July 2020

Cost Management
Client Material

London

Introduction

The economic crisis brought about by COVID-19 continues to stress cash flows, drive cost reductions and heap ever increasing pressure on the financial health of businesses across multiple industries.

In the face of these challenges, businesses are reassessing their cost of risk strategies and priorities as well as what actions can be taken to mitigate the financial impact of the crisis as they work towards their new normal.

There are a number of established and emerging financial management solutions that are available to help support and that can enhance the financial health of the business; these range from cost reduction, cash flow maximisation, and restructuring, to revenue and balance sheet protection.

This interactive document brings together these solutions in one place.


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0 #
SAFE LOCK

Cost Management
Home Page

Cost Reduction

- Unsustainable employee health and benefit cost.
- Reduction in annual operating profit/accounting profit.
- Inability to make dividend payments.
- Reduction in business expenses.

Protect Revenue

- Major revenue shift (channels).
- Fluctuating revenue patterns and projections.

Protect Balance Sheet

- Increasing burden of pension provisions.
- Failure to service short-term debt.
- Build up of stock/inventory.
- Deteriorating credit of suppliers/ customers.
- Breach of banking covenant.

Maximise Cash Flow

- Use of cash reserves.
- Emergency use of undrawn overdraft facilities.
- Debt at risk of recall.
- Disposal of non-core business to create cash.
- Exhausted available credit lines.

Facilitate Restructuring

- Reduction in shareholder equity.
- Simplify corporate structures.
- Debt offering
- IPO – Initial Public Offering.
- Capital raising – rights issues.

Cost Reduction
Solutions to Help Reduce Costs

Independent Benefit Pricing Design and Claims Consulting

Benefit Refinancing – Insured/Self Insured/Captive/Global Purchasing

Reducing Cost of Risk through Appetite Review and Optimisation

Negotiating Premium Flexibility

1 Independent Benefit Pricing Design and Claims Consulting

Solution	**Independent Benefits Pricing, Design and Claims Consulting**
How it helps	Re-designing your benefit insurance program can help you meet your employees' post COVID-19 requirements, manage claims and reduce costs.
Overview	By taking your benefit insurances to market, we may be able to secure increases below inflation (e.g. Group death in service inflation 2% versus a market average of 12%). Redesigning your benefit offering can reduce the cost without changing insurer. For example, implementing a deductible to your healthcare benefits can save between 4-10%.

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2 Benefit Refinancing – Insured/Self Insured/Captive/Global Purchasing

Solution	**Benefits Refinancing – Profit Share/ Self-Insurance/Captive/Global Purchasing**
How it helps	Using alternative financing mechanisms for your benefit insurances can reduce their overall cost.
Overview	Self insurance or financing benefits through a trust can mitigate most Insurance Premium Tax (IPT) charged at 12%. By leveraging the global footprint, using a Global Benefits Management approach, multinationals are typically achieving 10-15% cost reductions. Global insurance programmes for employee benefits can achieve an upfront premium discount and rates secured for multiple years. Reinsuring employee benefits through a captive reduces insurer margins, gives more control to the multinational and gains access to better claims data to manage the risk more effectively.

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3 Reducing Cost of Risk through Appetite Review and Optimisation

Solution	**Programme Optimisation Insurable Risk Appetite definition – rebasing risk appetite in the COVID-19 environment**
How it helps	Understanding your latest risk appetite and where your insurance programme is most efficient can save cost.
Overview	Key inputs to programme design are risk appetite, the cost of risk retention and premium budgets. These are all changing fast, as is the market itself. By revisiting risk appetite and using analytics to show which parts of the insurance programme add most value, we focus external spend only on those areas. Deploying risk appetite efficiently will help maximise premium credit for retentions and aid cash flow.

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4 Negotiating Premium Flexibility

Solution	**Marsh placement teams working with you and your insurers to negotiate premium flexibility.**
How it helps	Potentially reducing upfront premium costs, and in some cases arranging returns of premium on existing policies.
Overview	Marsh has worked with organisations to negotiate premium flexibility taking into account the impact of COVID-19. For example, where risk exposures are reduced due to COVID-19 changes to wage roll, staffing plans and business activity. Successful strategies can include: • Lower upfront deposit premiums, depending on the extent of your business impact we have placed programmes with as low as a 20% minimum and deposit premium. • Seeking rebates on in-force policies where a clear case can be made. Rebates on both Employers' Liability (EL) and Products and Public Liability (PPL) policies have ranged from 5% to 15%. • Instalment options.

Contact:

Speak to your local client contact or relevant Broking Team to discuss your options.

SOURCE: Marsh data

Protect Revenue

Client Concerns/Potential Profit and Loss Issues

Forecasting how key financials might evolve, under different pandemic scenarios

Determine cyber vulnerability and loss assessment following shift to digital channels

Affinity

5 Forecasting How Key Financials Might Evolve under Different Pandemic Scenarios

Solution	**Forecasting the financial impact of the pandemic to allow for better business planning and foresight**
How it helps	To understand workforce, operational and supply chain impacts to support recovery and business planning.
Overview	Marsh can support you to: • Test the effectiveness of different response strategies to pandemic scenarios and the recovery. • Understand how key financials might evolve, (e.g. Profit and Loss, balance sheet, cash flow, healthcare costs). • Develop operational resilience to projections of, (e.g. workforce availability, supply chain risks). • Bespoke to individual clients.

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6 Determine Cyber Vulnerability and Loss Assessment Following Shift to Digital Channels

Solution	**Determine Cyber vulnerability and loss assessment following shift to digital channels**
How it helps	Determine your areas of cyber vulnerability/loss and investment required.
Overview	Re-baseline risk register and loss assessment around changes to distribution channels and related infrastructure to determine new areas of potential cyber loss. Quantify your cyber exposures, considering both data breach and business interruption events. Align insurance spend and cyber security programme to potential losses and business impacts.

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7 Affinity

Solution	Affinity
How it helps	Aims to increase customer loyalty by offering insurance and employee benefits to membership organisations or franchises.
Overview	An insurance scheme, designed exclusively around the interests of your customers, members, and/or franchisees, can enhance your own proposition and the confidence they have in you. Can be embedded as part of a membership subscription or offered as a stand alone product that is an exclusive member only benefit.

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Protect Balance Sheet

Client Concerns/Potential Profit and Loss Issues

Litigation risk solutions insurance and finance-backed solutions to take legal spend off the balance sheet

Legacy Claims Review

Using insurance to release balance sheet provisions

Releasing reserves and returning money from captives

Surety Pension Deficit Bonds

8 Litigation Risk Solutions Insurance and Finance-backed Solutions to Take Legal Spend off the Balance Sheet

Solution	Litigation risk solutions insurance and finance-backed solutions to take legal spend off the balance sheet
How it helps	• Take legal spend off balance sheet through litigation funding. • Unlock cash tied up in bad debt through a fully funded commercial debt recovery scheme. • Release liquidity through monetisation of arbitration awards. • Insurance to manage the downside risk of unsuccessfully pursuing litigation.
Overview	We can provide solutions to clients pursuing disputes. Our solutions manage risk and help release liquidity. Our solutions work whether a dispute is litigated, arbitrated and across all jurisdictions.

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9 Legacy Claims Review

Solution	**Legacy claims reviews to help reduce liabilities and potentially free up cash**
How it helps	This will ensure your claims experience, is as up to date as possible. This will also provide a narrative for “one off” matters or significant losses. Ultimately this will help with the marketing and placing of your business, the aim being to achieve the best renewal terms.
Overview	We actively look to challenge and remove legacy reserves held against your open claims. We work to ensure that your claims experience is current and that it reflects the correct financial position.

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10 Using Insurance to Release Balance Sheet Provisions

Solution	**Using insurance to release balance sheet provisions where there is a low to medium probability of the matter to which the provision relates to crystallising**
How it helps	By insuring the risk, businesses can release the cash that has been put aside to fund the potential risk and then deploy the cash immediately within their business.
Overview	Where a business has a contingent risk that has not yet crystallised, and has put aside a sum of cash to fund that risk in the event that it does crystallise, (for example, a piece of litigation, a tax risk or a dispute with a customer of supplier), for low to medium risks, Marsh can use a range of insurance products which ring-fence that risk. So, if it does crystallise, rather than the company having to fund the loss, the insurance product funds the loss.

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11 Releasing Reserves and Returning Money From Captives

Solution	**Creating liquidity through release of reserves and money from captives**
How it helps	Using intercompany loans, funding risk management expenses, premium financing via discounts/premium holiday, or returning profits to parents via dividends, can introduce extra liquidity to clients with captives.
Overview	Marsh can help you assess how much is available right now and guide you through the steps required to release funds quickly and efficiently. We can also support you in evaluating potential opportunities to generate additional surplus and lead discussions with key parties.

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12 Surety Pension Deficit Bonds

Solution	**Surety Pension Deficit Guarantees for Defined Benefit (DB) Pension Schemes**
How it helps	A surety bond provides the scheme trustees with on-demand security, and as a result, can be used to facilitate agreement between a sponsor and trustees in a wide variety of situations, (e.g. reduced contribution payments from the corporate, thus improving liquidity).
Overview	Corporates are obliged to agree with trustees on a funding plan in order to eradicate a scheme deficit. Surety bonds can be used in a wide range of situations to satisfy both parties and thus act as an extremely effect negotiating tool, including: • Facilitating scheme merger. • Facilitating corporate restructuring. • Underpinning an agreed-upon investment strategy and de-risking plan. • Providing security to a public-sector pension scheme.

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Maximise Cash Flow

Client Concerns/Potential Profit and Loss Issues

Using insurance to maximise the value received when disposing of either all or part of a business

Trade credit protection of account receivables assets

Premium finance/financing to maximise cash flow

Surety Bonds – Letters of Credit

13 Using Insurance to Maximise the Value Received When Disposing of Either All or Part of a Business

Solution	**Using warranty and indemnity insurance to protect against unknown and unforeseen financial loss arising from a breach of the warranties set out in an acquisition agreement or calls under a tax covenant**
How it helps	By using insurance, the seller can limit their financial exposure for a breach of warranty to GBP £1.00. This means the seller: • Can utilise the sale proceeds sooner rather than posting funds to escrow or making provision on the balance sheet. • Will maximise the sales price as the buyer still has recourse for breach of warranty under the insurance.
Overview	In the current environment, this will enable distressed sellers to use the proceeds of a sale immediately to pay down existing debt or otherwise be deployed within the business.

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14 Trade Credit Protection of Account Receivables Assets

Solution	**Trade credit protection of account receivables assets**
How it helps	**Trade credit insurance** protects a company's commercial accounts receivables from unexpected and catastrophic losses, resulting from insolvency or "non-payment" by its customers and from political risk events that obstruct payment. **Accounts receivable (A/R**) is money owed to the seller by a customer for products and services provided on credit. This is treated as a current asset on a balance sheet. A specific sale is generally only treated as an account receivable after the customer is sent an invoice.
Overview	Support sales strategy in new markets and with new clients. **Improve cash flow** – facilitates and improves borrowing. **Reduce Financial Risk** – covers both insolvency and political risks. **Enhance credit management** – benefit from best practice and high quality MI. **Support continuous profitable growth** – positive choices made with respect to where to invest unsecured credit. **Best use of capital** - releases and improves bad debt provisioning.

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15 Premium Finance/Financing to Maximise Cash Flow

Solution	**Leveraging credit/financing facilities to maximise cash flow**
How it helps	Preserve lines of credit or improve cash flow.
Overview	This is a loan facility that allows organisations to pay their insurance premiums and fees over a period within the policy term (2-12 months). This may be useful in situations of • Cash flow. • Unexpected premium increase. • Expanding business. • Distressed business. The above could apply at any time. In the current unprecedented times, it's highly likely that many organisations will meet one or more of the above criteria now, or during the next year and beyond. Cash rich organisations can use premium financing to help them keep cash within their business.

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16 Surety Bonds – Letters of Credit Replacement

Solution	**Surety Bonds – Letter of Credit Replacement**
How it helps	Surety Bonds - as an alternative to bank letters of credit (LOCs). Surety bond does not count against a company's overall borrowing capacity.
Overview	The cost of capital for sureties is different to that of banks and often allows the surety to offer competitive pricing. Replacing a LOC with a surety helps free up banking lines and increases diversity of your security providers. No cash will be tied up when using a surety bond.

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Facilitate Restructuring

Client Concerns/Potential Profit and Loss Issues

Using insurance to provide certainty of the economic benefit of corporate or debt restructuring

Standard Directors and Officers (D&O)
(Debt offering, Capital Raising – rights issue)

Directors and Officers (D&O) – Initial Public Offering (IPO)

Public Offering of Security Insurance (POSI)

17 Using Insurance to Provide Certainty of the Economic Benefit of Corporate or Debt Restructuring

Solution	**Using insurance to ring fence contingent tax liabilities resulting from corporate or debt restructuring.**
How it helps	By insuring the risk, this provides the business with certainty of the tax position and confidence to proceed with the restructuring.
Overview	For businesses seeking to undertake a corporate restructuring or debt restructuring to minimise short term cash requirements, or to achieve longer term cost savings, such actions can create contingent tax risks. Tax insurance can be used to give certainty of the economic benefit of the restructure allowing cash to be deployed in the business.

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18 Public Offering of Security Insurance

Solution	Public Offering of Security Insurance (POSI)
How it helps	Offers ring-fenced cover for the liabilities created by public offerings including initial public offerings and debt or equity rights issues, and responds to the risks associated with the offering faced not only by directors but also your organisation and any controlling or selling shareholders.
Overview	• Cover for the offering and all documents related to the offering (Prospectus/Underwriting Agreement), the statements made in a road show presentation and any other negotiations, discussions and decisions in connection with the offering. • Policies may provide affirmative coverage for the warranties and indemnities contained within the underwriting agreement; • Six-year policy. It may be possible to quote for a longer period; **Note**: This option is typically used in conjunction with solution 19.

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19 Directors and Officers (D&O) - excluding POSI (Debt offering, Initial Public Offering, Capital Raising – rights issue)

Solution	D&O – Initial Public Offering
How it helps	Used in conjunction with a POSI policy (option 18), the main D&O policy will exclude the liability covered under the POSI, leaving the D&O limits untouched by the additional exposure presented by the offering, ensuring uninterrupted cover for the business's normal functions.
Overview	Two elements of D&O coverage protect the company's balance sheet: **Side B** – which reimburses the company for indemnification to directors and officers for claims against them. **Side C** – which provides cover for the company in the event of a securities claim. With increasing claims, investigations and prosecution, plus the UK's broad indemnification laws, B and C provide protection against the cost of expensive defence costs and in some instances indemnity as well.

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20 Standard Directors and Officers (Debt offering, IPO, Capital Raising – rights issue)

Solution	Standard D&O
How it helps	If a POSI is not purchased or is not available in the market (as is the case for most offerings on US exchanges), the exposure for an offering can be built into the annual D&O policy, providing a combined solution for the exposures discussed in solutions 18 and 19.
Overview	• Review any current D&O insurance in force to ensure it covers liability related to the offering, including roadshow cover and the prospectus liability. • Controlling and selling shareholder liability may be added. • For an IPO, consider how best to transition from a private company D&O program to a public company program and consider run-off to ring-fence past private company exposure separate from the public company exposures.

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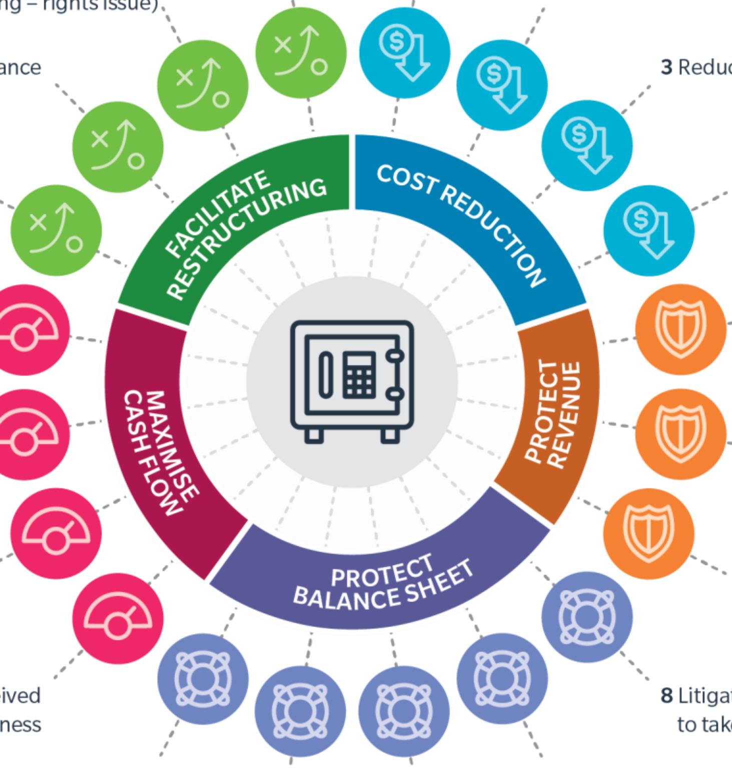
All Solutions



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