

## Asset Protection: Residual Value Insurance (RVI)

### Case Study: Contingent RVI

There's general agreement that economic conditions in 2010 will continue to be treacherous. Consumers will continue to tighten their belts. The volatility, which makes it so hard for businesses and investors to plan, is unlikely to dissipate.

Banks will remain risk averse, hoarding liquidity and rebuilding capital bases, while funding costs remain high.

What is universal is that financial institutions want to ensure that they do not replace the subprime risks that have been offloaded to governments and taxpayers with other toxic risks. Capital is still flowing and loans can be provided although "the bar has been set a lot higher".

With lenders looking to manage asset risk, one positive step forward is to consider Residual Value Insurance (RVI). A niche class of insurance, RVI provides the asset owner 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.

Any transaction where the payment stream does not amortise the full principal amount can benefit from RVI. For example, a manufacturer may guarantee the future value of an asset to differentiate against the competition. The guarantee may result in the transaction being accounted for as a lease. However, with residual value insurance, the manufacturer can still recognise the transaction as a sale for accounting purposes.

In the current financial environment, RVI is valuable to help secure finance or enhance financial arrangements. By being included in financing deals RVI can provide leverage to help improve overall finance terms.

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](mailto:steve_allum@jltgroup.com)).