The Potential Role of Asuransi Asei in Supporting Indonesia's Electric Power Infrastructure Development Through "ECA-Backed Project-Financing"

PT. Asuransi Asei Indonesia
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Electricity Capacity Target 2014-2019

**Challenge:** Lack of Available Funds

35,000 MW = IDR 1.12 trillion /US$88 billion

National Development Budget (APBN) 2015 = IDR 290 trillion/US$ 22 Billion

Funding Gap/Deficit = IDR 870 trillion/US$ 66 Billion
# How Can We Bridge the Funding Gap?

## Available Sources/Options of Infrastructure Financing:

<table>
<thead>
<tr>
<th>Type</th>
<th>Domestic Sources</th>
<th>External Sources</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity</td>
<td>Domestic investors</td>
<td>Foreign investors</td>
</tr>
<tr>
<td></td>
<td>Public utility</td>
<td>Equipment suppliers (in collaboration with domestic and international developers)</td>
</tr>
<tr>
<td></td>
<td>Dedicated government funds</td>
<td>Dedicated infrastructure funds</td>
</tr>
<tr>
<td></td>
<td>Institutional investors</td>
<td>Other international equity investors</td>
</tr>
<tr>
<td>Debt</td>
<td>Domestic commercial bank</td>
<td>International commercial banks</td>
</tr>
<tr>
<td></td>
<td>Domestic term lending institutions</td>
<td><strong>Export credit agencies</strong></td>
</tr>
<tr>
<td></td>
<td>Domestic bond markets</td>
<td>International bond markets</td>
</tr>
<tr>
<td></td>
<td>Specialized infrastructure financing options such as infrastructure debt funds</td>
<td>Multilateral agencies (financing with development perspectives and in long tenors)</td>
</tr>
</tbody>
</table>

Brief Introduction to Export Credit Agencies

Export Credit Agencies (ECAs) are government, quasi-government or private agencies/financial institutions that provide financial services which (on a micro-level) support the exports of an exporter against the non-payment risk of the importer or the importing country/government and (on a macro-level) support the economy of the exporter's country by promoting its country's exports in the importing country.

Even though ECAs in each respective country are setup and operate under different regulatory frameworks or mandates, generally, ECAs can at least provide 1 out of these 3 main financial instruments:

1. Insurance and/or
2. Guarantees and/or
3. Direct loans (Debt-Financing)
Financial Instruments (and Its Derivative Products) Provided by ECAs

**BUSINESS LINE**

**PRODUCTS**

- Short-Term Credit Insurance
- Medium Long-Term Credit Insurance
- Investment Insurance
- Post Export Finance Guarantee
- Export Bond Guarantee
- Pre-Export Finance Guarantee
- Import Credit Guarantee

**GUARANTEE**

**INSURANCE**

**ECA**

**LOAN/DEBT FINANCING**

- Pre-Export Finance
- Post-Export Finance
- Project Finance
- Import Financing
Products Provided by ECAs For Infrastructure Projects

I. Project Financing

Is a Loan provided on a "limited recourse basis" or "non-recourse basis" for the purpose of developing a large capital intensive infrastructure project, where the borrower (debtor) is a special purpose vehicle (SPV) and repayment of the financing by the borrower will be dependent on the internally generated cashflows of the Project.

Project finance is an officially supported "Export Credit" facility or is supported directly by the Government of the ECA originating Country. This means that the financing costs (interest rate and margins) are much lower than a pure commercial loan because the objective is not to make profit but essentially to promote the ECA originating country's exports (capital goods and/or services). Hence, and ECA can only provide project finance when the financed project requires exports (capital goods and/or services) from the ECA's originating country.

Common Project finance facilities are extended through a Buyer's credit scheme; where the loan is actually provided by the ECA to the importer or the importer's bank, whilst the exporter is paid on the due date of each delivery phase of the project and the importer repays the ECA (in installments) once the project is commercially operational.
The Benefits of Using Project Finance

✓ Officially supported export credit/project finance programs by ECAs have cheaper cost of financing (compared to commercial loans) which leads to cheaper project costs for the importer.

✓ ECAs can offer loans for longer tenors than are often available in the commercial market where tenors are typically around 5 years.

✓ Different from corporate loans, project finance is a "limited or non-recourse" facility, where the lenders will only have recourse on the cashflow of the project, the assets (the project itself) and the equity of the SPV but not the corporations sponsoring the SPV (also known as "off-balance sheet financing").

✓ Project finance optimizes the exporters' asset-liability structures. Since Project finance is the financing for importers or their banks, exporters won't bear any liabilities. The Exporters will have safe foreign currencies collection and accelerated capital turnover through it.
Project Finance A Commonly Used Method for Infrastructure Financing

Project Financing can be provided by either ECAs, multilateral financial institutions and private/state-owned commercial banks and has been frequently used since the mid 1990’s until now for "PPP" natural resources and power plant projects.

**Project Finance Provided by ECAs/Eximbanks (2008-2013)**

<table>
<thead>
<tr>
<th>Organization</th>
<th>Value Invested (US$m)</th>
<th>Deal Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>JBIC</td>
<td>35,938</td>
<td>56</td>
</tr>
<tr>
<td>Export-Import Bank of the United States</td>
<td>18,519</td>
<td>27</td>
</tr>
<tr>
<td>KEXIM</td>
<td>11,574</td>
<td>37</td>
</tr>
<tr>
<td>China Exim Bank</td>
<td>8,394</td>
<td>18</td>
</tr>
<tr>
<td>Export Development Canada</td>
<td>8,034</td>
<td>67</td>
</tr>
<tr>
<td>BNP Paribas</td>
<td>36,258</td>
<td>358</td>
</tr>
<tr>
<td>Bank of Tokyo-Mitsubishi UFJ</td>
<td>31,454</td>
<td>357</td>
</tr>
<tr>
<td>SMBC</td>
<td>28,212</td>
<td>334</td>
</tr>
<tr>
<td>Credit Agricole Group</td>
<td>28,206</td>
<td>315</td>
</tr>
<tr>
<td>Societe Generale</td>
<td>21,610</td>
<td>261</td>
</tr>
</tbody>
</table>

Source: Baker & McKenzie 2013
Project Financing Scheme/Structure For Power Infrastructure Projects (JBIC*)

- **O&M** (Operation and Maintenance) Company
- **EPC** (Engineering, Procurement, and Construction) Contractors
- **Fuel Suppliers**
- **Sponsors** (Japanese companies and others)
- **Project Company**
- **Lenders** (JBIC, Private Financial Institutions)
- **Government of Host Country**
- **Off takers** (National Power Companies and others)

**Applicable Financial Methods**:
1. When Japanese companies participate as EPC contractor — Export Loans
2. When Japanese company participate as sponsors — Overseas Investment Loan
3. When guarantees are provided for loans by private financial institutions — Guarantees

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*1 O&M: Operation & Maintenance; firms that undertake project operation and maintenance
*2 EPC: Engineering, procurement and construction
II. Medium Long-Term Credit Insurance/Guarantees

The typical ECA insurance/guarantee products used to support overseas infrastructure projects are:

1. Political Risk Insurance -> (government expropriation, government repudiation of contract, inconvertibility of foreign currency, and prohibition of transferring foreign currency)

2. Comprehensive Cover (Commercial and Political Credit Risk Insurance)

They are classified as medium-long term insurance products as they can cover up to 10 years credit period. Other ECAs can guarantee projects up to 15 years, this different for each ECA.

These insurance/guarantee products are used in every officially support export-credit program as a "supplement" to a project financing facility extended by a commercial bank or Eximbank, since it protects the bank from the risk of non-payment by the importer (commercial risk) or the importing country/government (political risk).

The amount of Insurance/Guarantee protection provided to project finance projects is commonly provided at 100% (political risk) and 95 % (commercial risk). Some ECAs even provide 100% protection for both types of risks.
Benefits of Project Finance Guaranteed/Insured by ECAs

✓ Functions as a supplement/credit enhancement when the Lender is unsure about the importing country's political situation or unsure about the cashflows of "untested" SPVs.

✓ When a commercial banks that provides the project financing is guaranteed by an ECA, financing costs will also be cheaper for the importer, because the facility will fall under an officially support export credit program.

✓ ECAs can provide additional security to the lender (and itself) through the benefit of having cooperation agreements and relationships with "the Local ECA of The Importing Country" which would assist the ECA in navigating the local due diligence.
Volume of MLT business Guaranteed by ECAs (2010-2014)

MLT New Business – Insured during each year

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Figures Given In</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>USD Million</td>
<td>2010</td>
<td>2011</td>
<td>2012</td>
<td>2013</td>
<td>2014</td>
</tr>
<tr>
<td>Corporates</td>
<td>50,207</td>
<td>57,161</td>
<td>54,055</td>
<td>53,467</td>
<td>53,620</td>
</tr>
<tr>
<td>Sovereign</td>
<td>11,036</td>
<td>20,499</td>
<td>24,741</td>
<td>20,214</td>
<td>31,882</td>
</tr>
<tr>
<td>Other Public</td>
<td>26,336</td>
<td>33,707</td>
<td>20,869</td>
<td>17,070</td>
<td>17,520</td>
</tr>
<tr>
<td>Projects</td>
<td>13,530</td>
<td>7,678</td>
<td>4,782</td>
<td>4,566</td>
<td>5,222</td>
</tr>
<tr>
<td>Banks</td>
<td>5,717</td>
<td>7,024</td>
<td>8,244</td>
<td>6,107</td>
<td>4,761</td>
</tr>
<tr>
<td>Lending</td>
<td>11,864</td>
<td>14,190</td>
<td>23,397</td>
<td>14,079</td>
<td>12,895</td>
</tr>
<tr>
<td>Unspecified</td>
<td>54,703</td>
<td>51,169</td>
<td>45,720</td>
<td>45,398</td>
<td>40,964</td>
</tr>
</tbody>
</table>

Source: Berne Union Statistics 2010 - 2014
Volume of New MLT Business Guaranteed by ECAs (2014)

Source: Berne Union Statistics 2014
ECA Guaranteed/Insured - Project Finance Structure For Power Infrastructure

*) Certain PPP projects still require sovereign guarantees
*) Most PPP projects are still guaranteed by 3rd parties (State-owned FIs/Banks)
How Can Asuransi Asei Support Indonesia's Powerplant Development?
Brief Introduction to Asuransi Asei

PT Asuransi Asei Indonesia

was originally founded in 1985 as PT. Asuransi Ekspor Indonesia (Persero), a SOE specifically setup as the "Export Credit Agency of Indonesia" (ECA) to support Indonesia's non-oil and gas exports through export credit insurance and export credit guarantees.

In October 2014, PT. Asuransi Ekspor Indonesia (Persero) spun-off its insurance and reinsurance business including its function as the ECA of Indonesia to a subsidiary named PT. Asuransi Asei Indonesia (Asuransi Asei). PT. Asuransi Ekspor Indonesia (persero) became a reinsurance company and changed its name to PT. Reasuransi Indonesia Utama (Indonesia-Re).

Where Indonesia-Re’s main purpose is to decrease Indonesia’s trade deficit particularly contributed by the insurance sector, Asuransi Asei continues to undertake its function as the ECA of Indonesia and to support indonesian exports and the development and growth of the nation’s economy in general.
Regulatory Framework of Asuransi Asei

1982
Gov.Reg No.1/1982 --> " Export Credit Guarantee and Export Credit Insurance are provided by the Indonesian Government"

MOF Order/32/1982 -->
“ Function as the Export Credit Agency (ECA) for non oil and gas exports will be mandated to PT. Asuransi Kredit Indonesia (Askrindo)“

1985
Establishment if PT. Asuransi Ekspor Indonesia (Persero)

1986
MOF order 12/1986 -->
Function and mandate as Indonesia's ECA is transferred from Askrindo to ASEI

July 2014
As its commitment to the Government's plan to establish a State-Owned Reinsurance Company to decrease Indonesia's current account deficit, PT. Asuransi Ekspor Indonesia (Persero) changed its name to PT. Reasuransi Asei Indonesia (Asei-Re)

During this period, Asei Re still operated as an Insurane Company

October 2014
PT Asuransi Asei Indonesia was established as result of corporate spin off of Asei Re

PT. Asei Re changed its name to PT. Reasuransi Indonesia Utama (Indonesia-Re) . Indonesia Re owns 99.998% shares of Asuransi Asei. 0.002% is owned by Asuransi Asei's employee cooperative

PT. Asuransi Asei Indonesia continues to resume its function as the ECA of Indonesia
Brief History of ASEI as an Export Credit Agency

✔ Asuransi Asei has been a member of the Berne Union since 1992 and the Aman Union in 2009 and has expanded its network with both the Berne Union and Aman Union Members through MOUs, Reinsurance agreements and Agency Agreements

✔ Berne Union and Aman Union are both international organizations consisting of the worlds government and private ECAs. Members meet semi-annually to exchange experiences, harmonize credit insurance practices, and conclude arrangements which support inter-trade between ECA member countries

✔ To date, Asuransi Asei has signed 9 Reinsurance Agreements and 1 Agency Agreement with both Berne Union and Aman Union Members

✔ Asuransi Asei are currently in the process of finalizing 2 reinsurance agreements with the state-owned ECA of the Russian Federation (EXIAR) and the state-owned general insurance company of China (PICC)
Asuransi Asei's Current ECA Network

- EFIC (Australia)
- TEBC (Taiwan)
- ECICS (Singapore)
- Garant (Swiss/Austria)
- NEXI (Japan)
- Thai-Eximbank
- Malaysia Eximbank
- Belarus Eximgarant
- ICIEC (Multilateral)
- KSURE (South Korea)

→ : Reinsurance Agreement
----- : Agency Agreement
Asuransi Asei's Role to Support Indonesia Powerplant Infrastructure Development

1. To the IPP (and its Sponsors): By having expansive network with and access to all of the globe's ECAs, Asuransi Asei can assist the IPP with accessing the IPP to ECA direct project finance or ECA-backed project Finance, depending on the originating country of the EPC contractor.

2. To the ECA (and Lender): Through its network and reinsurance agreements with other ECAs, Asuransi Asei can provide support to the ECA (and the Lender) by way of reinsurance (Risk Sharing). Asuransi Asei can also function as the ECA's local partner in conducting the local due diligence, project surveyor (during construction phase and commercial operating phase), access information to all local stake holders (the IPP, PLN and related ministries). *) Asuransi Asei can also provide "domestic credit insurance" to the IPP against the non-payment risk of PLN once the powerplant is commercially operational.

3. To the Indonesian Government: Substituting any Sovereign Guarantees with providing reinsurance support the ECA, and thus relieving the government from burdening further financial liabilities.

4. To Indonesia's Reinsurance/Insurance Industry: Optimizing the Indonesian reinsurance market/capacity to support infrastructure projects and therefore boosting the Indonesian (re)insurance/financial services sector.

5. To Indonesia's Economy: Help accelerate power infrastructure development which would lead to sustainable export production and improve Indonesia's trade balance whilst also boosting the financial services (Insurance) sector.

*) Asuransi Asei can also provide "domestic credit insurance" to the IPP against the non-payment risk of PLN once the powerplant is commercially operational.
Asuransi ASEI Support to ECA Guaranteed/Insured - Project Finance
Power Plant Structure
Thank you,

PT. Asuransi Asei Indonesia