Current Landscape of Infrastructure Project Insurance

Owner → Contractor

- Political Risks
- Credit & Surety
- Supply Chain
- Construction Basics
- Operational Hazards
- Professional Mistakes
- Future Liabilities

Insurer A
Insurer B
Insurer C
Insurer D

Uninsured
Benefits of Taking a Holistic View

**Traditional insurance approach**

- Standard product suite tends to dictate overall scope of cover
- Gaps and overlaps not always visible
- Limited incentive to investigate alternative risk instruments or solutions

**Comprehensive risk finance approach**

- Holistic view determines required scope of cover
- Possibility to expand the traditional limits of insurability
- Focus shift from pure balance sheet protection to improving overall project credit rating and bankability
Comprehensive Insurance Value Proposition
How insurance is deployed makes a big difference

- Holistic “one-stop-shop” framework combining traditional and as well as innovative risk transfer solutions such as parametric covers.
- Modular and flexible: bespoke solutions tailored for each project
- Simplified Risk Management and Claims
- Project lifecycle view: seamless cover and efficient structuring
- Project Finance focus: streamlined revenue protection to reduce cash flow volatility and safeguard debt servicing obligations
- Integrated structuring promotes “total cost of risk” view

Focus shift from pure balance sheet protection to improving **overall project credit rating and bankability**
Example: Onshore Windfarm

Owner’s perspective:
Total investment: **USD 100m** (asset value)

<table>
<thead>
<tr>
<th>Event</th>
<th>USD m</th>
<th>Status quo</th>
<th>Risk Finance Approach</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Legal Liabilities</strong></td>
<td>USD 25k</td>
<td></td>
<td></td>
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<tr>
<td><strong>Marine Cargo</strong></td>
<td>USD 42k</td>
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<tr>
<td><strong>Political Risk</strong></td>
<td>USD 300k</td>
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<tr>
<td><strong>Professional Indemnity</strong></td>
<td>USD 25k</td>
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<tr>
<td><strong>Construction</strong></td>
<td>USD 100k</td>
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<tr>
<td><strong>Delay in Completion</strong></td>
<td>USD 80k</td>
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<tr>
<td><strong>Operational Cover</strong></td>
<td>USD 100k</td>
<td></td>
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<tr>
<td><strong>Business Interruption</strong></td>
<td>USD 30k</td>
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<tr>
<td><strong>Lack of Wind cover</strong></td>
<td>USD 250k</td>
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<tr>
<td><strong>Imp CoC</strong></td>
<td>14.2</td>
<td>12.6</td>
<td></td>
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<tr>
<td><strong>Revenues</strong></td>
<td>25.3</td>
<td>23.1</td>
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<tr>
<td><strong>RoRAC</strong></td>
<td>8.9%</td>
<td>9.0%</td>
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<tr>
<td><strong>ROE</strong></td>
<td>13%</td>
<td>13%</td>
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<tr>
<td><strong>Asset value</strong></td>
<td>100</td>
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<tr>
<td><strong>Project rating</strong></td>
<td>BB-</td>
<td>BB</td>
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<tr>
<td><strong>RWA</strong></td>
<td>142</td>
<td>126</td>
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<tr>
<td><strong>Risk margin</strong></td>
<td>2.5%</td>
<td>2.2%</td>
<td></td>
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<tr>
<td><strong>Capital Held</strong></td>
<td>172</td>
<td>153</td>
<td></td>
</tr>
</tbody>
</table>

→ Project de-risked by 1 notch
→ Freed-up USD 16m RWA
Insurers can bring a Different Approach
Aiming to be a partner in risk management to ensure a holistic view of a project risk landscape

- ... Insurers such as Swiss Re are already important risk takers across all aspects of infrastructure finance
- ... early involvement allows for comprehensive risk assessment and structuring of bespoke solutions
Conclusion
Early insurance involvement allows a holistic view, increasing a project’s bankability

**Conventional** Focus

1. **Asset protection**
   - Repair, Replace or Reinstall
   - Focus on balance sheet and physical assets

2. **Cash Flow protection**
   - Ensure certainty of projected revenues and costs
   - Ultimately reduce debt service uncertainty

3. **Capital Optimization**
   - Lenders are ultimate risk taker in project finance
   - Fixed return to lenders, no upside potential

**Total cost of risk** focus

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- **Holistic view** increases certainty and efficiency in risk financing
- Allows lenders to **free up capital** for other attractive projects
- Previously unviable projects to become more attractive and **bankable**
- Improved risk scoring allows for **more competitive lending terms**
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