>> Announcer: Ladies and gentlemen, please welcome our next panel, Crowding In versus Crowding Out, How EXIM Attracts Private Sector Activity. Our moderator is Joseph Monaghan, Executive Managing Director, Aon. He's joined by Gemma Bae, Managing Director and Head of Structured Export Finance Americas, ING Capital. Dan Reardon President, Global Political Risk, Credit and Bond Insurance, AXA and AL. And Doug Steenland, Chairman, AIG.

>> So good morning, everyone. The crowd is filtering in here this morning. Glad to be part of the discussion this morning and part of a great panel. We were talking earlier this morning as we were preparing for this, and I think there's a lot of similar views here, but we're all approaching it from a little bit of a different angle. So, in the spirit of the late, great Tom Petty who, when asked how does he write songs, he said one phrase, "don't bore us, get to the chorus." We're gonna down the list here really quickly, does EXIM crowd in or crowd out capital? So, in or out, Gemma?

>> Gemma: In. In, Doug?

>> In.

>> Dan?

>> In.

>> In. Thank you. So enjoy the rest of the... What's interesting about this, as I mentioned earlier, we're all approaching it from a little bit different perspectives. So, at Aon we had the good fortune of representing EXIM last year on their inaugural risk transfer on an aviation portfolio, which was a great example of the public private partnership that we're discussing today. But there are many other examples and I think maybe Gemma, starting with you, and the work you do in aviation finance, can you give us some of the perspective that we were talking a little bit earlier of that role of EXIM in combination with private capital in the aviation market place?

>> So, as a financier and from a lender perspective, we at ING are, there are basically two sectors that we had focused in the last 15 or so years, and that has been financing Boeing Commercial aircraft to airlines all over the world, as well as satellite from SSL and from Boeing. And the transaction that we were involved with EXIM Bank for many of those transactions for airlines that are located in immersion market, what I would call challenging countries, in terms of risk appetite, from a lender's perspective, as well as certain types, new type of asset that the private capital market would not readily embrace, or for many airlines that are located in the OACD countries but are just starting up. So, I think for there, if it had not been for EXIM Bank we would not have been able to finance transaction for Ethiopian Airlines or for WestJet where they're just starting to start

up their operations in Canada. So clearly, EXIM Bank played a catalyst role in mobilizing capital for those airlines to develop their business in difficult and challenging marketplaces. And I would say the same thing for satellite. I think the satellite industry's still struggling without EXIM support, and we have seen a number of deals where Boeing is losing because there's a lack of ECA financing for their contract, and we'd love to see EXIM Bank to support some of our key exporting clients so that they would have a level playing field vis-a-vis their French counterparts.

>> Maybe building on that and staying with aviation as a theme, Doug, your background in aviation and in aviation lease finance, maybe you could give a little bit of perspective in terms of the growth of that marketplace recently and the cyclicality of that marketplace in good times and bads and the role of EXIM or ECAs in particular when things get choppy.

>> Sure, I'd be glad to. Two things I've done in my past is one, for a good period of time, AIG was the owner of a entity called ILFC, which is the largest aircraft leasing company at that point, we had about 1100 commercial jets, and I was the chairman of that. Then prior to my AIG experience, I was the CEO of Northwest Airlines and merged it into Delta and so saw it from that perspective. And I would just make two point. One is that over the last 10 years or so, the operating lease part of the business has dramatically expanded, and what that's involved is bringing in fresh capital and creating new vehicles to basically finance Boeing and Airbus airplanes. Having said that, we've sort of gotten used to having robust private capital markets that have been eager to finance this pretty unique asset, but that has not always been the case. And if you look back in time, you can see multiple instances where the private capital market effectively dried up and was closed to aircraft financing. And obviously from the OEM perspective, that's a serious, serious problem because they've got their production facilities for the whole supply chain, you know, they're all geared up to continue to produce. You can't just turn that off. And in those instances what's proven to be very effective is both EXIM and ECA sort of stepped up and turned the faucet more open than historically had been the case. I think it's problematic today that EXIM may not be able to play that role because of restraints attached. But knowing that, in times of need and in times of when there is a seizure in the private market, there is in essence a backstop that can bridge until the private markets open back up again, I think is an important piece of the overall puzzle for financing these billions and billions of dollars of aircraft that are being introduced into the market.

>> So Dan, you were one of the leaders, in terms of the aviation insurance program that was put in place and I wondered if you could give a little bit of an overview of that transaction and you have, I think, an interesting perspective given your background in OPEC prior

to your background in the insurance business. Maybe you can talk a little bit about the relationship that has developed between EXIM and the private insurance marketplace on the back of that transaction.

>> Sure Joe, I'm happy to. So we were at AXA XL, very proud to lead, along with six other carriers, this, what I think is a landmark step by the EXIM Bank to crowd in, the answer to your question, certainly crown in available capacity in the markets and the insurance markets, to look at an aircraft portfolio, I think there were 33 different airlines covering a billion dollars worth of exposure. It is arguably one of the best classes of business for EXIM Bank, no doubt, but it is important to start. It is the first time that EXIM really came to the market in a significant way to pull in that capital, to pull in the insurers to support their business. There will, I think, be further needs and there are further needs. Certainly challenging times in terms of the capacity that EXIM can provide but that innovation that happened last year, it's a two year facility lead by AON too, that that starts something that could be replicated and it created a model with great team members and EXIM Bank to really launch that, to take the steps to get that into the market. I firmly believe there'll be other opportunities, and I know there's a lot of discussions about innovation, even way to leverage the $10 million cap, to pull in private capital, to support aircraft, other aerospace, satellite, looking at shipping, other mobile assets, I think they'll be quite a bit. The relationship with OPEC is interesting because OPEC has just had a vastly expanded mandate. We hope that that same drive to expand these programs, particularly for agencies that are looking to pull in the private sector in such as way, and I can tell you OPEC is highly engaged with the private sector in their lending as well as with their insurance products so we think those are good models, and we think that actually helps the agencies meet the demand because our view is that it's a growing market, the pie's expanding, there's need for more capacity and I think this public private collaboration that we've seen grow is gonna be important for that in the future.

>> And you touched on something that I think is important to bring out which is not only the capital that is provided by the ECAs, the guarantee that's provided by EXIM, but also the expertise in underwriting the risk, the expertise in going into geographies that are more challenging for private capital to enter, especially if there hasn't been a lot of activity historically and Gemma, maybe you can talk a little bit about that. You mentioned satellite for example as a great example of that. Can you talk a little bit about how you view the role of EXIM in terms of the underwriting expertise and the ability, given the nature of EXIM to enter geographies where private capital may not be able to confidently go in?

>> So prior to focusing on aviation and satellite in particular, my prior experience and working with EXIM Bank has been really been emerging markets. I think if you go back and you look at the very

first project finance deals in Indonesia, or in Brazil and Argentina, the ECAs that lead the very first project finance deals in those difficult countries where you're not only taking political and transfer, and foreign exchange risk, and expropriation risk, the leaders were faced, sponsors were also faced with construction risk, project risk, PPA risk. And the ECAs and EXIM in particular in the late '90s and early 2000s, lead the very first structure, and set the example of how to analyze project risk, construction risk, PPA risk and so if EXIM and the ECAs did not establish the ground rules and set up certain guidelines how to analyze these project risk, I don't think today, we would have private sector looking at those type of structures. So clearly, EXIM and ECAs are critical in establishing new types of structure that enables and mobilizes private sector, and I think that we have benefited hugely from the experience that EXIM brings because at the end of the day, EXIM would only take on project if there is reasonable assurance that they are gonna get repaid. So they are not underwriting just because it's the U.S. government, so the amount of due diligence and the credit review that EXIM undertakes and whether it's a project in Indonesia, whether it is in Brazil or Argentina, they go through same rigor of underwriting assessment. I think that that bring a tremendous comfort as a lender because we know that EXIM has undertaken all of the legal, technical due diligence to insure that the project is a sound project that they're willing to guarantee and that gives it rubber of AAA stamp, so as a lender, we take a lot of comfort. So even today, I think that if you're doing a project, a renewable deal in difficult challenging markets, without ECAs the private capital will not be there to support those projects. So I think it's very critical that they do play a major role of setting rules that allows private capital to come in and to provide the necessary funding.

>> Yeah, and we all know that the world is awash in capital. And Doug we were talking at breakfast about how much capital is out there, but there's a difference between pools of capital and pools of capital that are ready to take risk, that have confidence in risk taking. Maybe you could talk a little bit, I thought it was interesting talking about the pools of capital out there that are looking for longer term investment opportunities and we think about infrastructure finance or renewables. That combination of needing leadership on the ground floor to get a project off the ground, and then terming that financing, refinancing into more fixed debt or other financing opportunities to access that stable capital.

>> I think there's a confluence between institutions that want to recycle their capital, so fewer and fewer institutions want to extend credit, take on risk, and then keep that risk on their balance sheet forever and ever, as compared to originating the risk, seasoning it, and then laying it off on third parties. And then I think you've got pool of capital that are becoming more niche-like in that they exist, and they're looking for particular kinds of risk. And there's an

emerging group that's looking for, as an example, for longer dated risks, so they wanna look for assets that have 20, 25 year lives to them where they can expect a reasonable return over that period of time and in essence want to lock up their money for that period of time because they're either matching it against liabilities that have that type of tenor or they're sovereign wealth funds that are looking to park money for that period of time and don't wanna constantly recycle that. So I think for an entity like an EXIM Bank that can be an originator of a project and the like, that private capital may not be willing to do, I think there are opportunities for, whether it's following on the aircraft example, of looking for then to recycle that capital and bring in the specific pool of third party private investment that's looking for that type of asset to put on its balance sheet and invest in.

>> You know, Dan, AXA XL, like AIG, like ING are all private entities that at the end of the day are risk evaluators. Putting capital to work assessing opportunities and looking for a risk reward. And as you think about building out your portfolio and as we think about the momentum of the recent transaction with EXIM, I thought it was interesting yesterday when you talked about AXA's recent acquisition of XL and the opportunity that you had to present. And the first transaction you presented was actually the EXIM transaction. So one of the things in the insurance and certainly in the reinsurance business, is this concept of underwriting the underwriter and the role of an entity that you have confidence in, Doug to your point, who's on the ground with the origination of the risk in their ability to underwrite that risk and an alignment of incentives. Can you talk about how EXIM, they're areas you may wanna go into, and deploy capital or take risk, but having EXIM as a partner just builds a lot more confidence, not only for you and your team, but also within the organization?

>> Sure Joe. So I think that that's a good concept for us because it actually fits pretty well with our business strategy at AXA XL right now. We are one of a few members of the private insurance community that's quite interested in longer term risks particularly those involving challenging risk, complex risk, renewable energy, some of the aircraft financing that we see, some of the project financing's that we see in energy and other areas. Those are challenging, there often presented to us in challenging markets as well, in Africa and other single B or double BB type rated markets. For us, we have some of the best expertise in the underwriting side, certainly in the risk analysis side, and even on the claims and mitigation side. But it is an enhancement for us if we can work on these long term projects with EXIM, with other multi-laterals or ECAs, particularly for the long term nature of them. Now the fact is, with a lot of project financing's, there is capital that likes to come in after you get through the construction period, the so called mini-perm financing's where you see, you have to be an originator, we see ourselves as really as supporting those originators, with a multi-lateral, with an

ECA, particularly for the longer, most complex risk in the difficult markets. But we also have to be prepared to stay with those risks for the long term because while the markets are strong and robust right now, that won't always be the case. So when we're underwriting that risk, we're not counting on that risk to come off our books in two to five or seven years. We're counting on it being there for 15, 16, 20 years or longer, so we have to be taking that into account. So the expertise of EXIM in particular for longer term risks, for being able to manage complex risks in aviation, and energy, and renewable energy in particular, that matters to us a great deal. And it's not just the underwriting expertise, it really is the mitigation expertise, that hands on experience they have in managing complex risks in emerging markets, matters for us. We also think the halo effect of the U.S. government doesn't hurt, so certainly that's a good thing for us as well.

>> Yeah. Maybe building on that last comment, there's significant conversation yesterday during this session around China and the enormous role they have in this space and we talk a lot about public private partnerships and in China, in terms of the multiple ways the government is doing public public, frankly, partnerships in driving this. Maybe Doug, from your perspective, this combination of public private partnerships strikes me as a way to compete effectively with, for example China. They have objectives they're trying to achieve, and it doesn't seem like a single actor can necessarily have the same ability to achieve those objectives but could public private partnership in combination be useful as a tool?

>> It can. I think the challenge is when the sort of return profile of a Chinese entity providing financing is lower than what the return profile that the capital that might be in this private public partnership requires. So if you think about it from a U.S. insurance perspective, the overall portfolio, I think AIG manages or has about 350 billion of assets that it manages, the lion's share of it is in Plain Jane corporate bonds. That's what the regulators expect and the like. Then there's an allocation that goes towards alternative assets that you are allowed to take a larger risk on and the like, but you're still obviously you've got a return profile that you have to meet in that instance. And if you're competing to finance an asset or the like and the competitor, on the other side, is able to live in a world where they're more than willing to fund at 200 basis points less than what your return hurdle is, that's not a good recipe for success and nine times out of 10, you're gonna lose that. And then time will tell the lower return profile of who the competitive entity is, they warranted doing that, but a lot of times they're not measuring themselves based on what their return is over the long term, they're measuring themselves on market share, they're measuring themselves on a whole other series of objectives that might be unique to the country that's the sponsor of that entity that doesn't necessarily translate into a direct competitive economic set of circumstances. So it can be

very challenging.

>> And building on that, in terms of private capital obviously is looking to achieve a creative returns, right? So private capital, to the extent that it can find ways to lower its cost of capital and we're talking earlier Gemma about the tools to lower a bank's cost of capital. That varies quite a bit by regulatory authority and the tools available to a European bank versus a U.S. bank and the role that EXIM or ECAs play to compliment capital structures in a way that perhaps other forms of private, third party capital, because of regulatory restrictions, aren't as effective and maybe you can talk a little bit about those opportunities that ECAs have, particularly with U.S. banks versus European banks.

>> So we're obviously a Dutch bank, ING, so we are, currently the capital requirement that we have to follow is the Basel III, and of course we have the European bank regulation. So, in addition to EXIM playing this catalyst role as a lender, we have a finite amount of capital that ING will deploy for all their business we do in the wholesale banking as well as retail banking, so there is scarcer capital because we can not allocate capital across all our business lines all over the world. So where we've maximized ECA is that because there are, at the end of the day, full faith and credit of the sovereign government of the respective ECA, we get relief on capital. So we can deploy more capital because the capital we allocate and the risk-weighted asset we have to allocate, so per transaction in Ethiopia or Zimbabwe is very tiny compared to the overall capital that we have. So that allows us to do more with very little, and many times, along with ECA financing we would offer complimentary financing, meaning the 15% down payment portion because many the borrowers 100% financing. So with ECA covering 85% of the contract price with very little capital and risk-weighted asset, we can then deploy some amount of capital support the 15% down payment portion, many times with a CPR cover, from the likes of AXA XL. So it is really critical that as we go into Basel IV, the capital allocation are gonna vary much more stringently than on the Basel III, so the capital Basel IV, which is gonna start rolling out in year 2020, really is going to discourage European banks that are currently doing asset based lending because they are no longer gonna get relief on capital, for the likes of aircraft, or ships, or things. So it is critical that EXIM stays on because the lack ECA will not allow lenders like ING to continue to provide the same type of financing we can do currently. So it's not only a risk perspective, it is also a capital allocation and risk-weighted asset that we are required to allocate. And I think that with the European ECAs and for U.S. exporters, if we wanna continue support our U.S. exporting clients, EXIM has to be there, otherwise we will not be able to provide the same kind of financing that our counterparts can do for their exporting clients.

>> And Gemma, maybe staying with you for a moment. EXIM and building

on the success of the transaction, the insurance transaction, EXIM is, even with the restraints, in terms of the size and tenor restrictions, is working very hard to be creative, and working with lenders, and working with insurers to bring their expertise to bear and the confidence that everyone in the structure gains by having EXIM involved, they're working very hard to be innovative and still try to find solutions even within those restrictions. And maybe Gemma and then Dan, you can build on that. Talk a little bit about some of those conversations.

>> Yeah, so the currentof the EXIM is still $10 million authorization and so it's not a huge amount of money but I think that there are pockets of opportunities and we are in discussions with EXIM's transportation division, in particular and in the structure finance division where we can take the EXIM guarantee portion for 10 million and use that to top up a financing that ING would do so that at the end of the day, it's not just 10 million that we could offer to client but maybe we could offer 15, 20, in some cases $30 million. So given all the concern that EXIM currently has, I do think that this, and they're trying to be very creative and it's gonna, and again it may not work for all of our clients, but I think that there are opportunities that we can use to leverage EXIM's 10 million and offer, and we're willing to top-up because the EXIM's umbrella does help us get relief, at least on the capital for the 10%, we get full relief on capital and therefore, we can then focus on the top-up portion. So I think that's something that we are very keen to explore with EXIM.

>> Yeah, I think as an insurer, we are looking to support similarly. So EXIM, it's 10 million and no more than seven years, so that presents some challenges but that doesn't mean that there aren't areas for cooperation and certainly we're spending good time with very innovative people at EXIM looking at how we can create some structures to support projects. Maybe those are smaller projects. They could be larger projects where a private insurer like us could front the transaction with EXIM being a reinsurer, or we could be side by side. So I think those are some of the options that we're exploring right now. I love the enthusiasm of the teams. There's a lot of enthusiasm and some of those team members have been through thick and thin, and they're probably still in a lot of thick, but they're committed to finding ways and we're committed to be supporting them. One thing, and you talked about the global competition, alright, we're members of the Berne Union International Organization Export Credit and Investment Insurance and there are many members of that group that are growing rather rapidly. Probably the Chinese the most rapid. And they're not missing a beat in terms of supporting their companies and providing that type of support. But also importantly, there's more private market participation and that private market participation, as evidenced by the aircraft finance portfolio, is interested in working with EXIM. We had a meeting of that team yesterday. There's definitely more that can be done there, and I think it's important. It's also

important to recognize in our area of political risk, credit type of business globally, whether it's public or private, the total premium, and we do look at premium, we do look at our returns, but the total global premium in the market is probably about $20 billion. What I think the important thing is you have large companies like the AXA group who are committed to these product lines. Last year our return, our turnover was 120 billion, so you have big balance sheets. AIG's not a small balance sheet either, right? Big balance sheets, looking to support EXIM and to support the business, and I think that bodes well for the public private collaboration that we all wanna have.

>> And maybe, Doug, just some final thoughts from you. One of the strengths, especially in the U.S. capital markets is the ability for risk takers to find opportunities to deploy capital at a risk level that they're comfortable with. Securitization, there are people that like being down in equity and people who like being in senior positions, and maybe you can talk about the strength of the marketplace as a result of that and how EXIM fits in to creating more stable environment.

>> Well I think, as Gemma indicated, I think the U.S. capital markets are the most innovative, and the most efficient in the world, and they're constantly creating new vehicles, coming up with new schemes. There's this term out there called brains in a jar, of people who simply sit around and think about structures and the like to develop and invent. And so, in that world, there's plenty of opportunity to participate, and I think having a, sort of the Good Housekeeping Seal of Approval and the imprimatur that EXIM brings, notwithstanding at the levels that it can participate in, there will be plenty of opportunities for it to make its contribution and for it to sort of grease the wheels of asset finance and the like going forward.

>> With that, I think our time is up, at least that's what the big red sign says. And I wanna thank our panelists for a great discussion today and thank the audience.