

(First in Japan) Establishment of an Aircraft Finance Scheme (Japanese version of AFIC) that utilizes Insurance

Development Bank of Japan Inc. (President and Chief Executive Officer: Hajime Watanabe, hereafter "DBJ"), Sompo Japan Nipponkoa Insurance Inc. (President: Keiji Nishizawa, hereinafter "Sompo Japan Nipponkoa") and Marsh LCC (President and CEO: John Q. Doyle), major insurance broker and risk adviser, have newly established Aircraft Financing Scheme (hereinafter referred to as Japanese version of AFIC) which is the first insurance product in Japan. This scheme has been applied to funds for purchasing Boeing 787-9 aircraft using EL AL Israel Airlines Limited (hereafter "EL AL") which is the Israeli airline company.

1. Background

- In June 2017, the consortium (AFIC that compensates for the principal and interest payments of aircraft financing) was developed under the initiative of Marsh. The consortium is composed of four private-sector insurers (Sompo International, Allianz, AXIS, and Fidelis).
- The use of AFIC to supply aircraft is increasing, and more than 50 aircrafts have been supplied using AFIC scheme.
- Sompo Japan Nipponkoa started to provide insurance coverage same as AFIC, and when EL AL purchased the aircraft, AFIC enabled EL AL to raise funds by providing loans from DBJ.

2. Outline of Japanese AFIC

- The Boeing 787-9 was leased to EL AL by SPC which was funded by DBJ with the insurance cover of Sompo Japan Nipponkoa.
- In the event the loan cannot be repaid due to the bankruptcy of EL AL and so on, Sompo Japan Nipponkoa will pay insurance to DBJ.
- Because Sompo International is one of the AFIC panelists, Sompo Japan Nipponkoa was able to provide this insurance by leveraging Sompo International's significant experience of the product that comes from the knowledge they acquired by playing a leading role in the development of AFIC Insurance Product.

3. Significance of this scheme

- With the introduction of this scheme, Japanese financial institutions can provide loans for aircraft finance guaranteed by Sompo Japan Nipponkoa.
- While the number of airlines, especially LCCs, is on the rise, the use of the Japanese version of AFIC will enable these airlines to diversify their financing options.
- In addition to airline's credit analysis, aircraft financing requires proprietary know-how, such as the assessment of equipment collateral and the confirmation of complex contract documents. The introduction of Japanese version of AFIC enables many financial institutions, especially regional banks, to provide loans while minimizing risks, leading to the diversification of loans.

4. Outlook

By extending this scheme to other airlines in the future, we will contribute to the development of the aviation finance market in Japan.