

Division of Technology, Industry and Economics

## Policy Risk Insurance Mechanism

Unlocking Private Finance  
for Clean Energy in Emerging Markets

March 2013



in collaboration with Parhelion Underwriting Ltd



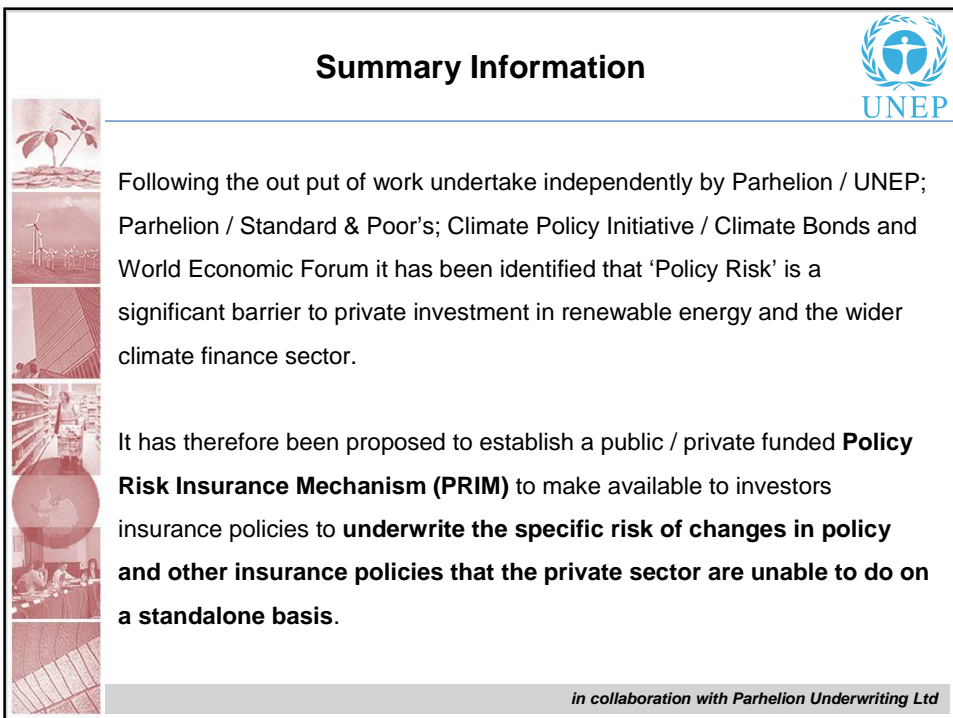
## Summary Information



Following the out put of work undertake independently by Parhelion / UNEP; Parhelion / Standard & Poor's; Climate Policy Initiative / Climate Bonds and World Economic Forum it has been identified that 'Policy Risk' is a significant barrier to private investment in renewable energy and the wider climate finance sector.

It has therefore been proposed to establish a public / private funded **Policy Risk Insurance Mechanism (PRIM)** to make available to investors insurance policies to **underwrite the specific risk of changes in policy and other insurance policies that the private sector are unable to do on a standalone basis.**

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## Policy Risk Background



CIREN\* :

- ✓ 68% of investors require a spread of required rate of return of 5% between low carbon projects and more conventional ones
- ✓ 23% of investors required spreads higher than 15% or more
- ✓ 75% of lenders also want 2 or more guarantees in addition to high rates of return
- ✓ Uncertainty on climate policy cited as a reason for uncertainty by:
  - ✓ 66% of Project Proponents
  - ✓ 47% of Investors

\*CIREN: Centre International de Recherche sur l'Environnement et le Developpement)

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## Political vs Policy Risk



	Political Risk	Policy Risk
Legitimacy	Illegitimate change in law	Legitimate change in law
Developed v Developing	Developing World only	Both Developed and Developing
Impacts	Third Country Investor	Domestic and Third Country Investors
Insurance Availability	Insurance Available (MIGA, ATI, Lloyd's of London and other private sector providers)	Insurance not generally available

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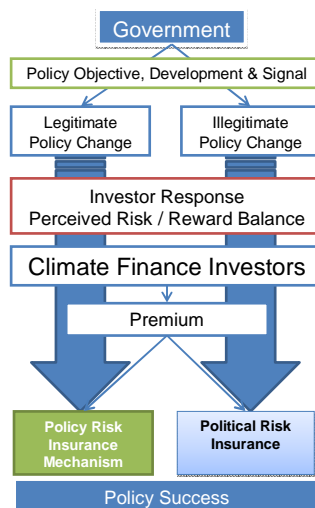
## What is currently available to cover policy risk?



	Multilateral Investment Guarantee Agency (MIGA)	Partial Risk Guarantee (PRG)	Private Sector Insurers	Overseas Private Investment Corporation (OPIC)	Policy Risk Insurance Mechanism (PRIM)
Speed / Ease of Access	🔴	🔴	🟢	🟡	🟢
Cost	🟡	🟡	🟡	🟡	🟢
Domestic Investors Included	🔴	🔴	🔴	🔴	🟢
Domestic Insurers Included	🔴	🔴	🔴	🔴	🟢
Host Country / Alignment of Interest	🟢	🟢	🔴	🟡	🟢
Crowd-in Others	🟡	🟡	🔴	🟡	🟢
Leverage Public Funds	🟡	🔴	🔴	🔴	🟢
Suitable for SMEs	🔴	🔴	🟡	🔴	🟢
Scalable	🔴	🔴	🔴	🟡	🟢

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## Policy Objectives and Outcomes



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## Policy Risk Insurance Mechanism



A public / private partnership between :

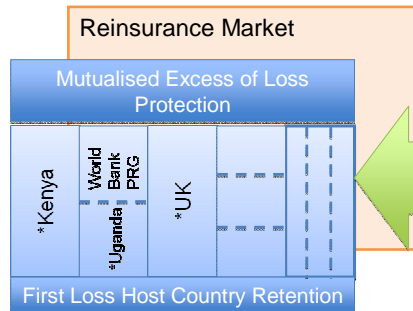
- ✓ Host Country
- ✓ Private sector insurers
- ✓ Other Multilateral Institutions

Flexible structure based on participants appetite:

- ✓ Co-insurance
- ✓ Reinsurance
- ✓ Mutualisation



Individual Country Specific Cells / Special Purpose Syndicates



Managing Entity:

- ✓ Underwriting Management
- ✓ Financial and regulatory reporting
- ✓ Operations management
- ✓ Fund management

\* Countries for illustration purposed only

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## Policy Risk Insurance Mechanism



A public / private partnership between the Host Country and private sector insurers allows a number of crucial benefits including:

- ✓ enhance regulatory competitiveness of the host country
- ✓ opportunity to create profits for host country governments
- ✓ create investment grade policy
- ✓ create alignment of interest between the party most able to influence the risk (i.e. government) and those exposed to the risk (i.e. investors)
- ✓ attract large private market capital source (i.e. insurers) to an area they have traditionally avoided.
- ✓ greater capital efficiency and use of public funds
- ✓ ensure credit worthy counter party by having host country government / multi-lateral financial institution backing
- ✓ entrenchment of policy objectives without loss of government flexibility / infringement of parliamentary sovereignty



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## PRIM Demonstration



- Agree target location(s)
- Identify relevant partners
- Consider potential funding support
- Potential private sector finance for product devt
- How can the impact of PRIM be monitored?

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## Issues for PRIM in Africa: Local Conditions



- What is the current policy regime for clean energy in the target country/s?
- Who are the key local insurers?
- How to involve local insurers?
- How to raise awareness?
- Key risks for small-scale project developers?
- Local issues?
- Level of investment/premium?

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## Policy Risk Insurance for SMEs and Decentralized Clean Energy Projects



### Key Questions

- What are the key policy and regulatory risks?  
Do these risks vary with different technologies?
- What is currently available to cover such risks?  
Which local insurance companies would be interested?
- What scale of investment is relevant and available?  
What percentage of the off-taker revenue is acceptable?

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### Next Steps



- **Pilot country engagement.** This will include securing buy-in from local governments and identification of relevant stakeholders
- **Domestic private sector engagement and capacity building** for insurers and investors. This will include working with the local insurers industry to familiarise them with the PRIM structure, establish a local distribution mechanism via local brokers and establish a consortium of local insurers to participate as part of the underwriting risk capital of the PRIM.
- **International private sector engagement for insurers and investors.** This will include working with the international insurance market to familiarise them with the PRIM structure and secure their engagement on a co-insurance or reinsurance basis.
- **International multilateral and other public funding source engagement.** This will include working with the multilateral financial institutions to familiarise them with the PRIM structure and secure their capital commitment and or relevant guarantees.

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