



KEMENTERIAN KOORDINATOR
BIDANG PEREKONOMIAN
REPUBLIK INDONESIA



Focus Group Discussion: Use of Insurance Products to De-risk Clean Energy Projects

16 June 2021 • 9h00-11h00 CEST

Overview

This webinar, organised as part of the Indonesia CEFIM programme, explored the use of insurance products to de-risk renewable energy projects and facilitate access to financing. Experts presented on country/regional experience on the use of insurance to manage various construction, operational, policy and physical risks related to renewable energy technologies. The webinar also examined options for acquiring insurance coverage on a collective basis in order to provide a more diversified pool of project risks to lower insurance costs and provide access to smaller projects. It also explored the role of governments and development partners in supporting the development of financial instruments to protect against renewable energy sector risks and its potential to help scale future renewable investments.

Summary of Discussions

Indonesia has implemented a number of regulations to improve clean energy project risk profiles. Most notably, the Government revamped its Online Single Submission system in 2018 and issued a new licensing regulation in 2021 in a bid to streamline and accelerate the permitting (IUPTL) of power projects, thereby reducing lead time from 30 business days to 5. It also issued Ministerial Regulation 10/2018 on Principles for Power Purchase Agreements to better balance interests of developers and PLN (the state power utility). Similarly, an upcoming Presidential Regulation is expected to provide more price certainty (e.g. reinstating feed-in tariff for certain below 5-MW technologies) and improve renewable power procurement mechanisms.

Despite these efforts, Indonesia's financial institutions continue to see renewable energy and energy efficiency ("clean energy") projects as risky undertakings (e.g., due to weather and output variability, technology risks, permitting and land acquisition risks etc.). As a result, these projects struggle to access affordable capital. Indeed, as was highlighted in the discussion, banks tend to require high collateral, numerous guarantees (e.g. construction, payment, land etc.) and charge relatively high interest rates for renewable projects.

The insurance market can thus play an important role to mitigate some of these risks and hence improve project bankability. As a positive step, Indonesia has put in place a legal framework for insurance and risk management (e.g., Law 40/2014 on insurance) which helped grow the domestic insurance industry over the last decades. The number of insurance brokers, who play an important role in facilitating project risk management, have equally increased and are now active players in the insurance market. Domestic insurers have also developed a range of products to mitigate some renewable project risks (e.g., credit insurance and payment guarantees, property damage, machinery breakdown etc.) although there is not yet a specific insurance policy targeting renewable projects, let alone energy efficiency. Notwithstanding, given the range of risks to be mitigated, domestic insurers often lack sufficient capacity.

New insurance products and practices will likely need to be developed to cater to the specific risk profile of renewable energy projects, which considerably differ from that of conventional, large power projects. Indeed, these are often more vulnerable to weather risks and smaller. Their smaller size means that clean energy projects often lack 'critical mass' to be attractive to insurers. Risk management for these projects (particularly when performed by smaller developers) can also be challenging. Equally, their exposure to climate/weather risk can affect power output and thus their revenue stream.

Indonesia's concerted efforts to mainstream sustainable finance in the insurance industry should help to accelerate the development of insurance solutions tailored to the risk profile of clean energy projects. Regulation POJK 51 on the implementation of sustainable finance already mandates industry players to prepare sustainable finance action plans (RAKBs) as well as sustainability reports. Similarly, insurance companies and other financial players are also encouraged to develop sustainable finance products, including for clean energy. To that end, OJK has put in place a number of measures in the form of awards, trainings as well as through defining a list of eligible sectors for green bonds.

Possible solutions to scale up insurance solutions for clean energy:

- Continuing to create a sound regulatory environment for clean energy is key to improve the risk profile of clean energy projects and thus to reduce the premium developers must pay for insurance. In the same breath, Indonesia should continue to incentivise the development of sustainable insurance products.
- To fill domestic insurers' capacity gap, Indonesia could consider creating a state renewable energy agency that could act as a hub to connect local developers to domestic as well as foreign insurers.
- Capital markets can also help improve insurance capacity. Institutional investors are increasingly keen to take on climate and renewable energy risks and hence, could be a potential source of funding for insurance coverage.
- Blended finance can help to mobilise private insurers/reinsurers and de-risk projects. The African Energy Guarantee Fund (AEGF) for instance, is a good example of such blended finance scheme that could potentially be replicated to Indonesia and Asian countries. As part of that scheme, Munich Re (a private reinsurer) alongside EIB and KfW (development partners) successfully provided political risk reinsurance products for renewable energy, energy efficiency and energy access projects in Africa.
- Bundling (often small) clean energy projects together, could be an interesting avenue to explore with a view to reducing transaction cost, diversifying risks and subsequently making them more attractive to insurers. However, this will likely necessitate some level of standardisation across project contractual arrangements.
- Developing climate risk solutions can help hedge against revenue volatility due to unforeseen, weather-induced renewable power output variability. To address this challenge, for instance, Allianz Global (a private insurer) has developed climate risk insurance products for renewables and set up dedicated teams' worldwide.