

Global Renewable Energy Insurance Facility

Insurance4renewables.com

Developed by



UPCAR



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Feasibility Study Brief

The United Nations Environment Programme (UNEP) has set up a new public-private partnership (PPP) with leading insurance industry players. The resulting global team of insurance, reinsurance and risk management experts will operate a new service with an internet platform dedicated to renewable energy insurance: insurance4renewables.com.

The main objective of the PPP is to provide innovative risk management and insurance solutions that address the specific risks associated with renewable energy projects. Its scope is global, with a focus on developing countries and emerging markets. A feasibility study, commissioned by the UNEP, was successfully conducted for Egypt and Thailand, two countries with substantial renewable energy potential. It identified the appropriate structure and operational tools for the project and specific insurance covers that can be offered to renewable energy project developers.

A team comprising specialists from RSA Insurance Group (RSA), Munich Re and CarbonRe will operate the facility. Its online exchange tool links project developers and owners, technology providers, investors and lenders to insurance brokers, direct insurers and reinsurers.

The access point of the facility, operated by CarbonRe, will offer an internet-based tool that enables local project stakeholders to submit risk management queries and provides adequate underwriting information to the team members.

Risk management and risk transfer are essential to the successful development of renewable energy projects. In response, leading re-insurance, insurance and risk management experts have teamed up with the United Nations Environment Programme to provide targeted financial risk management solutions on a worldwide scale.

Background

Securing adequate financial risk management, an essential aspect of any commercial undertaking, poses an obstacle to projects involving renewable energy technologies (RET). This is due to a relatively low level of industrial expertise in RET and an absence of track records on concepts, equipment and processes – especially in developing countries. Like all industrial installations in all countries, RET projects in developing countries seek to operate reliably at affordable financial investment levels with the highest possible internal rate of return (IRR). However, the investments required for developing and operating such installations often demand adequate risk transfer. Access to sufficient insurance coverage for RET projects is thus a critical enabler for their successful realisation in developing countries.

Sound and diligent financial risk management will benefit this forward-looking energy segment on many levels. Risk management solutions help to identify key risks involved, enhancing the credibility and economic viability of RET projects. As better access to risk data and track records become available, underwriting information will be improved, which in turn will facilitate the development of risk transfer solutions. Reliable risk transfer also has a positive effect on default and debt rates, which allows better access to financing, higher cash flows and a more favourable IRR. Projects backed by sound financial risk management are more attractive to all stakeholders.

Market demand for renewable energy insurance is strong in developing countries and emerging markets. There are currently about 6,000 RET projects in these regions, more than 1,000 of which have reached the stage for insurance requirement, with over 2,000 at an early stage of risk management and risk control.

Insurance4renewables

The global facility for renewable energy insurance will be structured to address the various levels of the insurance service workflow, from submission, wording, rating to binding and acceptance. In addition to initial underwriting support, the PPP will offer engineering and claim payment services. Demand will be managed by local insurance brokers in cooperation with the insurance broker of the facility, CarbonRe. Primary covers and reinsurance will be provided by RSA and Munich Re, respectively. The facility aims to provide an exceptionally swift application turnaround as well as a short overall time span from initial submission to policy offer.

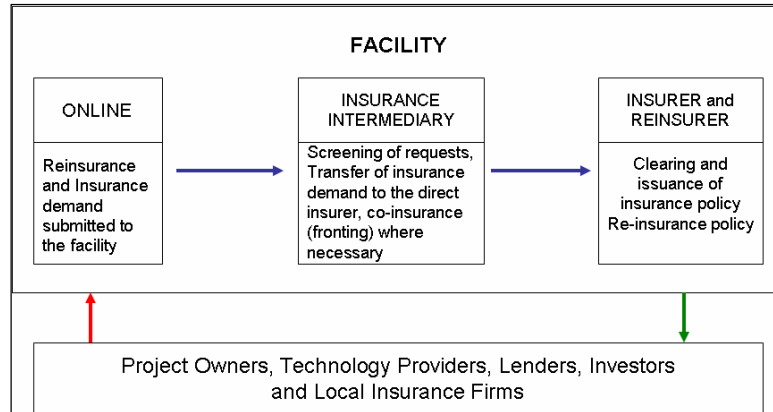
The insurance solutions provided for RET projects include Erection and Construction All Risk (EAR/CAR), Transport, Advanced Loss of Profits (ALOP), Mechanical and Electrical Breakdown (MB), Business Interruption (BI), Operational All Risk, and Third Party Liability (TPL). Special lines offered on a case-by-case basis include Country and Political Risk, Third Party Counter Credit and credit insurance covers.

Implementation in two phases

Phase I of insurance4renewables will see the launch of a website presenting the services offered, the team members and the RET insurance covers. A further component of this stage is the gathering of business information from RET project owners by local direct insurance brokers. CarbonRe will review and transfer the information to the local RSA office or RSA partner company underwriter, who will then rate the risk, set the conditions and send back an insurance proposal via CarbonRe and the local direct insurance broker to the project owner. Once the offer has been accepted, the local RSA company or partner will forward the final documentation, premium invoicing etc. to the local direct insurance broker, who will communicate with the project developer or owner.

During this set-up phase, the PPP will focus mainly on wind, solar, hydro and biomass projects. It has already identified well over 2000 RET projects as interesting targets.

In phase II, once business volume starts to develop, insurance4renewables.com will be updated and expanded with additional features. These could include predetermined underwriting information templates for specific RET project types and services in accounting, claims, underwriting analysis and financial reporting. Even services such as policy documentation issuing and loan information processing could be added in phase II. These would allow local brokers to fill in underwriting information in predetermined and mandatory fields – streamlining processing throughout the insurance and reinsurance value chain. The team is also considering the addition of further innovative insurance solutions in future. Depending on the country and technological situation, products in demand could include bond, insolvency of manufacturer, breach of contract, shortage of bio raw material supply or crop insurance, meteorological events, accumulation, technical performance and carbon delivery guarantee insurance.



The team

CarbonRe is in charge of ensuring completeness of information and risk control in order to manage the distribution of direct insurance demand within the team. Local insurance brokers will be integrated through co-brokerage. CarbonRe also will operate insurance4renewables.com, the facility platform and its services.

RSA, as a primary insurer, generally does business either directly with the client or through an insurance broker. In order to assess the risks, a due diligence investigation is conducted with the help of a local network partner. Critical information usually includes catastrophe risk and local geographic information, availability of key components and equipment, legal issues, wordings and translations of such, premium transfer and tax payment information.

Munich Re provides reinsurance capacity to the primary insurer in the form of treaty or facultative solutions. In the case of treaty products, the capacity is provided automatically following agreed underwriting standards. In some cases where the risk characteristics do not meet the treaty framework, facultative reinsurance can be arranged.

The team provides key risk control instruments such as a Targeted Equipment List for Technologies (TELT), standard risk questionnaires, and further survey/inspection reports.

The launch of the internet platform insurance4renewables.com is planned for early fall 2008.

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