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Insurance-backed credits: an innovative step in the evolution of the carbon markets

A recent flurry of activity in the carbon credit insurance market has presaged the next stage in the evolution of the voluntary carbon market (VCM), according to Oka CEO Chris Slater, although it remains far off the ability to develop tailored coverage by developer, country or project type due to the lack of capital investment at scale.

Slater spoke to ***Sustainable Insurer*** on the back of a partnership between carbon credit insurance start-up Oka and climate-focused trading platform Cloverly to bring to market a new brand of insured carbon credits.

Under the partnership, Cloverly will offer the credits pre-wrapped in Oka insurance, providing first-of-their-kind reversal and invalidation protections for buyers of the carbon credits.

“For us, it’s a really important partnership in terms of helping to create liquidity in the market,” explained Slater.

“With insurance, we’re trying to give buyers confidence that the credits they’re buying can stand behind the claims that they’re making with their net-zero goals. And for developers who are listing their credits on a global platform, it gives them an opportunity to signal to the market that their credits are insured [and that] therefore they are of quality.”

Jason Rubottom, CEO of Cloverly, told ***Sustainable Insurer*** that the partnership was centred around the shared goal to enhance access, ease, trust and transparency in the VCM. From a transactional perspective, pre-wrapped insurance for carbon credits will serve to increase confidence on the part of buyers, as well as to short diligence times.

“Insurance-backed credits represent an innovative step in the VCM’s evolution. By providing financial compensation for certain covered unforeseeable and unavoidable post-issuance risk, insurance acts as a current missing pillar in the VCM,” said Rubottom.

“This is a natural next step in the evolution of the VCM, as more entrenched markets have insurance capabilities. We’re thrilled to see the Oka team stepping up to fill this gap.”

Rubottom added that the partnership comes at a “crucial time” for climate action, including the need for effective carbon markets, in the wake of COP28 and increasing disclosure regulations.

This includes the SEC Climate Disclosure Rule and California Bill AB 1305, which are projected to further the demand for carbon credits by fostering greater transparency.

“Regulation is encouraging. In a market that has faced the criticism that the VCM has, regulation is one of the ways to help bring some of the required rigour, whether it’s the EU Emissions Trading System or the disclosures that California has led with,” said Slater.

“If you think about the corporate buyer who’s making the decisions around purchasing credits, increased regulation is raising the scrutiny that those credit purchases are starting to get. Our bar is being raised, and insurance is therefore a necessity in those organisations to make sure that the risk is being managed.”

Scaling the VCM

Looking at the next phase of the VCM, Slater described insurance as a “fundamental enabler” for the market to attract capital investment at scale.

“The conversation in the past was about risk – now, the conversation is getting much more directed in terms of insurance and its role in this market,” he said. “That’s a fundamental evolution of the market where insurance is a necessity in the market for it to grow.”

Slater added that other institutions such as the World Bank – which last month priced a $100mn plastic waste reduction-linked bond with a financial return linked to plastic waste recycling credits and verified carbon units – have a role to be a backstop for confidence.

“If you think about [the World Bank’s] customers, they are developing countries where carbon credit revenue is going to be crucial, and therefore there’s a real complementary role in their ability to bring some of that securitisation of the risk alongside insurance,” he said.

And as the carbon credit insurance market itself matures, Slater anticipated that this will encourage a more tailored product lens, such as by developer, country or project type.

“We’re not there yet – in fact, I’d say we’re a million miles away from that yet because there’s still a general education of the market in terms of how insurance can play a role,” he said.

“We’ll see that hopefully amplified if we see some large insurance carriers start to make a move, and I think that’s on the roadmap for the next 12 months.”

Insurance Emissions Transition

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