



# Offshore Warranty Cover

## A backup of EPC contractors' warranties

WindEurope Summit  
Hamburg, 28 Sept 2016  
Dr. Ing. Mathias Hörmann

# News on Insurance products for the wind industry

## Content

1. Munich Re's Green Tech Solutions for the wind industry
2. Contractual warranties in offshore wind projects
  - Impact of risky gaps
  - Innovative insurance solution

# Green Tech Solutions within Munich Re

The world's largest reinsurer's financial strength at your side

## Munich Re (Group)

- World's largest reinsurer by premium volume
- Founded in 1880
- Group Result 2015: €3.1billion
- Approx. 43,000 employees



## Green Tech Solutions (GTS)

Pooling expert resources and know-how in the field of:

Renewable energies and energy efficiency

Risk transfer solutions are developed and deliver

- Technical endorsement
- Bankability and
- Business enabling results to all project stakeholders

# Munich Re GTS' Value Proposition

## Proof Points in the Market

### Green Tech Solution's track record

Over **150 renewable energy manufactures** audited in extensive factory visits **globally**

*“If it weren't for Munich Re, winning the 96 MW solar project in South Africa would not be possible...”*  
CEO of solar module manufacturer

Green Tech Solutions insured **80 renewable energy projects** in **16 countries** and **4 continents**

*“The insurance enabled the bond to achieve investment grade rating that delivered up to 30% savings in finance costs!”*

More than **€1 billion exposure** in support of over **€12 billion capital** in global “green” technologies since 2010

World-class partnerships with research and certification institutes, e.g., **DEKRA, Fraunhofer Institutes**

Strong collaboration within Munich Re's network of financial & technical experts, e.g., **Corporate Climate Center, MEAG**

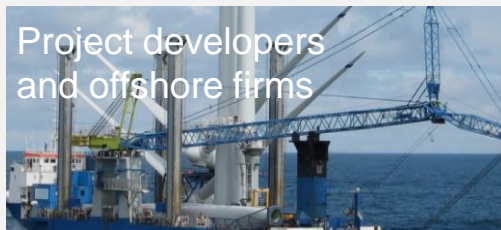
## ... pioneering risk solutions for the wind industry

Serial loss cover  
for wind turbines



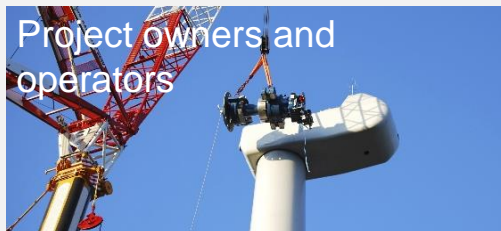
Covers the risk of large technical loss in the  
wind industry

Offshore  
logistics delays



Covers the delay of offshore projects due to  
adverse weather conditions

O&M Cover



Protection against cost overrun for unscheduled  
maintenance of large onshore wind farms



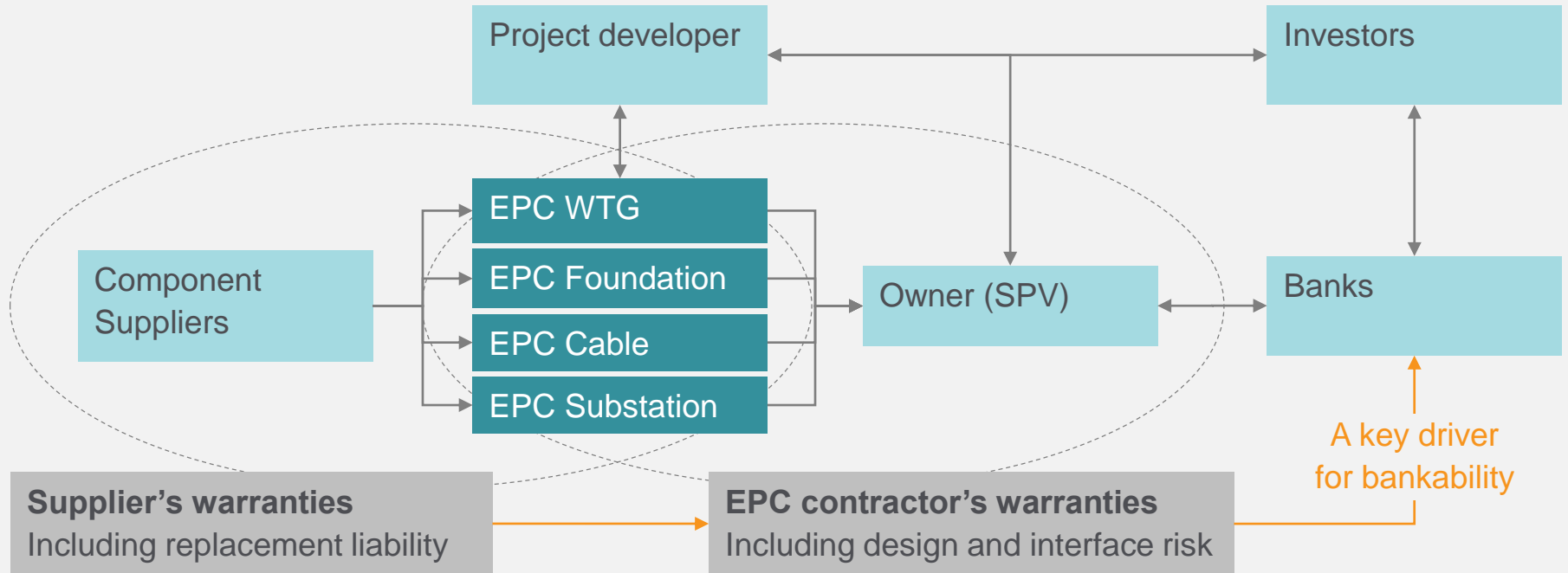
# Contractual warranties in offshore wind projects

## An extraordinary risk becomes insurable

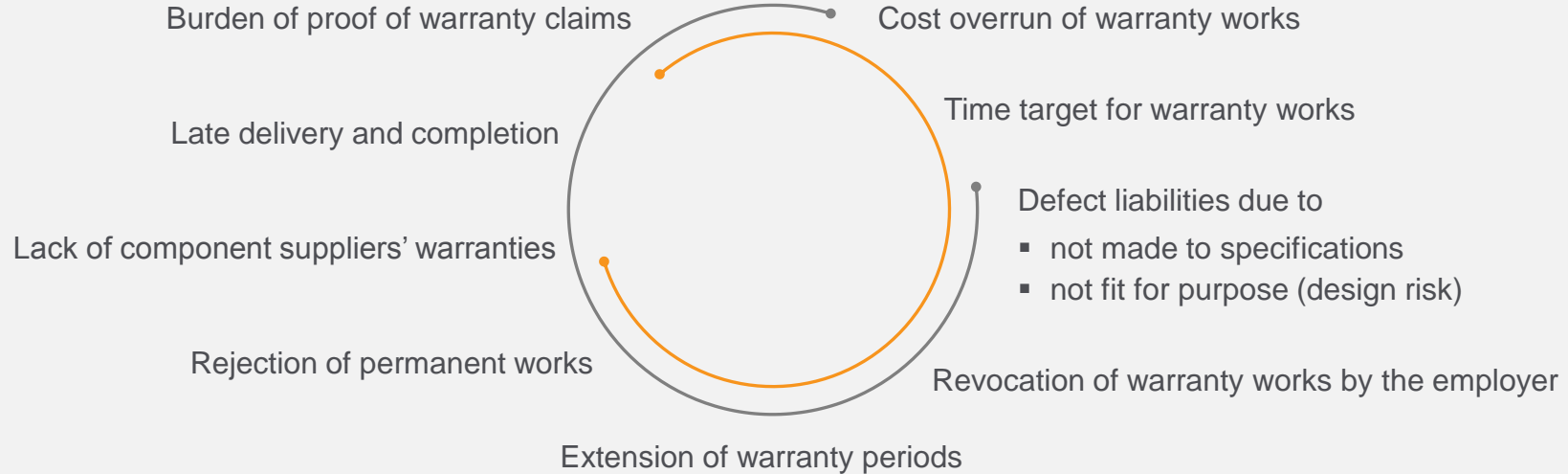


# Warranties for offshore wind farms (illustration)

## Wind farm project setup



## Some liabilities that EPC contractors and component suppliers have to take





## Conventional CAR and Operational Covers (OC)

- are designed to cover individual physical damages in plant engineering and construction
- fail to fully cover the liabilities taken by the wind industry:

Physical damage only



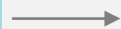
No cover for repair of defects (non-PD claims)

Serial loss clause (exclusion)



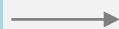
Insufficient cover for large serial failures

OC annual renewal (one-year policy term)



Non-renewal or cancellation in the event of claims

OC does not cover EPC and suppliers



Subrogation of warranty claims against EPC

# Large warranty claims are rare – but they can have serious implications for EPC contractors and suppliers

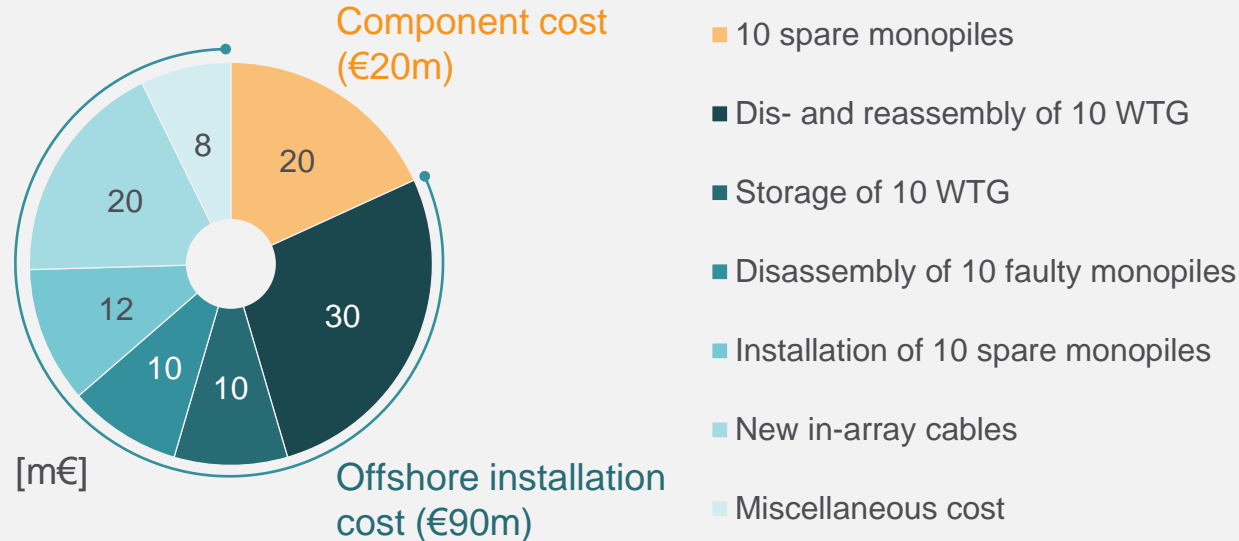


## Optimised risk management strategy for today's wind industry

- Risk transfer to insurance of major threats such as large warranty claims
- Taking responsibility of QA mean that basic warranty claims will be managed in-house or with higher deductibles

# How much could a large warranty claim cost?

## Breakdown of potential costs incurred by replacement of 10 foundations (example)



Conventional insurance covers insure only a small portion of the costs actually incurred in a major warranty claim

# The new tailor-made Offshore Warranty Cover for the offshore industry provides comprehensive coverage

Following costs could be covered:

- + Repair or replacement for defective components
- + Component suppliers' warranty default (refusal, insolvency)
- + Offshore logistics costs (crew, vessel, mobilisation)
- + Adverse weather conditions during warranty works (Waiting-on-Weather (WoW) Sublimit)

 Most cost items resulting from a large warranty claim can be covered

# How does the Offshore Warranty Cover work?

## Cover structure for settling a large warranty claim

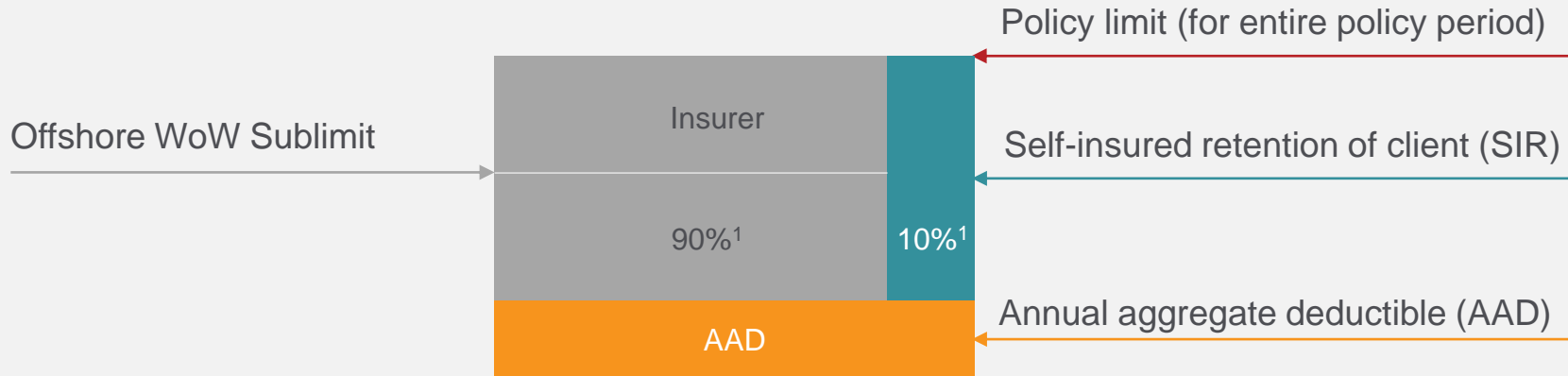


### Terms and conditions:

- **Multi-year cover** written for each offshore project up to a 5 year warranty period
- Claims do not entitle insurer to **cancel cover**
- In case of a serial loss, any **large warranty claim is fully allocated to the year in which the first loss occurs**

# How much is insurable in the Offshore Warranty Cover?

Our insurance solution provides a substantial buffer to safeguard the EPC contractor's existence even in the event of large warranty claim. A substantial loss participation is expected.



## Insured's deductibles

- Insurance cover on a warranty claim basis in excess of the **AAD**
- In excess of the AAD the insured keeps a proportional participation (co-insurance): **SIR**

## The Offshore Warranty Cover delivers bankability and enables EPC contractors new business



- Covers most of the actual cost of a large warranty claim
- Complements risk management strategy: major commercial threat now insurable
- Secures liquidity of the insured in event of a major warranty claim
- May be possible to reduce warranty reserves due to optimised insurance covers (to be reviewed by auditors)
- Competitive advantage:  
Company warranties backed by strong insurance companies appreciated by wind farm investors and financial institutions



## Stijn Folkers, Contracts Director of Seaway Heavy Lifting says:

"We are pleased to have Munich Re as partner in exploring solutions which allow us to serve this particular market segment. Throughout the process Munich Re showed a can-do mentality combined with an in-depth technical expertise and solid knowledge of insurance. Availability of this cover was one of the critical aspects in evaluating the commercial merits of one of our larger offshore projects"





Thank you for your attention!

WindEurope Summit  
Hamburg, 28 Sept 2016  
Dr. Ing. Mathias Hörmann

© 2016 Münchener Rückversicherungs-Gesellschaft © 2016 Munich Reinsurance Company

Munich RE 

## Green Tech Solutions' wind cover experts

---



Green Tech Solutions  
Dr. Mathias Hörmann

Tel.: +49 89 38 91-33 58  
mhoermann@munichre.com



Green Tech Solutions  
Dr. Tobias Aigner

Tel.: +49 89 38 91-3475  
taigner@munichre.com



Green Tech Solutions  
Tokyo  
Michio Matsuda

Tel. +81 3 5251 6857  
mmatsuda@munichre.com



Green Tech Solutions  
New York  
Álvaro Núñez

Tel. +1 212 887 6067  
anunez@munichreamerica.com