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IfTI Global Symposium: Financing. Impact. Together.

Case Study 6: Public and Private Insurance Cooperation

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Private Market Overview

Political Risk and Structured Credit Industry Overview

- Major political risk and structured credit insurance market participants include:
  - Company markets
  - Lloyd's of London syndicates
  - Export Credit Agencies and Multilateral Agencies
- The markets differ in:
  - Capacity
  - Cost
  - Length of cover
  - Speed of response/flexibility
  - Credit quality of Underwriters
  - Information requirements
- Active Public providers include: ATRADIUS, EDC, EKF, EULER HERMES, SINOSURE, etc.
- Active Private providers include: AIG, SOVEREIGN, ZURICH, XL CATLIN, etc.

Political Risk and Structured Credit Industry Overview

Private market	Public market
• No national export (content) limitations • Lesser emphasis on social, environmental or public policy interests • Structural and wording flexibility • Cover can be applied for (and purchased) at any time in the investment process • Bespoke policies ("tailor-made" for each insured) • Competition between insurers (on price and coverage) • No costs charged before signing • Speed of response (often same day)	• AAA ratings • Longer tenors – up to 20 years • "Halo effect" • Advocacy work • Paris Club claims treatment (in some cases) • Significant capacity • "Good housekeeping – seal of approval" • Strong environmental and social requirements

Private Market Industry Overview

- 56 active (re)insurers
- 40+ of the 50+ insurers rated S&P “A+” (or equivalent), or better
- 32 have Syndicates within Lloyd’s of London (rating S&P A+ / Fitch AA-)
- Maximum value per transaction USD 3 billion (best case scenario, all markets)
- Maximum tenor per transaction 15 - 20 years
- Annual market premium is in excess of USD 2 billion
- Financial Institutions market share roughly 70% of annual market premium
- Syndicated placements are common (i.e. coinsurance)
- The private market is financially stable, mature, competitive, and growing
- There is continued growth in capabilities - including project finance underwriting

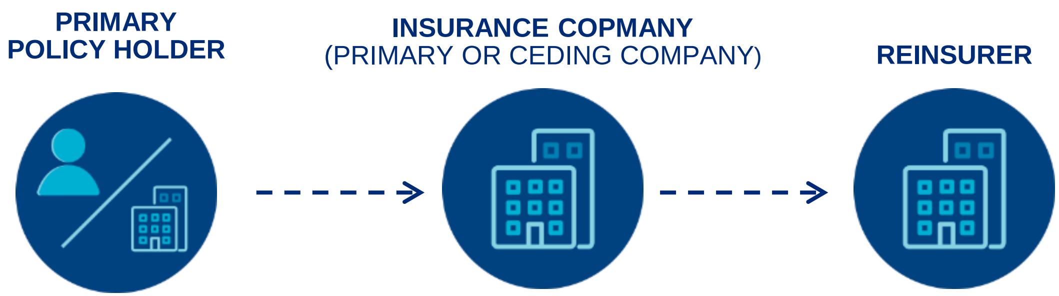
Drivers to Cooperation

Drivers for Public – Private Cooperation

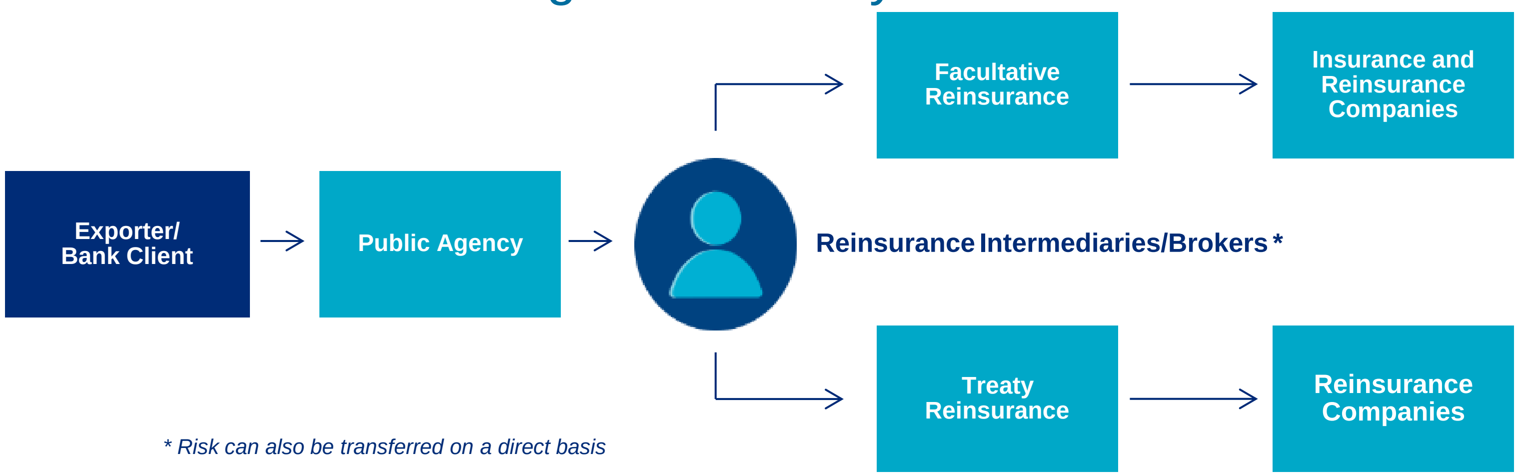
- Public Agencies, namely ECAs, access private market capacity (insurance and reinsurance) for a variety of reasons:
  - Ease concentration risks / manage overall portfolios
    - Country limits
    - Obligor limits
    - Capital requirements
  - Comply with internal and OECD rules
  - Partner with the private market
    - Accelerate response times
    - Reduce government support
    - Exchange knowledge
    - Benchmark

What is Reinsurance?

- Insurance for insurance companies:
  - An insurance company, known as the primary or ceding company, cedes portions of its liability to another insurance company, known as a reinsurer
  - Reinsurance is a transaction between insurance companies only (i.e. primary policyholder not involved)



How risk is transferred through the industry



** Risk can also be transferred on a direct basis*

Types of Reinsurance

FACULTATIVE

- Covers individual risks
- Each risk individually negotiated
- Premiums and losses settled individually

Advantages

- Coverage is closely allied to original policy
- Total cost of reinsurance is based on usage
- Substantial risk coverage
- Can be used to insulate/protect treaty

Disadvantages

- Labour/document intensive
- Less cost efficient compared to treaty solutions

TREATY

- Covers an entire class or portfolio of business
- Covers individual risks or policies that fall within the contract terms
- Terms of treaty are tailored for each insurer

Advantages

- Broad-based coverage
- Economies of scale: more cost effective purchase of contingent capital with volume buying

Disadvantages

- Limits to coverage and capacity
- Loss occurrence limitations
- Numerous exclusions

Key Considerations for Types of Reinsurance

Facultative Reinsurance

- Willingness and ability to share transaction information and key documentation (e.g. export contract, guarantee documentation, projects agreements, loan documentation, ECA policy documentation, etc.)
- Peak exposure / large transaction / concentration of risk
- Sharing of ECA history, mandate, vision, management, products, underwriting, performance, etc.

Treaty Reinsurance

- Willingness to share overall business (no adverse selection)
- Objective underwriting guidelines / criteria
- Clear policy language and exclusions
- Detailed data (excel format) including information on obligor, policy limits, etc.
- Evidence of recoveries
- Pricing transparency
- Stable premium and performance, with limited claims
- Relatively balanced portfolio with a mix of countries and debtor exposures

Case Study / Practical Examples

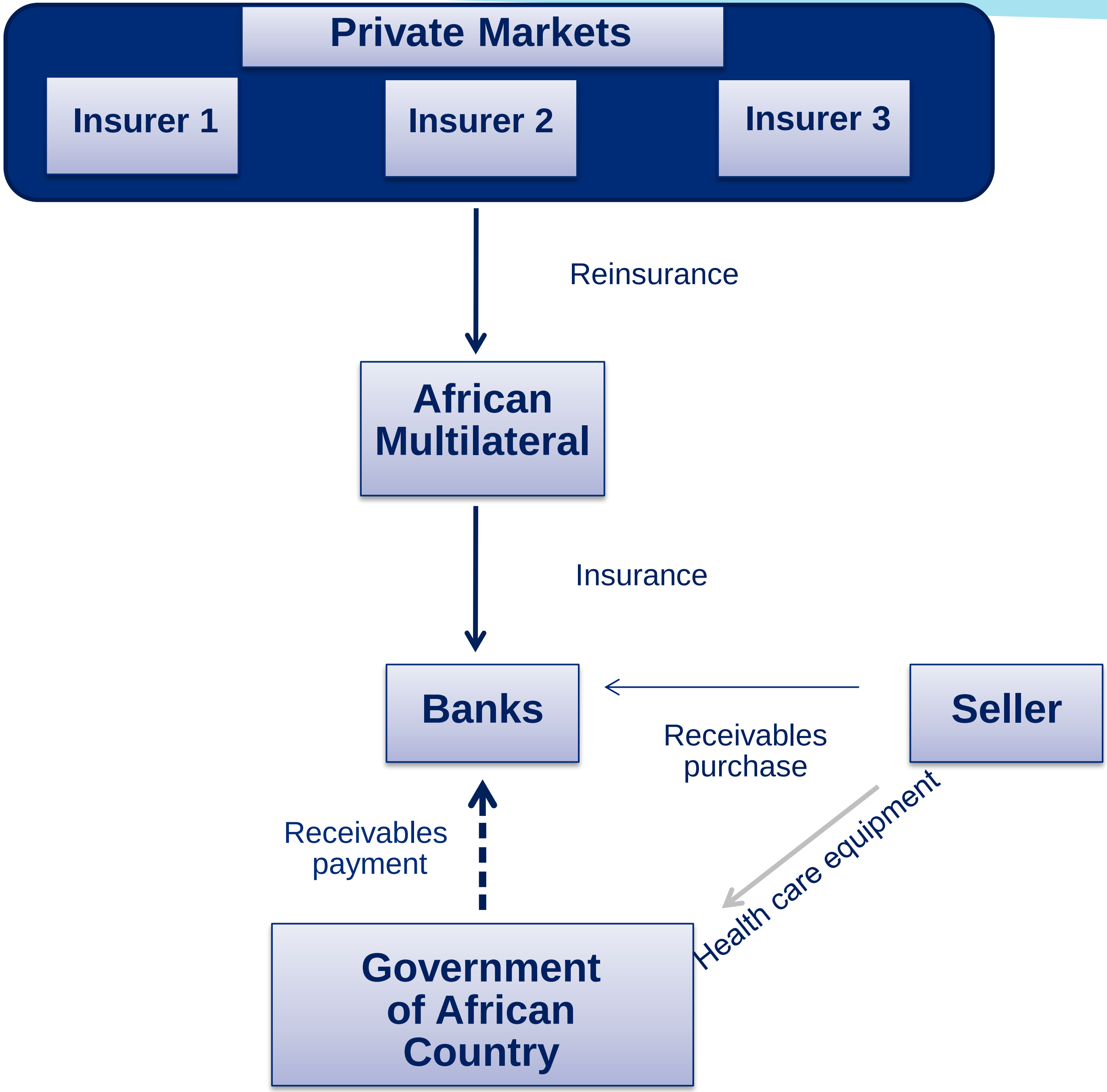
Case Study

(Re)insured: African Multilateral Agency

Original Client	Client Type	Reinsured	Description	Amount	Tenor	Reinsurers
Consortium of Banks	Banks	African Multilateral Agency	Healthcare equipment and managed services; Sub-Saharan Africa	USD38.2 million	7 years	3 private market reinsurers

Lenders required acceptable cover in order to purchase receivables from a provider of healthcare equipment to a Ministry of Health of a Sub-Saharan Africa Government. The Lenders sought cover from an African Multilateral Agency, but the Lenders had nearly reached their counterparty limits on the Agency and the Agency itself had reached its capacity for exposure in the host country. The solution was to place an insurance policy with the African Multilateral Agency which included a “cut through” clause to the reinsurers to assist the Lenders with their counterparty limits and reinsurance from the private market to meet the transaction requirements which could not be satisfied by the African Multilateral Agency alone.

Case Study:


Private Markets
Insurer 1
Insurer 2
Insurer 3
Reinsurance
African Multilateral
Insurance
Banks
Receivables purchase
Seller
Receivables payment
Health care equipment
Government of African Country

Observations

Observations

Translation please

- Some ‘translation’ required between private and public objectives and approach

Not monolithic

- Not all Public Agencies are the same and/or are created equal
- A limited number of Public Agencies “moved the market” but they do not always operate on OECD consensus terms

Developments

- Growth in Private Market focus on Public Agencies, but still gap in understanding (including on Public Agency mandates, etc.)
- Private Market has continued to expand tenors in order to provide meaningful support
- In some cases ECAs are exploring both Treaty and Facultative Reinsurance, versus just one or the other

Observations

Technical

- “Tough risks” are still considered tough, even standing behind a Public Agency
- Mismatched tenor, structural considerations need to be discussed upfront
- Private Market is often a syndicated placement
- Classic or traditional ECAs may struggle to obtain reinsurance due to thin pricing
- Approach to Documentation Risk can vary between ECAs and the Private Market

Thank you

MARSH

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