Surety Bonds for Self Insurers

A presentation to the SISA Executive Committee

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The Need for Security

- RTWSA regulations require that a self-insurer provide a guarantee equal to 1.5x the actuarily determined liability of the employer’s program
- The guarantees are almost exclusively provided as a bank guarantee
- However, RTWSA regulations do accept surety bonds
- Surety Bonds operate identically to bank guarantees
  - Unconditional (no proof of loss required)
  - Pay on demand
  - Irrevocable
- That is why they are widely accepted by government departments and the private sector to provide a 3rd party guarantee of the applicant’s performance of their contracted obligations

Benefits from using a Surety Bond

- Surety bonds reduce utilisation of your banking facilities
  - That creates additional liquidity via access to undrawn banking limits
  - Which can be deployed for other purposes such as working capital, acquisitions, investment
- They provide an alternative source of capital which is both reliable and cost effective
- Surety bonds may be unsecured
- Surety bonds provide an alternative source of capital which can help companies weather cyclical downturns
- Surety bonds are competitively priced
- Arranging a surety facility is relatively quick (6-8 weeks) and low cost ($5,000 - 10,000)

An Example

Retail Co Limited

- Major employer, with w/c liabilities across most states in Australia
- Existing liabilities were secured by a bank guarantee facility

Solution

- Marsh was mandated to arrange a guarantee facility to meet the needs of the various state regulators
- The facility allowed Retail Co to issue surety bonds in those states where surety bonds were accepted (e.g. SA)
- And where surety bonds were not accepted (e.g. VIC), the facility used a bank to issue bank guarantees
  - Critically, the bank had no recourse to Retail Co – only to the sureties, so Retail Co decreased utilisation of their banking facilities

Potential Savings – an Example

Worker's Comp liabilities - $50m

Cost of existing Bank Guarantee – 1%pa

$ cost of Bank Guarantee, pa = $50m x 1% = $500,000

Using a Surety Facility

Cost of a Surety Facility, say 0.85% pa

$ cost of Surety Facility = $50m x 0.85% = $425,000

via reduced usage of bank facility

Saving PA

Saving = $500,000 - $425,000 = $75,000pa

Plus

- No commitment fees are payable
- Establishment Fees, if payable, range from nil to ~0.25% x facility size
- Increased liquidity

Marsh as Facility Arranger

- Marsh Surety has been trusted by the boards of leading Australian public and private companies to arrange business critical surety facilities, including:
  - $800m worker’s compensation facility where Marsh was appointed in preference to the incumbent bank arranged facility
  - Bank-fronted surety bonds for a client operating in the AEMO regulated energy sector – the bonds were provided as security for payments due under spot electricity purchases
  - Approx $1bn of capacity to secure mining rehabilitation liabilities
  - Bank-fronted surety facility to secure a client’s trading in the electricity hedge market (futures market)
  - $1,500m surety facility for a major construction client which allowed the client to reduce the size of their more expensive bank guarantee facility
  - Numerous facilities for clients operating in a wide range of industry sectors where the surety facility enabled our clients to pursue business growth opportunities

In each case, Marsh Surety delivered the facility on time and with significant savings and / or operational benefits to our clients.

Next Steps

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