

Dear Mr Hawkins

We understand the terms of reference for the Senate's Select Committee on Climate Change includes "the choice of emissions trading as the central policy to reduce Australia's carbon pollution, taking into account...the design of the proposed scheme will send appropriate investment signals for green collar jobs...leakage...and additionality issues.

In this regard we wish to make clear to the Committee that the Australian Insurance Industry can now offer broad insurance covering re-emission which means the "*Risk of Reversal Buffer*" as proposed in the CPRS Whitepaper (Section 6.13.4, Box 6.10 – Page 6-56) is no longer required.

In collaboration with a number of project originators, Insurance Facilitators Pty Ltd (IF) has developed an insurance policy specifically for forestry sink projects. Under the IF policy, cover is provided for:

- The perils of Fire, Lightning, Aircraft, Hail Strike, & Windstorm; and
- Additional Cover Options are available for Indexed Growth, Removal of Debris Costs, Fire-fighting Expenses, & Re-establishment Costs.

In the latter stages of development is a further cover option for drought, disease and pestilence, which will be introduced in 2010.

The policy is based on an Agreed Value determined by multiplying the Volume of CO2 stored (or projected to be stored) by the Area planted by the Contract Value of the CO2 traded. The Indexed Growth option allows for carbon to be insured 5 years ahead of it being sequestered.

In reference to the *Scheme Obligations*, as outlined in Section 6.13.3 of the CPRS Whitepaper, a number of the obligations would be satisfied by default due to project managers insuring. For example:

- In obtaining insurance, it is mandatory that full details pertaining to each individual planting are disclosed as part of the underwriting process. Risk surveys of individual plantings are undertaken by insurance professionals as a matter of course using established assessment criteria to accurately determine a risk profile;
- Losses are objectively measured and documented under a fully transparent process. All losses are determined by specialist independent loss adjusters who, where required, will engage accredited carbon auditors.

Aside from the underwriting value, IF's risk surveys could also provide "ground truthing" of the NCAS mapping and assist in establishing robust data sets to enhance the performance of the NCAS and NCAT.

The CPRS Whitepaper (Section 6.13.4, Box 6.10 – Page 6-56) outlines the "*Risk of Reversal Buffer*". Project originators have suggested to IF that the buffer could amount to between 5-15% of a projects planted area. Through the use of the new IF carbon insurance policy, we believe the need for the buffer is eliminated as the risk of re-emission can be cost effectively transferred to insurers. By doing this, 100% of the carbon sequestered could be counted towards Australia's carbon reduction effort with the additional benefit being that less agricultural land would be required for reforestation.

Due to the longevity of sequestration projects, the reduced risk during the Maintenance Period, and ever changing corporate landscape of the insurance industry, we believe there is a need to frame the cover in two phases.

Phase 1 IF cover for the Sequestration Period (years 0-30).

Phase 2 The second phase is a "Carbon Trust Fund" to ensure there is coverage for the life of the Maintenance Period (years 31-70 or longer). The facility could be administered by the Federal Government and to fund it we propose to

charge an actuarially calculated levy (or premium) that will be collected in conjunction with the premium charged during Phase 1, the Sequestration Period, i.e. the premium for the Maintenance Period would be amortized over the Sequestration Period.

An alternative being that insurance is mandatory and IF act as managers for the Government scheme.

IF's reinsurers appreciate the global transferability of the IF cover. This is now resulting in offshore exposure and will enable the Australian Government to further promote its' continued commitment to leading International action on climate change in partnership with industry.

Best regards

Darryl Hawke



Insurance Facilitators Pty Ltd