

HSB Energy Efficiency Insurance

# Risk solutions for green energy projects

Designed for investors, energy service companies  
and those financing energy saving projects



# Around 40% of all the energy we consume comes from buildings

High energy prices and evolving legislation, combined with the need to reduce CO2 emissions, have seen increasing investment in green energy initiatives. With around 40% of all the energy we consume coming from buildings<sup>(1)</sup>, there is a major opportunity to cut both emissions and costs by installing energy saving technologies. Such projects bring with them a need to protect the assets installed, revenues they generate and the potential savings they produce.

**HSB, part of Munich Re, recognise the importance of providing the right insurance covers to protect energy efficiency projects.**

## Saving energy

Energy costs are a significant percentage of property owners' and occupiers' expenses and are likely to increase in the long term. Whilst renewable energy production is an increasingly popular solution, it is much cheaper to save a kW of energy than it is to produce one. As a result, more and more companies are looking to reduce their energy consumption.

Over 50% of buildings in the UK are over 50 years old<sup>(2)</sup>, however there are numerous ways in which their energy efficiency can be improved. Initiatives ranging from LED lighting and improved building management controls right through to wood pellet combined heat and power installations can be combined to generate significant energy savings.

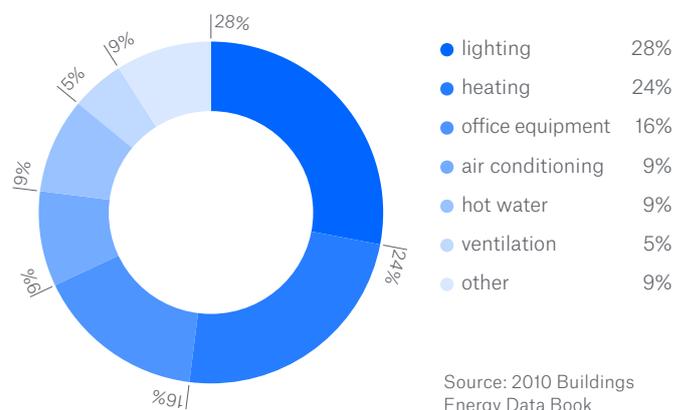
Whilst some organisations may want to manage their own energy efficiency initiatives, increasingly people are turning to Energy Service Companies (ESCOs) to deliver energy savings.

An ESCO will design and implement a project plan involving the retrospective fitting of energy saving equipment and materials. They will then typically be contracted to manage the energy for the building at a cost that guarantees a minimum level of savings for the building owner.

Sources:

- (1) DCLG: Recast of the Energy Performance of Buildings Regulations - Nov 2012
- (2) DECC: The energy efficiency opportunity in the UK - Nov 2012

## Typical energy usage in a commercial building



## Improved credit risk through energy efficiency insurance

HSB has developed a policy to meet the needs of organisations investing in energy saving technology and energy service companies working with them.

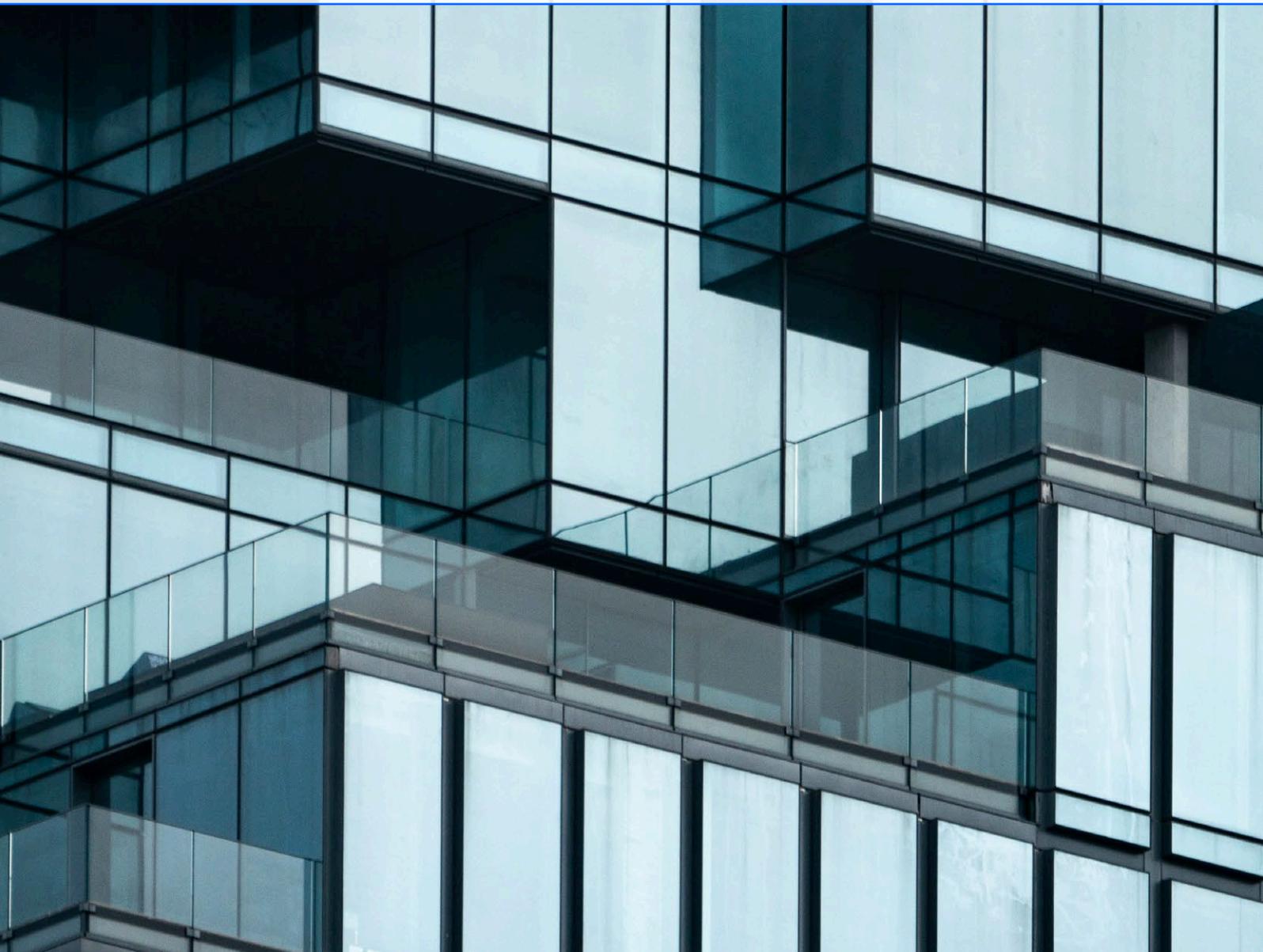
Since the global financial crisis, it has been extremely difficult to secure financing. Whilst green energy projects have been one of the few sectors to buck this trend, funding for energy efficiency projects has been slow to materialise despite a significant increase in demand. This reluctance on the part of banks is, to a large degree, due to the fact that loans often need to be secured against future cost savings following the installation of energy conservation initiatives. If the project is miscalculated or the technologies installed do not work as anticipated, then those savings are unlikely to be achieved, resulting in a possible default on the loan.

Energy efficiency insurance removes the technical uncertainty for the lender allowing them to concentrate purely on credit risk. Insuring the performance of the project with a highly rated insurer can also help to reduce the financial exposure. This results in improved credit worthiness and may lower interest rates and funding costs.

## Energy efficiency insurance solutions

Our policy is specifically designed for investors in energy conservation measures, ESCOs and those financing energy saving projects. It provides cover for the assets installed, revenue generated by projects and shortfalls in energy savings realised each year.

**Thermal film coverings  
for windows and  
external blinds are  
typical energy saving  
solutions.**





The policy is available for periods of up to five years and provides cover for the following:

**Material damage**

Covers physical damage, including breakdown, to equipment and materials installed as part of an energy saving project with the aim of saving or generating energy. Replacement of equipment is on a new for old basis.

**Business interruption**

Covers loss of gross revenue and increased cost of working following insured damage to equipment. Revenue is income generated under an energy service contract and incentives received for the production of renewable energy.

**Asset performance**

Covers the annual shortfall in energy savings compared to the amount of savings insured by the policy. It covers shortfall caused by deficiencies in the design or implementation of energy saving measures and does not require damage to have occurred to the equipment. The cover is subject to a project audit.

**Benefits of energy efficiency insurance**

Energy efficiency insurance can provide a number of benefits for those receiving, delivering and funding energy saving projects:

**Building owners/end users**

- Makes energy saving projects more easily achievable, enabling a reduction in energy costs
- Confidence of knowing that performance shortfall is insurance backed

**Energy Service Companies**

- Improved availability of project funding
- Reduced finance costs from credit risk improvements
- Assets, revenue and performance shortfall all protected
- Greater customer confidence in ability to deliver energy saving projects

**Banks/funders**

- Technical uncertainty removed from the project
- Improved credit worthiness of energy saving projects
- Loan repayments protected

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**Why choose HSB?**

**HSB is a leading specialist provider of engineering and technology insurance solutions.**

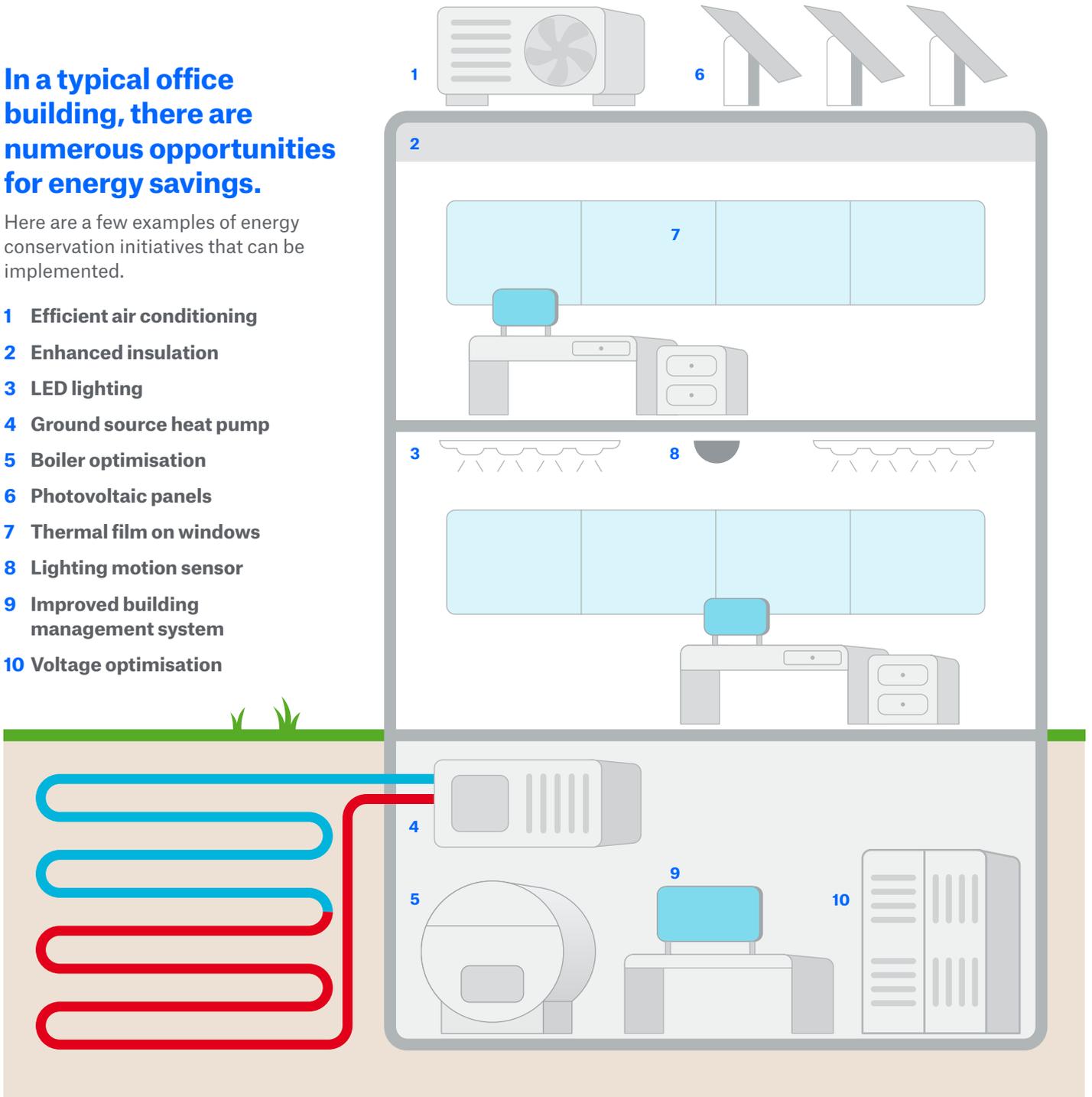
Our underwriters and risk engineers have extensive experience in providing covers for plant and equipment used in a vast array of applications, and are recognised as experts in this field. Drawing on our considerable engineering expertise, we are able to provide tailored insurance products to meet the needs of those looking to reduce energy consumption.

- Policy wordings specifically designed for investors, energy service companies and those financing energy saving projects
- Winner of the 2021 British Insurance Awards - Specialist Insurance Company of the Year
- Equipment breakdown cover provided as standard
- Loss of revenue cover available on all policies
- Shortfall in energy savings cover available
- Extensive underwriting expertise in building services technologies
- Access to our experienced loss control engineers
- A dedicated, customer-focused in-house claims team

## In a typical office building, there are numerous opportunities for energy savings.

Here are a few examples of energy conservation initiatives that can be implemented.

- 1 Efficient air conditioning
- 2 Enhanced insulation
- 3 LED lighting
- 4 Ground source heat pump
- 5 Boiler optimisation
- 6 Photovoltaic panels
- 7 Thermal film on windows
- 8 Lighting motion sensor
- 9 Improved building management system
- 10 Voltage optimisation



## Case study: Energy efficiency improvements in a hotel\*

**Building type:** Independent 5-star hotel  
**Size:** 174 rooms plus spa and fitness centre  
**Date built:** 1996  
**Annual energy spend:** £3,200,000

### Energy saving project

Introduction of seven energy savings initiatives including a new combined heat and power plant, LED lighting, building management system upgrade, variable speed drives, rooftop PV panels and upgrades to air conditioning and extract plant.

**Total capital expenditure:** £2,800,000  
**Annual revenue:** £300,000 (Feed in Tariff and Renewable Heat Incentive)  
**Estimated savings:** £460,000 p.a.

### Insurance solution

**All risks and breakdown on installed initiatives:** £2,800,000  
**Loss of revenue:** £300,000  
**Insured savings:** £460,000  
**Insurance period:** 5 years

Not only were we able to insure the installed equipment and savings/revenue equal to 24% of the previous energy spend, but the energy service company was able to show a significant improvement to the credit rating of the project, reducing the cost of the project loan.

\*The above scenario is a case study example which has been used for illustrative purposes only. As with all insurance policies, terms may vary depending on the risk.

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This is an overview of HSB's Energy Efficiency Insurance product. For full details of the cover and further information, please contact your local HSB office.

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