

# Competition hots up for new fuel sources

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Business and political leaders around the world have identified global warming and the prospect of an eventual end to oil and gas supplies as a major concern. It is an issue likely to move up the international agenda as energy demand outstrips supply, pushing up prices even further in years to come. This heightened demand will inevitably lead to alternative solutions becoming more attractive, slowly shifting the balance from fossil fuel to other sources of power.

Ron Berler, Global Energy Coordinator at XL Insurance, sees this trend growing: “Higher oil and gas prices certainly raise the focus and attention of the dependence on energy in our personal lives. Transportation and a range of other commodities are especially affected, and companies are concerned that higher prices can lead to lower profit margins. There is a growing awareness that something needs to be done – and quickly. With rising prices, backing green energy seems to make good business sense.”

Most experts believe that the focus will be on wind and solar power with biofuel following closely. Ron notes: “Solar and wind are a totally renewable and inexhaustible source, but biofuel has drawn some criticism for taking away crops from the food supply network.”

Although wind farms have been around

since the 1950s and solar energy has been used successfully in space for the last 30 years, the technology is still developing. Some governments have encouraged the use of renewable energy through tax credits, but the expected rise in the cost of fossil fuel is narrowing the price gap with alternative sources, which are also becoming more efficient.

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Looking ahead, Ron sees energy production becoming an integrated part of everyday life. “A solar panel could become the roof of a home, rather than being added on as an extra layer. The power generated by this solar roof could cut energy bills by 40-50% and the unused surplus could be sold back to the grid.”

But despite the obvious opportunity, investors, large and small, will want to transfer some of the risks when venturing into untested territory and the insurance industry is preparing to meet this demand. “Insurance for renewable energy projects goes well beyond the cover for construction and machinery,” says Ron. “Products need to have the scope to include business interruption and down-time for weather-related operational problems.” Underwriters will need to look beyond the

usual issues such as fire or natural disasters and examine the economics of the project.

As with any new technology the added concerns are:

- Is the technology proven or untested?
- Who are the manufacturers behind the project?
- Will there be adequate demand from end-users?
- Are there enough qualified employees to maintain the power plant?

“It is not only the technology which causes concern,” explains Ron. “Financial backers of solar and wind farms will want an uninterrupted stream of revenue. They will want insurance for when the sun does not shine or the wind does not blow. There is a lot of money at stake and if passing clouds reduce the amount of energy produced, the whole project becomes less viable.”

Ron believes that the future lies across underwriting classes and sectors. “Energy and marine insurance could be an integrated program which will combine specific energy risks with the client’s property/casualty cover. We need to think beyond the product lines and create solutions for companies which will cover their entire risks in one programme.

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“This will involve all product line underwriters working closely together on the energy sector.”

Countries such as Denmark, Germany and, to a lesser extent, Spain have been pioneers of the new technologies, but Asia stands out with especially ambitious targets for renewable energy projects, building large “green energy” power plants.

China, for instance, is expected to overtake Germany and the US to become the world’s largest wind power producer and the world leader in solar cells by 2020. By then the area of solar cells in use is predicted to rise to 300 million square metres.


To achieve this, the country has announced plans to build the world’s biggest solar plant with 100 megawatt capacity. Another example already under construction is the Three Gorges Dam, spanning the Yangtze River in China, and five times the size of the US’s Hoover Dam. It will be the world’s biggest hydroelectric power plant.

But every business opportunity involves some form of risk. “The risk profile of a smaller, established project cannot easily be adapted to a larger scale and involves a different set of risks and problems,” says Paul Dowling, Underwriting Manager for Property Energy at XL Insurance. “With

the excitement of a new opportunity comes the realisation of accompanying challenges and possible pitfalls. Such mega construction projects require a careful analysis of all exposures, especially given the values involved. To assess the risk fully, underwriters will look at the technical and engineering components, and at all aspects of how these projects will be supported during construction and once they are in operation. The values mean that repair and replacement costs and more importantly the loss of revenue will be proportionately higher, so insurers arguably analyse their exposures to a greater degree.”

In remote locations, quality assurance and control, ongoing maintenance and repairs, as well as the transport logistics and sourcing of spare parts become extremely important. Paul points out: “Another problem with new large scale projects is the lack of historical data or a proven track record of these machines. If very few projects of such a size exist in the world, or utilise such new equipment, underwriters will have to evaluate the risk based on their knowledge and experience, applied on a case by case basis.”

Despite these potential drawbacks the need for insurance cover in the alternative energy sector is set to rise. Just as every project involves a form of risk, large insurance carriers have the flexible products

and sufficient capacity to mitigate any possible exposures. By working closely together, companies and their insurers can both benefit from the increasing demand in the globally expanding renewable energy market. 

THIS PAGE: Ron Berler (left), Global Energy Coordinator, Paul Dowling (centre), Underwriting Manager Europe & Asia Pacific, Property Energy  
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