



Snapshot

Summerland Credit Union: Climate change risk adaptation assessment and planning

Summary

Summerland Credit Union is a customer-owned financial institution that has a strategic goal to embed natural, social and human capital protection in its business. Extreme events can impact on residential and commercial assets, meaning that climate change adaptation is particularly relevant to credit and loan finance. The location of most of Summerland branches and assets in a region with a history of exposure to extreme events makes this especially pertinent. Summerland reviewed climate change projections and issues for the next 15 years. It identified risks, controls and adaptation strategies and integrated these into standard business risk management and planning processes. Summerland will continue to monitor climate change impacts on its business as further assessments and model refinements are released.

Summerland Credit Union is a customer-owned financial institution. Its primary business is in residential loans, with most of these assets located in the Northern Rivers region of northern New South Wales. Summerland has 13 branches in the region and owns two commercial properties in the Lismore CBD. Many locations in the Northern Rivers—particularly Lismore, Grafton and Murwillumbah—have a history of exposure to extreme events such as flooding and bushfire. The concentration of branches and loan assets could be at risk of increased flooding or coastal erosion associated with sea-level rise and climate change. The region is also prone to increased bushfire risk associated with more extreme periods of drought and higher temperatures. These hazards may impact on property, insurance coverage and premiums, or major industries (i.e. agriculture) in the region with a flow-on impact to the income-earning potential of mortgagees.

Summerland has a continual focus on business continuity planning and has compliance requirements to have plans for tsunamis and water inundation. The company undertook a climate change risk assessment to increase its knowledge and capacity to quantify climate change risks, and identify consequences and potential mitigation options.

Keywords

Finance, risk, planning, impacts, business

In 2015, Summerland’s Executive and senior management participated in a climate change risk adaptation and planning workshop. The workshop provided a review of data from reputable authorities, and consideration of climate change issues for the next 15-year period. Leadership by the CEO and a Board Director ensured strong senior management engagement and participation. As a business that manages risk, any impacts to Summerland’s direct property assets and loan assets need to be understood and integrated into risk management processes.

As a result of the workshop Summerland identified a high interaction between climate variables, climate impacts and risks to business objectives (Figure 1), with minimal immediate/short term impacts to business. A review of climate science identified the main climate change impacts affecting the business:

- increases in temperature
- increases in rainfall intensity and extreme weather events
- an increasing rate of sea-level rise.

These impacts have the potential to affect the company’s strategic business objectives by:

- disrupting service delivery (e.g. through power outages, loss of telecommunications and data systems access, building evacuations, reduced staff productivity)
- decreasing the value of land/property assets that the company and its customers own (e.g. through direct property damage, erosion, land slips, storm water inundation, storm surges, coastal inundation)
- reducing the ability of customers to be able to pay their loans (i.e. due to flow on effects of climate change impacts on the regional economy)
- increasing insurance premiums/decreasing asset security
- impacting the company’s reputation.

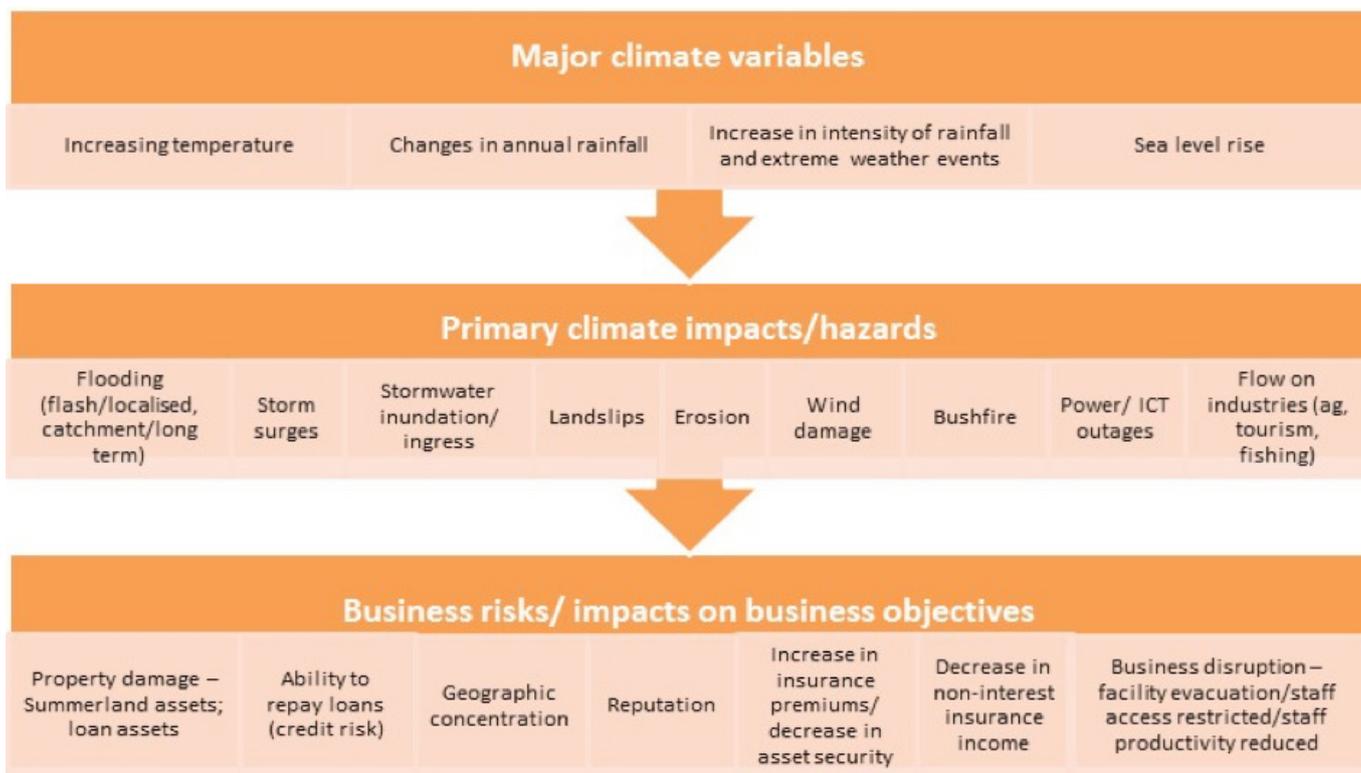


Figure 1: Summerland Credit Union Climate Risk Assessment Summary. Source: Summerland Credit Union.

At the workshop Summerland identified:

- that understanding climate change risk can change practices in high-risk areas to build business sustainability (e.g. diversify geographically to spread risk, or reduce exposure to one set of climate risks)
- a lack of understanding about the importance of climate change for customers
- there are a range of employment uncertainties (e.g. impact of climate risk on agricultural industries) that may limit customers' capacity to repay loans
- by understanding the exposures, particularly related to employment, Summerland can proactively assist companies to be sustainable
- that climate change will result in higher insurance premiums for Summerland, potentially impacting our ability to provide third party insurance products
- there is a need to ensure sustainable practices and backup systems for disaster recovery to cope with power outages and impacts on telecommunications—this also applies to suppliers
- that new opportunities (such as green investments and education seminars) are needed to keep customers updated about investing in green and sustainable economic activity (particularly agriculture).

As a first step to integrate climate change into its risk framework, Summerland included climate risks in department risk self-assessments and also considered them in its current control framework. These risks align with a number of previously identified risks and they will be reviewed annually as part of the Internal Capital Adequacy Assessment Process (ICAAP) and general risk assessment processes.

The risk assessments are reviewed annually by each department: as more information becomes available on the climate-related impacts in the region this will be incorporated into the assessments and adaptation actions designed to mitigate these risks for both customers and the credit union (see Figure 2). Training of Summerland's Board and staff will also be a priority to ensure these risks and options to address them are considered in any decisions that affect both customers and the business.

The next step is to collate local government flood risk and bushfire hazard mapping data. These will help to provide a thorough assessment of data on past events, potential impacts of increased intensity of extreme rainfall events and of increased temperatures. A scope of works is being prepared to develop hazard map scenarios for the branch and loan assets.

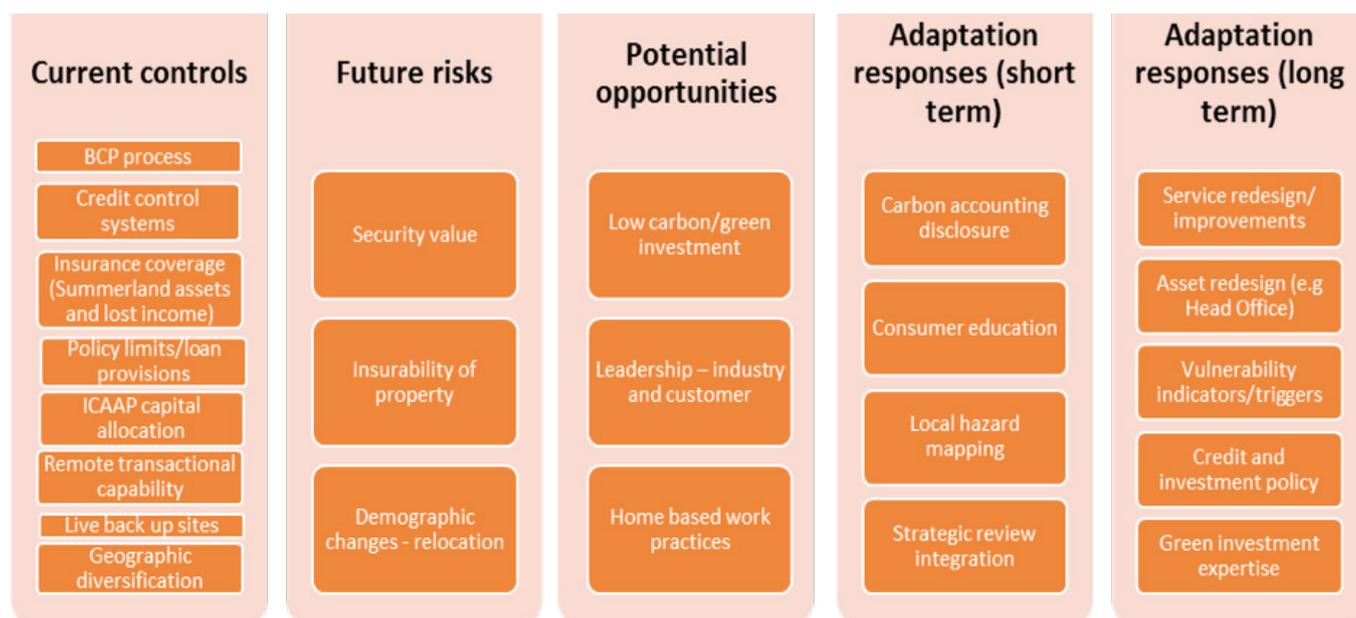


Figure 2: Summerland Credit Union Adaptation Summary. Source: Summerland Credit Union.

Further reading

Summerland Credit Union's website: <https://www.summerland.com.au/> (accessed 9 June 2017).

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