



Hydro Insurance Market Overview

for

Alba Energy

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‘BROKER OF CHOICE’

Why Bruce Stevenson?

	Founded in 1981, Bruce Stevenson has become one of the largest independent insurance brokers in Scotland specialising in the provision of insurance and risk management solutions to many businesses and private individuals. We trade from offices in Edinburgh, Glasgow, Galashiels, Aberdeen & London
	Bruce Stevenson was awarded the prestigious Chartered Insurance Broker designation by the Chartered Insurance Institute in 2010. Chartered insurance broker status is an exclusive and valuable merit, demonstrating a commitment to delivering the highest professional level of knowledge, advice and ethical practice
	Bruce Stevenson is a founding member of UNA, an alliance of 13 large and highly respected independent regional insurance brokers from across 38 locations nationwide. UNA members control over £350M of premium into the UK market with combined staff of over 1,000
	Bruce Stevenson have been awarded the maximum score of 3-stars 'Exceptional' Customer Service Award' by Investors in Customers after an in-depth review of our business. IIC are service standard experts who offer awards to companies for customer service excellence

Associations

	Bruce Stevenson are the Insurance advisors and have been a strong supporter of Scottish Renewables and their events for many years
	As advisors to CES and many individual community renewable energy projects and groups, we are proud to have been Associate members for over 5 years
	Bruce Stevenson have a history of engagement with the hydro electric industry dating back to the 1980's

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Within the last 12 months we have seen a definite change in insurer's attitude towards hydro risks. Having spoken to the main insurers, this has stemmed from a sustained period of increased claim numbers and cost of claims. It has proved difficult to obtain specific claims data from these insurers that is helpful. However, analysis of the claims experienced by our own clients would appear to be consistent with the trends insurers are experiencing.

The following is a summary of our internal claims analysis:

- 20 claims over £20,000 in value in the past 3 years.
- Total cost of these claims is £1,500,000.
- 1/3 of claims settled in excess of £100,000.
- 75% of the individual claim value relates to loss of income.
- 14 out of 20 claims were for electrical or mechanical breakdown.

It is also worth noting that there is a perception that the construction phase of hydro schemes carries a higher risk compared to other renewable technologies. Our experience shows, however, that only 10% of claims arise during the construction phase. That said, there does appear to be a link to the construction phase with the subsequent operational claims arising. Two thirds of the claims over the past 3 years have been experienced on hydro schemes built since 2015. This could suggest the time pressures to commission schemes to meet tariff deadlines resulting in works not being completed to the highest possible standard. The most common claims insurers have experienced relate to generator breakdowns, most specifically windings and bearings. Turbine runner damage and transformer damage are also common. The fact that there is no common manufacturer involved possibly adds weight to our comment relating to time pressures.

Although the hydro and renewable energy sector in the UK has been in a boom period for over 10 years, the interest in the sector from the insurance market has been poor. In that period, the number of insurers has remained fairly consistent. For every new entrant, there is one insurer changing their appetite for certain technologies or withdrawing from the market entirely. Appetite for hydro risks is dominated by RSA, with Aviva the second largest. Other options include CNA, Riskpoint and most recently, Allianz.

Although there have been a wide range of new build hydro schemes generating capacities from under 100kW to several MW's, the majority of new build schemes have been under 1MW. The premium range for a stand-alone hydro scheme at this level we would expect to be between £5,000 and £10,000. Comparing the premium against the claim settlement figures, it becomes clear why insurers are taking a different approach and are seeking to address the disparity between premium income and claim payments.

The simple action insurers are taking is increasing minimum Material Damage (£5,000/£10,000) and Business Interruption (14 days) excesses and increasing minimum premiums (£3,000/£5,000). Above and beyond that, we are seeing a demand for formal maintenance agreements to be put in place for all mechanical and electrical equipment. This has to be with the original manufacturers or a recognised specialist in the hydro industry. In recent months, this has escalated further to insurers requesting evidence of the routine and scheduled maintenance work undertaken.

Whilst this may seem a potentially costly and time consuming exercise, we would suggest it represents a prudent approach to protecting an asset that should operate for decades to come. The benefits can be summarised as follows:

- It will make hydro schemes more attractive to insurers.
- Breakdown cover will be available, which is the most likely source of a claim.
- It provides the best means of ensuring your hydro scheme performs as it should.
- Reduces the risk of downtime.

Hydro Insurance Market Overview (continued)

In a wider context, this should reduce the number of insurance claims made, which benefits all hydro scheme owners by increasing insurer appetite and more competitive insurance terms. As already mentioned, RSA are the dominant insurer of hydro schemes and have the widest risk appetite and offer the widest cover. It would be of significant concern to the hydro sector if RSA were to withdraw from the market. Therefore, we engage with them regularly, as well as other insurers, in support of the hydro sector and any positive developments we can convey to them will be beneficial.

Other risk reducing measures we recommend are:

- Fire prevention in the powerhouse – a fixed fire suppression system is best, but rarely viable. Some form of fire detection, notification and automatic shutdown is recommended. Fire extinguishers should be present at the very least. Remove any unnecessary contents from the powerhouse.
- Health & Safety in the powerhouse - ear defenders and first aid kit. A risk assessment should be undertaken to determine the safest means of keeping the intake clear of debris. This should include a means to raise an alarm in the event a lone worker gets into difficulty.
- Inspection of chain hoists – these fall under statutory inspection requirements and should be inspected by an independent competent person prior to use.

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