

## **Risk Management and Insurance Solutions are crucial in Financing SA's Renewable Energy Projects**

The focus on the renewable energy sector has never been higher, with governments around the world setting tough targets for the amount of energy provided by renewable sources. Global demand for renewable energy continued to rise 2012, supplying an estimated 19% of global final energy consumption, according to *The Renewables Global Status Report* published by REN21. Given the financial hurdles of many renewable energy projects, and the speed of change in renewable energy technology in what is still a relatively new industry in South Africa, contractors and developers in the field require specialist risk and insurance broking advice to ensure that this increasingly competitive industry is able to meet its many complex challenges.

“The Renewable Energy Sector will continue to grow significantly faster than any predicted national and international economic growth indices, providing significant opportunities for developers and operators alike. South Africa has set a target of generating 3275 MW from renewable energy, according to the Energy Department of South Africa. Demand by governments and individuals for a secure supply of cleaner and cheaper alternatives to fossil fuels is escalating, along with the introduction of tightening emission reduction targets. But renewable energy projects come with significant and complex risks and in most instances, massive financial requirements and contractual liabilities due to the debt financing models in place,” explains Christa Strydom, Renewable Energy Account Executive at Aon South Africa.

Insurance costs can be a notable line item in the costs for renewable projects. Accordingly the impact of premium cost fluctuations can be significant to the profitability of developments

and debt cover ratios required to support finance arrangements. It is important that an insurance advisor has an understanding of the financial sensitivities in the cash-flow model of the project in order to design the most efficient insurance programme. Aon has experience in supporting finance agreement negotiations, working closely with clients, the mandated lead arranging bank and legal advisors.

“The reality is that the availability of project finance depends heavily on the insurance solutions available. Banks are risk averse, requiring high levels of insurance and this can be the deal breaker in the event that a broker cannot find adequate risk transfer capacity combined with seamless local solutions.

“Effective use of insurance is an essential part of securing funding for projects. Aon works with clients to provide the most appropriate bankable approach, and are increasingly being involved in the negotiations with the developer and lenders as there is always scope for negotiation in balancing what lenders require and what the market will provide commercially,” concludes Christa.

“One of the most crucial areas that Aon is finding itself increasingly involved in is the traditional pre-construction risk advice which includes liaising with lenders and contractors, including lawyers and insurance advisers, to enable effective contract negotiation. As the developer, it is essential to have a risk partner that is involved in the contract negotiations to avoid potential pitfalls that can be very costly if risk and insurance issues are not considered early enough during contract negotiations. By being involved in the negotiations, we are able to marry the insurances to the risk and indemnity clauses that flow from the contracts.”

It is also essential to have a global risk partner that is able to utilise both local and global markets to develop appropriate risk transfer solutions where necessary, along with the core contractually required insurances.

“From a South African perspective, the success of the project relies heavily on having a risk partner that fully understands the consultancy and market placement advice to be used within the bank feasibility study which happens long before the project even gets off the ground. In this regard Aon’s experience in respect of renewable energy projects is extensive right from the start of shipments, the construction period, through to testing commission and operation/maintenance,” explains Christa.

Seamless cover is a key requirement of any renewable energy project, right from the planning and early works stages and between marine cargo transits, construction All Risks, delay in start-up, operating property damage and business interruption, as well as all third party liability exposures. Renewable energy insurance products cover the main lines of insurance such as property, engineering, marine and liability while additional special types of insurance can be made available such as credit, political and weather risks, errors & omissions, and directors & officers cover.

The traditional engineering/construction and property insurance markets have embraced the renewable energy sector as a growth area and have created significant capacity and competition. Consequently there is a wide choice of markets and coverage options. The reality is though that renewable energy projects pose some specific risks and barriers. Technologies applied are relatively new and the available expertise and actuarial data is still low. Thus there are few standard products in this sector and risk management is

primarily done on a case-by-case basis which is why it's essential to have a risk partner with global infrastructure and capability, along with local experience of country specific conditions and requirements.

Aon South Africa, in conjunction with Aon's Renewable Energy Practice, has developed a specialised facility, the Aon Renewable Energy Facility, to cater for the insurance and risk management requirements of renewable energy projects in onshore wind energy, solar energy (photovoltaic, concentrated and thermal installations) and bio energy (biomass, biogas and waste to energy plants).

“By having a single pre-agreed policy, the developer will avoid the dangerous financial exposures associated with the possibility of gaps in cover between each of the stages of the renewable energy project lifecycle. The Aon Renewable Energy Facility also caters for projects of any size by taking advantage of the portfolio approach to underwriting. In this way even smaller projects that would otherwise be difficult to place cost effectively in the global insurance market can be effectively covered,” adds Peter Lewis, Renewable Energy Account Manager at Aon UK.

Aon South Africa's Renewable Energy Team is part of a 120-country network of specialists who manage all aspects of risk throughout the life-cycle of renewable energy assets, development, construction and operation. The team has advised and insured over 600 MW in South Africa.