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Insurers plowing into power

Vince Calio

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Insurance companies Manulife and Prudential are reportedly showing interest in getting a piece of the US$3 billion commercial loan facility that is being shopped to banks to finance the first two trains of Freeport LNG's 20-year liquefaction tolling agreement (LTA) with BP. The deal [Projects Database] has been in the works for over a year, and is one of the largest energy deals so far in 2013.

The Freeport LNG deal is just one example of how insurance companies are competing with bankers and fund managers to provide capital to power and energy projects, especially at a time when lending opportunities in the space are limited. Since the 2008 US financial crisis, yield-hungry insurance companies have sought to provide the longer pieces of loans – typically five- to seven years – to projects in the North American power and energy sector.

Term loans with five to seven year tenors are considered long-term in the power and energy sectors, where secondary debt market activity is heavy and underlying companies typically wish to refinance with long-term bonds shortly after deal closings. This is far different from the transportation infrastructure sector, because the underlying assets in transportation deals typically involve 30- to 50 year concession agreements and have generally predictable revenue streams.

According to one US banker said the number of traditional lenders from both Europe and North America participating in project financing have gone down to 15 from about 25 since the 2008 financial crisis in the US. Furthermore, liquidity pressure brought on by Basel III has forced banks to be more selective in choosing which projects to finance.

As a result, normally conservative insurance companies such as Prudential and Manulife Financial see loans in the power and energy sector as higher-yielding investments.

One insurance company executive, however, told *IJ News* that insurance companies are looking at infrastructure deals because of the strength of the assets. He added that assets in the North American power and energy sector "fit particularly well in our asset-liability models."

There have been several recent deals, as well the creation of infrastructure debt funds, in which insurance companies have been involved:

Recent infrastructure deals involving insurance companies

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Year	Project	Total debt financing (USD)	Insurance company lenders
2013	Stonebridge Infrastrucure Debt Fund	US$1 billion	In March, executives of the new Stonebridge Infrastructure Debt Fund II said it would partner with Canadian insurance companies SunLife Assurance, Great West Life, Industrial Alliance and Manulife to finance infrastructure projects.
2013	Invenergy, Des Moulins Wind Project	U$444 million	Sun Life Assurance (fixed-rate note purchaser), Prudential (lead bank, and structural and documentation advisor).
2012	Arlington Valley Solar II	US$550 million	Prudential provided US$121 million long-term senior debt.
2012	Infrastructure debt fund	US$1 billion	Fund was created in October 2012 by Allianz Global Investments (subsidiary of Allianze Life Insurance) to fill the lending void of banks.

One banker said that lending opportunities for high-quality deals such as the Freeport LNG deal have become scarce, and that insurance companies are presenting a challenge to banks. “Insurers tend to drive down the cost of capital in deals and are making it more challenging for traditional lenders, particularly since deal volume is nowhere near what it was five years ago.”

One of the strongest examples of insurance companies providing long-term financing came last June, when a group of five lenders led by Sovereign Bank contributed to a US$270, three-year term loan to finance Invenergy’s California Ridge Wind project. The lending facility, however, was backed by a seven-year, US$170 million senior note tranche by Prudential Capital.

One banker said that the loan facility was enabled by the fact that Prudential was willing to provide the longer debt tranche. “Quite frankly, I don’t think the Invenergy deal would have happened had it not been for insurance companies,” said the banker.

A Canadian banker, however, said that the silver lining is that insurance companies are enabling small- to mid-size North American power and energy deals to get financing. He explained that given the current economic climate, banks are sometimes unwilling to provide long-term lending to US$100 million to US$500 million power and energy projects.

“Projects that normally couldn’t get long-term loan financing are in fact happening because insurance companies are willing to provide long-term debt,” said one banker. “Otherwise, the power and energy sectors would have to turn to buyout funds that would want management stakes, or face a higher cost of capital from mezzanine debt funds.”

One infrastructure debt fund manager added that insurance companies represent stiff competition because they can

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generally offer lower cost of capital than infrastructure debt funds. He added that his fund has been knocked out of lending opportunities in the power and energy space because insurance companies have come in and offered lower borrowing costs.

“Right now, insurance companies are our biggest competitors,” he said. “Opportunities to invest are limited, but we’re seeing insurance companies swoop in to deals rated just above high-yield status to add 100bps to their debt portfolios.”

In the short term there are roughly 45 power and energy projects that are in the pre-development stage in the US and Canada, according to *IJ Online* Projects Database. Banks, infrastructure debt managers and insurers will be competing to raise capital for these projects. Some of the bigger deals include the US$8.2 billion British Columbia Pipeline [Projects Database] and the US$750 million Genesee Gas-Fired plant in Michigan [Projects Database].

In the long-term, banks will likely continue to face lending competition with insurance companies that are offering cheaper costs of capital. Financial institutions on both sides of the Atlantic are still feeling the squeeze and are being far more selective in their lending than they were during the pre-financial crisis days. The result is that when a strong asset such as Freeport seeks financing, the competition for lending between banks and insurers will continue to escalate for the foreseeable future.

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