

Infrastructure

Securing your foundation



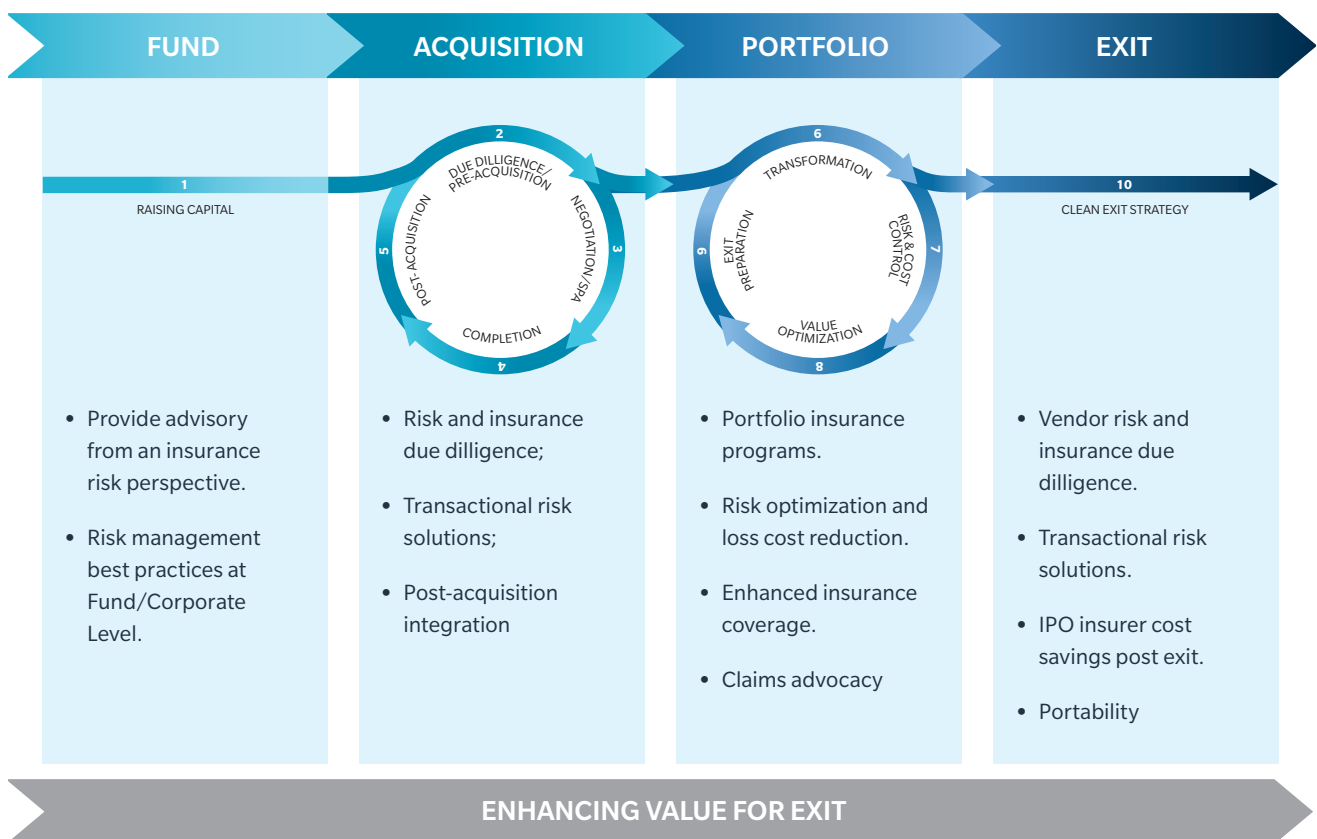
The Asian infrastructure market is expected to grow rapidly over the next decade, necessitating significant infrastructure spending by the majority of Asian countries. However, few countries can rely solely on their local governments to fund necessary infrastructure, whether economic or social, to spur growth in their economies. Therefore, there is a great need to mobilize equity investors and lenders to fund infrastructure investments.

The risk profiles of stakeholders like equity investors and lenders change throughout an infrastructure project lifecycle – from development through planning, design, construction, and operations. Their key risks revolve around preservation of asset value, reduced volatility of revenue streams and redeployment of capital.

Marsh’s Private Equity and Mergers & Acquisitions (PEMA) team, is well-positioned to partner with the private sector and lenders to manage their risk and insurance issues. These risk solutions influence negotiations and the long-term financial success of a merger and acquisition deal, divestment, or project financing of an infrastructure asset.

Scope of Services

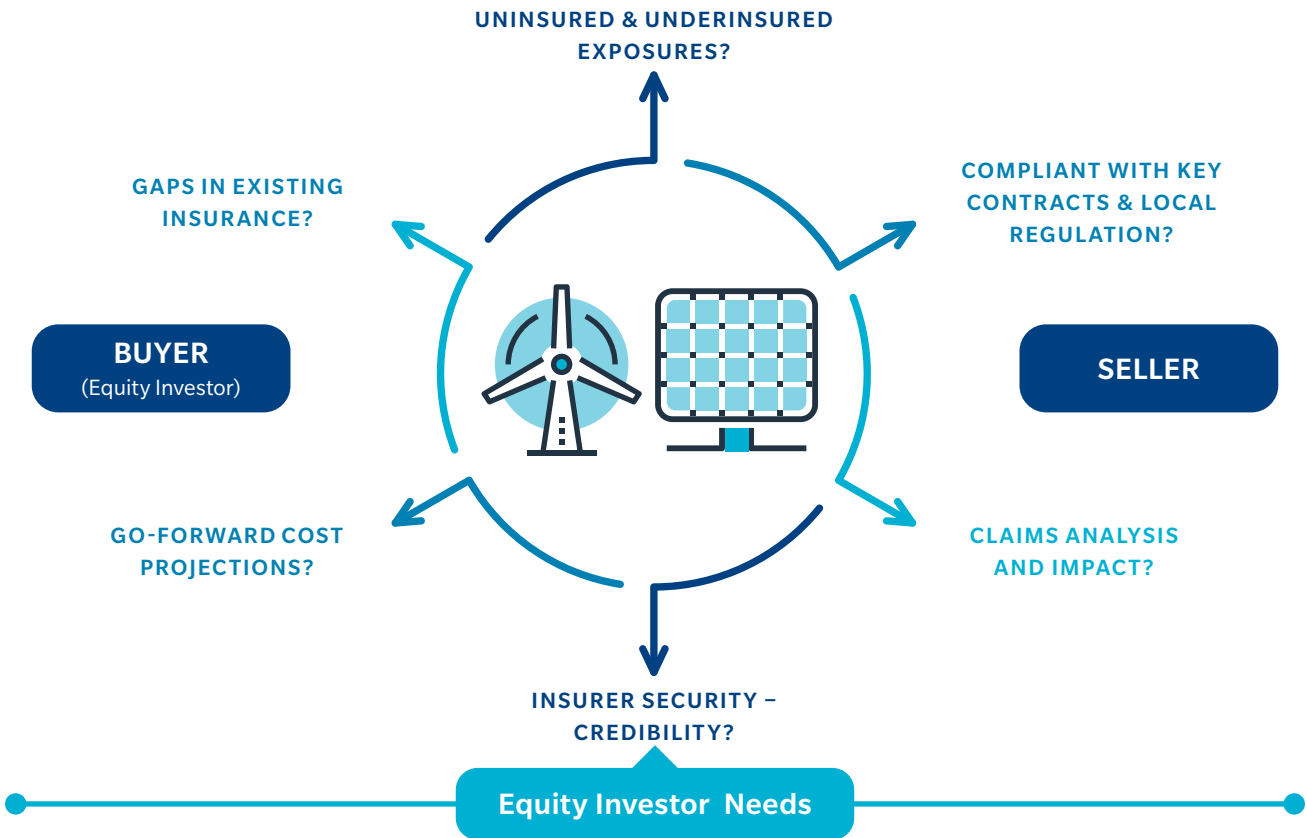
WHERE WE CAN ADD VALUE



Due Diligence & Lenders Advisory

For equity investors, such as infrastructure funds, strategic investors, and/or developers, looking to invest in greenfield or brownfield assets, Marsh can conduct pre-investment insurance due diligence on the asset, addressing queries as per the diagram below.

An investor’s potential to formulate a winning bid and their ability to provide the protections and return on investment are largely influenced by their ability to identify, quantify, and manage all risks, both insurable and uninsurable. Our in-depth review of the risk and insurance issues will assist investors in understanding their risks’ potential financial impact on the deal and factor them into the transaction’s negotiations and pricing.



Equity Investor Needs

GREENFIELD PROJECT

- Obtain a clear and in-depth understanding of the project or asset risk profile to achieve an optimum transfer of risk through insurance capital.
- Equity case outlook on premium trends over the project life.
- Protection against insurable delay scenarios in the project.
- Ensure compliance with local law and project agreements at all times.
- Make projects more attractive to potential lenders and co-investors.

BROWNFIELD PROJECT

- Understand whether existing insurable risks have been correctly mitigated through insurance capital and planned risk retention.
- Financial impact of any untoward movement in premium spend or unsettled claims and/or historical liabilities.
- Protection of future revenue streams of the asset.
- Ensure compliance with local law and project agreements at all times.
- Make projects more attractive to potential lenders and co-investors.

Lenders Needs

Before agreeing to finance an infrastructure development or operational asset, project finance lenders need reassurance that all project risks associated with the venture have been identified, analyzed, and effectively controlled or transferred. Hence, our team works with project parties (legal, financial and technical advisers, borrowers' insurance broker, and others) to apply their technical knowledge and experience to assist in making projects bankable, while at all times fulfilling our sole duty of care to the lenders. The review will focus on:

- Conducting risk reviews of the key documents, contracts, and risk management/insurance-related matters to ascertain the risks associated with the project.
- Identifying significant project risks and advising on the extent of insurance cover proposed and available in relation to such risks.
- Advising on the minimum required levels of insurance in terms of the limits, clauses, deductibles for the project, to be in line with the client industry's market standard.
- Liaising with the legal counsels to assist in drafting and negotiating the insurance provisions in the project agreements, loan facility agreements, and security documents.
- Reviewing the insurance cost assumptions contained within the project financial model.
- Auditing transition of cover from construction to operational phase.
- Auditing the insurances throughout the lifecycle of a project loan. Our team remains actively involved as long as the lender has a security interest in the project and we will offer advice from project conception, design, and construction through to completion and operation.

Warranty and Indemnity Insurance (W&I)

During the transaction, W&I insurance will bridge any gaps between the warranties that the seller is prepared to commit to and what the buyer deems to be commercially acceptable. It does so by insuring the liability created by the warranties and tax indemnities that form part of the sale and purchase agreement. W&I insurance can be used strategically in auction/bid situations in infrastructure deals, where buyers can sweeten their bid by “stapling” a W&I policy to their bid. Likewise, in asset divestment scenarios, sellers can use W&I insurance to reduce their indemnity obligations and secure a clean exit.

Case Studies

CASE STUDY 1

Insurance DD – Greenfield Asset

TARGET

60MW Onshore Wind Farm

DEVELOPER

Regional Infrastructure Fund

PROJECT SIZE

Approximately US\$130 million

JURISDICTION

Indonesia

RISK SOLUTION

Marsh assessed the risks arising from construction, operation, technical issues, financial losses, environmental impacts, natural catastrophes, terrorism, contractual arrangements, third party liabilities, business interruption, political risk, and any other relevant risks associated with the wind project to recommend an appropriate insurance program during the construction and operation phases. The program detailed the proposed key terms, extensions, exclusions, sum insured, limit of liability, deductibles, and cost estimates (which the developer could use within their financial model).

The recommended program, once incepted, would be in line with market standard and comply with contractual insurance obligations (including financing agreements) and statutory requirements in Indonesia.

RESULT

Post-close, Marsh, upon appointment as the insurance broker, assisted the Target in designing and structuring the recommended insurance program with a premium that was in the range of the given cost estimates.

The insurances incepted during the construction and later operation phases were in line with market standard and complied with all the insurance requirements within the key agreements (i.e. project and financing agreements) and statutory requirements in Indonesia.

CASE STUDY 2

Lender’s Insurance Advisory

LENDERS

International Banks

COUNTRY

Vietnam

ISSUE

Errors in the insurance policy drafting, including omission of standard clauses.

Uninsured exposures: Sabotage & Terrorism. Lenders were not aware of the advantages of owners controlled insurance program (“OCIP”) vis-a-vis contractor controlled insurance program (“CCIP”). No Broker Letter of Undertaking (“BLOU”).

MARSH RECOMMENDATION

Marsh’s “red flag” to the Lenders led to discussions with the Borrower and their broker to rectify identified omissions in cover, and correctly note Lenders’ interests and mitigate the uninsured exposures through insurance solutions. Marsh also had calls with the Borrower’s broker to make them issue a BLOU. Marsh conducted various meetings with the Lenders to educate and advise on the potential issues that may arise from the proposed CCIP.

CONCLUSION

Borrower provided all the response and mitigation steps to address the potential issues, including rectifying the insurance policy, procuring Sabotage & Terrorism cover, issuing a BLOU, and implementing an OCIP to “close the gaps”. Lender’s financial interest was secured as at the financial close.

CASE STUDY 3

Insurance Due Diligence & Transaction Risk

TARGET

Oil Storage Asset

SELLER

Tank Terminal Company

DEAL SIZE

Approximately US\$100 – 150 million

JURISDICTION

The Philippines

ISSUE

The Infrastructure fund approached Marsh in a bilateral deal process to conduct due diligence on the existing insurance program of the target. In the course of the review, Marsh identified issues such as:

- Several uninsured risks like business interruption, machinery breakdown, and environmental impairment liability, which were relevant to the business's operations.
- Enhancements to the program (like the inclusion of key clauses) to comply with the insurance requirements in the contracts.
- The administrative hassle of monitoring different renewal dates.

The buyer also approached Marsh to procure a buy-side W&I policy, instead of requiring the seller, a local company, to bear the residual liability post-completion. The Insurance due diligence, along with the other due diligences conducted, assisted the Buyer to verify the warranties provided in the Sale Purchase agreement while structuring and finalizing the policy.

RESULT

Marsh was able to put in place a buy-side W&I insurance for a total limit of liability in the range of US\$20 – 30million, providing the Buyer a recourse from the insurer in the event a breach of warranty.

Post-close, Marsh successfully placed all the recommended enhancements and insurances to cover uninsured exposures upon the closing of the transaction with one renewal date. Marsh is the servicing broker for the management team of the Target.

CASE STUDY 4

Transaction Risk

TARGET

Waste Water Treatment Asset

SELLER

International Infrastructure Fund

BUYER

Chinese local Enterprise

DEAL SIZE

Approximately US\$150 – 200 million

JURISDICTION

China

ISSUE

Seller as a PE firm intends to achieve a clean exit for its potential disposal of waste water treatment assets in the midst of Covid-19. We proposed a sell-buy flip approach to place a buy-side policy addressing the following issues in a timely manner:

1. China policy was required given the deal was structured onshore. Marsh worked in a timely manner with the chosen insurer to file the China paper policy with the regulatory body to satisfy local admitted requirements and ensure the policy was ready for inception by the signing date.
2. DD reports/SPA were all in Chinese language. Given the situation, Marsh managed client expectations well in advance of the underwriting process to allow the client sufficient time to prepare the translation. Underwriting call was conducted by the insurer in Mandarin to ensure responses can be provided without any loss of translation leading to a cleaner cover.
3. Insurer raised questions on the Covid-19 impact of the Target business and was intending to include exclusions pertaining to Covid-19 risk in the policy. Marsh guided the Client to provide firm responses to queries raised by the insurer during the underwriting process, to demonstrate that they are completely across the issue and have done sufficient due diligence to derive comfort on this risk. As a result, no exclusions were included against Covid-19.

RESULT

Marsh was able to put in place a clean buy-side China paper W&I insurance policy for a total limit of liability of US\$15 – 20 million on the signing date - at a time when the country was struggling due to Covid 19.

Contacts

ASIA/ASEAN

SANDEEP SHENOY
+65 6922 8029
Sandeep.Shenoy@marsh.com

GREATER CHINA

CHARLES YIM
+852 2301 7256
Charles.Yim@marsh.com

INDIA

ADITYA SAMAG
+91 22 6651 2923
Aditya.Samag@marsh.com

JAPAN

BRENT BELL
+81 3 6775 6233
Brent.Bell@marsh.com

KOREA

HAHN LEE
+82 10 5775 0672
Hansang.lee@marsh.com



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PH20-1278