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Press release

New Munich Re cover insures PV module operators against manufacturer’s insolvency risk

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Munich Re has launched a new insurance product, complementing its performance guarantee cover for photovoltaic (PV) manufacturers, that insures against the risk of their insolvency. It covers the risk borne by operators that solar module output may, in the course of time, fall below the level guaranteed by a manufacturer which can no longer be held liable under its warranties due to insolvency. Developed in conjunction with Deutsche Bank, the new optional cover was used by Munich Re for the first time for a solar park project in southern Italy jointly financed by Deutsche Bank and Rabobank.

Munich Re has insured PV module manufacturers’ performance guarantees since 2009. However, in the past, there was no cover against the risk of the manufacturer’s insolvency. Since the insured under the guarantee cover is the manufacturer, in the event of insolvency proceedings the cover would either pass to the legal successor, where applicable, or expire. Consequently, under the optional cover the insured is the investor which obtains financing from a bank, and not the manufacturer. The new cover caters for large solar parks with an output of more than 20 MW.

Without such insurance, banks may refuse to provide the necessary capital. If, during the period of insurance, module output falls below the guaranteed levels and the manufacturer can no longer be held liable due to insolvency, Munich Re will indemnify the insured and provide the financing to compensate for the reduced output. Coverage of such risks is subject to the proviso that Munich Re already insures the module manufacturer’s performance guarantees. To provide this cover, initially marketed primarily through banks, Munich Re has involved one of its specialty primary insurers.

The advantage for investors and the banks providing the capital is that the optional cover complements the technical risk of reduced output by providing in addition cover against the risk of the manufacturer’s insolvency. This makes it easier to calculate the return on investment and project finance indicators throughout what is generally a substantial project lifetime, giving greater security with regard to servicing the debt on the relevant project. The optional cover also brings improvements from a rating perspective, enabling money to be raised more easily on the capital markets and thus broadening the range of financing alternatives and concepts available for this type of project.

Munich Re Board member Thomas Blunck commented: “Our aim in developing and marketing the optional cover was to further facilitate solar park investment by assuming the risk of the module manufacturer’s insolvency, as coverage of such risks makes it easier to calculate stable, secured cash flows for solar parks. Thus, major projects in particular have better access to financing.”

Bernd Fislage, Global Head of Asset Finance and Leasing at Deutsche Bank, noted: “The optional cover brings to bear Deutsche Bank’s twelve years’ experience in developing and financing renewable energy installations. We have established our own teams, who support such projects globally throughout their life cycle: from project development and short-term construction financing to long-term project financing and consulting services.”

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