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INSURING FOR HAIL FOR SOLAR PROJECTS

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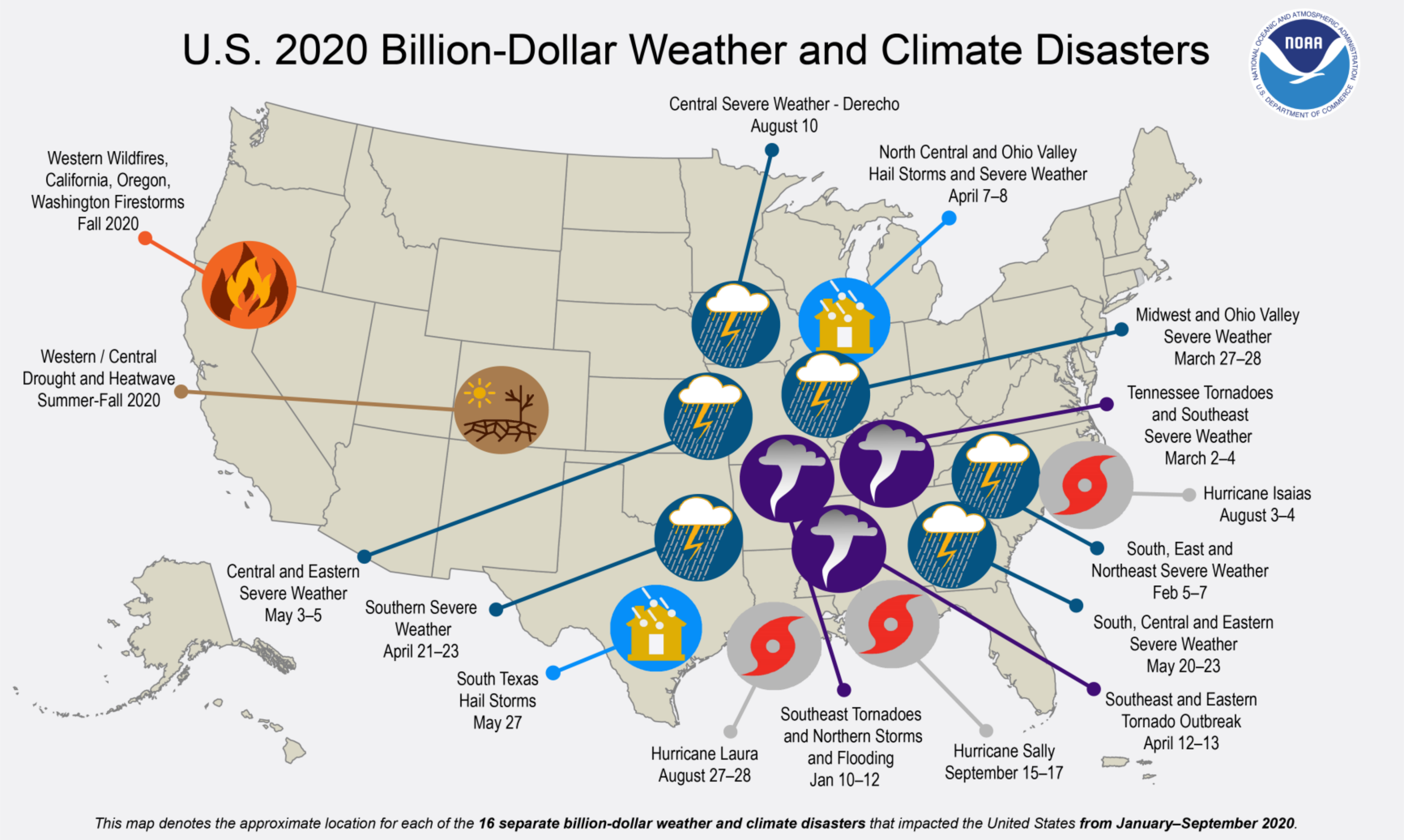
IMPACT OF NATURAL CATASTROPHES



As of 10/7/2020, 16 weather events with losses exceeding $1B each in the U.S.

Source: NOAA National Centers for Environmental Information (NCEI) U.S. Billion-Dollar Weather and Climate Disasters (2020). https://www.ncdc.noaa.gov/billions/, DOI: [10.25921/stkw-7w73](https://doi.org/10.25921/stkw-7w73)

Source: The Insurance Insider

TODAY'S MARKET: RENEWAL FACTORS

Timing Constraints

- Submission activity is the highest that is has been since 2008/2009
- Carriers are typically holding quotes until 30 days prior to renewal
- Multiple options are more difficult to secure due to the number of submissions

Available Capacity

- Underwriters more selective with their choice of submissions
- Decreased appetite for large limit, CAT, and serial loss deals
- Increased focus on how capacity is being deployed

Underwriting Guidelines

- Guidelines and rate expectations are an upward moving target
- More carriers are requiring peer reviews and management sign off
- Renewed focus on performance and profitability

Loss Control

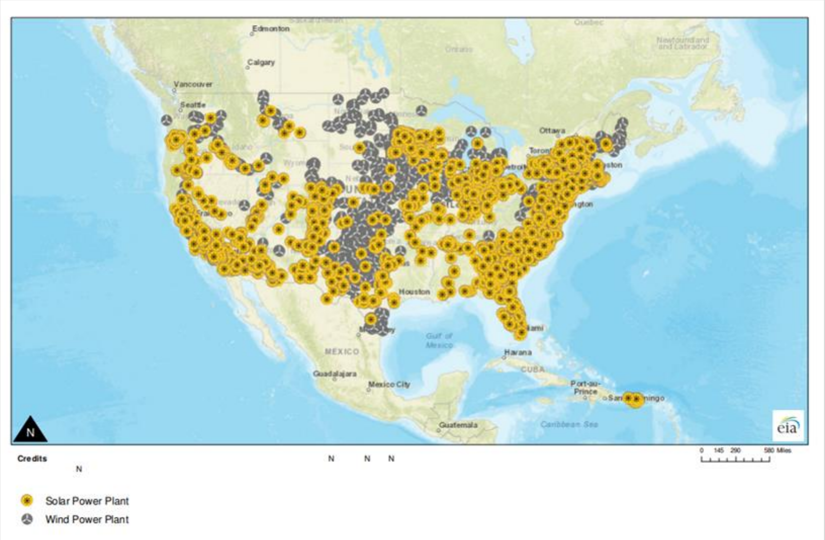
- Critical to have reports for locations with prior loss experience, CAT exposure or technical complexity
- Important in order to convey "best in class" operations
- Prioritizes submissions for underwriters

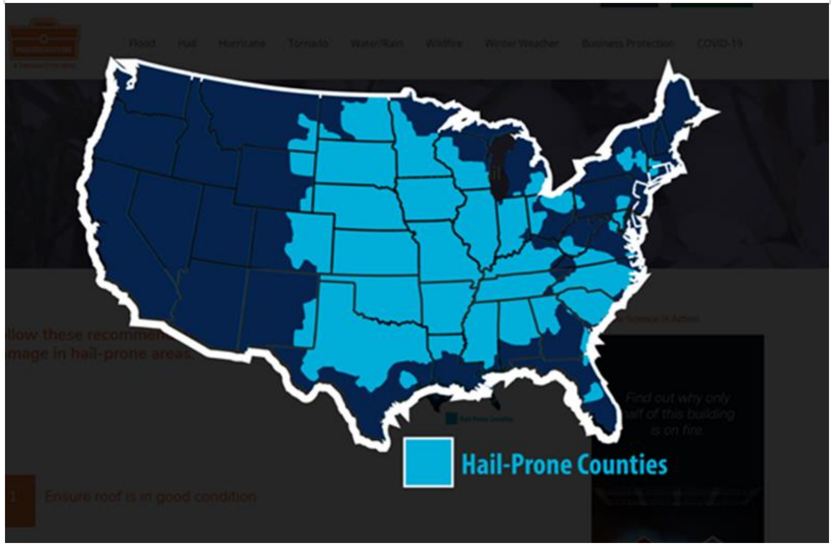
THE *NEW NORMAL* FOR RENEWABLE ENERGY RISKS

- **The renewable energy industry happened to come of age during a soft market,** and generally has established assumptions on insurance pricing, terms, and conditions that are false at present and likely to remain unattainable in the future.
- **Underwriters are viewing the market changes as a correction,** and while the year-over-year increases might slow or stop, we do not expect a reversion to previous conditions. This will create pressures for sponsors, investors, and lenders to retain more risk or consider alternative forms of risk transfer.
- **Some insurers are reducing overall line size and repositioning to excess layers. A major exception is in the case of accounts with CAT losses.** Deployed capacity has tightened significantly on these renewals, which will not generally see the benefits of otherwise healthy market capitalization.
- **Markets are being conservative in how they deploy their capacity, and certain areas of the market are now severely strained – most notably with respects to available hail capacity for the solar sector.**
  - Many solar projects/portfolios are out of compliance with project finance covenants due to the lack of commercially available hail capacity.
- **Primary renewable energy rates will continue to harden in 2021 and beyond** as the sector recovers from more than a decade of soft market conditions and the impacts of COVID-19 *(Source: The Insurance Insider)*.

NATURAL PERIL OF HAIL

- Growth of renewable energy generation continues in the Midwest states which intersects almost perfectly with the high hazard hail states and counties.
- Industry data on paid hail claims for renewable projects, modeling for hail damage specific to the types of renewable projects and information on real time performance of the various OEM products is not developed.
- The lack of industry data is driving carriers to limit exposure to hail by adding high deductibles and low sub-limits to policies covering projects in high hazard hail zones.
- Excess hail property coverage and parametric trigger insurance products are available, but the limits may not meet the desired thresholds set by financing parties.
- Hail considerations are imperative at the development stage when considering future insurance implications.





Source, U.S. Energy Information Administration

HAIL INSURANCE SPECIFICS

- Microcracking endorsements
- Sublimits/deductibles specific to hail/severe convective storm
- Lag in hail being viewed similarly to "traditional" NAT CAT perils of windstorm, flood, earthquake
- Lack of reliable modeling to suggest reasonable/appropriate sublimits to satisfy lender/tax equity requirements
- Capacity, available, but it is costly capacity, and does not yet reward specific investments in "best-in-class" technology
- Tax and debt agreements include insurance requirements, which have historically required full limits for hail, which are no longer commercially available; waivers to these agreements are required annually

