ATI Energy Solutions FAQs

African Trade Insurance Agency
Agence pour l'Assurance du Commerce en Afrique

1. Why do you usually cover Arbitration Award Default (AAD) risk only?

Under the Breach of Contract Insurance, this non-payment risk is not in the form of coverage that would compensate the insured for the amounts that the sovereign defaults, but rather as Arbitration Award Default (AAD) coverage. Under AAD coverage, compensation covers the failure of the sovereign to pay an arbitration award.
Arbitration Award Default means that we pay the claim after these conditions are met:

- Our client has gone into arbitration in line with the provisions of their contract
- Our client has won the case
- The counterparty refuses to honour the decision of the arbitrators.

This process is lengthy and costly, and we understand that it is not the preferred solution for our policyholders. However, in energy transactions this is usually the only option available, particularly for Independent Power Producers (IPPs) that want to insure their Power Purchasing Agreement (PPA). There are a number of reasons for this, including:

- AAD encourages the IPP to look for a compromise solution with its counterpart, rather than to claim right away.
- In practice, large and small breaches of contract and disputes occur all the time. It is nearly impossible for an insurer to find out where the responsibilities lie. Arbitration is the best way to obtain an objective assessment.
- The African Trade Insurance Agency (ATI) cannot find reinsurance in the private market for pure protracted default. The AAD makes the claim payment more remote and that encourages the reinsurers to take the risk.

2. Can you cover 100% of the risk?

For commercial and political risks, ATI will require our client to retain a part of the risk, typically 15% to 20%. This naturally motivates our clients to mitigate the risk and actively contribute to the prevention of the claim and the recoveries.
In a few cases, we may cover as much as 100% of the risk. This occurs primarily in cases where the policyholder has no impact on the event that is insured, such as an act of terrorism or the unavailability of hard currencies.
Our premium rate is calculated on the insured portion only. The more risk a policyholder is willing to keep for his own account, the lower the premium will be.

3. What are AEGF and RLSF?

ATI has developed an expertise in the underwriting of energy projects, with the help of the European Investment Bank (EIB) and the German Development Bank, KfW. This has allowed ATI to insure projects varying from 3MW to 300MW for risks such as nationalization, expropriation, currency inconvertibility and breach of contract by the off-taker. In order to scale-up impact in the African energy sector, ATI, in partnership with these partners has implemented two initiatives ATI SE4ALL Website Content.

AEGF (African Energy Guarantee Fund) is an underwriting pool led by Munich Re and supported by the EIB that provides increased insurance support to mitigate against key political and credit risks to investors.
RLSF (Regional Liquidity Support Facility) is a Euro 62 million Facility backed by KfW and managed by ATI to provide short term liquidity support in the form of a letter of credit (L/C) or credit line to small-scale independent power producers (IPPs) in the event of payment delays by the off-taker. Without additional cash requirements from utilities, the Facility will ease the stress on public bodies, enabling financial close of IPPs.

4. Do gas-powered IPPs qualify for AEGF and RLSF?

No. Gas-powered IPPs do not qualify for RLSF under the ATI agreement with KfW. The following alternatives may be possible:
In some cases, we can offer the same liquidity cover to gas and other IPPs without the support of KfW and outside RLSF

Combined-gas cycle IPPs can qualify for AEGF. This means that, for qualifying projects, we can take larger exposures without having to go to the private reinsurance market.

5. Why do you ask for letters of "no objection", Ministry of Finance guarantees, and letters of comfort in some cases?

As part of the agreements that we have with member countries, our minimum obligation is to notify the Ministry of Finance of new exposure that it takes.
However, in many cases we will also obtain formal acknowledgement and sometimes approval from the government that it will support the transaction and welcome our involvement. This motivates the government to help resolve any issues that may arise in relation to the transaction.
The type of commitment that we will ask for depends on many factors. A strong commitment is important if the tenor of the contract goes beyond the next elections, as a new government may be tempted to challenge decisions made by the previous government.
If the counterparty is very weak, or if the central government has shown weak support to a government agency or state owned enterprise, we will want a very strong commitment.
The condition to have central government support for ATI insurance can delay the effectiveness of the cover, but it also provides considerable comfort to the insured and significantly reduces the risk of a default or breach of contract.

6. Have you ever paid claims for political risks?

Yes. We have paid political risk claims in five ATI member countries. Some aggregate figures are available in our annual reports. In addition, we have managed to resolve a significant number of claims and potential claims before they had to be paid out.

Over time, we have adjusted our underwriting, our handling of potential claims, and the way we engage with the government to reflect these experiences. ATI SE4ALL Website Content.

7. Why do you charge commitment fees?

We may issue a policy for which there is no material risk during a certain period. Typically, we can insure a PPA at financial close, but the risk becomes material only once the construction has ended and the IPP begins to generate power. During this intermediate period, we must allocate capital to the transaction and register the exposure on the country and the counterpart. This may even prevent us from taking on new transactions if the ceiling for maximum exposure is reached.
We therefore charge a premium to compensate for the opportunity cost and partly reward the capital that it has put aside. This also encourages the policyholder to cancel the policy if they are not likely to go on risk.

8. How do you determine your prices?

As an independent company, ATI has no implicit or explicit support from shareholders which helps us to achieve and maintain a strong rating. We play both a developmental and a commercial role with an emphasis on profitability and commercial success in order to attract additional investments.
Unlike ATI, some state-owned export credit agencies (ECAs) do not have an obligation to be profitable and sustainable. An ECA's main role is to support its country's exports and its main justification is the volumes of exports it enables. . In addition, the ECA's rating is derived from its country's rating. The ECA's pricing is therefore based on a different logic than ATI's.
We also do not compete with the private insurance market on price. Rather, we open ***new*** markets and can make the private market comfortable with risks that it would not otherwise take. Our pricing must also be sufficient to cover this.

9. Do you have a minimum premium?

We have a very low minimum premium. It is just sufficient to cover policy administration costs.

10. Do you insure events like changes in legislation and taxation?

We can insure companies against discriminatory government acts that specifically target one company. Such acts can be compared to creeping expropriation.
We will not insure against non-discriminatory changes in taxation or legislation. A company that wants to protect itself against such scenarios will have to negotiate a guarantee directly with the government. In the past, PPAs have included such protections.

11. How do you manage when different companies are competing for the same contract?

Sometimes we are approached by several companies that participate in the same tender. In these cases, our main concern is to be fair and neutral to all parties

If different companies ask for the same cover, we will issue the same Non-Binding Indication (NBI) to all.

If requests from companies are different, the NBIs themselves will vary as well. For instance, one company can apply for currency inconvertibility insurance only, while the other can ask for breach of contract insurance. In this instance, the pricing and conditions will be completely different.

12. Why don't you issue bonds directly?

Bonds are an established product in the banking and insurance markets in most ATI member countries. Our role is not to compete with existing products, but to ***complete*** them. In the case of bonds and bank guarantees, we can issue counter guarantees to the banks and reinsure bonds from insurers and thus support the existing actors.

We will issue a bond in exceptional cases where there is no local alternative available; for example, if the beneficiary insists that the bond issuer has a minimum credit rating.

13. Why is RLSF not available in all member countries?

Compared to AAD the risk that an on-demand Letter of Credit (LC) will be called is much higher and we would have little or no time to activate our normal recourse mechanisms. We are therefore more cautious in the assessment of the off-taker risk and more formal in obtaining the support documents from the government. The payment track of the off-taker must be acceptable. If these enhanced conditions are not met, we will wait to consider RLSF in that country until the situation has improved.

14. Can ATI help to secure a good letter of comfort or PPA?

It is not our role to negotiate these documents. Our underwriting normally starts once these documents are finalized. In some cases, we can advise on some features of the PPA and have contact with the government officials involved in the negotiation to clarify our role, but the capacity and opportunity to do so will be considered case-by-case.

15. What does the preferred creditor status (PCS) of ATI mean in practice?

In principle, the PCS gives us access to the highest levels of the government and its commitment to resolve a potential claim. The effectiveness of PCS has been demonstrated in numerous cases. However, the PCS alone is not sufficient for ATI to take on a risk without question, and our underwriting will scrutinize each part of the transaction. The IPP checklist is an illustration of our approach.

The PCS also gives comfort to our private reinsurers to participate in transactions that they might normally decline.