

COLLATERAL ALTERNATIVES

Moderator: Robert Quinn, VP, Wilmington Trust

Panelist: Peter Rapciewicz, VP, Lockton
Martin Ellis, VP, Comerica Bank
Mark Hickey, VP, Credit Risk, Zurich North America



CAYMAN
CAPTIVE
FORUM
2018

THE FOCUS FOR TODAY

- **Corporate Insurance Collateral Alternative**
 - **Large Deductible**
 - **Deductible Buy-Back**
 - **Captive**
 - **Reinsurance**

COLLATERAL TYPES

- **Letter of Credit (LOC)**
- **Letters of Credit**
- **Funds Withheld**

LETTERS OF CREDIT

According to recent industry surveys, this is still the most popular option preferred by fronting carriers.

Advantages:

- Internationally recognized and accepted.
- Easy for Front to monitor.
- More flexible investments.
- Fixed liability.
- Can handle “back to back” LOC’s.
- Better for Front should the Captive go bankrupt.

Disadvantages:

- More expensive than trust.
- Bank must approve credit.
- Bank has to allocate capital.
- Annual renewals.



SAMPLE STANDBY LETTER OF CREDIT

Issuing Bank: ABC Bank

Date of Issue: May 15, 2018

Beneficiary: Fronting Insurance Co.

Applicant: Captive Insurance Co.

We (ABC Bank) have established this *clean, irrevocable and unconditional* standby letter of credit in your favor as beneficiary for drawings up to U.S. \$10,000,000 (ten million U.S. dollars) effective May 15, 2018.

This letter of credit is issued, presentable and payable at our office and expires on May 15, 2019. Except when the amount of this credit is increased, this credit cannot be modified or revoked without your consent.

We hereby undertake to promptly honor your sight draft drawn on us for all or any part of this letter of credit upon presentation at our office on or before the expiration date hereof or any automatically extended expiry date.

This letter of credit is deemed to be *automatically extended* without amendment for one year from the expiration date or any future expiration date, unless at least 30 days prior to such expiration date, we shall notify you by registered mail or overnight mail that this letter of credit will not be renewed for any such additional period.

Unless otherwise expressly stated, this standby letter of credit is subject to the International Standby Practices ISP 98, ICC Publication 590.

LOC CHARACTERISTICS

Letter of Credit is “clean, irrevocable, and unconditional.”

Letter of Credit may only be decreased, modified, or cancelled with the approval of BOTH the applicant (captive) and the beneficiary (fronting insurance company).

Annually renewable with non-renewal or “evergreen” clause of 30, 60, 90 days (i.e.. unless you hear otherwise from Bank within 30-90 days before expiration, the letter of credit automatically renews for an additional year).

Partial drawings are permitted by the beneficiary.

LOC CHARACTERISTICS

The bank which issues the letter of credit must review the creditworthiness of the captive in order to approve the credit exposure, even though the letter of credit is fully collateralized.

Fees are generally paid annually in advance and are non-refundable if the LOC is cancelled. LOC fees generally range from 35 - 120 bps depending on the collateral and the financial condition of the captive.

Banks issuing standby letters of credit must be NAIC (National Association of Insurance Commissioners) approved.

COLLATERAL FOR LOC'S

What - Banks require captives to “pledge” marketable securities (collateral) to secure outstanding letters of credit. In the event of a draw on a letter of credit, the bank can liquidate the collateral to reimburse itself for funding the letter of credit obligation.

Benefits of Collateral - There is no recourse (liability) to the owner of the captive. Since the letters of credit are secured, the captive should pay lower letter of credit fees. The captive gets to keep investment income from the marketable securities the Bank holds as collateral.

Eligible Collateral Advance Rates

Cash and Equivalents	98-100%
US Government and Agency Securities	90-95%
Fixed Income Securities (Rated A- or higher)	85-90%
Equities	60-70%
Incoming Collateral LOC's from Approved Banks	100%

COLLATERAL TRUSTS (AKA REINSURANCE TRUSTS, CAPTIVE TRUSTS)

- **The Trust Concept**
 - Establish an account that is funded in the amount of the LOC.
 - Designate the insurance company (or otherwise the counterparty to the LOC) as the “beneficiary” of the account.
- **Key Points**
 - Trust must be funded with investment grade marketable securities.
 - Assets in the trust belong to the depositing entity (the Grantor).
 - Income from the account also belongs to the depositor.
 - If you are cash collateralizing an LOC >\$500,000,000 for insurance purposes, you may save money and simplify the process by using the trust
 - Just use the same assets which were to collateralize the letter of credit to fund the trust..
 - If you are not collateralizing your insurance-related LOCs, you may benefit further by saving money while at the same time saving effort by using the trust.
 - *The trust must be funded*



COLLATERAL TRUSTS

- **Advantages**

- Less expensive.
- Simplified set-up process, i.e., establishing a holding account for securities versus applying for credit.
- Not a credit vehicle so does not encumber credit.
- Assets in the trust remain on books of the depositing entity.
- Does not need to be renewed.
- Change in collateral means changing amount in trust (simple wire in or out of the account), not creating a trust.

- **Disadvantages**

- Must be funded (although many LOCs need to be backed by collateral as well).
- Some collateral is too small to employ the trust (often under \$500,000).
- Wilmington Trust and Zurich have agreed to charge a flat annual fee for smaller collateral amounts in the event that the client wants to use the trust.



COLLATERAL TRUSTS

What Can Go Into A Trust?

- **Eligible Trust Assets**

- Minimums generally governed by NY Reg 114 section 1404a 1,2,3,8, 10.
- Carriers accepting collateral often “manage up” the minimums.
- Each carrier is a little different.
- Generally:
 - US Cash
 - Investment Grade Marketable Securities “A” or better
 - Debt Based
 - US Based



COLLATERAL TRUSTS

- **The Savings**
 - *Collateralized* LOC, 75 BPS (often Captives) vs. Trust

LOC Amount	BOS Charge	Dollar Cost	Approx. Trust Cost	Savings	Savings %
\$ 1,000,000.00	75	\$ 7,500	\$ 3,500	\$ 4,000	214%
\$ 2,000,000.00	75	\$ 15,000	\$ 3,500	\$ 11,500	429%
\$ 3,000,000.00	75	\$ 22,500	\$ 3,500	\$ 19,000	643%
\$ 4,000,000.00	75	\$ 30,000	\$ 3,500	\$ 26,500	857%
\$ 5,000,000.00	75	\$ 37,500	\$ 3,500	\$ 34,000	1071%
\$ 10,000,000.00	75	\$ 75,000	\$ 3,500	\$ 71,500	2143%
\$ 25,000,000.00	75	\$ 187,500	\$ 3,500	\$ 184,000	5357%



PANEL BIOGRAPHIES

Robert Quinn

Vice President

Robert Quinn is Vice President and Business Development Officer representing the Wilmington Trust Insurance/Reinsurance/ILS Trust product in New York. He joined the Wilmington team in 2014.

Over the past 19 years Robert has worked extensively defining acceptable insurance, reinsurance, and ILS collateral products. His international experience includes Kuala Lumpur, Switzerland, Luxembourg, Germany, France, United Kingdom, Ireland, Bermuda, the Cayman Islands, Barbados, Hong Kong, Australia, New Zealand, and others.

He has delivered educational sessions and/or spoken at multiple industry events, such as the Trading Risk 2018 (NY), US Captive Awards 2017 (Vermont), UK & EU Captive Roundtable 2017 (London), Les Rendezvous de Septembre 2017 (Monte Carlo), Asia Captive Summit 2013 (Kuala Lumpur, Malaysia), Captive Live 2013 (London), Les Rendezvous de Septembre 2012, 2011 and 2008 (Monte Carlo), Captive Live 2011 (London and Chicago), the European Captive Forum 2012 & 2010 (Luxembourg), IQPC Insurance Linked Securities Summit 2011 (New York, London) and 2010 (Hong Kong, Bermuda), European Insurance Forum 2010 and 2012 (Dublin, Ireland), Captive Insurance Companies of America (CICA) 2010 and 2006, the Latin American Captive Insurance Summit 2010 and 2009 (Mexico City, Sao Paulo), Florida RIMS 2009, the Self Insurance Institute of America (SIIA) 2009 and 2006, the Bermuda Captive Conference 2012 & 2008, the Insurance Managers Association of Cayman (IMAC) 2009 and 2007, and National RIMS 2006 (Honolulu, Hawaii).

Robert graduated with a B.S. in Finance from the University of Washington (Seattle) and earned an MBA with a concentration in Finance from Columbia University in New York City.



166 Mercer Street

New York, NY 10012

Phone | 212.941.4420

Email | rgquinn@wilmingtontrust.com

Martin Ellis

Senior Vice President

Martin Ellis is Senior Vice President and Manager of Comerica Bank's Global and Captive Insurance Group. The Group specializes in providing banking services such as revolving credit facilities, letters of credit, treasury management, asset management, and trust custody to insurance, reinsurance, and captive insurance companies in the U.S., Canada, Bermuda, Barbados, and the Cayman Islands.

He has over 25 years' experience at Comerica providing a full range of business banking solutions including acquisition financing to companies in many different industries including insurance, brokerage, and finance. He is a frequent speaker at captive insurance conferences and author in various captive insurance publications.

Mr. Ellis is a CPA, has a BBA from the University of Notre Dame, and a MBA from the University of Michigan.



411 W Lafayette
Detroit, MI 48226
Phone | 313 222-9443
Email | mgellis@Comerica.com

Peter Rapciewicz

Senior Vice President

Peter Rapciewicz is a Senior Vice President with the Risk Finance Practice of Lockton Companies. His current role as a Risk Finance Consultant is to provide strategic client consultation. His responsibilities include providing alternative collateral, captive and alternative risk consulting to clients across the country.

Peter joined Lockton over 4 years ago from AIG where he spent the previous 14 years in various casualty underwriting related positions. His previous role at AIG was Vice President of the Alternative Risk Division within AIG Casualty.

He has delivered educational sessions at various industry events such as CICA 2010 & 2011, VCIA 2010, Captive Live 2011 (Chicago), Hawaii Captive Insurance Conference 2011, Bermuda Captive Conference 2012, IMAC 2013 Cayman Captive Forum.



Peter Rapciewicz

SVP – Risk Finance Practice

Lockton Companies

1185 Avenue of the Americas, Ste 2010

New York, NY 10036

Office: 646-572-7380

Mobile: 646-709-2524

Email: PRapciewicz@lockton.com

Mark Hickey

Vice President – Credit Risk Management

Mark Hickey is Vice President of Credit Risk and Collateral management representing Zurich American Insurance Company in Schaumburg IL. Mark has been with Zurich since 1993.

Over the past 26 years Mark has managed a variety of Finance Operations and Credit areas supporting Zurich's Commercial Insurance portfolio. In his current role he manages a team of Financial Analysts responsible for managing credit exposures for Single Parent and Group Captive customers as well as Zurich Direct Casualty business.

Mark's team has direct responsibility for partnering with our brokers and customers to effectively manage over \$10B (usd) in collateral instruments to ensure flexible solutions are provided to Zurich customers and business partners while minimizing risk to Zurich.

Mark graduated with a B.A. from the University of Maryland at Baltimore Co.



1299 Zurich Way
Schaumburg, IL 60196
Phone | 847.330.1194
Email | Mark.hickey@zurichna.com



THANK YOU

www.caymancaptive.ky

