

Managing risk of natural hazards

The Kaikoura earthquakes this week were a reminder of New Zealand's many risks from natural hazards.

How we alleviate and spread those risks should be a matter for consideration, especially for policy makers and business.

Our regulatory environment is far from optimal in reducing risks from natural hazards.

The current regulatory approach to natural hazards is contained in the latest RMA amendment bill now before select committee. It requires local government 'as matter of national importance' to manage the risk from natural hazards.

This is a big responsibility to place on local councils. Business is concerned about this blanket apportionment of responsibility without sufficient consideration of whether councils or property owners are best placed to manage different levels of risk.

In many circumstances property owners with appropriate insurance might be better placed to manage risks or self-insure.

As an example, a property owner might wish to develop their property in a location where there was an occasional risk of flooding.

The benefits of doing so might outweigh the costs of managing the risk through suitable building methods and materials and protecting against the risk with appropriate insurance.

But if the onus was on the council to manage the risks from that natural hazard, the most likely result would be consent being refused for the development.

That's because putting the onus on council 'as a matter of national importance' to manage risks from natural hazards would incentivise councils to take an unduly cautious approach to that risk.

It could lead to a fewer development approvals overall, to the detriment of economic growth.

The RMA amendment implies that regulation by local government is preferable to individuals and firms being allowed to manage risk.

However, devolving that risk with appropriate insurance could be a better approach in many circumstances.

Market-based mechanisms for determining risk are likely to be better informed than local authority-controlled mechanisms. In a competitive insurance market individuals and businesses seek competitive quotes in dealing with hazardous situations, and if the situation is considered too hazardous, insurers will be unwilling to provide insurance cover - this

approach prompts businesses and individuals to take responsibility for assessing the costs and benefits of building in areas where natural hazards have been identified.

This devolvement of responsibility, backed by insurance, could be better for economic growth than increased regulation of land use by local government.

This RMA amendment bill proposing increased regulation of land use by local government needs public scrutiny and debate.

In our hazard-prone geography we need policies that help us manage natural hazard risks without quelling the potential for business and economic development.

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