



FS Club



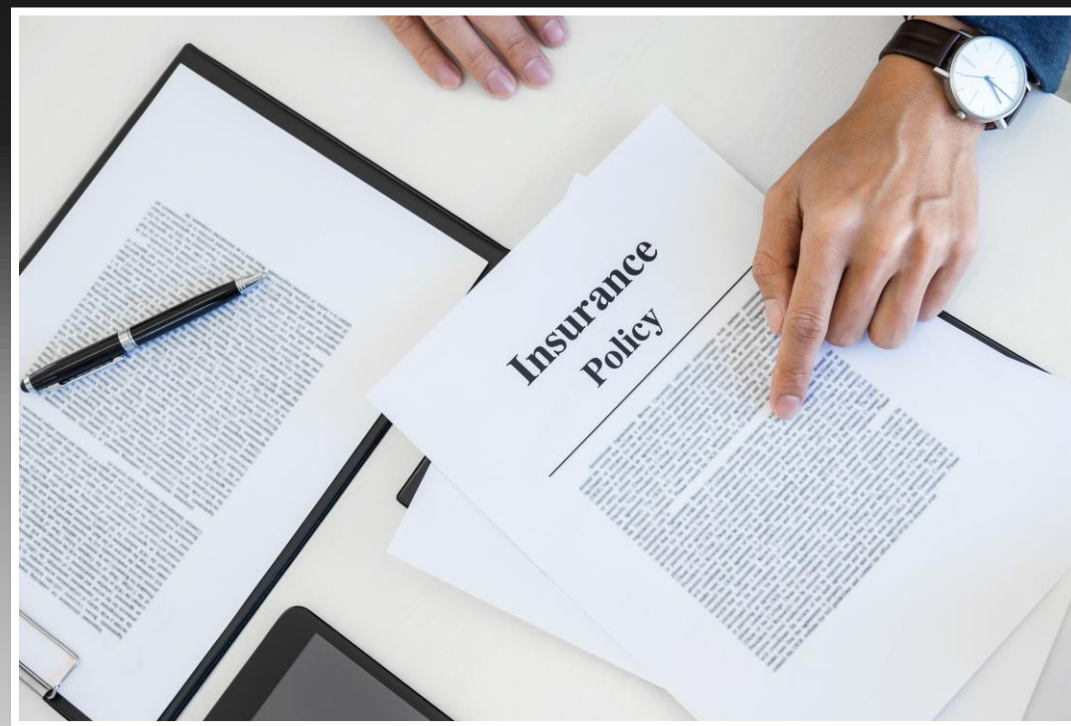
FS Club

News Events Partnerships

Insuring Against Policy Risk

Webinar

Friday 30 October 2020





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A Word From Today's Chairman



**Professor Michael
Mainelli**

Executive Chairman

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Agenda

- | | |
|---------------|-------------------------------------|
| 15:30 – 15:35 | Chairman's Introduction |
| 15:35 – 16:00 | Keynote Address - Julian Richardson |
| 16:00 – 16:15 | Questions & Answers |



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Insuring Against Policy Risk



Julian Richardson

CEO

Parhelion

SPECIALISED INSURANCE & RISK FINANCE PRODUCTS FOR CARBON MARKETS,
CLIMATE RISKS, RENEWABLE ENERGY AND EMISSION REDUCTION PROJECTS



Insuring Policy Risk

FS Club Webinar
30th October 2020

Content

- Policy Risk – does it matter?
- Policy Risk vs Political Risk – the difference
- Is Policy Risk Insurable?
- Policy Risk Insurance Mechanism – A Possible Model
- PRIME Benefits
- PRIME Position
- Policy Risk Case Studies
 - Ontario
 - Germany

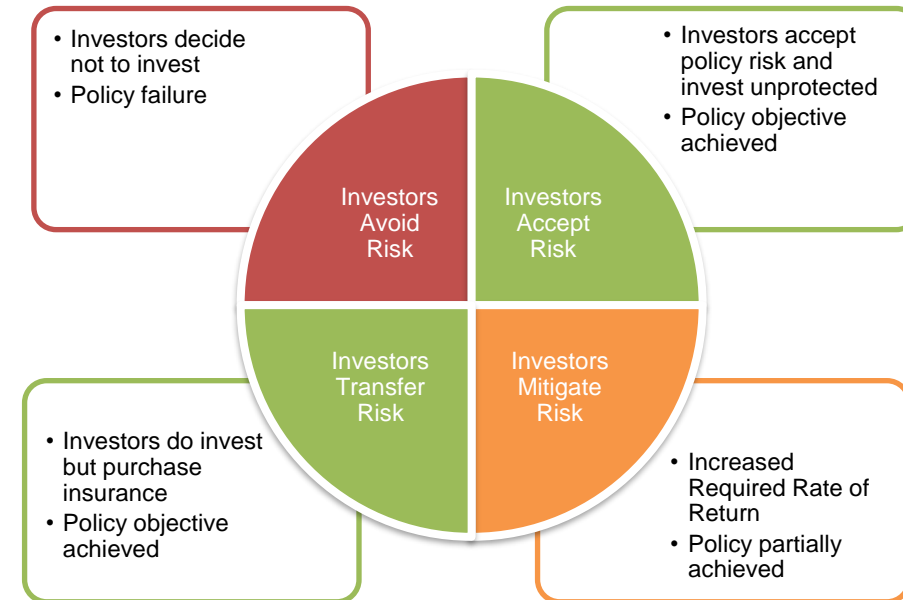
About Us

Parhelion is an energy and climate risk finance company specialising in non-traditional risk issues impacting investment into climate finance and sustainable investment opportunities.

- Working with:
 - Policy makers
 - Investors
 - Multilateral Finance Institutions
 - Re/insurers
 - Project Developers
- Established: 2006
- Advisory:
 - Climate Risk Finance
 - Sustainable Investment
 - Project Developers
- Transactional:
 - Environmental Commodities
 - Geothermal
 - Bespoke product and solution development

Policy Risk – does it matter?

- More important now than ever
 - 452 Cities
 - 22 Regions
 - 1,101 businesses
 - 45 of the biggest investors
 - 549 universities
- Levelling the playing field
- WEF – Sustainable Infrastructure
 - 5% of GDP or
 - \$4trillion pa until 2030
 - Needs to be filled by the private sector
- Investment horizons longer than political cycles
- Requires “investment grade policy”
 - Kirsty Hamilton, Chatham House and others



Put a price on it!



61 carbon pricing initiatives
31 ETS



12GtCO₂e
22% of global emissions



46 National
32 Sub-National



14,500 registered
projects 4bn tCO₂e



US\$45bn in carbon
pricing revenues



31 ETS
30 carbon taxes

Policy Risk – does it matter?

- Governments need flexibility
 - New information
 - New technology
 - Changing economic backdrop
 - Changing policy priorities
- Sources of Policy Risk
 - Delays in construction approval
 - Community opposition
 - Tax changes
 - Regulatory changes
 - Non-renewal of licenses
 - Decommissioning requirements
- Political and Judicial
- Risk perception vs Risk Reality
- Partial Loss vs Total Loss
- Real Risk
 - Ontario Cap and Trade Program – 2018
 - Spanish Feed-in-tariff – 2009
 - US - 2016.....

Policy Risk vs Political 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

Poll - UK

- If you were investing in a clean energy project in **UK** how much over base would you want as an investor to address policy risk?
 - 0-5%
 - 6-10%
 - >10%

Poll - EU

- If you were investing in a clean energy project in **EU** how much over base would you want as an investor to address policy risk?
 - 0-5%
 - 6-10%
 - >10%

Poll - US

- If you were investing in a clean energy project in **US** how much over base would you want as an investor to address policy risk?
 - 0-5%
 - 6-10%
 - >10%

Is Policy Risk Insurable?

Insurability

- Aggregation – Correlation

Coefficient = 1

- Actuarial Pricing
- Moral Hazard
- Public Interest
- Common ground?



A Possible Model?

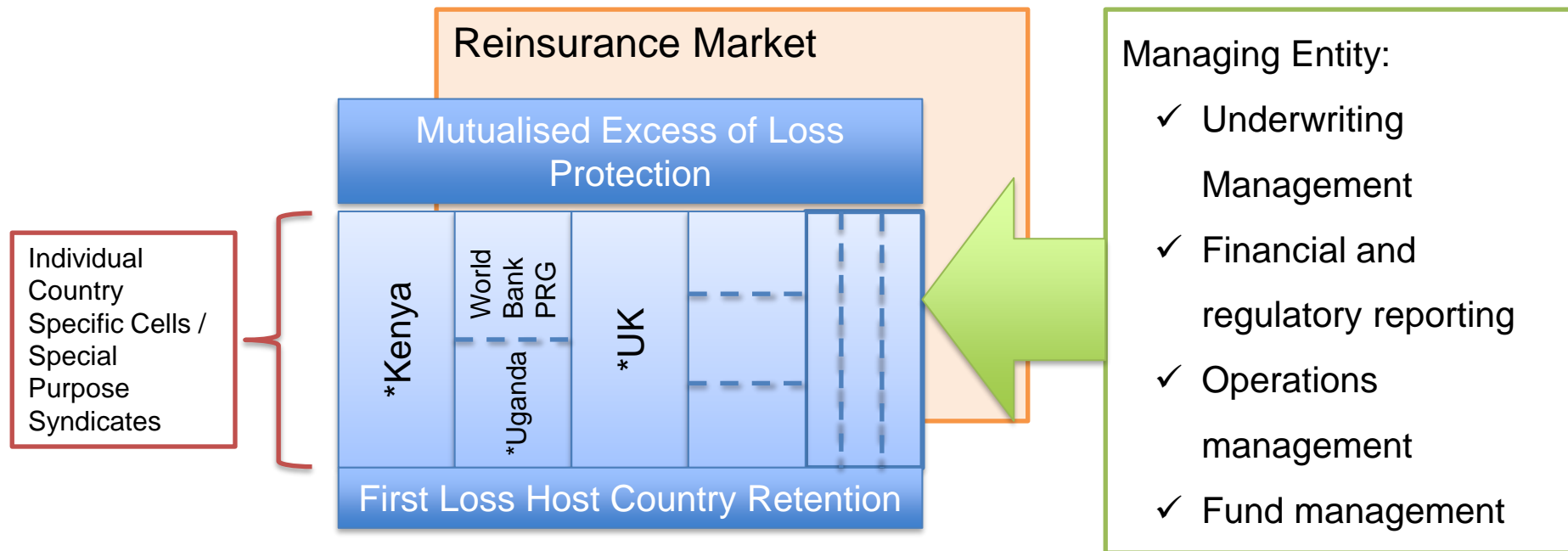
Policy Risk Insurance Mechanism - PRIME

A public / private partnership between :

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

Flexible structure based on participants appetite:

- ✓ Co-insurance
- ✓ Reinsurance
- ✓ Mutualisation
















































* Countries for illustration purposed only

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

PRIME Position

	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					

Policy Risk – Case Studies

Ontario

- Cap and Trade Program –
- Established 2017
 - Raised Revenue through the auction of emission allowances
 - Revenue used to fund climate action
- Cancelled 2018
- Financial Accountability Office of Ontario \$3bn impact on provinces deficit.
 - Retired and cancelled all existing allowances and credits
 - Compensation to participants
 - Immunize Province against civil liability
 - Cancel climate program
- No Scientific basis for decision
- Impact beyond Ontario to California
- \$300m fighting Federal Carbon Pricing
- Environmental and reputational

Germany

- Solar PV
- Established 1991
 - 2000 and 2009 updates
 - Integrated with other measures and incentives
- 20-year horizon
- Tariff digression
 - over time
 - to match technology cost reduction
 - to match target delivery
- “TLC”
 - Transparent
 - Long
 - Clear
- 57% of global small-scale solar investment
- Cost effective?
 - Created significant employment
 - 10,000 companies
 - 63,000 people employed

Poll

- If an insurance solution were available to cover policy risk would you buy it?
 - Yes
 - No



*Turning thought-leadership
into action*

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CLIMATE RISKS, RENEWABLE ENERGY AND EMISSION REDUCTION PROJECTS



The Z/zen Group



Thank you

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QUESTIONS & DISCUSSION, ANSWERS?





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Forthcoming Webinars

- Tuesday 03 November (11:00) [UK Challenger Banks: The Three C's – Core, Culture, & Challenges](#)
- Thursday 05 November (10:00) [CommunityZ Chest: Ekhosuehi Iyahan, Secretary General, Insurance Development Forum: Closing the Protection Gap through Public Private Partnerships](#)
- Friday 06 November (15:30) [Lessons From Lockdown: Re-Assessing How You Manage Share Plans In A Digital Way](#)

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