

Private debt in focus: the case for Insured Credit

Private debt strategies are gaining momentum among institutional investors, raising the question of why this may be the right time to allocate capital. In this interview, Financial Investigator speaks with George Nijborg from Aegon Asset Management about one strategy he considers promising: Insured Credit.

By our editorial team

Why is it the right time to invest in private debt strategies?

‘The private debt market, valued at approximately \$ 1.5 trillion as of June 2024, is poised for significant growth, with forecasts projecting an increase to over \$ 2.6 trillion AUM by 2029¹. This growth reflects increasing demand from borrowers and investors, fueled by tighter bank lending standards and the need for flexible financing solutions.

Private debt investments are particularly attractive to investors like pension funds and insurance companies. Offering diversification from public markets and a spread premium over publicly traded bonds, private debt can be attractive for investors seeking higher risk-adjusted returns and exposures to risk not available through capital markets. Furthermore, the vast investment universe offers customization by issuer, geography, or sector, making it complementary to a variety of existing portfolios, liability profiles, and risk tolerances.

‘Insured Credit transactions can be collateralized by real-economy projects that span sectors such as clean energy, healthcare, education, and infrastructure.’

Among these is Insured Credit, a marriage of ECA (Export Credit Agency)/government-guaranteed transactions and credit insurance protection used by banks. This strategy offers institutional investors exposure to debt assets in a low-risk and capital-efficient manner.’

Can you briefly explain how Insured Credit works?

‘Insured Credit gives investors unique access to a private placement portfolio of A- and AA-rated global, well-diversified insurance companies, all backed by some form of collateral. We select collateral, in the form of loans or bonds, and insure 100% of the credit by A- and AA-rated, global, well-diversified insurance companies. As a result, the investor benefits from double recourse: first, to the collateral for principal and interest payments, and second to the insurance companies in case of non-payment of the collateral.’

What types of assets make up the investable universe of Insured Credit, and how broad is this universe?

‘At the underlying collateral level, the investable universe of Insured Credit consists of a wide range of assets, including EM sovereign loans and bonds, corporate loans and bonds, asset-backed securities (ABS), Significant Risk Transfer, infrastructure debt, Project Finance, and Fund Financing.

These assets are sourced via development and commercial banks. We are typically co-invested in these assets, ensuring alignment of interest.

At the insurance level, over 60 different insurance companies provide this type of credit protection, meaning that this strategy can provide investors with exposure to a broad range of A- and AA-rated insurance counterparties, often with no senior unsecured bonds outstanding. This means the strategy is uniquely positioned to give exposure to these insurers through the strategy.’

What are the main risks associated with Insured Credit and how are they managed?

‘Investors should expect a very low default/loss rate as investments benefit from double recourse: firstly to the debt collateral for principal and interest, and

secondly, in case of missed payment of the underlying collateral, to the A- and AA-rated insurance companies. A default and loss materializes if both the collateral and insurance company simultaneously become insolvent. Given the double recourse available and the credit stability of insurance companies, investors accept that defaults and losses are unlikely events to materialize within Insured Credit transactions.’

How sustainable is investing in Insured Credit?

‘Our Insured Credit strategy offers investors the ability to select collateral with strong social and sustainable characteristics to satisfy their ESG needs. These are scalable opportunities where the collateral has (strong) alignment with the SDG’s.

Insured Credit transactions can be collateralized by real-economy projects that span sectors such as clean energy, healthcare, education, and infrastructure, often located in developed and developing regions.

This structure offers several key benefits for institutional investors:

- Credit enhancement through high-quality insurance backing.
- Diversification across sectors and geographies.

- Alignment with ESG and SDG objectives, particularly in markets where capital can drive meaningful change.

By combining private credit with insurance guarantees, Insured Credit delivers an attractive risk-return profile while enabling investors to support SDGs.

A standout example of the strategy’s impact is the Nyandungu Urban Wetland Eco-tourism Park in Kigali, Rwanda. This 121-hectare project transformed a degraded wetland into a vibrant urban ecosystem, featuring gardens, walking trails, and educational facilities. In this example, the credit risk of the underlying collateral was 100% credit-insured by multiple A- and AA-rated-insurance companies leaving the investor with a high credit quality investment but also with an impactful contribution to the local economy and environment.

The project contributes to multiple SDGs:

- SDG 6 (Clean Water and Sanitation): through natural water filtration and improved water quality.
- SDG 13 (Climate Action): by restoring carbon-absorbing wetlands.
- SDG 15 (Life on Land): via biodiversity conservation, including the planting of over 17,000 indigenous trees.
- SDG 8 (Decent Work and Economic Growth): by creating up to 4,000 direct and indirect jobs for the local community.’



George Nijborg

Head of EU Private Placements & Insured Strategies, Aegon Asset Management

SUMMARY

As institutional investors look to increase their investment grade private debt allocations, the market has responded with new, tailored strategies designed to address their specific requirements. One example is Insured Credit.

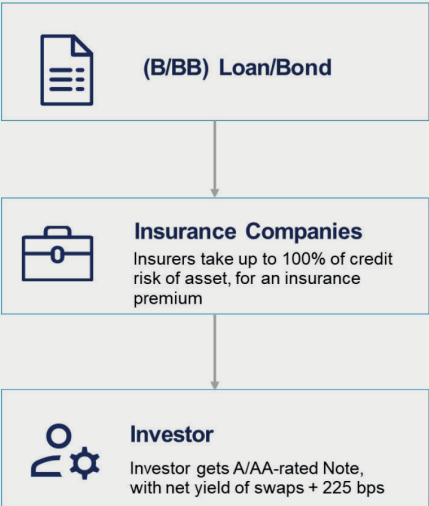
Insured Credit is considered a relatively low-risk, capital-efficient private credit strategy, giving investors access to a private placement portfolio of well-diversified, A- and AA-rated global insurance companies, backed by collateral.

Delivering attractive yields, diversification, and ESG alignment, Insured Credit can complement or replace traditional investment grade credit while contributing to sustainable development goals.

FIGURE 1: STRUCTURE OF INSURED CREDIT

Structure

Comparable to NHG mortgages, government guarantees covered bonds and CDS basis trades.



Source: Aegon Asset Management

What specific role can Insured Credit play within an institutional portfolio?

‘Insured Credit can fit in an institutional investor’s portfolio in two ways. Firstly, the strategy can be used to replace or complement existing investment grade corporate credit and private placement exposures while targeting an attractive yield of swaps +225bps. Alternatively, clients may decide to use Insured Credit as part of their asset allocation to impact and sustainable investments given the strong linkage with the SDGs and exposure to a diverse group of impactful projects.’ ■

1 <https://www.preqin.com/about/press-release/global-alternatives-markets-on-course-to-exceed-usd30tn-by-2030-preqin-forecasts>