governmental funding in diverse avenues such as property retreat and nature-based solutions.



- **Compensation for Commercial Assets:** NZBA submits that any approach to considering different levels of compensation for different properties should fully review any distortions this may create. In particular, NZBA expresses concern about the compensation framework for commercial assets in retreat-designated areas. It calls for coordinated efforts for financial bridging solutions and debt relief measures, particularly as obtaining insurance in such areas may prove challenging.

Discussion

11. NZBA underscores the urgency to delineate how costs for climate adaptation (i.e., actions undertaken to enhance resilience against current and anticipated impacts of natural hazards) are allocated among stakeholders: individuals, households, businesses, councils, and the Government. Existing funding frameworks display shortcomings (eg, insufficient funds, loan-based finance versus grants, lack of equity), prompting the need for diverse cost-sharing solutions.
12. Funding for decisions should ideally be sourced from the entity where the decision-making or accountability is situated. This means both central and local governments should contribute to decisions that involve shared costs. However, as these decisions often involve multiple stakeholders, a direct correlation between funding and decision-making, while preferable, may not always be feasible. Instead, a substantial financial commitment is likely to be accompanied by an expectation of participation in the decision-making process.
13. While the banking sector lacks the mandate to dictate public funds allocation, it has a key role in the Aotearoa New Zealand economy. The dynamics of cost-sharing between public and private sectors will have varying effects on entities, with mortgagors particularly seeking bank support. An in-depth understanding of the implications on secured property, insurance, and council services access is crucial. NZBA strongly supports the principle that decision-making entities should finance associated initiatives. This approach ensures balanced outcomes and enhances system robustness.
14. Reactive and fragmented approaches to climate adaptation and managed retreat by both governmental and financial institutions present notable challenges for the banking sector. A failure to proactively (albeit precautionarily) address these issues will result in having to accept considerable damage to assets, infrastructure, and human life. It also magnifies post-event remediation pressures and costs. NZBA stresses that relying on insurance as the primary safeguard against climate impacts is unsustainable, as historical cases have shown insurance's limited capacity in handling remediation costs.
15. Faced with potential insurance withdrawal, banks are presented with two options:



- 15.1. **Proactive Retreat:** Reassessing or ceasing financial undertakings in high-risk areas. Given that banks, in comparison to local authorities, technical experts, and scientific bodies, might not have the expertise to interpret natural hazard data and accurately determine resulting risks at a necessary granular level, this could lead to crude responses driven by administrative limitations and convenience. This could affect some communities.
- 15.2. **Significant Credit Losses:** Without the benefits of insurance, most borrowers will be unable to fully repair any damages to properties. Properties affected by insurance retreat will fall in value and/or ability to sell. These factors, if unmitigated will affect borrowers' ability to repay bank debt, resulting in credit losses. Given the scale of the issue (estimated by MfE at over \$200 billion in asset values) total credit losses could be sufficiently large to undermine financial stability, potentially passing higher costs to customers in higher risk areas, and/or undermine confidence in New Zealand banks' risk management.
16. In both scenarios, New Zealand risks the emergence of vulnerable, underserved communities in continuously impacted areas. Given the sizeable portion of assets that residential properties represent, stranded assets imply stranded communities. Collaborative efforts between the Government, private sector, and communities are essential to finance adaptation initiatives. NZBA calls for consistent and substantive governmental funding, suggesting avenues like property retreat, home resilience, flood defence, nature-based adaptation solutions, and specific funding for iwi, hapū, and Māori.
17. Protecting primary-ranking mortgagees' rights is one of the critical elements of New Zealand's financial system. Legislation that could be interpreted as limiting lenders' rights to access property-related compensation payments for debt repayment could fundamentally undermine the legal foundation of our banking system and, as an unintended consequence, could affect the confidence of global capital markets in New Zealand's financial system. This could potentially affect broader financial stability, and the economy.
18. There is a need to guide the treatment of residual debt for instances where compensation payments are less than outstanding debt, with the aim to avoid financial hardship. The EWG recommends additional guidance through the Credit Contracts and Consumer Finance Act 2003 (**CCCFA**), supplemented by additional written commitments from the banking sector. NZBA welcomes the opportunity to explore these options further.
19. A further major challenge is data asymmetry, where property purchasers might lack crucial risk information. NZBA submits that meaningful climate data should be made



available, free of charge, to the general public by the Government and supports work underway within Government to improve the provision of this type of data.

20. NZBA supports sustainable solutions assisting affected customers moving forward once retreat is taking place. Residual debts outside the CCCFA are challenging and carry significant risk in terms of 'affordability'. It may be necessary to create mechanisms to enable banks to better accommodate customers displaced through adaptation, for example in funding purchase of alternative property outside of standard lending requirements, or enabling faster hardship support. Depending on available compensation and support, some property owners may be limited to access funding under conventional risk settings. NZBA sees the banking sector's potential in contributing constructively, ensuring customer welfare without compromising financial stability.
21. Banks must ensure their risk management strategies align with climate adaptation challenges. The banking sector can develop products to support and fund adaptation, like green bonds and climate-focused loans, although these are currently not common and technically challenging. Engaging with governmental bodies and communities can greatly support this work.
22. In essence, the banking sector is central in developing solutions addressing adaptation affordability for asset owners, councils, and Māori communities. The complex nature of adaptation finance, which does not produce extra revenue to cover added debt, calls for collective efforts. NZBA recognises that some concerns may be outside the Inquiry's purview.
23. Lastly, we submit that compensation for commercial assets in retreat areas could be determined by the owner's financial capabilities, subject to a cap, and contingent on the owner re-establishing a similar property elsewhere even though this is likely to be challenging for a high number of customers. Additionally, properties occupied by business owners or those under existing leases might complicate the relocation process. Coordination among stakeholders regarding financial bridging solutions and debt relief measures will be essential. It is also assumed these properties would maintain private insurance. However, in retreat-designated areas, securing insurance could be challenging.



Community involvement

Summary of submission

- **Gap in Enduring Systems:** NZBA identifies a critical gap in enduring systems for community-led retreat. This deficiency introduces substantial risks, such as heightened vulnerability to natural hazards, potential insurance retreat, stranded assets, and reputational harm. NZBA advocates for a coordinated strategy to manage these risks by relocating communities and assets from high-risk areas.
- **Retreat Strategy Objectives:** NZBA supports a retreat strategy that places safety, equity, respect for Te Tiriti o Waitangi, and just mechanisms for land ownership and control at its core.
- **Legislative Framework:** NZBA recognises the need for a comprehensive legislative framework for managed retreat, addressing not just social and environmental risks but also financial and fiscal ones. It recommends this framework to prevent ill-conceived arrangements that could destabilise the financial system.
- **Community Involvement:** NZBA stresses the importance of community involvement in climate adaptation decisions. It encourages fostering collaborative and constructive engagement with local experts and affected communities.
- **Collaboration with the Insurance Sector:** NZBA advises that collaborative efforts with the insurance sector may be valuable when effectively dealing with challenges similar to those faced by the banking sector.
- **Banking Sector's Central Role:** NZBA underscores the banking sector's pivotal role in supporting community-led retreat given its significant interests in land, property, and affected communities. It advocates for collaboration with legislative bodies and stakeholders to establish fair oversight.
- **Customer Support:** NZBA recognises the importance of supporting customers during retreat or relocation through a variety of measures, including flexible lending options, bridging finance, and targeted information dissemination.
- **Risk Appetite and Emphasis:** NZBA recognises that banks must recalibrate their risk appetite to confront emerging challenges comprehensively. Furthermore, it emphasises the significance of climate risk to customers, particularly during significant credit events.

Discussion

24. There is a discernible gap in enduring systems for community-led retreat. The absence of a structured system for such retreat can introduce a range of significant risks to the community, the economy, and the banking sector. These include increased exposure to the impacts of natural hazards, potential insurance retreat,



stranded assets, and reputational repercussions. Addressing this requires a coordinated strategy to relocate people, homes, businesses, and other vital assets from affected areas.

25. The strategy ought to enhance safety for people, assure equitable outcomes, respect Te Tiriti o Waitangi, and ensure that any new mechanisms regarding land ownership and control are both efficacious and just. NZBA asserts the need for a legislative framework that governs managed retreat and meets these objectives. We advocate for this because:
 - 25.1. The absence of a robust legislative framework congruent with these objectives presents significant financial, social, environmental, and fiscal risks that need to be addressed.
 - 25.2. Ill-conceived arrangements around compensation use, while perhaps intending to address equity, could inadvertently undermine the stability of our financial system.
26. NZBA strongly believes in community involvement in climate adaptation decisions at every stage. Collaborative and constructive engagement with local experts and affected communities can lead to equitable solutions. Collaborative efforts with the insurance sector, which confronts similar challenges (though of varying magnitudes), would enhance the efficacy of such engagements. NZBA endorses a system that provides for community and stakeholder involvement.
27. Given its substantial interests in land, property, associated assets, and relationships with affected people, the banking sector is poised to play a significant role in supporting community-led retreat. Collaboration with legislative bodies and key stakeholders is crucial to ensuring fair and effective oversight of land ownership and control. Additionally, given its significant financial stake in affected assets and communities, the banking sector is in a prime position to support the establishment of a legislative framework for managed retreat, providing both market stability and clarity for its customers.
28. Supporting customers during times of retreat or relocation is another area where the banking sector should play a role. Proactive measures can include flexible lending options, dissemination of relevant information, providing bridging finance, facilitating mortgage transfers, offering relief for residual debt, and connecting customers with suitable support agencies. As we look towards the medium to long-term future, it is evident that banks will need to recalibrate their risk appetite to ensure that these emerging risks are comprehensively grasped and aptly integrated. Moreover, banks must engage with their customers on climate risk, enabling them to take a proactive stance on risk ownership, especially during significant credit events.



Risk assessment process

Summary of submission

- **Comprehensive Risk Assessment:** NZBA underscores the importance of comprehensive risk assessments as foundational to climate adaptation. It advocates for a balanced approach that combines national directives with local expertise to strengthen local adaptation plans.
- **National Directives:** NZBA recommends the incorporation of national guidance in local adaptation planning. It acknowledges the utility of national modelling in identifying regional vulnerabilities but emphasises the necessity of understanding its limitations to avoid rash decisions that could affect property markets.
- **Banking Sector's Role:** NZBA highlights the banking sector's multi-faceted role, encompassing financial, social, and environmental dimensions. It recommends that the economic aspects, such as the financial viability of public infrastructure and availability of affordable insurance, should form part of risk assessments alongside human wellbeing.
- **Data Challenges:** NZBA identifies the limitations of third-party data sources currently used by banks. It advocates for collaborative initiatives with councils, local experts, and stakeholders to bridge the gap between national and localised data for more robust risk evaluations.
- **Banks' Contributions to Government Bodies:** NZBA suggests that banks can offer valuable insights into the cascading economic impacts of physical climate risks and should therefore be considered relevant stakeholders by governmental entities.
- **Adaptability and Consequences:** NZBA advises that banks must remain adaptable to fluctuating risk thresholds and comprehend the potential repercussions for customers in high-risk areas, including property value decline, escalated insurance costs, and restricted credit access.
- **Unified Data Source:** NZBA emphasises the need for a consolidated, ideally government-backed, source of meaningful climate data for informed decision-making in lending to customers in high-risk areas.
- **Tri-tiered Process:** NZBA endorses a structured, tri-tiered process involving national, regional, and local entities. It supports the inclusion of grievance processes that offer agency to affected parties while avoiding unnecessary delays in adaptation efforts.

Discussion

29. Effective climate adaptation is rooted in comprehensive risk assessment. Strengthening local adaptation plans can be achieved through the implementation of



national directives that offer guidance to councils and other decision-makers. While it is vital to employ a consistent methodology at the national level, flexibility must be preserved for specific sites to reflect the physical conditions, as well as specific social, economic, and cultural contexts.

30. National modelling is instrumental in identifying regional vulnerabilities, thereby directing banks to areas necessitating adaptation. Nevertheless, it is imperative to understand the limitations of such modelling to avoid hasty or ill-informed decisions. Designating regions as high-risk is likely to have immediate ramifications for local property markets, including erosion of value in “earmarked” areas and inability to transact, as well as uplift values in neighbouring areas deemed “safe”. Modelling will need to extend beyond regional designations, be site specific, and allow for mitigation.
31. Decisions on unacceptable risk levels should prioritise human wellbeing, including life and health threats. However, the economic aspects—like public infrastructure's financial viability and affordable insurance availability—should form part of the risk assessment process.
32. Banks currently source national climate risk and natural hazard data from various third parties, including data aggregators. However, the quality of this data, especially its limitations and underlying assumptions, mean that while it is useful to assess risks at a portfolio level, these datasets are generally not suitable to accurately assess risks for individual customers. Notably, banks often resort to purchasing data from third party data providers due to issues accessing data from Crown Research Institutes (such as, onerous contractual terms, high cost, and oppressive limitations on data use). Banks do not routinely use localised data that merges historical events with dynamic modelling. Collaborative initiatives with councils, local experts, and other stakeholders can bridge the quality gap between national and localised data sources, ensuring more robust and transparent risk evaluation.
33. While banks are not positioned to support local government in hazard and climate change risk assessments, they may be able to provide insights into the cascading economic impacts of physical climate risks. As such, their perspectives may be relevant for government entities and decision-makers.
34. Given the mutable nature of risk thresholds, banks must remain flexible in their approach, harnessing reliable data and expertise to discern implications for customers in high-risk areas. Consequences could include diminishing property values, escalated insurance costs, or limited credit access. Compensation schemes, especially those dictated by factors like property age, might elicit contention, potentially resulting in resistance from impacted communities.



35. For customers in high-risk areas, banks face challenges to accurately incorporate these risks in lending decisions. A consolidated, ideally government-endorsed, source of meaningful climate data, supplemented with easy-to-understand information would provide banks with a credible source to refer customers.
36. In principle, NZBA supports a tri-tiered process involving national, regional, and local entities for methodical adaptation and relocation including grievance processes that offer agency to affected parties, without jeopardising or unduly delaying the adaptation process.

Te Tiriti-based Adaptation System

Summary of submission

- **Te Tiriti-Based System:** NZBA advocates for a climate adaptation system that is anchored in Te Tiriti o Waitangi. This includes the acknowledging and upholding Māori rights and interests, as well as the integration of te ao Māori and mātauranga Māori.
- **Crown Collaboration:** NZBA recommends proactive collaboration between the Crown and iwi, hapū, and Māori communities to ensure the safeguarding of Māori rights and interests. The long-term success of the legislative framework hinges on this collaboration, which also serves to fulfil Treaty settlements.
- **Funding Equity:** NZBA calls for the allocation of sufficient resources through an equitable process, enabling iwi, hapū, and Māori communities to engage in the climate adaptation system without disadvantage.
- **Banking Sector's Cultural Responsiveness:** NZBA emphasises that the banking sector must address the cultural implications of climate adaptation in alignment with tikanga. It also recommends legislative oversight for land ownership transitions, particularly in scenarios where the Crown assumes default ownership, to ensure Māori prerogatives in maintaining land ownership are respected.
- **Banking Sector's Role:** NZBA points out that the banking sector is cognisant of the financial ramifications on assets and liabilities in the course of land ownership transitions. It advocates for the sector's active participation in crafting legislative frameworks, especially when existing compensation mechanisms are inadequate.
- **Customer Support:** NZBA supports the development of suitable lending options that are sensitive to the needs and cultural context of Māori communities impacted by climate change.



Discussion

37. NZBA supports a climate change adaptation system anchored in Te Tiriti o Waitangi. The framework should acknowledge and uphold Māori rights and interests, embed te ao Māori and mātauranga Māori, and allocate sufficient resources to enable iwi, hapū, and Māori communities to engage as they deem appropriate.
38. The Crown's proactive collaboration with iwi, hapū, and Māori is indispensable to ensure the safeguarding of rights and interests and therefore the long-term success of any legislative framework. This encompasses the protection of Māori land and the fulfilment of Treaty settlements. A Te Tiriti-based adaptation system must respect Māori prerogatives to maintain land ownership, even in retreat scenarios, and incorporate principles of Mana Motuhake and Rangatiratanga (self-determination and governance).
39. Funding should be made available through an equitable process that does not disadvantage iwi, hapū and Māori, from participating and engaging in the climate adaptation program.
40. In this landscape, the banking sector can play a key role. Cultural implications for impacted Māori must be recognised and addressed in line with tikanga. Land ownership transitions, especially in the context of the Crown assuming stewardship, are intricate and can affect mortgagee interests. Such actions have ramifications on banks' assets and liabilities. The banking sector can play a role in crafting this legislative scaffold, fully cognisant of the risks of its absence.
41. The banking sector is committed to supporting those customers affected by climate change, including the development of suitable lending options that are mindful of Māori needs.