

Opportunities and Barriers for introducing Energy Savings Insurance (ESI) in SME sector



By

Mr. MA Patil

Federation of Indian Chambers of Commerce and Industry

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Learnings from a recent FICCI-GGGI-EESL project on Scaling Up of Investments in 3 MSME Clusters by Deploying SEET

- MSMEs offer a huge opportunity for improvement in energy efficiency and reduction in Carbon emissions;
- however, in spite of significant energy costs and an understanding that it can be reduced if addressed scientifically,
- routine business pressures related to production and marketing of products in a very competitive market,
- leaves little time for SME owner, to retain a continual focus on energy efficiency;
- it is only on his agenda for short periods when there is a spurt in energy prices.

Opportunities

- considering the low level of penetration of energy efficient technologies, large scope exists for wider implementation of EE technologies, in a larger constituency of SMEs.
- critical review of the likely impact on the energy consumption of the target industry sector/ cluster is required to identify suitable relevant EE technologies
- Access to these technologies at discounted prices through bulk procurement and innovative financing mechanisms, could surely help improve the overall energy efficiency of the target SME clusters
- Additionally, if guaranteed energy savings could be ensured through Insurance, it may certainly be attractive to SMEs

Challenges

- Numerous studies for promotion of Energy Efficiency projects have been conducted in the SME sector in India in the past three decades.
- Progress has been slow, due to the very traditional, conservative style of business operations in SMEs.
- The focus of business owners has always been on production at acceptable quality, while ensuring profitability, in a highly competitive, price sensitive market.
- While regulations on air and water pollution are followed to ensure mandatory compliance, energy efficiency are rarely on their serious business agenda.

Major challenges

- SMEs lack awareness about energy efficient technologies and confidence that it can make a major dent in reducing energy cost.
- Most industrial units not aware of previously demonstrated projects in other SME clusters.
- There also appear to be a need for authentication of technologies and equipment vendors for warranties related to
 - the quality of their products,
 - quantum of energy savings and
 - return on investment.

challenges

- Generating confidence is a slow process that extends beyond seminars and workshops;
- numerous “across the table discussions” with business owners are needed to drive home the rationale behind EE technologies & ES Insurance.
- Their concerns on surety of energy savings, reliability of equipment, after sales service, cost of spare parts, scope for local servicing, etc need to be addressed realistically.
- SME business owners often have great trust in their process & operations managers, often persons with limited educational qualifications, but with long years of “hands on” work experience;
- to gain acceptance, their concerns about the recommended technologies need to be aptly addressed.

challenges

- The image of ESCOs and vendors need transformation from being viewed as mere equipment vendors to serious technology solution providers, with good technical understanding of their products, providing fair & risk neutral financial packages.
- ESCOs need to understand the importance of incorporating instrumentation in their equipment or project package to enable the users to easily monitor, verify and quantify the energy savings on a routine basis.
- The importance of after sales service and availability of spares at reasonable prices is important, as projections of energy savings would be meaningful only if reliable operation of equipment is ensured.

Challenges in evolving ES Insurance premium

- Variable Annual energy savings achieved due to :
 - Varying operating hours per year, subject to Demand & other situations
 - Changes in Central/State Govt policies
 - ups & down in energy prices
 - Reduced operating hours of some equipments
- Lack of Instrumentation , to capture/ record energy savings
- Difficulty in Measurement & Verification of Savings achieved Annually
- Difficult to arrive at agreed upon savings and actual payback periods
- Today, most SMEs expect payback period less than 2 years.
- Many SMEs finance their EE investments through own savings, not loans

Way forward

- Promotion of energy efficiency demo projects in MSME clusters optimises the efforts and costs for awareness generation and marketing.
- The prevailing “do what your neighbour does” attitude in MSME clusters helps in amplifying the marketing efforts to achieve wider, faster proliferation of energy efficient technologies.
- Considering the low level of penetration of energy saving technologies in the MSME sector, ESCOs have a huge opportunity;
- however, the financial models offered by ESCOs/Vendors should realistically address the risks and total ownership cost of the technologies to SMEs.
- through authentication of technologies, and empanelment of genuine ESCOs with ratified financial models,
- enable bulk procurement for meeting aggregated demand in clusters, to ensure a risk-free, technical and commercial Win-Win for both SMEs and ESCOs.

Way forward in framing energy saving insurance policies..

- The Insurance premium should be affordable
- It should address variable energy savings due to varying operating hours
- Insurance for self financed EE equipments ?
- ES Insurance Vs AMC (Annual maintenance contracts) ?
- Eg – AMCs ensures reliability of operation of EE equipment for contract period, without additional costs.
- But post every repairs, there may be drop in Efficiency, hence reduced energy savings,
- can this be captured in Energy saving insurance?



THANK YOU