

# **ECRI E&C Risk Group Meeting – EMEA**

‘Surety Options in a Changing Credit Environment’

2<sup>nd</sup> December 2008, London

# Who Knew? Who Knows?



Morgan Stanley



BEAR  
STEARNS  
a division of J.P. Morgan



# Once Upon a Time

## Treasury List 1978

- ↳ Fidelity & Deposit
- ↳ USF&G
- ↳ Seaboard Surety
- ↳ St. Paul
- ↳ Travelers
- ↳ Aetna
- ↳ Commercial Union
- ↳ Reliance
- ↳ INA
- ↳ Kemper
- ↳ Industrial Indemnity
- ↳ United Pacific
- ↳ Fireman's Fund
- ↳ Home Insurance
- ↳ Maryland Casualty

## My Local Banks

- ↳ First National City Bank
- ↳ Chemical Bank
- ↳ Chase Manhattan Bank
- ↳ New England Merchants
- ↳ State Street Bank
- ↳ Continental Bank

# Capital... Capital... Capital

## A CAPITAL REVOLUTION

- ↳ Investors
- ↳ Lenders
- ↳ Borrowers
- ↳ Owners
- ↳ Vendors

## THE 'TRUST' FACTOR

- ↳ Turmoil
- ↳ Lack of Certainty
- ↳ What's Next

Counterparties and beyond

Unquestioned credits to all questions all the time

# The Surety Option

## SURETY UNDERWRITING CONCERNS – THE NEW UNDERWRITING MODEL

- ↳ Named principal exposures
- ↳ Obligee Exposures
- ↳ Financial Exposures
- ↳ Dual and Additional Named Obligees

## THE CAPITAL EXPOSURES

- ↳ Safety/Risk of cash deposits
- ↳ Quality of Collateral Instruments / Collateral Holders / Carriers
- ↳ Safety/Adequacy of Credit Lines and Standby Facilities
- ↳ Revolvers
- ↳ Project Finance

# Letters of Credit – Impact of Surety Option

## AVAILABILITY AND COST OF LETTERS OF CREDIT

- ↳ Institutional appetite to allocate capital
- ↳ Collateral Backstops
- ↳ The end of unsecured
- ↳ Unwinding security when the holder fails

## AVAILABILITY OF SURETY

- ↳ Surety/Insurance carrier solvency
- ↳ Ringfenced/Regulated Capital
- ↳ Capacity

Pay on demand v forfeiture on default v performance guarantees

# The Backwards Upside Down State of Affairs

2009 and the Future – Tier Dynamics

CAPITAL AT RISK...RISK...RISK