Insuring Forest Carbon

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Juerg Fuessler, Swiss Re
Swiss Re is a global financial services firm with a long history of success.

Swiss Re is...
... a financial services firm with 144 years of experience
... the world’s leading and most diversified reinsurer
... a proven expert in risk and capital management
... a pioneer and leader in capital market solutions

Quick facts (31/12/2007)
- Revenues CHF 42.8 billion
- Net income CHF 4.2 billion
- Total investments CHF 228 billion
- Rated AA- by S&P, Aa2 by Moody’s
- 11,000+ employees
- 90 offices in 25 countries
- Headquarters in Zurich, Switzerland

Recent awards
- Best global reinsurer
- Top-10 “Green Giant” (Fortune Magazine, 2007)
- Top-50 “Low Carbon Pioneers” (CNBC, 2007)
- Insurance Borrower of the Year (Euromoney, 2007)
- #1 Capital Raising of the Year (Reactions, 2006)
Swiss Re
Combines Expertise of Key Areas

Forest Insurance
(Re-) insuring forest assets

Emissions Trading
EUAs, CERs, ERUs, VERs

Carbon insurance
CDM project insurance, structured products

Price Development EUA - EU ETS Phase II
Many reasons that can turn forest from sink to source

Forest area burnt

Area burnt (in 1000 hectares)

Year


Canada
USA
Chile
Australia
Spain
Which perils can a (re-) insurance cover?

Covered in Swiss Re’s standard forest (re-) insurance:
- Fire, wind
- Hail, pest & disease, snow, ice, flood

Additional perils that CDM project developers ask cover for:
- Insurance of Kyoto-cycle: Methodology, Registration, Issuance
- Hedging of carbon market risks: futures, options, structured products

Additional perils that A/R or REDD project developers ask cover for:
- Government does not honour legal contracts any more
- Change in regulation, Expropriation
- Migrants come in and use land, riots, social unrest
Permanence and Timeline

- Permanence of sinks requires forest systems and carbon storage to remain intact over decades
- Forest insurance contracts are usually renewed annually, slightly longer time periods are possible
- The regular renewal of insurance cover might become part of the long term operation of A/R or REDD projects
- Government or Public Private Partnership probably best placed to take over very long term liabilities
Preliminary Conclusions

- Insurance can remove many of the key uncertainties for project developers, operators and investors. E.g. reduce the size of buffers.

- Main limits of insurance solutions lie in challenges to cover long term liabilities and in difficulty to insure political risks.

- Insurance can play a very important role in the risk transfer for A/R or REDD projects, but is probably not the silver bullet to solve permanence issues.

- Insurance of forest carbon may best be implemented in a joint effort of insurer, project developers and governments.

Swiss Re is working with project developers to explore risk transfer solutions for forest carbon.
Thank you!

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