Lenders Solutions Group

# NON-PAYMENT INSURANCE FOR PROJECT FINANCE LENDERS

## Banks have historically relied on distribution of their project finance risks through syndications, the use of club deals, and the credit default swap (CDS) market, among other means. But each of these techniques has its own limitations and disadvantages — including a high cost. Non-payment insurance is an alternative or compliment to these options.

Non-payment insurance policies (NPI) offered by diversified, multi-line insurance companies are a viable source of investment-grade, unfunded risk capacity, and protection for project finance lenders. Credit insurers are established as suppliers of protection to banks, covering payment defaults on short, medium, and long term trade and non-trade related loans to developed and emerging market borrowers. In the aftermath of the financial crisis, Marsh estimates that credit insurers paid out approximately USD2 billion in claims to banks in connection with covered borrower defaults between 2008 and 2010 alone, and several hundreds of millions in the subsequent period.

Through comprehensive, Basel III-compliant NPI policies which are backed by the financial strength of multi-line insurers rated A or better, this cover can help project finance lenders reduce their borrower credit risk, manage country and borrower exposure, and achieve regulatory capital relief.

### LIMIT AND CAPITAL MANAGEMENT

NPI policies can help project lenders distribute credit risk and better manage their increasingly costly capital. These policies are typically less expensive than CDS protection and, unlike bank syndications, avert the need for the lender to introduce clients to competing banks. Insurance provides flexibility in managing internal limits and creates additional risk capacity as valuable obligor, sector, and country limits are freed.

Non-payment insurance — which is triggered by simple obligor payment default on a scheduled payment of principal — can reduce risk-weighted

**Who it's for**

Credit portfolio managers, syndications officers and project finance transactors in energy, power, renewables, transportation, metals and mining, reserve-based lending and public-private partnerships.

**What you get**

- Basel III-compliant insurance policies, backed by the financial strength of insurers which are rated A or better.
- An alternative form of risk distribution that increases the lender's risk-bearing capacity;
  - Supporting increased ticket sizes and upfront fee income.
  - Risk sharing with insurers as non-competing, silent partners.
- Protection that is typically cost-competitive and more flexible than other risk distribution techniques.
- Reduced borrower credit risk; country exposure relief and regulatory capital relief.

assets, facilitate regulatory capital relief, and help boost risk-adjusted returns on capital. It can also help lenders attain relevancy with project sponsors by offering larger and/or more meaningful deal participations.

Key features of non-payment insurance include:

- Estimated market capacity of up to USD425 million for any one project finance transaction.
- Typically 7 years, but long-term policy tenors of up to 25 years are available, committed and non-cancellable by carriers.
- Coverage usually not exceeding 50% of lenders' commitment to the deal (with insurers usually requiring lenders to retain significant "skin in the game").
- Pricing is typically an agreed percentage of the loan margin on the insured portion of the loan.
- Generally available for individual project finance transactions or portfolios of transactions, in both developed and emerging markets.
- Ability to be tailored to non-standard and complex transactions and with insurance syndications involving multiple insurers.

## BENEFITS OF WORKING WITH THE INSURANCE MARKET

Non-payment insurance is increasingly used by lenders as a compliment to other strategies for distributing risk and managing their capital — including bank syndications, unfunded risk participations, and the CDS market — enabling a broader approach to managing overall project finance risk.

As it is uncorrelated to the business cycle of project finance lenders, the insurance market offers a solution to help banks manage their long-term project financing risks, including pre-completion construction risk. And, by helping the insured lender to increase its ticket size, the use of non-payment insurance can produce upfront fee income. The insurance operates on a silent basis (due to the confidentiality requirements of the policies), so the existence of such coverage is usually undisclosed to borrowers, sponsors, and other parties.

## WHY MARSH?

Marsh's Lenders Solutions Group (LSG) is dedicated to leveraging our global footprint for the benefit of our financial institution clients wherever they may be located. Marsh's LSG draws on an extensive network of experienced brokers to provide clients with globally coordinated market intelligence, guidance under the Basel II/III framework and its local application to non-payment insurance, and the local servicing of insurance programmes.

# CONTACTS

For more information about non-payment insurance and other solutions from Marsh, visit marsh.com, or contact your local Marsh representative.


**UNITED KINGDOM**

Lenders Solutions

ALISTAIR MCVEIGH
alistair.mcveigh@marsh.com
+44 207 357 3064

MARCUS MILLER
marcus.miller@marsh.com
+44 207 357 3153

KERRY MAGNUS
kerry.magnus@marsh.com
+44 207 357 1004

JULIAN MACEY-DARE
julian.macey-dare@marsh.com
+44 207 357 2451

Public Agencies

ABBEY STURROCK
abbey.sturrock@marsh.com
+44 207 357 1384

**UNITED STATES**

STEPHEN KAY
stephen.kay@marsh.com
+1 212 345 0923

ANGELA DUCA
angela.m.duca@marsh.com
+1 212 345 3913

**SINGAPORE**

ROBERT PERRY
robert.perry@marsh.com
+65 6922 8035

LEE GARVEY
lee.garvey@marsh.com
+65 6922 8388





GRAPHICS NO. 17-0915