



THE INSTITUTE OF RISK MANAGEMENT

MINUTES OF PPP/PFI SPECIAL INTEREST GROUP

HELD AT JLT, 6 CRUTCHED FRIARS, LONDON

ON WEDNESDAY 24TH OCTOBER 2007

Attendees

Enna Azami (Willis), Warren Beardall (JLT), Barry Dickinson (WSP), Sandra Elston (Willis), Joanne Foley (Willis), Anthony Fussey (UK Courts Service), Rolf Gantner (PartnerRe), Andy Garlick (The Risk Agenda), David Geffin (Currie and Brown), Stuart Glynn (Morgan Ashurst), Andrew Harland (Currie and Brown), Adrian Letty (Alfred McAlpine), David Newman (RBS), Christian Oliver (Cyril Sweett), Anita Punwani (Amap), Philippe Rapin (Mott MacDonald), David Smith (Willis), Tom Smith (Derbyshire CC), Michael Stoneham (Dundas and Wilson), Poh Tan (Cyril Sweett), Derek Tarr (Willis), Gary Thomas (Highways Agency), Andrew Turpin (Davis Langdon), David Watson (GSL), Gemma Watts (Alfred McAlpine), Simon Wilcock (Swiss Re), Cedric Wong (SwissRe)

Apologies

Phil Brown (Mace), Geoff Buckingham (CORDA), Andrew Lister (BT), Rupert Travis (Cunningham Lindsay International), Mike Walker (Chair of SIG), (and from me if I've got the attendance wrong).

Items

1. Warren Beardall of JLT welcomed us all to his offices and the meeting.
2. Andy Garlick, the SIG Secretary, welcomed everyone to the SIG, and passed apologies from Mike Walker, the Chairman, who was unavoidably required elsewhere. He asked everyone to introduce themselves. We were all very grateful to JLT for providing such pleasant accommodation, organising the speakers and lunch.
3. He handed back to Warren to stage manage the presentations. Warren then introduced his colleague, David Newman, from Global Banking and Markets at the Royal Bank of Scotland. David and he would provide an overview of the lender's process during the finding of a PFI project.
4. David went through the process he would use to assess a potential deal. He noted that 'bankers know nothing' and that he is highly dependent on his technical advisors, legal advisors and insurance advisors. Key points were:
 - senior lenders want (virtual) certainty of repayment
 - risks should be allocated to the party best placed to manage them - back-to-back as appropriate
 - the main risk areas are: performance of the construction contractor and operator, volume (ie revenue) risk, technology risk, change of law, and termination risk
 - the bank credit process comprises a pre-screening, supported by a 2-3 page report of the main points, followed by a more formal and fully documented stage
 - in RBS the credit committee is composed of directors from across the bank
 - performance and solvency of the contractor is assessed to a large extent by reference to track record and the putting in place of a suitable security package
 - the question is, if things go wrong, how can we complete the asset?

5. Warren took the stage again and spoke about the lender's insurance advisor due diligence role. He tabled a schedule setting out the services typically offered, and a further schedule of the information sought from the technical advisor. There are two main elements:
 - the process of fortuitous risk identification, involving a broad range of parties, including the SPGV and its advisors
 - confirmation of the required project insurances, typically CAR, material damage, delay in start-up, business interruption and PL
 - the insurances are usually procured by the SPV for the whole project, and the cost of insurance is one of the few risks borne by the SPV
 - other areas for the insurance advisor are contractual review, insurer security (looking at S&P rating, not details of liquidity).
6. David resumed after lunch and spoke in more detail about two specific areas of risk: volume (or revenue) risk, technology risk and termination risk. For volume risk, David took Arsenal's Emirates stadium as his case study. A successful deal had been done based on a thorough assessment of all elements of revenue. Mitigants for volume risk are typically reserving, increased covenants, lower gearing, and increased pricing. Technology risk is countered through track record (and IT has a very high refresh risk which makes PFIs frequently unsuitable). Finally David noted that in the UK senior lenders generally get paid in the event of termination. If the contractor defaults, the banks can generally step in and the key question is how much time have we got?
7. David concluded by saying that the key risk mitigants of the bank are: a comprehensive risk register, relevant precedents, advisor input, and the avoidance of unproven technology.
8. Andy thanked both speakers, on behalf of the IRM and Mike, for the effort they had put into preparing their presentation. The IRM is very grateful to JLT and other organisations who can host these meetings. He said he would be calling people to ask what they could do and that it looked as though an international theme might be a good point to be pursued in future. He then closed the meeting.

Attachments: Powerpoint presentation to follow