#### PARTNER REINSURANCE COMPANY LTD

# MAKING THE LINK

# Sustainable Forest Management and Forestry Finance

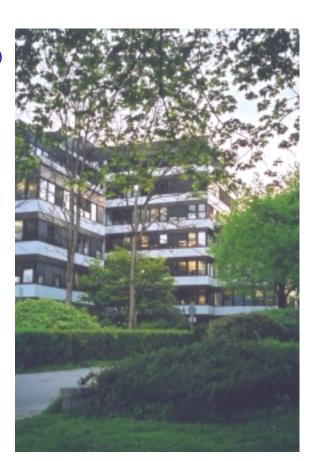
**Phil Cottle** 

Katoomba Vancouver 4 - 6 October 2000

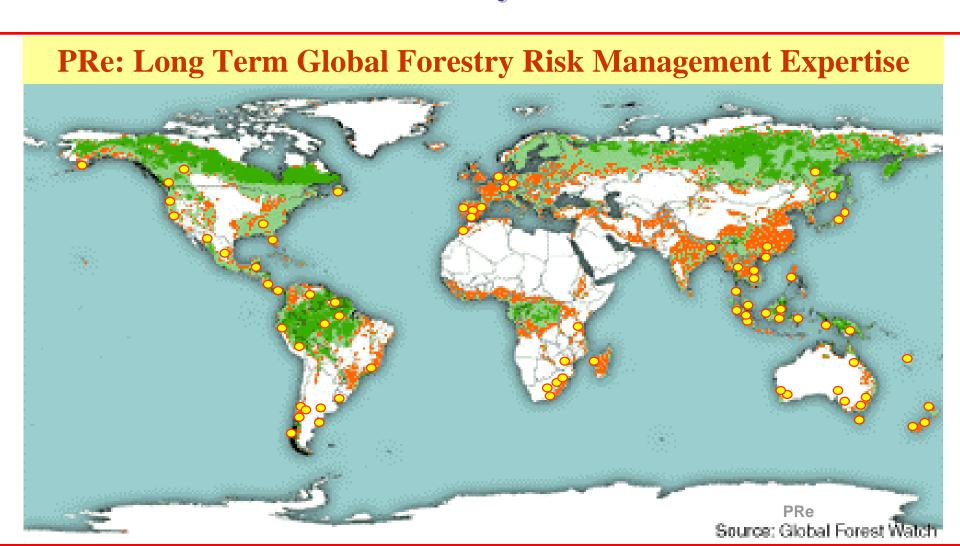
Source: FSC

# **Introduction to PartnerRe (PRe)**

- Fifth largest international reinsurance group by capacity
- Largest specialist forestry risk team
- Major global capacity for forestry & agricultural risks
- Specialists in Catastrophe Insurance relevant for climate change
- Forms long term ethical relationships essential for environmental projects



### PRe - Global Forestry Risk Assessments



# **Issues 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

### Reinsurers (R/I) Provide an Investment Catalyst

#### How?

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



- And how's that?
  - assess & model risk profile for probability of achieving targets
  - comprehensive project overview linked to enhanced management capacity
  - a multi-line, multi-year approach
  - forms a proactive strategicPartnership

#### **Risk factors that PRe Assess**

#### POLITICAL

- sovereign risk on international trades / concession rights etc
- forestry policy

# TYPE & MANAGEMENT

- eligibility for insurance?
- pre-feasibility secure data and analysis?
   (robustness relies on technical analysis of productive capacity)
- projected product output calculations
- implementation & management skills
- Certificate of Project Design?

#### CLIMATIC

- natural hazard risk profile, frequency, severity and catastrophe planning...
- natural variability, attritional loss and interaction with projected climate trends

PROJECT ENVIRONMENT RISKS

Risk Frequency

Quantum & Profile

Basis of Valuation

#### SOCIO-ECONOMIC

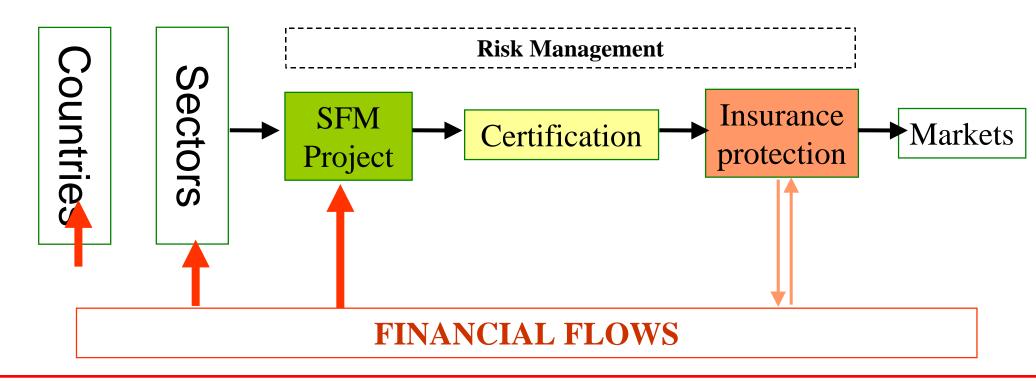
- property rights to land, and crops etc
- local equitable stakeholding established
- understanding, royalties, employment, guardianship, sustainability / SFM certification?

#### FINANCIAL

- does the project make economic sense otherwise moral hazard?
- how strong is the operator's credit profile i.r.o. long term provision?
- Legal ownership of non-timber products / credits

# Making the Link & Completing the Framework

SFM, certification and insurance can together deliver significant economic benefits given the current nature of the forestry sector, & can be a catalyst for long term sustainable rural development as under CDM goals..



#### **Conclusions**

#### SFM certification unlocks insurance participation

Insurers have a particular interest in forestry and other environmental projects

- Forestry projects can balance their own investment risk profile
- Forestry is a hedge against financial exposure in usual property underwriting portfolios
- Forestry has a role in mitigation of long term climate change and consequent effects on insurers catastrophe exposure

#### **Contacts**

# Partner Reinsurance Company Limited Phil Cottle @ partnerre.co.uk

PartnerRe works with all brokers but in particular:

Aon Carbon justin.mundy@aon.co.uk charles.eyre@aon.co.uk