Actuaries Institute.

28 June 2024

Australian Sustainable Finance Institute
By online survey form at: Australian Taxonomy Public Consultation — ASFI

Consultation: Australian Sustainable Finance Taxonomy First Consultation

The Actuaries Institute ('the Institute') welcomes the opportunity to make a submission to this consultation. The Institute is the peak professional body for actuaries in Australia. Our members work in a wide range of fields including insurance, superannuation and retirement incomes, enterprise risk management, data analytics, climate change impacts and government services. The Institute has a longstanding commitment to contribute to public policy discussions where our members have relevant expertise. The comments made in this submission are guided by the Institute's 'Public Policy Principles' (available at: https://www.actuaries.asn.au/public-policy-and-media/public-policy-approach/policy-principles) that any policy measures or changes should promote public wellbeing, consider potential impacts on equity, be evidenced-based and support effectively regulated systems.[1]

Taxonomy Headline Ambitions: Headline ambitions are the broad, longer-term goals that underpin a taxonomy's environmental objectives and are designed to be considered holistically. Draft headline ambitions have been developed for each of the Australian taxonomy's six environmental objectives in close consultation with TTEG and TAG members, relevant government representatives, and other key stakeholders. The draft headline ambitions are set out in Section 3 of the public consultation paper.

Question: Do the headline ambitions reflect Australia's highest national goals for climate and environmental sustainability?

The Actuaries Institute is highly supportive of the inclusion of 'Climate change adaptation and resilience' as one of the six headline ambitions for the Australian sustainable finance taxonomy (the taxonomy). However, we are concerned about the implications of the current, singular focus of the taxonomy on climate change mitigation. This is potentially at the expense of climate change adaptation and resilience, with no timetable provided for the inclusion of this important ambition.

While there is an urgent need for both global and local mitigation efforts, we believe delaying considering adaptation and resilience efforts creates significant risks for; insurance affordability; the required investment and action on adaptation and resilience, and the overall costs of the net zero transition:

- Global temperature rises are fast approaching 1.5°C above pre-industrial levels, and we are already seeing the need for adaptation measures to improve the resilience of the Australian economy, community and homes to increasing climate risk.

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[1] Submitted in response to "If you have any additional feedback, please share below".

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- As noted in the Actuaries Institute's reports on Home Insurance Affordability (see: https://www.actuaries.asn.au/public-policy-and-media/our-thought-leadership/reports/home-insurance-affordability-update-and-funding-costs-for-floods), today one in eight Australian households (that is 1.24 million homes) already face insurance costs that exceed one month of gross household income. This shows climate risk is already having an impact on Australians, and there is an urgent and immediate need for building resilience of our homes and communities through climate adaptation.
- By not including, or delaying the inclusion of, climate change adaptation and resilience actions in the taxonomy, projects will find it more difficult to attract funding. Finance is a critical enabler of adaption, yet globally the need for adaptation greatly exceeds the volume of actual adaptation finance (see: https://wedocs.unep.org/handle/20.500.11822/43796), and adaptation finance significantly lags investment in mitigation. Average annual adaptation finance was USD63 billion in 2021/22, a fraction of the annual mitigation finance amount of almost USD1.2 trillion.
- There are well documented barriers to adaptation investment including: that adaptation projects can take time to develop and establish benefit or revenue streams; that there are information gaps and uncertainty around future climate risks; and that the site and context specific nature of adaptation projects means there is greater complexity in assessing benefits. Including adaptation measures and activities in the taxonomy could positively address some of these barriers.
- In particular, including climate adaptation projects within the taxonomy could enable the banking sector to offer discounted loans to homeowners in order to improve resilience, and then to securitise this lending into investment products, consistent with the taxonomy. The result would allow Australian and international investors to invest in such projects, leading to safer homes, affordable insurance, and reduced disaster costs for state and federal governments. Importantly, there are currently no other sustainable finance frameworks that would support such measures – adaptation measures are not included within the Climate Bonds Initiative.
- By enabling private sector funds to support resilience measures across Australia for individual homeowners, public sector funds for resilience measures can be better targeted at households without the funds to improve resilience, for example through improving the resilience of social housing through climate adaptation bonds or social bonds issued by State Governments. In our view, this would be a more effective and efficient use of public funds to support resilience and is consistent with maximising the value of increasing government funding for resilience through measures such as the Disaster Ready Fund.
- We strongly advocate for an integrated, holistic approach to climate mitigation and adaptation. Separating climate mitigation actions from adaptation can lead to negative consequences. For example, in fire and flood prone regions of Australia it is critical that construction of buildings and infrastructure are built to be resilient. If they are not, and only emissions intensity is prioritised, they will be at significantly higher risk of being damaged or destroyed in extreme weather.
- This consideration goes well beyond simply 'do no harm' considerations. There may be missed opportunities for cost savings that can be realised by undertaking mitigation and adaptation work concurrently. For example, work to strengthen roofs (to protect against storms and cyclones) can be done at the same time as installing insulation – which should be less costly and disruptive to the property occupants.

- We also note that in the built environment, resilience and mitigation are intrinsically linked. Buildings that are not resilient against climate-related disasters will need to be rebuilt if damaged or destroyed in disaster. The rebuilding of infrastructure incurs substantial carbon costs from the embedded carbon used in building materials (particularly concrete and steel). Resilient infrastructure lasts longer and avoids this increased carbon cost.

These concerns are most relevant for ‘construction and the built environment’. Accordingly, the Actuaries Institute strongly recommends that AFSI includes climate resilience and adaptation measures into the technical screening criteria for ‘construction and the built environment’.

Finally, we note that Commonwealth, state and territory ministers earlier this month (June 2024) agreed to include climate resilience as a specific objective of the Australian Building Codes Board (ABCB) from 2025, which gives the ABCB a clear mandate to develop future National Construction Code requirements that reduce the impact of natural disasters on housing and other critical community facilities. The Actuaries Institute strongly supports this approach, and the need for consistency between instruments of government policy.