



Embargoed: 22 November 2012

New study from insurers could remove an obstacle to CCS, but risk sharing with government is still required

A new risk-management study from a group of leading insurers identifies the potential to remove a barrier to the development of Carbon Capture and Storage (CCS) technology at scale in Europe, paving the way for more effective action to prevent climate change.

The proposal, put forward in a report by ClimateWise, an insurance leadership group whose members include Swiss Re, Catlin, Zurich, Aon and Willis, addresses the problem of unlimited liability associated with the risk of leakage of carbon dioxide from storage sites.

The European CCS Directive requires storage providers to have an appropriate form of financial security in place before being awarded a storage permit. If carbon dioxide (CO₂) were to leak to the atmosphere, store operators would have to surrender carbon credits (European Union Allowances) at their market price at the time. The fact that the future price of carbon credits is unknown means the size of the liability is not limited, and therefore cannot be insured against in its entirety.

"Insurance does have a role to play as a tool to manage the risks arising from the liabilities that the CCS industry faces in Europe," said John Scott, Chief Risk Officer at Zurich Global Corporate. "However, some liabilities will remain uninsurable because of their nature and insurance does not offer an easy or comprehensive solution to long-term CO₂ storage liability. Neither insurers nor storage operators will be able to bear unlimited liabilities, so risk sharing with government will be required to develop CCS at scale in Europe."

"For many of the familiar operational risks associated with CCS, insurance solutions already exist and are known to both the insurance and oil and gas industries," added Paul O'Keefe, Executive Director, Energy, Aon Risk Solutions. "However, for the CCS-specific liabilities identified by the European CCS Directive, 'off the shelf' insurance solutions do not exist and the absence of commercially viable risk-management solutions is a material barrier to the development of CCS at scale in Europe. This report identifies potential ways forward but the residual, uncapped liability for storage operators could represent a roadblock for investors."

ClimateWise members have identified an innovative, technically feasible way that bespoke insurance could be developed to transfer at least a subset of the CO₂ leakage risk. The proposal would involve capping the size of this risk by agreeing a carbon credit price in advance.

The store operator would need to declare the volume of stored CO₂ to be insured up front and the insurer and insured would need to agree the price at which the policy would indemnify the insured following a leakage event. The fact that all insurance policies must indemnify the insured for a defined risk exposure means that some residual risk would reside with operators.

CCS is recognised by the International Energy Agency (IEA) as a core component of a cost-effective strategy to limit global temperature rise to 2°C by 2050. The IEA has projected that investment of between \$2.5 and \$3 trillion from 2010 to 2050 in CCS will be needed to achieve the required emissions reduction.

The ClimateWise report also considers a selection of other CCS-specific liabilities that require innovative approaches to risk management.

Ends

Notes:

- ClimateWise is a global insurance industry leadership group to drive action on climate change risk. It was launched by insurance industry Chief Executives in 2007 and its membership now covers Asia, Europe, North America and Southern Africa.
- ClimateWise's secretariat is provided by the University of Cambridge Programme for Sustainability Leadership (CPSL).
- The report, 'Managing Liabilities of European Carbon Capture and Storage', was written by Dr Xi Liang (Associate Researcher at the University of Cambridge's Electricity Policy Research Group and Lecturer in Energy Policy at the University of Exeter) and Andrew Voysey (Senior Programme Manager for the Finance Sector, CPSL).
- The full report can be downloaded at www.climatewise.org.uk or www.cpsl.cam.ac.uk from 22 November. For advance copies please contact Mike Peirce, CPSL.

Contact:

Mike Peirce, CPSL	+44 7834 432192	mike.peirce@cpsl.cam.ac.uk
Rajan Lakhani, Zurich	+44 20 7648 3503 / +44 7875 887360	rajan.lakhani@uk.zurich.com
Ahmed Gawad, Aon	+44 (0)20 70864014	Ahmed.gawad@aon.co.uk

An initiative facilitated by:

