

Insurance and Bankability

How Residual Risks Are Transferred in Project Finance

1. Context

This note provides an outline for Jexium clients to use in project planning and documentation. It explains typical institutional investor expectations regarding insurance for projects and businesses in which investment is being sought.

It is provided so that clients can better understand current investor expectations and market standards for investment project preparation and documentation.

2. The Misunderstanding

In many projects, insurance is treated as:

- a compliance requirement
- a financing condition
- or a post-structuring safeguard

While these are all valid perspectives, they do not reflect how institutional investors view the subject.

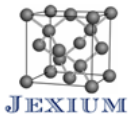
From an investor perspective, insurance is one of the final mechanisms through which residual project risk is identified, priced, and transferred to third parties with explicit capacity to absorb it.

Procurement and structuring allocate risk, and insurance addresses what remains.

3. Why Investors Care

Investors and lenders do not focus on insurance for its own sake. They focus on whether:

- adverse events can materially impair project delivery or operations
- losses are absorbed within the project — by *them* — or transferred to third parties



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- uncovered delays, damage, underperformance, or disruption can destabilize financial performance

Insurance is not a substitute for sound structuring, contracting and procurement. It is a critical backstop where those end and residual uncertainty remains.

4. Categories of Project-Relevant Insurance

Insurance should be assessed as a structured set of instruments addressing distinct categories of risk.

4.1 Construction & Completion Risk

- Construction All Risks (CAR)
- Erection All Risks (EAR)
- Delay in Start-Up (DSU) / Advanced Loss of Profits

These policies address physical loss or damage during construction and the financial consequences of delay.

They are central to protecting the project during its most vulnerable phase.

4.2 Operational & Performance Risk

- Business interruption
- Machinery breakdown
- Systems Performance Insurance
- Equipment failure or degradation

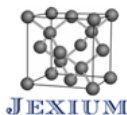
These instruments protect operating performance and revenue generation after completion.

It is important to distinguish between:

- insurance coverage, and
- supplier and contractor warranty obligations

Equipment and machinery are typically subject to manufacturer or supplier warranties, which:

- may be limited in scope or duration



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- may exclude certain performance outcomes or causes for those outcomes
- may not align with project financing timelines

Warranty regimes and insurance coverage must be assessed together to identify interface risks and post-warranty exposure.

Failure to do so can leave coverage gaps and material risks embedded within the project.

4.3 Climate & Natural Hazard Risk

- Flood, storm, wildfire and other natural hazards
- Parametric climate risk insurance

Climate-related risks are increasingly material and, in many cases, quantifiable. A growing number of carriers offer this coverage.

Even in jurisdictions traditionally considered low-risk, physical climate exposure can:

- impair or interrupt operations
- disrupt logistics and feedstock delivery
- damage operating assets

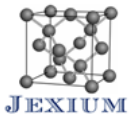
Insurance structures must reflect actual exposure, not assumptions.

4.4 Supply Chain & Logistics Risk

- Supply chain interruption insurance
- Transport and logistics disruption
- Delay of critical components

In complex infrastructure and energy projects, key risks often lie outside the project boundary.

Supply chain disruption, e.g. of critical feedstocks, can materially affect both construction schedules and operational performance.



4.5 Political & Sovereign Risk

- Political risk insurance (PRI)
- War and civil disturbance risk
- Expropriation risk
- Visas for international staff
- Tariff risks
- Currency inconvertibility
- Funds transfer and repatriation risk

These risks are not confined to fragile jurisdictions. They arise wherever political or regulatory actions can affect:

- ownership of land and operating assets
 - operational continuity or ability to transfer operating assets
 - the ability to receive payments, move capital or repatriate returns
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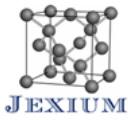
4.6 Management & Human Capital Risk

- Key Man / Key Person Life Insurance
- Key Man Medical Coverage
- Medical Evacuation Insurance
- Kidnapping and Ransom Insurance

In projects sponsored or developed by relatively small teams, especially in fragile jurisdictions, the loss or impairment of key individuals may materially impair:

- execution capability
- financing processes
- stakeholder coordination

This risk is often underappreciated or avoided in planning, but it can be significant and should be part of overall insurance strategy and coverage.



5. What Investors Are Actually Assessing

Investors are not simply asking whether insurance exists.

They are assessing:

- what risks are covered
- what risks are excluded
- who is insured and who benefits from coverage
- whether policy limits are adequate
- whether policy periods align with risk exposure
- whether insurers have the financial strength to perform

Insurance only transfers risk if the policy responds when the event occurs.

6. Common Failure Modes

6.1 Box-Ticking Coverage

Insurance procured to satisfy perceived requirements, without alignment to the actual project risk profile.

6.2 Gaps Between Policies

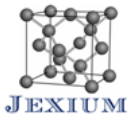
Risks assumed to be covered, but falling between:

- different policies
 - contractual arrangements
 - or exclusions
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6.3 Weak Counterparties

Insurance placed with insurers lacking sufficient:

- financial strength
- credit rating



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- or claims-paying credibility
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6.4 Exclusions Not Properly Understood

Policies that appear comprehensive but exclude key events or conditions.

6.5 Misalignment with Financing Structure

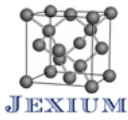
Policies that:

- do not properly identify insured parties
 - do not align with lender requirements
 - do not provide appropriate loss payee or beneficiary arrangements
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7. How Investors Interpret Insurance Arrangements

When the Sponsor presents...	... an investor infers
"The Project is insured"	Coverage may be superficial
Extensive policy list	Possible box-ticking
No discussion of exclusions	Weak risk understanding
Reliance on generic policies	Poor tailoring to project risks
No key person cover in thin team	Fragility in sponsor capability

Insurance arrangements are assessed not by their existence, but by their substance and relevance to a project's particular risks.



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8. Insurance as Transfer of a Project's Residual Risks

After disclosure, structuring, and procurement, a project still contains residual uncertainties.

Insurance determines whether those residual risks:

- remain embedded within the project
- or are transferred to external balance sheets

Insurance is the final layer of risk allocation — the point at which residual uncertainty is priced and transferred to parties explicitly structured to absorb it.

9. Relationship to Guarantees and Credit Enhancement

In addition to insurance, certain risks may be mitigated through guarantees and other forms of credit enhancement, including instruments provided by:

- export credit agencies
- development finance institutions
- multilaterals
- highly rated counterparties

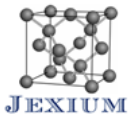
These instruments transfer risk through balance sheet support rather than insurance markets.

A separate Jexium Client Guidance Note will address guarantees and credit enhancement instruments in more detail.

10. Practical Guidance

Clients seeking institutional capital for their projects should:

- identify major insurable risks early
- align insurance coverage with actual project risk exposures remaining after procurement and contracting policies are in place
- understand exclusions, limits, and response triggers
- understand how parametric insurance works and have mechanisms in place to monitor relevant parameters (e.g., temperature, water levels)



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- verify insurer financial strength and credibility through a ratings requirement or a formal due diligence process
 - avoid assuming that generic coverage is sufficient – examine exclusions carefully
 - address key person risk where relevant
 - assess equipment warranty regimes alongside insurance coverage
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11. Conclusion

Well-structured insurance does not eliminate risk. It ensures that when risk materializes, it does not destabilize the project or its financing.

Weak or poorly structured insurance arrangements, and insurance not properly meshed with procurement, sustainability and other risk management policies will undermine otherwise strong projects.

In project finance, insurance is not peripheral. It is one of the principal mechanisms by which residual uncertainty is converted into manageable exposure.

This Guidance Note is not meant to be exhaustive, but to raise clients' awareness of the subject matter and to prompt further discussion and detailed consideration in the preparation of projects for financing.

For further information, please contact us
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