

Asset risk protection - maritime

The world is full of interpretation. Everyday a trawl through the media will uncover any number of learned economists and financial experts taking the same data as conclusive proof that the global economic recovery will take one shape or another; or even that it is not happening at all.

One of the constant elements, however, is the continued lack of finance available to acquire new assets. Recently FORTIS Bank Nederland said that a brightening bond market is likely to become of increasing interest to shipowners seeking to cover financing requirements in the absence of bank finance, which is currently “scarcely available”.

That's something Jardine Lloyd Thompson recognise. Since JLT started focusing on Residual Value Insurance (RVI) as a product at the beginning of 2009, they have helped advise a number of bond offerings on the collateralisation of the bonds through protecting the asset value with RVI and its close sibling, Residual Value Guarantee (RVG). That was the basis of the message which JLT presented at a recent IMIF networking lunch, hosted by Watson, Farley & Williams.

To briefly recap, RVI provides asset owners and their financiers with asset value certainty at a pre determined time in the future, and is therefore an invaluable means of balancing exposures in volatile markets and removing asset risk from the balance sheet.

This class of business takes in many areas of asset based finance including energy and marine, aviation, rail equipment, manufacturing, industrial and commercial equipment and commercial property.

At first, the Shipping industry was not amongst those. Traditionally, RVI and Shipping have not been easy bedfellows. For many years the banks internalised much of their asset risk, and the only risks presented to the insurance market were those requiring additional capacity, or because they had complexity, or because - to be frank - the assets were difficult to give a value to. At the same time, the RVI market had a reputation of being niche, for being difficult, and for not paying claims.

The Insurers saw Ships as assets that have high volatility, therefore assess a higher likelihood of a claim, and consequently responded by setting high deductibles and even higher rates. Potential buyers of the insurance perceived that price as too high for the apparent value.

Much of that has now changed. Banks no longer want to hoard asset risk, and would like to get much of it off their books. Certainly few of them are accepting new asset risk; and that provides an opportunity for Residual Value Insurance to help. RVI is an excellent tool to manage and control the residual value risk and, when introduced early in the structuring of a financing deal, it can expand sources of funding. RVI often provides the cornerstone of an asset financing programme.

The RV markets are also in the process of transformation. There is more capacity now than has been available for some time; and we are seeing significant interest from risk capital providers wanting to offer additional capacity. The vast majority of policies are now written on a proceeds basis, rather than on the fair market value basis, which gave



the industry such a poor reputation some years ago. Most significantly, our focus on the market, from a position of a leading Financial Risk broker, means that we are able to develop and understand the existing markets, and create new solutions.

Crucially, for the Shipping markets, the biggest change in RVI has been the recent introduction of a shipping analyst, MSI, to the RV carriers. Several of the insurers and banks are now using MSI reports to help them as part of the analysis of the risks and assessment of the attachment and rate on line.

A lesser, though still important, aspect is the current state of the shipping market. As values are low, the theory is that they are unlikely to get much lower and so the volatility argument becomes a one-sided bet. Well, perhaps not as secure as that, but at least the actuaries feel far more comfortable in assessing the risk of insuring future asset values and giving realistic attachments and rates.

In many ways, therefore, the value of RV to the shipping industry is inversely proportional to the health of the industry. Perhaps that's not ideal, but that is where we are.

Meanwhile, the insurers see a two-year window where there will be sufficient overlap of interests in the value of RV and its' cost to allow most deals to work and, having completed a few deals, they will be keen to complete more in order to diversify their portfolio.

Good news travels fast, but bad news travels faster. The good news is that the RVI and RVG markets are open for shipping business. The bad news is that demand will still vastly exceed supply. So whisper it quietly, and grab the opportunity whilst you can.