

Asset Protection: Residual Value Insurance (RVI)

Case Study: Aircraft

As an asset class, aircraft were the first to benefit from Residual Value treatment, but this was not as insurance, rather a guarantee. The guarantees were offered by banks who, in return for protecting (or guaranteeing) the downside, shared in the profits

As insurers have entered the market, the guarantee element has slowly disappeared, and aviation residual value is now primarily written by insurers on a "protect the downside" basis only. Although capacity is not usually an issue for single aircraft deals, the usual caveats of age and aircraft type will apply, and narrow-bodied aircraft are seen to have less volatility and more liquidity than wide-bodied aircraft.

Corporate Jets

The client was setting up a company to lease and operate a number of Embraer Phenom jets. In order to provide collateral to the financier, a residual value policy was effected to protect the future value of the aircraft from a serious decline in value.

The aircraft were afforded a lease term of five years, with a possible extension of one year. If the extension were to be invoked, the attachment point for the Residual Value insurance would decrease by each quarter.

All the aircraft are cross-collateralised, and the residual value analysis was based on a high percentage of the future assessed value, based on a forced sale in a potential economic downturn.

Structure

Insured - Lessor

Amount - US\$50m

Structure - residual value policy - all aircraft cross-collateralised

Period - five years

Territory - USA

Assumed risks - catastrophic decline in aircraft values

Value added - effective off-balance sheet structure; a strong risk-sharing partner; economic benefit to the transaction structure.

For further information, or to discuss other opportunities for the application of RVI, please contact Steve Allum (+44 (0)20 7528 4458, steve_allum@jltgroup.com).