

PARTNER REINSURANCE COMPANY LTD

FACILITATING INVESTMENT

A Role for Insurers?

Insuring the Performance of Certified Sustainable (Forest) Projects

Phil Cottle & Ignacio Murtagh

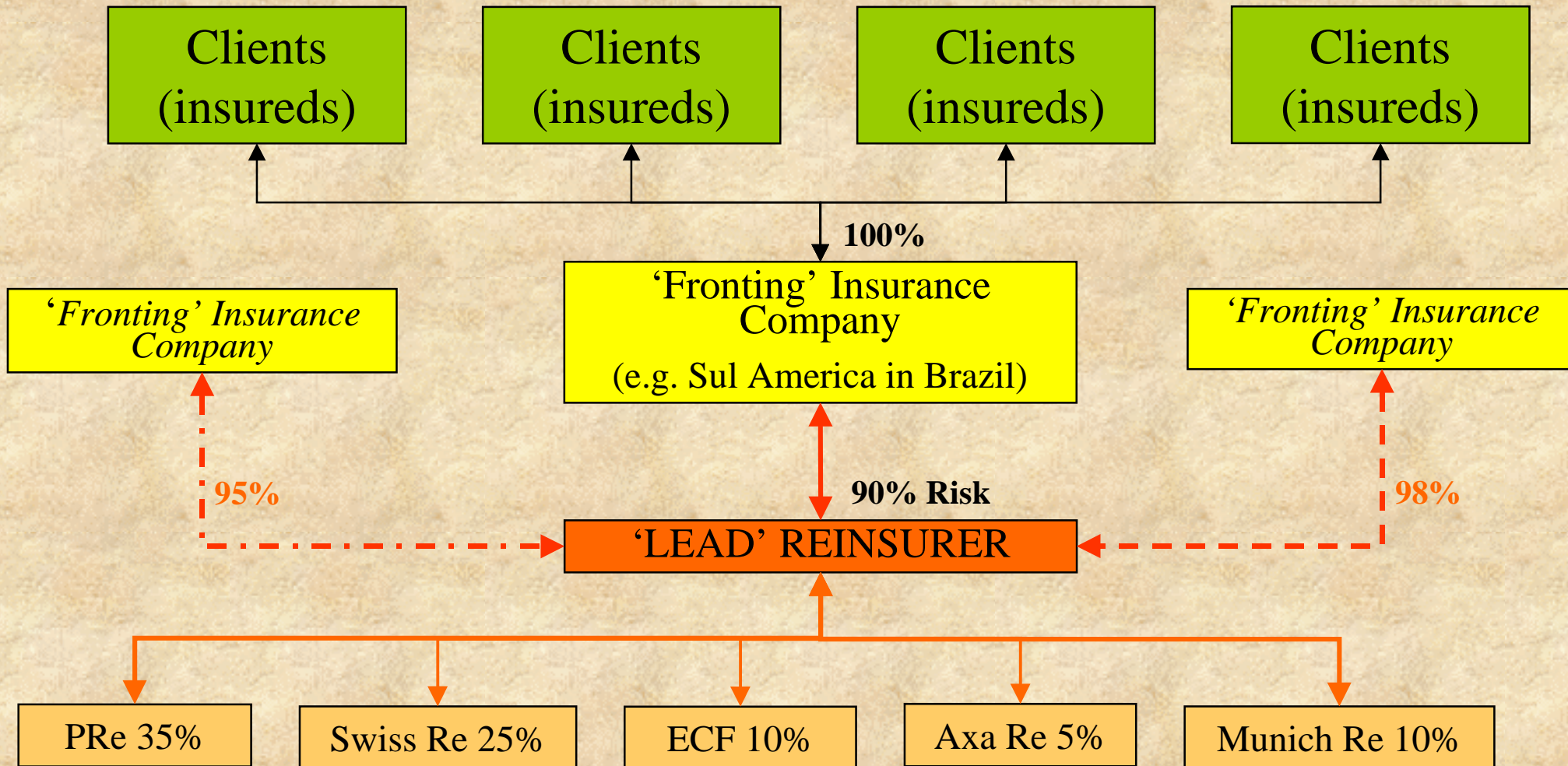
Katoomba

Rio de Janeiro 23 - 26 October 2001

Source: FSC

Partner Reinsurance Company Ltd.

Act as insurers of insurance companies - we take their risk



PartnerRe Centres



Introduction to PartnerRe (PRe)

- ❖ **Largest specialist forestry / Agriculture risk team**
- ❖ **Major global capacity for forestry & agricultural risks (Zurich Branch)**
- ❖ **Specialists in Catastrophe Insurance relevant for climate change**
- ❖ **Forms long term ethical relationships essential for environmental projects**
- ❖ **Product design for the insurance/forestry industry**



PartnerRe Zurich

Main Agricultural Reinsurers

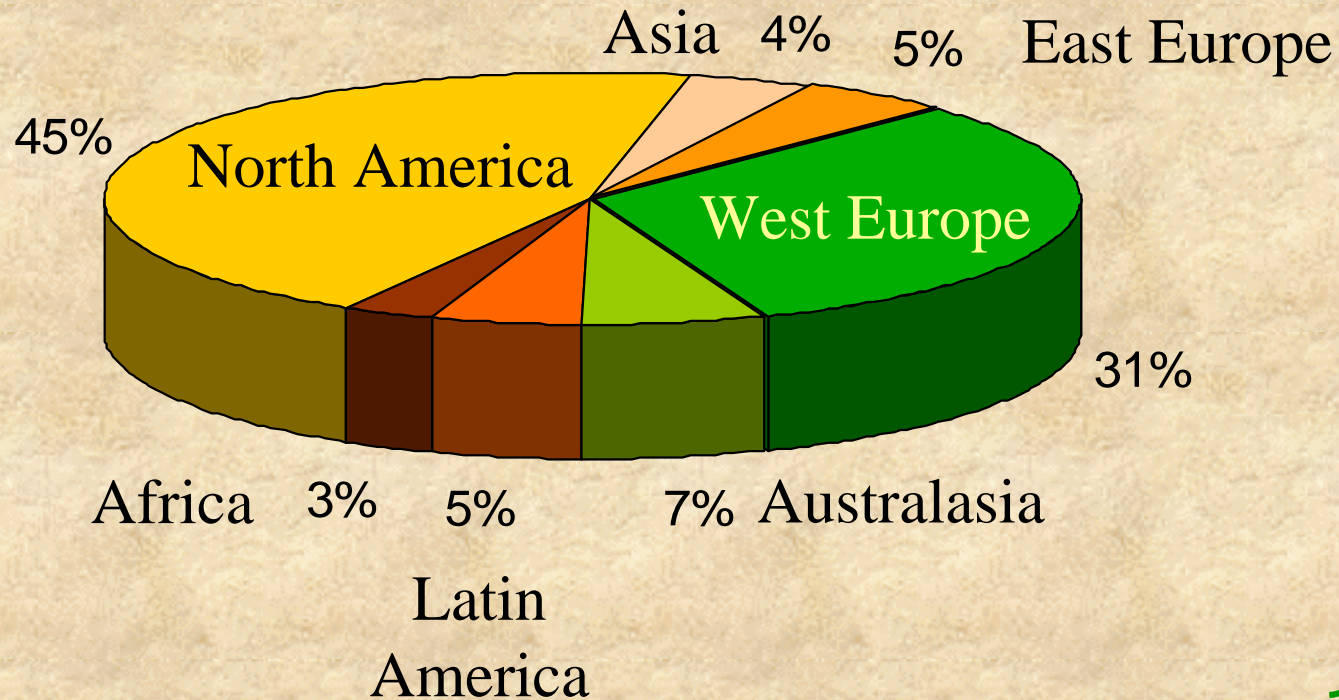
❖ Munich Re	22 %
❖ Hannover Re	15 %
❖ Lloyds	9 %
❖ PartnerRe	8 %
❖ ERC Group	7 %
❖ Swiss Re	7 %
❖ St Paul Re	5 %
❖ QBE	5 %

**Global Reinsurance
Market Premium
is estimated at**

\$ 1.2 billion in 2000

(Private Sector)

Global Agriculture Premiums (inc. Forests) = US\$7bn

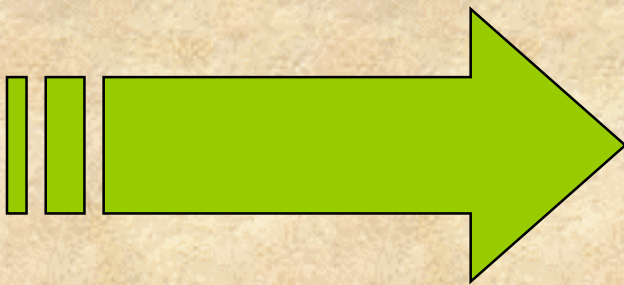


Forestry Share?
<1% or US\$70m
on 3.5bn ha

Traditional Commercial
Insurance = US\$365 billion
Premiums Globally

Reasons for Low Volume of Forestry Insurance

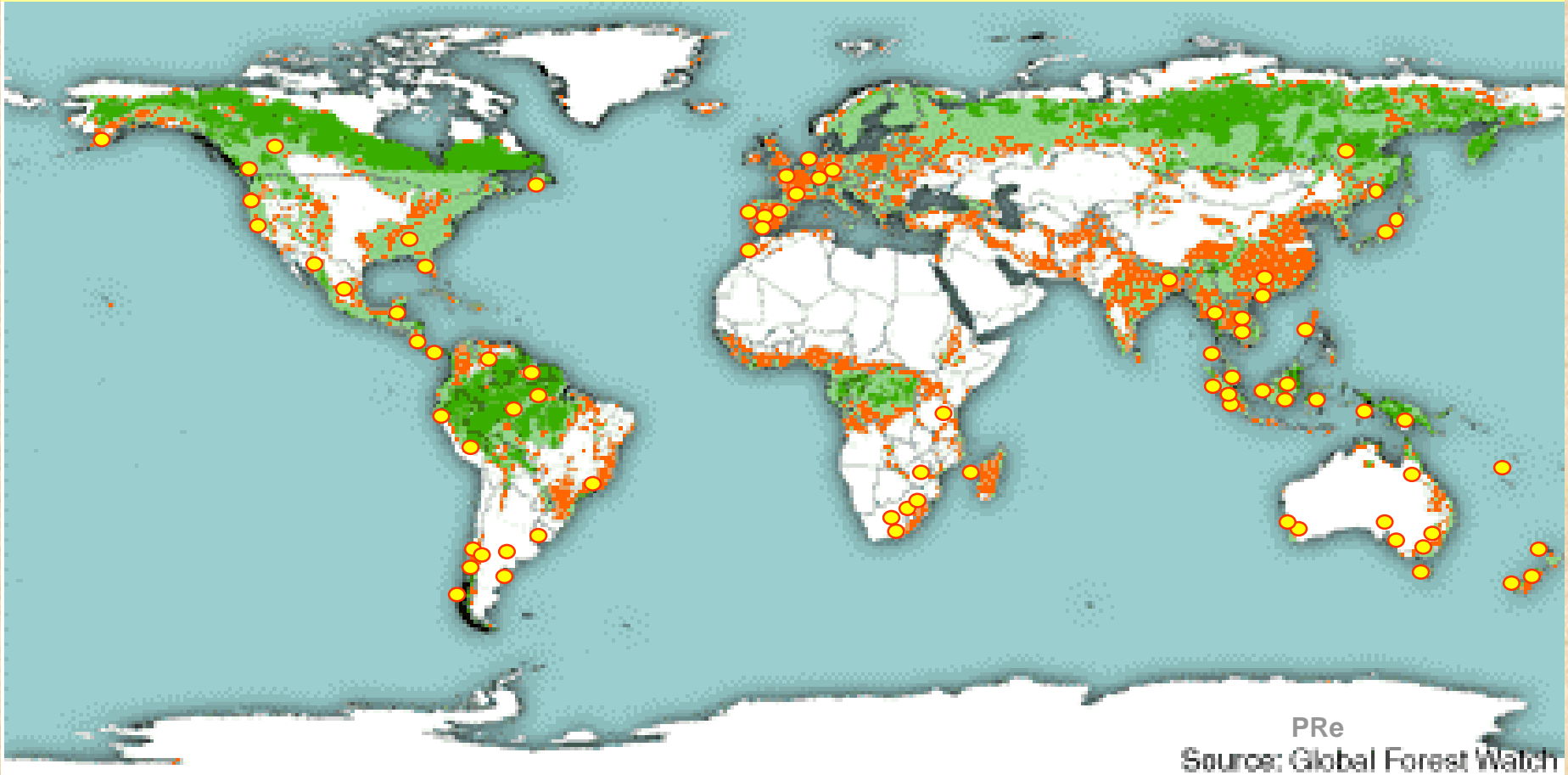
- ❖ **Lack of forestry risk assessment skills among insurers**
- ❖ **Low awareness of insurance options by foresters & investors**
- ❖ **Therefor... limited coverage on offer to forestry sector**
- ❖ **Very little communication between sector and insurers**



No progress to meet required needs

PRe; Widely Based Global Forestry Risk Assessments

PRe: Long Term Global Forestry Risk Management Expertise



Typical Forestry/Crop Insurance Products (usually one year contracts)



Hazards

- ❖ **Fire (all causes)**
- ❖ **Options**
 - Drought/rainfall deficit
 - Disease
 - Wind
 - Frost (seedlings)
 - Wild animals
 - Strike, Riot, Civil Commotion

Insured interest

- ❖ **Loss of crop**
 - Timber / fibre / rubber / Crude palm oil / grains
- ❖ **Asset protection**
- ❖ **Increased costs of working**
- ❖ **Business Interruption**
- ❖ **Capping expenditure on fire fighting & other costs**
- ❖ **Stabilising state budgets**

Who Buys Forestry Insurance?

(usually state / private commercial operations)

❖ Small forest Owners

⇒ Forest Growers in Australia, Spain, France, Panama, UK,...

❖ Banks, & other Financial Institutions

⇒ Their borrowers are secured

❖ Pulp, Paper & Timber Corporations

⇒ Chile, South Africa, Australia, Spain, Brazil, Argentina, China, Indonesia

❖ State, Provincial & National Governments

⇒ Japan, Mexico, Canada

New Forestry Financial 'Environments'

❖ Environmental services

- ⇒ Salinity
- ⇒ Down stream liabilities (soil stability, avalanche and landslide)
- ⇒ Renewable Energy
- ⇒ Carbon sequestration directly or indirectly (Steel)
- ⇒ Reserves & parks
- ⇒ Biodiversity / biochemistry

❖ Rural Development

- ⇒ Social forestry, community forestry, group action

❖ Traditional commercial forestry operations

Longer time-lines



Issues We Must Address in Environmental Projects



Forestry environmental projects ...

- ⇒ operate in immature, opaque & fragmented markets
- ⇒ investor funds operating in unfamiliar sectors (forestry)
- ⇒ perceived risk profile is very high - financiers are risk-averse
- ⇒ sustainability requirements conflict with traditional financial hurdle rates/expectations.
- ⇒ thus absence of J.V. money in forestry as require high hurdle rates

Can Reinsurers (R/I) Provide an Investment Catalyst?

❖ So that...

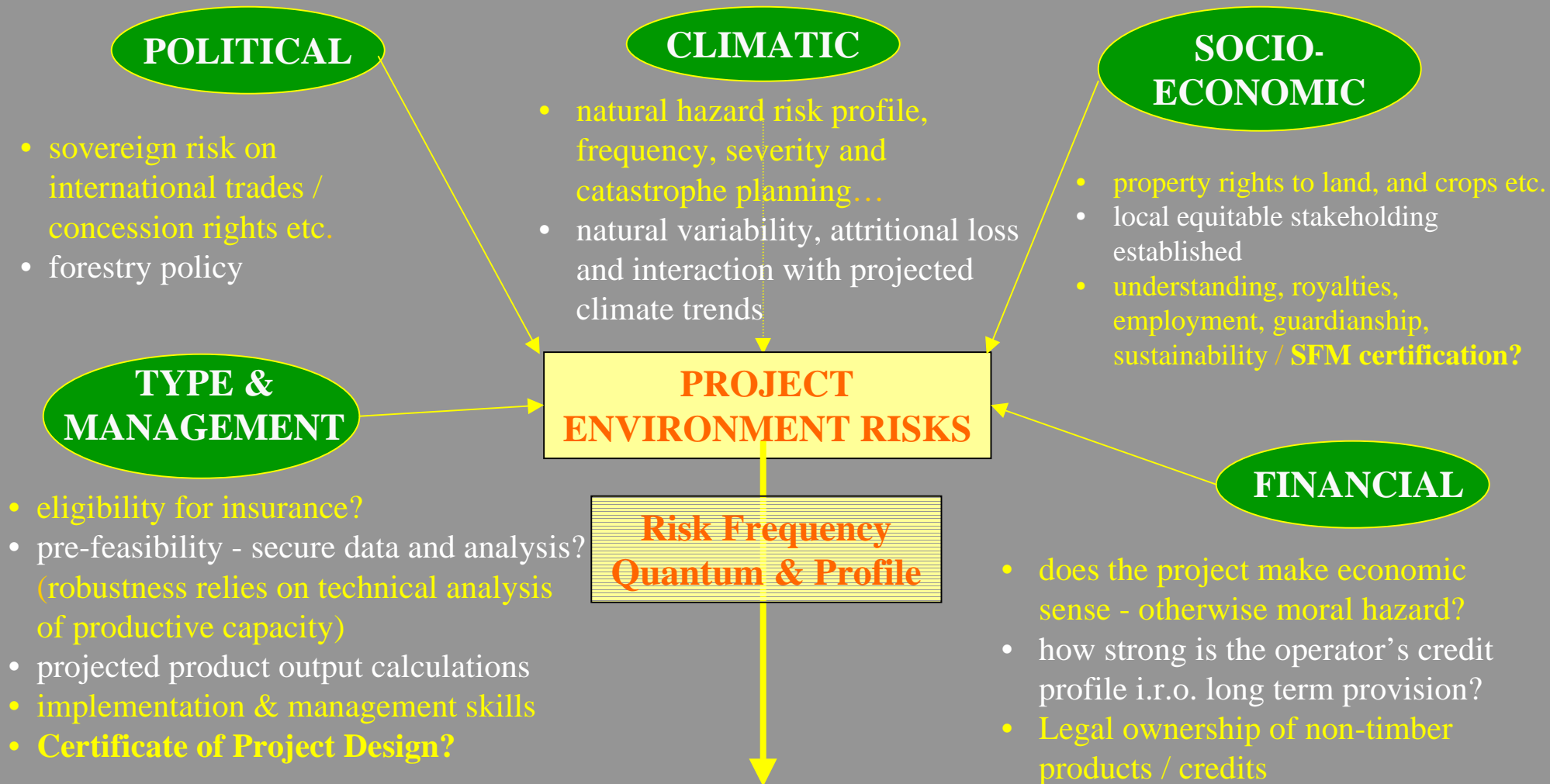
- ❏ secure investors' / banks' funds in the projects
- ❏ reduce risk of failure
- ❏ increase viability of lower IRR projects
- ❏ raise project market profile and quality
- ❏ raise security of environmental products & services
- ❏ **hence raise liquidity**

❖ Yes if...

- ❏ assess & model risk profile for probability of achieving targets
- ❏ comprehensive project overview linked to enhanced management capacity
- ❏ a multi-line, multi-year approach

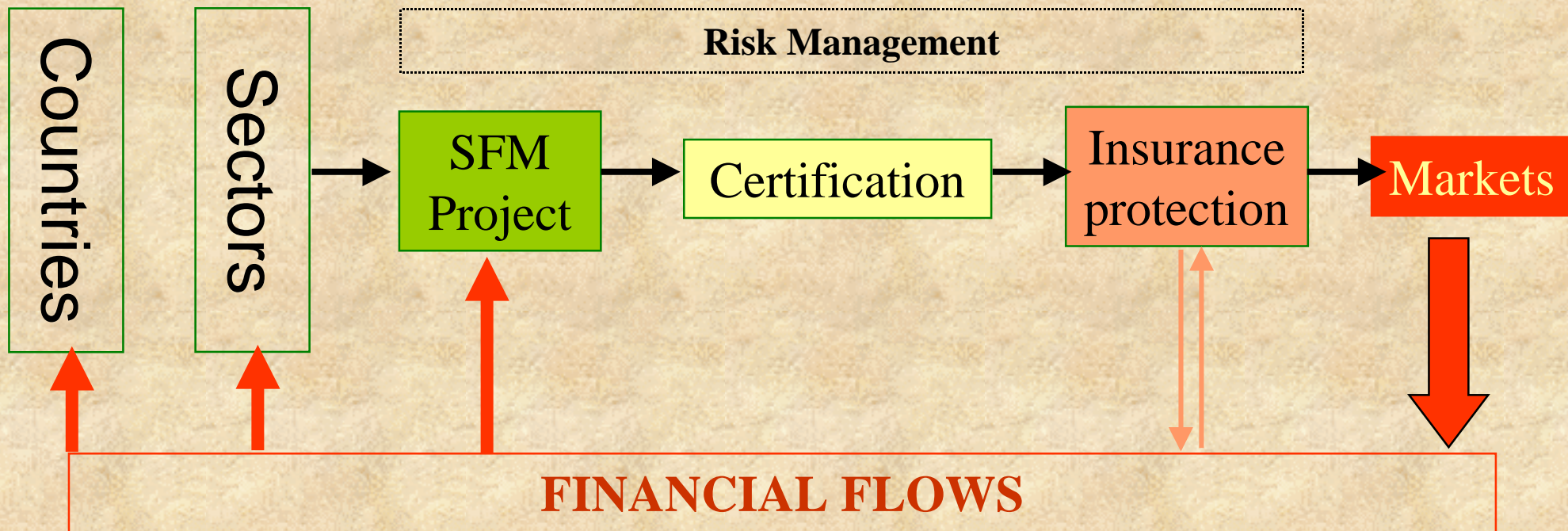


Assess Risk Profile Directly or On Basis of SFM type Certification (e.g. FSC)



What Benefits Accrue if Insurers Provide Long Term Protection ?

SFM, certification and insurance can together deliver significant economic benefits given the current nature of the forestry sector & can provide a catalyst for long term sustainable rural development



Sustainable Projects Require Sustainable Insurance (Long Term Protection - but Against What?)

What are the benefits required?

- ❖ Guaranteed performance (fibre yields, Carbon CERUs)?
- ❖ Project performance risks (fire, earthquake etc.)
- ❖ Financial returns
- ❖ Unbudgeted costs
- ❖ Delivery of carbon credits (CERU) 2008-2012 to buyer?
- ❖ Down stream liability (water quality, land slide, infrastructural damage)
- ❖ Catastrophy events (hurricanes, earthquake)
- ❖ Loss of access to markets following loss of Certification?

PRe Require Projects to Test Need and Service

- ❖ **Currently have quoted for 10 year product yield guarantee as support for bank finance for potential CDM**
- ❖ **Working on substantial US forest investment fund protection**
- ❖ **Looking at forestry wind protection and wind farm generation capacity in Ireland**
- ❖ **Would like to develop a global sustainable forestry facility**

Contacts

Partner Reinsurance Company Limited

phil.cottle@partnerre.co.uk

Ignacio Murtagh (pras@arnet.com.ar)

PartnerRe works with all brokers but in particular:

Aon Carbon

justin.mundy@aon.co.uk