Structured Risk Solutions

Liberty Specialty Markets

We insure. You prosper.

We provide insurance solutions to financial risks that are typically more specialist or structured than those that can be covered by more traditional insurance products.

Moving beyond simple risk transfer, our focus is on helping clients achieve their strategic objectives, such as capital and exposure limit management, deal facilitation or providing leverage to fund managers.

Our client base is diverse and includes a broad range of major financial and non-financial institutions, including investment banks, securities lending agents and private equity and debt funds.

Our Structured Risk Solutions team is part of the Financial Risk Solutions team at Liberty Specialty Markets, which covers a wide range of credit insurance products for clients, enabling us to provide practical solutions that help form the basis of long-term partnerships.

We are able to write business on either company (Liberty Mutual Insurance Europe SE) or Lloyd’s paper (Syndicate 4472) giving us greater flexibility to meet our clients’ needs.

Efficient risk and capital solutions

Against a backdrop of increasing financial regulation, low interest rates and pressure on financial institutions to make returns for investors, efficient management of exposures and capital has never been more important.

Whether our client is an investment bank, asset manager, fund or financial intermediary, we have insurance solutions designed to help it:

- Reduce its risk-weighted assets and capital held
- Adhere to more stringent capital regulations for securitisations coming into force from 1 January 2019
- Comply with prospective amendments to the Basel III regime from 2022
- Access alternative and cheaper sources of capital
- Indemnify or protect against counterparty default

Risk appetite

We take a principles-based approach to risk selection and underwriting. This allows a considerable degree of flexibility in working with clients, enabling us to be much more solutions-focused within a broadly defined framework.

Opportunities fitting this framework typically have the following features:

- A compelling strategic motivation for insurance support (such as reducing risk weighted assets and therefore capital held; accessing alternative and cheaper sources of capital; and supporting indemnification requirements against borrower default)
- Risks that are typically characterised as “tail-risk” in nature (i.e. relatively low frequency but potentially financially catastrophic)
- A clear absence of reputational risk and consistency with regulatory best practices

Building long-term partnerships

While the features of our risk appetite are common to many risks we have covered, we are always keen to consider new financial risk opportunities with existing and potential clients.

We seek an alignment of interests with each of our clients, which helps lay the foundation for a long-term partnership that can help to support their business achieve its strategic long-term goals.

Track record of success

To date, we have worked on providing solutions for our clients in a variety of areas. We have:

- Offered tranched credit portfolio insurance to help reduce RWA for banks
- Facilitated increased lending for profitable asset classes that are reaching exposure limits
- Provided securities financing (lending and repo) indemnification solutions
- Created capital solutions for non-core banking assets
- Provided secured lending solutions for a diverse range of asset classes
- Generated credit and regulatory capital solutions for derivative portfolios
- Structured counterparty default solutions for intermediaries such as clearing houses
- Enabled institutions to release funds held against legacy risks

Open to new opportunities

The case studies below illustrate some of the transactions that we have worked on. We are always open to discussing new opportunities that fall within our risk appetite.

Synthetic securitisation

Synthetic securitisation is an alternative risk-transfer method to traditional true-sale securitisations and when efficiently structured is an effective method of capital and balance sheet management.

Rather than passing assets from a loan portfolio to another financial entity via syndication or sub-participation, an insurance policy can be used to guarantee the credit risk associated with a tranche of that portfolio. The policy transfers the risk away from the bank whilst keeping the assets on the balance sheet.

By guaranteeing the performance of the riskiest proportion of loans in the portfolio, the policy enables the bank to release significant amounts of capital with respect to the whole portfolio, which can then be reinvested elsewhere. In most cases, an insurance policy will be cheaper and simpler from a legal and operational perspective, compared to more traditional funded solutions.

Securities lending

It is market practice for securities lending agents to provide indemnities to their lender clients against the default risk of the borrower(s). The borrower(s) will usually be required to post collateral equal to the market value of the loaned securities, plus a 2% to 10% haircut, depending on the type of collateral.

The implementation of Basel III increased the amount of capital that many securities lending agents must hold against this indemnity and, because of the large volumes traded, substantially increased their own capital requirements.

An insurance policy can be used as a solution to these issues by covering the agent in respect of the default risk of the borrower(s), thereby allowing the agent to release capital associated with the indemnity and compete more efficiently in the market against agents with larger balance sheets.

Balance sheet management

Our core banking clients are increasingly looking for new ways to maximise their returns, especially in a low interest rate environment. The need to ensure compliance with ever-increasing institutional risk frameworks, such as exposure limits on particular sectors and jurisdictions, makes this task all the more complex.

While banks might already be users of credit insurance to manage exposures to specific obligors, some are discovering that insurance can also be an effective tool to better manage such limits on a portfolio basis, allowing them to increase profitability from successful books more efficiently.

We provide insurance that covers non-payment with respect to a portfolio of defined assets, where the respective undertakings of the insured and Liberty are tailored specifically to the bank and asset class in question. This cover is usually structured on an ‘excess of loss’ basis, ensuring a strong alignment of interests, and is evergreen in order to support the business in the long term.

Why choose Liberty?

High limits and global reach

We can deploy up to USD $50 million (or the local currency equivalent) on any one transaction globally.

Unique perspectives

Our private ownership gives us a unique perspective on your risk. Not being driven by short-term thinking means we can invest time and energy to develop tailor made services and solutions that support you, and evolve with you, over the long term.

Continuity and stability

We offer continuity and stability, delivered to you through the technical expertise of our staff, who are always willing to guide, assist and advise. Through the cycles of certainty and uncertainty, we are committed to putting you at the heart of everything to help you prosper.

About Liberty

Liberty Mutual Insurance Group (LMIG), founded in 1912, is a Boston based diversified insurer with operations in 30 countries and economies around the world.

Liberty Specialty Markets, part of LMIG, offers specialty and commercial insurance and reinsurance products across key UK, European, Middle East, US and other international locations. For a full range of products, please visit: **libertyspecialtymarkets.com**

Liberty Mutual Insurance Group

$142.5bn Consolidated assets

$39.4bn Annual consolidated revenue

over **50,000** employees

over **800** offices worldwide

3rd largest property & casualty insurer in US

68th on US Fortune 100 list

Standard & Poor's rating 'A' (Strong)

Liberty Specialty Markets Ratings

Ratings of Lloyd's Market Business – Liberty Managing Agency Limited

A+	AA-	A
A+ (Strong) from **Standard & Poor's**	AA- (Very Strong) from **Fitch**	A (Excellent) from **A.M. Best**

Company Market Business – Liberty Mutual Insurance Europe SE

A
A (Strong) from **Standard & Poor's**

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