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CREATING LIQUIDITY WITH INSURANCE

Businesses can release liquidity trapped in high-deductible workers' compensation policies by instead posting newly created, insurance-backed letters of credit (LCs).

Companies with loss-sensitive, high-deductible workers' compensation programs have to post liquid collateral to the insurers to cover the deductible. These collateral obligations can be onerous, so the liquidity generated by instead using an off-balance sheet solution can be material.

This solution is particularly powerful for companies already operating with highly leveraged balance sheets or tight credit facility availability. Having to post cash collateral or traditional LCs ties up their liquidity and reduces their available borrowing capacity. Liquidity management is therefore a critical strategic imperative.

Atlantic can provide an innovative solution that replaces traditional LCs with newly created off-balance sheet alternatives, backed by the credit insurance market. This solution helps corporate treasury departments increase their liquidity resources and maximize financial flexibility.

Product Overview

Use Cases: Off-balance sheet insurance-backed LCs are issued and posted to replace existing collateral under high-deductible workers' compensation or other insurance policies. The existing collateral can therefore be freed up and deployed elsewhere. This is only one application – these off-balance sheet LCs can also be deployed in support of other performance or financial obligations (subject to underwriting on a case-by-case basis).

Size: $10m - 50m. Larger sizing may be available for companies with strong credit.

Seniority of LC: Unsecured or *pari passu* with existing secured credit facilities (depending on company creditworthiness). For companies that are not publicly rated, this rating determination will be completed in-house by the insurer.

Pricing: 4 - 10% of the LC amount per annum. The cost of the arrangement will be a function of the creditworthiness of the company.

Collateral: The amount of cash collateral required to be posted will be calculated on the basis of an actuarial estimate of 3 – 6 months of deductible payments plus an interest reserve covering up to 6 months of payments on the LC.

Timing: Can be as quick as 20 – 30 days. Atlantic will lead the underwriting process. Execution is quickest where the company can rely on an existing bank relationship to work with the insurer.

Example Impact

Assume that a company has a workers' compensation deductible of $25m, which is currently collateralized by an LC issued from a corporate revolving credit facility (the "RCF LC"). The company then replaces the RCF LC with a newly created $25m insurance-backed LC with 10% cash collateral requirement, and can deploy the released liquidity elsewhere:

Steps	Liquidity Impact
Insurance-backed LC is created and posted as collateral	**$0m**
Company posts cash collateral to credit insurer	**-$2.5m**
Company cancels RCF LC, increasing credit facility availability	**+$25m**
Net Impact on Liquidity	**+$22.5m**

The company has **net generated $22.5m of incremental liquidity** by using an insurance-backed letter of credit.

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ABOUT ATLANTIC

Atlantic is a specialist insurance broker focused on structuring insurance policies that transfer complex legal, tax and credit risks to the insurance market. More often than not, the insurance solutions are used to facilitate transactions that are impeded by a risk that is dragging on the economic terms (i.e., M&A, financing, distribution, liquidation, restructuring). It specializes in the following products: (i) representations and warranties insurance or RWI; (ii) tax liability insurance; (iii) contingent risk insurance; and (iv) non-payment insurance. Atlantic is one of the largest independent transactional insurance brokerage firms with ten offices across North America and a team of industry outsiders including former litigators, M&A attorneys, tax attorneys, structured finance professionals and sector experts.

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