



# **Residual Value Guarantee Product**



**Klapton**

Insurance Company Limited

## **Product Summary**

**Klapton's Residual Value Guarantee Product (RVG) provides marine vessel owners (and/or financiers) the ability to manage future asset value risk by offering recourse to a policy guaranteeing a vessel's value at a particular point in time. The guarantee can be called by the vessel owner if, after an agreed sale process, the vessel cannot be sold for at least the RVG sum insured (subject to typical vessel maintenance and owner's obligations clauses).**

**In such event Klapton will have the right to either purchase the asset for the RVG sum insured or pay the difference between the eventual best sale price that can be achieved during the agreed sale process and the RVG sum insured (subject to certain pre-agreed deductibles).**

**The product would normally cover a period of three to five years but could be longer dependent on the age of the vessel(s) and financing structure.**

**The policy can be assigned to financiers/investors subject to the insurer's prior agreement.**

**Klapton will normally accept 100% of the risk backed by a panel of major reinsurance houses.**

## **RVG BENEFITS**

The scarcity of traditional bank finance following the global financial crisis at the end of the last decade has presented severe challenges for ship owners and investors in gaining access to capital to acquire or refinance vessels. This has created a stagnant sale & purchase environment where value opportunities for ship owners are often missed due to an inability to procure affordable finance.

The demographics of vessel financing has changed and has now become more structured where each inherent risk is scrutinized and mitigated to the greatest degree. The provision of RVG policies removes one of the biggest risks for investors and financiers and can provide the cornerstone for a financing structure that works for both lender and borrower. In a wider sense RVG policies can also provide

an enhancement to investment returns and facilitate more certainty to return calculations.

The aviation industry has been utilizing RVG products for many years, and normally structures the RVG around a leasing arrangement. Given the change in the marine sector's financing dynamics, RVG arrangements are also finding a niche in the shipping industry.

## **POTENTIAL MARKETS**

The RVG product will predominantly be made available against ocean going vessels operating in the dry bulk and tanker sectors but other vessels will be considered on their own merits.

Vessels will typically be aged 10 years or younger at the outset but again older vessels may be considered depending on the circumstances and merits of the proposal.

Klapton can provide RVGs directly to marine vessel owners, or to insurance brokers and reinsurance brokers (where a local ceding insurer is providing the product's fronting).

## Residual Value Guarantee Product

### RVG APPLICATION PROCESS

Any potential RVG proposal enquiries should, in the first instance, be referred to Klapton's newly formed Maritime Sureties team, who will guide applicants through each step of the process.

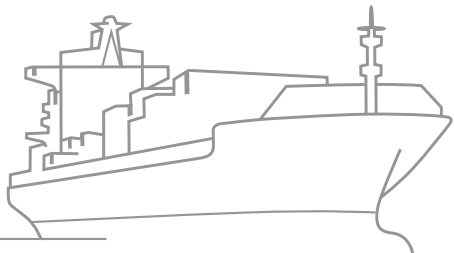
To enable an initial assessment an applicant will be required to provide vessel details (including name of vessel; IMO registration no; type and specification of vessel; dead and light weight tonnage; year of build or scheduled delivery date; shipbuilder; Class; Flag; estimated delivery date/ purchase price; current owner; and employment details if applicable) and the proposed amount and period/dates of RVG requirements.

Further details may be required depending on the circumstances of the proposal.

Klapton will then carry out an internal assessment of the vessel and its potential future values utilizing proprietary data in arriving at a proposed RVG amount, which costs the applicant USD 1,500.

If and when the applicant agrees a RVG amount(s) the Maritime Sureties team will seek Committee approval to issue a Non-Binding Indication of main terms which, if issued and accepted by the Insured, will trigger a Set-Up Fee to be paid upon signing. This Fee is to cover Klapton's legal documentation and further due diligence costs leading to the issue of a formal RVG execution document.

Upon execution of a final RVG document (and fulfillment of conditions precedent and obligations of both parties), the agreed premium will be payable in full.



## BASIC RVG TERMS

We apply a rate to the agreed RVG sum insured and the premium generated covers the whole period of cover rather than being an annual premium. As a rough guide rates are around 5% to 10% depending on type of tonnage, age and the period required.

Klapton will reinsure a majority portion of its risk to a panel of major reinsurers with typical industry cut through clauses applying.

The policy is non-cancellable. We can currently provide up to USD 25 million capacity for any one vessel. Each transaction requires a bespoke manuscript wording produced by our solicitors. Economies of scale apply where an owner is buying a policy over a number of vessels as each document will be replicated.

No assignment of assets is required during the currency of the policy but we must have the option to obtain full title to the vessel in the event of a claim.

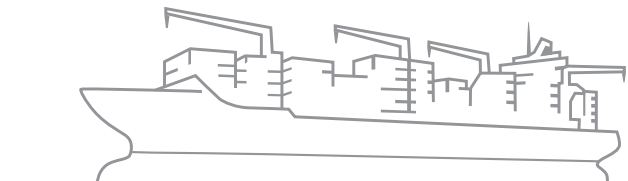
The Insured party/vessel owner will comply with typical ongoing maritime covenants in respect

of the vessel (e.g. class compliance; vessel maintenance program; no default under vessel related documents and compliance with IMO/Port regulations).

A valuation of the vessel(s) will be required as a condition precedent to closing from 2 independent valuers chosen from a pre-agreed list, payable by the Insured.

We do not write U.S. domiciled insureds and in certain jurisdictions fronting arrangements may be required.

These are the key requirements but each policy will be written as a bespoke document in each case.



## Residual Value Guarantee Product

### THE CLAIMS PROCESS

In the event that the insured anticipates making a valid claim under the RVG they must give at least 6 months' notice before the RVG date window. Such notice may be withdrawn on or before the policy expiry date whereupon Klaption is released from any payment obligation.

In the event of a claim the Insured will provide an up to date valuation provided by 2 independent valuers chosen from an agreed list as at the point of claim and on the RVG date and must use and demonstrate all reasonable commercial efforts to sell the vessel, with Klaption approving any offer. Klaption has the right to step in after 3 months of the Insured giving notice to assist with the sale of the asset.

The policy is subject to specific return conditions either in accordance with a charter party wording or similar to a memorandum of agreement. The vessel must be in as good structure, state and condition as at the date of the valuation on execution of the RVG, fair wear and tear excepted.

We will pay the Insured within five working days of the expiry date of the RVG if the vessel is not sold for at least the RVG Insured Amount, either for the full RVG sum in return for clean title to the vessel or the sum equal to the amount by which the sale proceeds are less than the RVG Insured Amount.



## KLAPTON MARITIME SURETY TEAM

Due to an increasing number of enquiries being received from the maritime sector, Klaption formed a specialist Maritime Sureties Committee at the beginning of 2019 to focus on this business line.



**Russell Parker** ([russell.parker@klaption.com](mailto:russell.parker@klaption.com))

The Committee is chaired by Russell Parker. A career banker of over 35 years standing, Russell brings 20 years experience in the global maritime finance sector. He is the former Head of Lloyds Banking Group's Ship Finance Business, having previously overseen the growth of HBOS' Shipping portfolio prior to the merger with Lloyds. Russell has also held senior positions in Bank of Scotland's Project Finance and Oil & Gas divisions and possesses an MSc in International Banking. Russell is also a Director of Edinmar, a private Ship Finance consultancy firm.



**Douglas Newton** ([douglas.newton@klaption.com](mailto:douglas.newton@klaption.com))

In addition, Klaption has also appointed Douglas Newton as Head of Sector, Maritime Sureties. Douglas is a seasoned banking professional with over 30 years experience, including 17 years of expertise in the global Maritime Finance sector. Initially at HBOS, Douglas was instrumental in developing and growing the bank's involvement in the marine finance sector. Post-merger with Lloyds Banking Group he retained a senior position in Ship Finance, and had an integral involvement in delivering on the strategic objectives set by the board. Douglas is a Member of the Chartered Institute of Bankers in Scotland and Director of Akumal Consulting Limited.



**Mike Lawson** ([mike.lawson@klaption.com](mailto:mike.lawson@klaption.com))

Mike Lawson is also a member of the Maritime Sureties Committee. Mike brings over 15 years experience within the Structured Asset Finance arena (including transportation) at Lloyds Banking Group, initially as a Finance business partner and more recently as Head of Strategy and Transactional Management, covering the sale and distribution of non-strategic assets (including the disposal of c \$15bn maritime portfolio, primarily of structured debt and lease backed vessels).

Klaption believes these appointments demonstrate our commitment to this specialist market and that our niche and flexible Surety product offerings provide much needed credit enhancement and protection which is lacking in the current maritime market place. Initially, we will major in Residual Value Insurance and Charter Hire Guarantees and will develop the product offering, as the business evolves, in order to provide bespoke solutions to our clients.



**Administrative Head Office:**  
Klapton Management Limited  
B2, Basepoint Business & Innovation Centre,  
110 Butterfield, Great Marlings,  
Luton LU2 8DL, United Kingdom

**Registered Office:**  
Klapton Insurance Company Limited  
ACS, BP 69, Mutsamudu,  
Anjouan, Union of Comoros

Members of:



Organisation Of  
Eastern & Southern  
Africa Insurers



African Insurance Organisation

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