The Private Insurance Market for Credit and Political Risks

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Agenda

• About the Private Credit/Political Risks Insurance Market
  • Coverage
  • Participants
• The Private Market and Multilaterals
• The Private Market and Africa
The Private Market

The Products

Most insurers underwrite the following risks:

- Political risks: Expropriation, Transfer, War & Political Violence, Breach of Contract
- Sovereign obligor payment risk ("Contract Frustration"/"Non-Honouring of a Sovereign Obligation")
- Commercial credit risk ("Credit Insurance") – mostly as single transactions, rather than whole turnover

Insurance can be provided to the investor/exporter, or to a financial institution.
About the Private Market
The Players - Insurers

‘Corporates’
• About 10, including the “big three”:
  Chartis, Sovereign and Zurich

Lloyd’s
• About 25 insurers (“Syndicates”) at Lloyd’s

The Private Market is centred in London, though some insurers have branches elsewhere.
About the Private Market
The Players - Brokers

- About 15 Broking Firms in the London Market have a Credit and PRI insurance team
- These vary in size and in the range of business types transacted
- Brokers source business from clients worldwide.
- Brokers syndicate business with insurers in London and worldwide
About the Private Market
Lloyd’s

Lloyd’s is not an insurer. Lloyd’s is a marketplace where insurers trade.

All types of non-Life insurance are underwritten at Lloyd’s

Annual gross written premium. £22 billion

Lloyd’s is rated S&P A+
About the Private Market
Lloyd’s

Brokers negotiate with Lloyd’s underwriters face to face at the “box”.

When they have found the best terms from an insurer, they will syndicate the risk amongst several insurers.

A risk can be syndicated in a mixture of Lloyd’s and non-Lloyd’s insurers
Year on year growth, except for:

- Immediately after 9/11, and
- Chubb’s withdrawal from the market in May 2010
Tenors vary from insurer to insurer.

Capacity for 15 year tenors is available from only a few insurers.

The longer the tenor, the fewer insurers can cover it.

The graph shows theoretical maximum capacity per transaction.
The Private Market
The “Arab Spring” experience

• Fewer Credit/Political Risks claims than expected
  (Risks either self-insured, or “no takers”)
• Tunisia – no claims
• Egypt – a few small political violence losses
• Yemen, Bahrain, Syria : few claims
• Libya : claims initially estimated at USD 500m+, now revised to around USD 100m

• Current position :
  Concerns in Egypt
  Mainly Offrisk in Yemen, Syria
  Some insurers open for Libya but highly selective
  Political Violence losses
The Private Market in sub-Saharan Africa

- Active in almost all African countries, although the bulk of business is centred on just a few.
- Most insurance activity historically centred on Nigeria (petroleum imports) and Angola (oil industry)
- Commodities related business: for example, Cote d’Ivoire, Ghana
- Extractive industries: Zambia, DRC
- Some adverse experience: Ghana (Tema), DRC
- Current concerns: Nigeria
The Private Market
Working with multilaterals

Multilaterals syndicate risk with other institutions and insurers, in order to preserve and enhance capacity.

Private market insurers benefit from multilaterals:
• a source of business that they would not otherwise see
• local knowledge and information sources not easily accessible elsewhere.
• risk assessment and diligence process
• The multilateral status and sovereign ownership, with enhanced ability to mitigate potential losses, and resolve difficulties

The involvement of a Multilateral Agency – insurer or bank – frequently enables private sector insurers to accept business they would not otherwise consider.
RFIB Group Limited

- Lloyd’s broker - Established 1980
- Independent - 300 employees - majority owned by staff
- Group turnover £44m (2010)
- British business with global reach & network
- All main classes of insurance and reinsurance

Credit and Political Risks Practice

RFIB’s team of seasoned political risk insurance market practitioners acts as arranger and advisor to provide a comprehensive service that:

- is independent, unaligned and competitive
- is dedicated to sourcing innovative insurance solutions
- ensures prompt documentation and claims collection

Specialists in building co-operative relationships between Lenders, Multilaterals and Private Sector insurers.
Thank You.