World Bank Group
Multilateral Investment Guarantee Agency

Syndications: Facultative Reinsurance and Cooperative Underwriting Program

Introduction

MIGA uses a range of reinsurance products in order to leverage its capacity, co-operate with other insurers, and manage its portfolio. The primary benefits of reinsurance accrue to MIGA's clients, the investors, who gain access to increased capacity to insure eligible projects in developing member countries, and the recipient countries that benefit from higher levels of foreign direct investment. For individual projects, MIGA both reinsures itself (or forms syndicates) with public or private insurers, and provides reinsurance to primary insurers.

I. Syndications

MIGA regularly forms syndicates of private and public sector insurers in order to be able to support projects which exceed its capacity. The agency uses two products for syndications: Facultative Reinsurance ("**FACRE**") and the Cooperative Underwriting Program ("**CUP**").

Benefits of using facultative reinsurance and CUP

Guarantee Holder (insured): The guarantee holder benefits through the increased insurance capacity available to cover investments in developing countries, and enjoys the comfort of being insured by MIGA, a member of the World Bank Group. In addition, administration of the insurance is kept to a minimum since only one insurance contract is issued.

Host Country: The benefit of FACRE and/or the CUP to the host country is the increased amount of insurance capacity made available for that country, facilitating more projects which, absent a sufficient amount of political risk insurance capacity, might not go forward. The host government can also take comfort in having a multilateral organization such as MIGA involved in the project knowing that MIGA will apply its standard underwriting criteria, including an assessment of the project's environmental and developmental impact on the country.

Insurance partners: Insurance partners are able to offer coverage in countries where they might not be able or willing to do so on their own, since having MIGA as the insurer-of-record is perceived as a risk-mitigating factor. They benefit from MIGA's underwriting expertise and claims and recovery procedures, including the Agency's project and risk analyses. By sharing the risk with MIGA through the use of FACRE or the CUP, insurance partners also gain access to MIGA's unique subrogation rights as a multilateral institution.

MIGA: MIGA benefits from an ability to expand the scope of its own country portfolio (which is limited in each country), and is able to allocate its guarantee capacity more efficiently. FACRE and CUP also give MIGA an enhanced ability to cooperate with the public and private insurance market.

Conditions

Insured amount: Under FACRE and CUP, MIGA will issue a contract of guarantee for the entire amount of insurance requested, subject to certain maximum limits. However, MIGA will only retain a portion of exposure under the contract for its own account. The remaining insurance capacity will be provided by the insurance partners. The extent of MIGA's participation in any single project will depend on the willingness of the insurance partners to contribute capacity for a particular project or country, and MIGA's own capacity for that country. In any event, MIGA would expect to keep a material portion of the exposure in a project for its own account.

Contract:
For FACRE, there will be only one insurance contract issued to the insured for the entire amount underwritten by MIGA containing a blended premium rate to account for any potential difference in rates charged by MIGA and the insurance partners. MIGA will be the insurer-of-record vis-à-vis both the guarantee holder and the host government for the entire amount insured, and will assume liability and pay claims for the full amount.

For the CUP, there will also be only one insurance contract issued to the insured for the entire amount underwritten by MIGA. MIGA will be the insurer-of-record vis-à-vis both the guarantee holder and the host government for the entire amount insured. However, and herein lies the key difference between the CUP and FACRE, the Agency will assume liability and pay claims only for the portion retained for its own account. Thus, the liability to pay a claim is several and not joint and the guarantee holder assumes the counter-party risk of the CUP insurer regarding its willingness and ability to pay a claim. The CUP will be transparent in that both the guarantee holder and the host country government will know of the presence of an insurance partner. The Contract may include two or more sets of premium rates to account for the different rates charged by MIGA and the insurance partners.

Project assessment: Both FACRE and the CUP can be used for any type of eligible project that MIGA could underwrite for its own account. MIGA will review each project using the same eligibility criteria it applies to projects entirely underwritten by MIGA. Thus, the projects would need to be developmentally and financially sound, and meet MIGA's environmental guidelines and social policy guidelines.

Fees
To cover the administrative expenses incurred to structure each syndicated project, MIGA will charge the guarantee holder an administrative fee and an arrangement fee, which vary according to the size of the guaranteed investment. In addition, but only for FACRE, MIGA will charge the guarantee holder a counter-party risk fee of 0.10 per cent per annum calculated on the outstanding amount of reinsurance placed with private sector insurers, which will be paid at the beginning of each Contract period, together with the premium. This counterparty risk fee does not apply to when the reinsurance is provided to MIGA by a public insurer or under the CUP, since, under the CUP, the counter-party risk is borne by the guarantee holder and not by MIGA.

Issues

Non-disclosure: Some insurance partners normally do not permit the disclosure of the existence of a political risk insurance contract. MIGA, on the other hand, discloses this information to the host government and the public (e.g. press releases, annual report).

Disclosure to the public will indicate the presence of insurance partners without identifying them by name.

Terms of the policy: The guarantee periods offered by MIGA and the insurance partners may differ. Whereas MIGA may offer guarantee periods of up to 15 years, many insurance partners prefer to limit guarantee periods to 10 years. The FACRE and CUP structures can accommodate such a difference in guarantee periods, where necessary.

Syndication Process

When MIGA sets out to attract additional insurance capacity through facultative reinsurance (FACRE) or the Cooperative Underwriting Program (CUP), it follows a process which can be summarized as follows:

1. Preliminary discussions with a number of potential (re)insurers take place on a no-name basis. MIGA informs the client on indicative available capacity and premium rates.

2. The client authorizes MIGA to seek capacity with the FACRE or CUP program through a mandate letter and pays applicable syndication fees.

3. MIGA sends out formal invitations to potential reinsurers/ CUP-partners.

4. Reinsurers/ CUP-partners indicate to MIGA the capacity they wish to offer and agree to basic terms and conditions.

5. Selection of reinsurers/ CUP-partners. In case of Facultative Reinsurance, the selection is made by MIGA. In case of a CUP, the selection of CUP-partners is a joint decision of MIGA and the client.

6. Syndicate is formed and participating reinsurers/ CUP-partners are informed.

7. Underwriting package and transaction documentation are sent to syndicate members for their review.

8. Signing of the Contract of Reinsurance and the Contract of Guarantee, or signing of the CUP.

II. Providing reinsurance to primary insurers

In addition to attracting capacity from private and public insurers in order to support project in its member countries, MIGA also provides such capacity to primary insurers. Currently MIGA provides this kind of assistance mainly to public insurers, but also welcomes enquiries from private insurers. The form of contract used is a facultative reinsurance contract. MIGA's ability to provide reinsurance is conditioned on, among other factors, whether the Agency's environmental and social policy clauses can be included in the contract of the primary insurer.

Summary of Benefits

Insurance partners: MIGA's reinsurance allows insurance partners to support projects they would not be able to support on their own. In addition to reinsurance, MIGA may also provide technical assistance to insurance partners.

Host country: the host country benefits from the additional capacity which MIGA brings to the project, but also from the high standards which MIGA applies with respect to environmental and social policies.

Insured: The insured benefits through the increased insurance capacity available to cover investments in developing countries, and enjoys the comfort of the involvement of MIGA, a member of the World Bank Group.

Project assessment: MIGA can provide reinsurance for any type of project which MIGA would underwrite for its own account. When reinsuring others, MIGA will review projects using the same eligibility criteria it applies to projects where MIGA is the primary insurer. Thus, the projects would need to be developmentally and financially sound, and meet MIGA's environmental and social policy guidelines.

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