Aon Securities' Credit Abstract

Debt Transaction Structures, April 2019

***Aon Securities' Credit Abstract** is a monthly update specific to the latest trends and opportunities in insurance credit. Each month will have a different topic; this issue will focus on debt transaction structures.*

Debt transaction structures

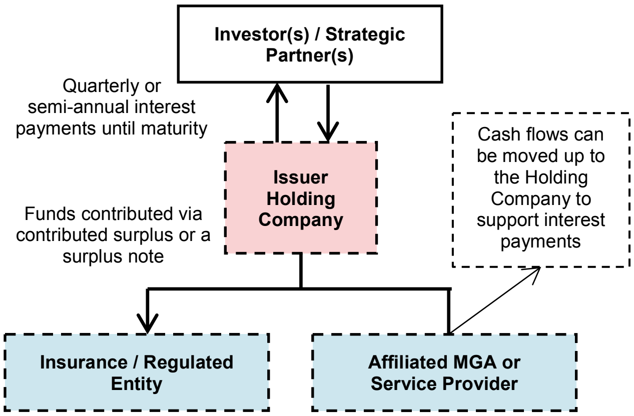
Insurance private credit deals tend to be highly negotiated with investors. It is important for an issuer's management team to properly assess all the structural features associated with a transaction.

While management's focus is generally on what their future interest liability will be, there are a number of other structural considerations to be evaluated before executing a prospective term sheet.

Without proper diligence, an issuer may lock themselves into a transaction where they will pay a low interest rate but have meaningfully less room for error to avoid a default of interest rate step-up. This is the resulting of accepting a covenant that is too restrictive.

As an established leader in its field, Aon Securities specializes in structuring and placing these products to meet an Issuer's current and future strategic goals.

Please contact Bill Delaney or Jeff Davis to explore this opportunity.



Typical debt and surplus note covenants for consideration

- A **call provision** is at the issuer's discretion and provides flexibility to retire a note early.
  - This flexibility benefits the issuer when: global interest rates decline, there is a positive change in the issuer's overall credit profile, management desires to work with a new capital provider or to pay down the debt early, etc.
- **Maintenance of reinsurance coverage**: Investors generally require an issuer to maintain a specific PML level at their retention and top of their overall program. Depending on the issuer's strategic plan, potential changes in PML levels need to be evaluated early in the process.
- **Interest rate step-up**: If an issuer is downgraded by its respective rating agency, there is an associated step-up in the overall interest rate.
- **Leverage requirements**: Sets a limit on the amount of debt an issuer can raise in the future. Capital plans need to be managed throughout the capital raise process.
- **Limitation on affiliate transactions**: Limits the issuer's ability to move a certain amount of money between affiliates without the investors approval.
  - There is also generally a limitation on the issuer's ability to pay dividends.

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