

TEXEL OVERVIEW

Non-Payment Insurance for Project Finance



Non-Payment Insurance for Project Finance

Potential capacity for non-payment insurance ('NPI') for project finance transactions is broadening but it is highly sensitive to the tenor of the underlying financing on which the coverage is being sought.

The NPI market can provide a key distribution option for lenders operating in the following sectors:

- Energy
- Mining
- Ports, airports and toll roads
- Renewable power including wind (onshore & offshore), solar (PV and CSP) and district heating
- Other infrastructure

It should be noted that insurers looking at project finance transactions are very much looking to partner with specialist market-leading lenders who can share information and historical experience and with whom they are content to leave to actively manage the exposure under the financing facilities. A partnership approach, with the lender retaining 50% of the exposure without insurance or other mitigation, allows for an alignment of interest and a willingness for insurers to provide capacity to support these facilities.

The insurance policy covers a percentage of the lender's debt load, though the percentage does not typically exceed 50%. For instance, by getting NPI for 35% of a loan, the lender may be able to convert the risk of default on a "BB+" project to the probability of default of an "A" rated insurance company. As a result, the bank has to put aside less capital for the same loan amount. These insurance policies are typically less expensive than credit default swap protection and, unlike bank syndications, avert the need for the lender to introduce clients to competing banks.

EXAMPLE TRANSACTIONS

Insured	Multinational bank
Transaction	A £1.5bn offshore wind farm in the UK
Obligor	Special-purpose vehicle with experienced sponsors
Tenor	16 years
Cover	Over £75m from 3 A+ rated insurers

Insured	Multinational bank
Transaction	A USD700m PV and CSP solar mini-perm facility in LATAM
Obligor	Special-purpose vehicle with experienced sponsors
Tenor	7 years
Cover	Over £75m from 3 A+ rated insurers

Insured	MENA-based bank
Transaction	A USD1.2bn multi-tranche mining project finance facility in Africa
Obligor	Corporate with completion guarantee from the parent
Tenor	12 years
Cover	Over USD100m from 7 A+ rated insurers

ABOUT TEXEL

The Texel Group is a market-leading specialist insurance broker, primarily focused on the development, structuring and execution of NPI policies for our clients. With over 20 years' experience at the forefront of the international insurance markets, we are staffed by individuals with skills and experience to help our clients understand the product and ensure that it is correctly structured to obtain the maximum capital and limit relief possible for each transaction.

KEY POINTS

- Limited but experienced and growing project finance market of insurers rated A+ or better
- NPI can provide capital and credit limit relief if appropriately structured
- Ability to support project finance transactions across industries
- Partnership with insurers is integral, with uninsured and unhedged exposures of 50% as a minimum for each deal
- Focus on projects with strong environmental and social impact