International Association of Credit Portfolio Managers

Risk and Credit Portfolio Management Practices 2016:
Export Credit Agency and International Financial Institution Benchmarking

Survey Goal

Export Credit Agencies and International Financial Institutions/Multilateral Development Banks share their views on credit risk and portfolio management today, including: current priorities, how risk management is evolving and expanding, and current risk management roles, structure and tools to address risk concentrations and exposures.

IACPM
INTERNATIONAL ASSOCIATION OF
CREDIT PORTFOLIO MANAGERS

I. INTRODUCTION

In the fall of 2015, the IACPM, in collaboration with the Berne Union, conducted a benchmarking study on Risk and Credit Portfolio Management Practices in the ECA/ IFI industry. The study covers such topics as Credit Portfolio Management (CPM) organizational structure, risk and credit functions, risk management tools, and portfolio liquidity. Results of the study provide in-depth insights into current global practices and implementation of risk frameworks. Participants included ten export credit agencies, seven development banks, and six international financial institutions.

We thank Berne Union and the following firms, who comprised the working group and developed the benchmarking survey: EBRD, EDC, IADB, IFC, MIGA, SACE, US Ex-Im Bank.

II. SUMMARY OF KEY THEMES

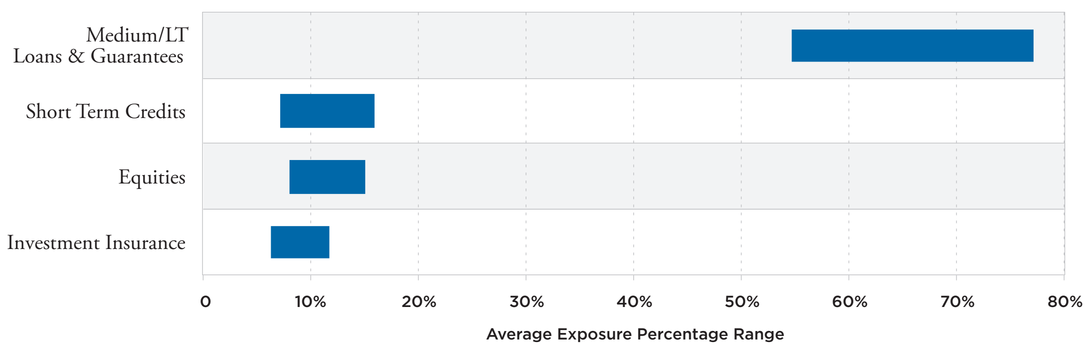
Product/asset distribution of the credit portfolios indicates similar types of portfolio assets among participating firms.

Among the most widely represented assets are medium and long-term loans and guarantees. About half of respondents indicated that these types of loans comprise 76-100% of their portfolios. Investments in short-term credits, equities and investment insurance represent a smaller proportion of their portfolios.

Figure 1

Product Distribution of Credit Portfolio

(in terms of credit exposure percent of total)



The geographical distribution of the credit portfolios illustrates diversified credit portfolios among participating firms.

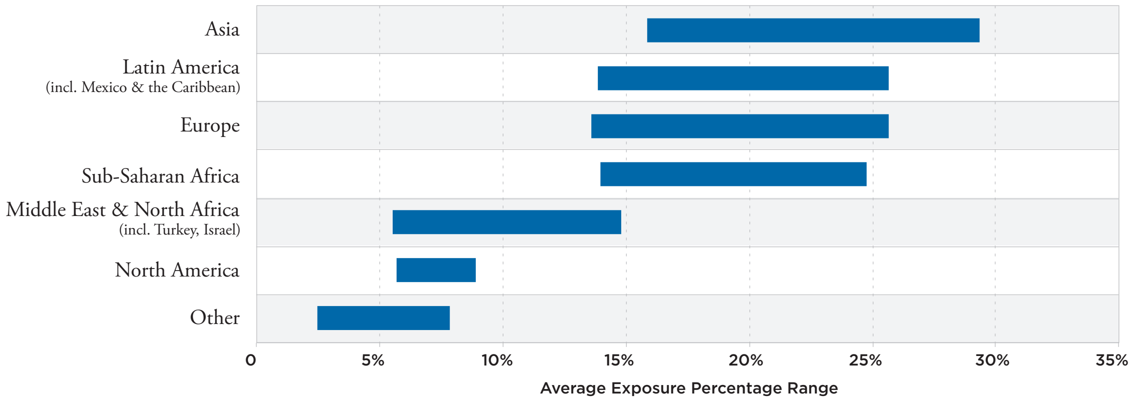
Percentage of exposure in specific geographic regions shows that very few participants have credit exposures between 76% and 100% in any given geographic region.

Even in the 51% to 75% category, the percentages are very low, implying portfolio diversification among geographies.

Figure 2

Geographical Distribution of Credit Portfolio

(in terms of credit exposure percent of total)



CPM reporting lines show a range of organizational practices - potentially a reflection of the different geographies, portfolios and management at participating firms.

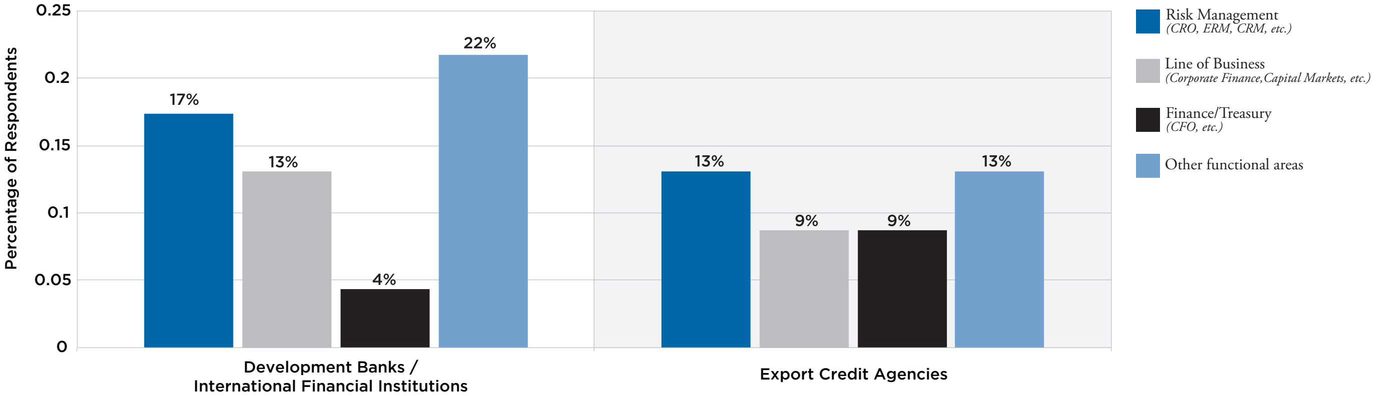
Roughly one third of participants indicated that CPM reports to risk management, about 20% to line of business, and 13% to finance/treasury.

One third of respondents indicated other reporting lines which included a range of hybrid approaches and dual reporting structures.

Figure 3

CPM Reporting Line

(by nature of responding firm)



CPM may be best defined by an enterprise approach to measuring and managing credit risk and the functions performed.

Respondents were queried on organizational areas involved in a range of CPM functions including risk measurement, limit setting and tracking, stress testing, informing origination, managing returns and secondary market activities.

Answers suggested that credit risk management is an integrated discipline among Risk, Portfolio Management, Credit Portfolio Management and Finance – with a range of practices likely reflecting specific organizational structures and portfolios.

Figure 4

Areas Involved in Top CPM Risk Policy Framework Functions

(Total reported percentages larger than 100% reflect the involvement of multiple areas in a function)

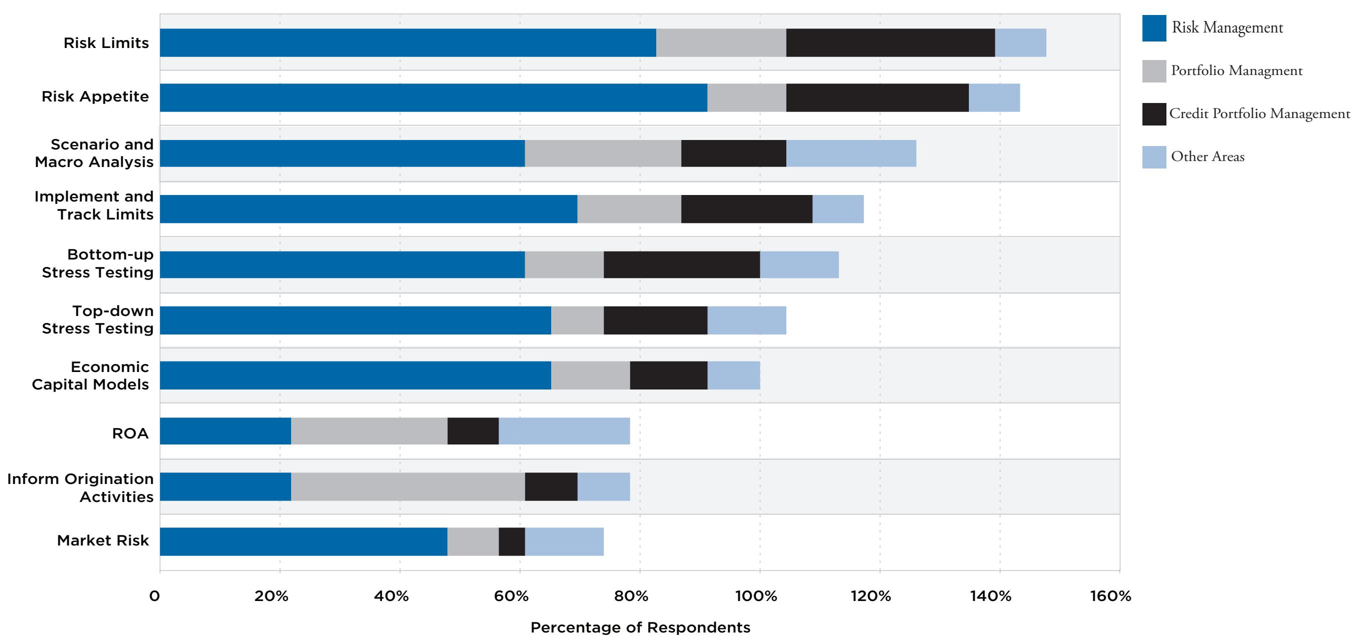
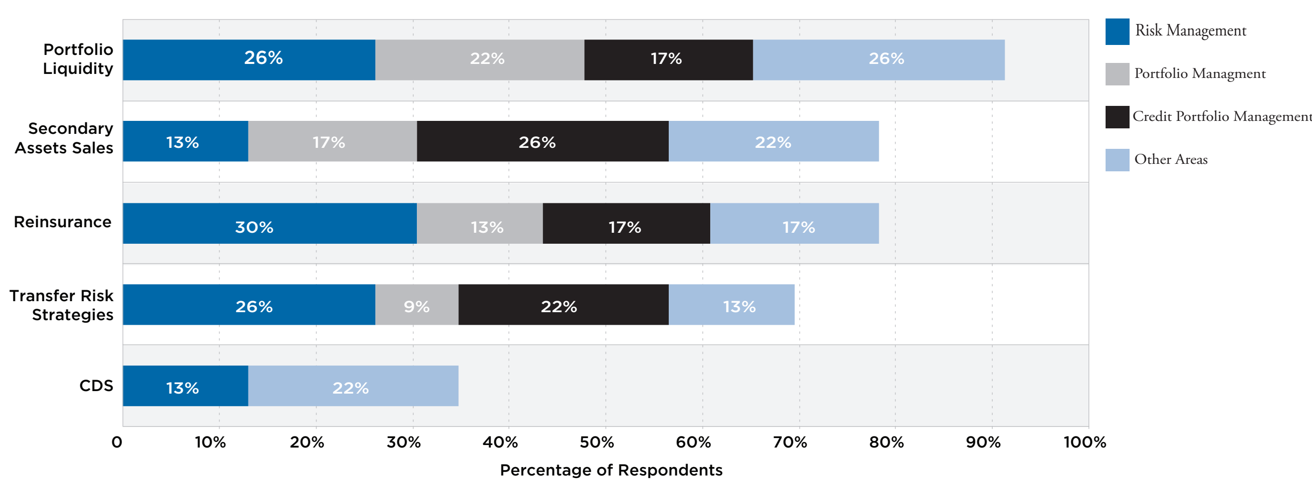


Figure 5

Areas involved in CPM Portfolio Liquidity Functions

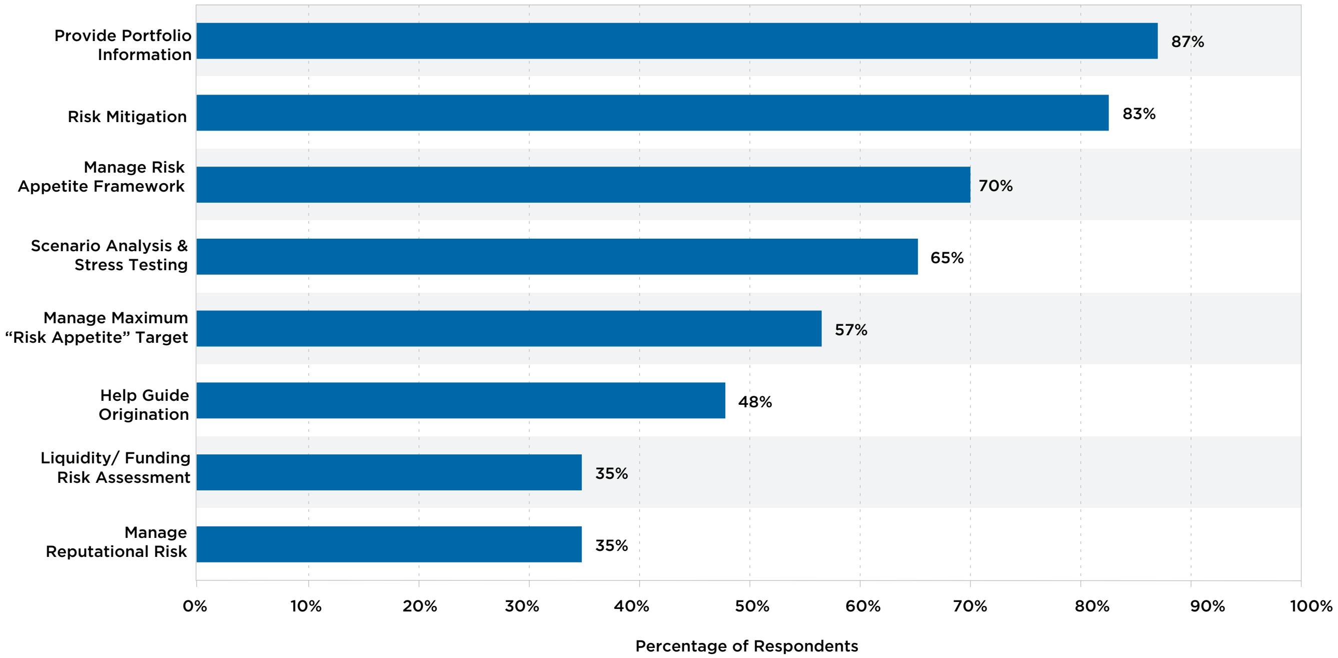


Key objectives for CPM functions include both origination-focused ("front-end") and secondary- or market-focused ("back-end") objectives.

Those surveyed indicate that their top two priorities for CPM are: (1) providing portfolio information (87% of respondents), and (2) risk mitigation, including reducing concentrations and improving portfolio structure (83%).

Other objectives cited by roughly half of respondents include managing risk appetite framework (70%), scenario analysis and stress testing (65%), managing a maximum risk appetite target (57%), and helping guide origination (48%).

Figure 6
Key Objectives for CPM Functions
(Multiple selections were possible)

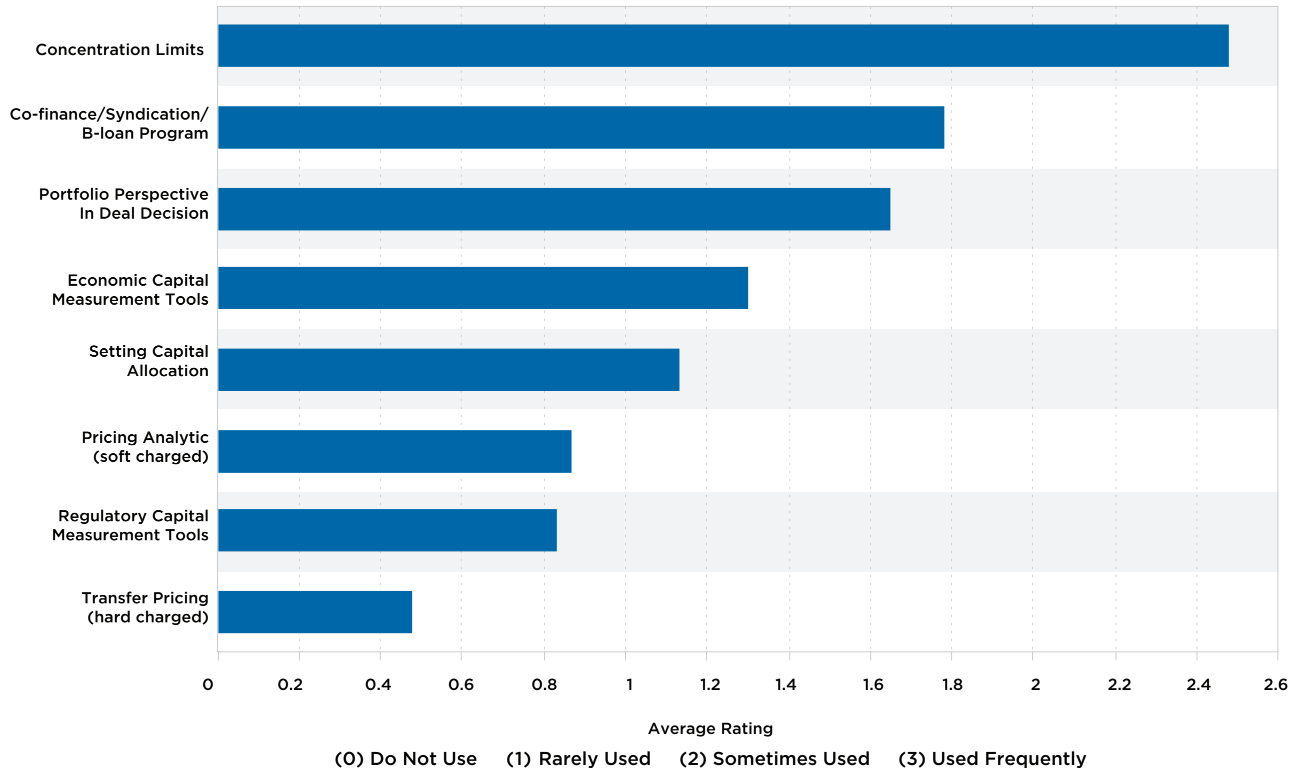


Tools used to manage portfolios also include origination and market-based approaches.

Among origination/front-end tools, concentration limits (91% cite as "used frequently" or "sometimes used") and co-finance/ syndication/ B-loan programs (56% cite as "used frequently" or "sometimes used") top the list.

For market-based tools, direct credit insurance (52% use "frequently" or "sometimes") and financial guarantees (43% use "frequently" or "sometimes") were cited most often. Other market tools include loan participations and assignments, as well as much more limited use of tools such as CDS, asset swaps and securitizations.

Figure 7
Origination Focused Tools
(Rated by importance)



Results show strong interest in developing liquidity for management of credit risk and exposure concentrations. Some 95% of respondents expressed interest in participating in an interagency dialogue to promote knowledge sharing on market liquidity, and to consider ways to develop more consistent or standard documentation.

III. CONCLUSIONS

CPM Practices among ECAs/IFIs continue to evolve. Focus on origination, risk appetite frameworks and the development of market liquidity are keys to effective risk and capital management for ECAs/IFIs.

Areas for future discussion include: addressing risk limit breaches, exposure strategies and action plans; stress testing and linking results with decisions making for the firm; and market tools available to ECAs/IFIs.

Survey participants expressed interest in the development of a platform to discuss liquidity practices (perhaps including standardizing certain documentation terms).

ABOUT THE IACPM

The IACPM is an industry association established to further the practice of credit exposure management by providing an active forum for its member institutions to exchange ideas on topics of common interest. Membership of the IACPM is open to all financial institutions that manage portfolios of corporate loans, bonds or similar credit-sensitive financial instruments. The IACPM represents its members before regulatory and administrative bodies around the world, holds conferences and regional meetings, conducts research on the credit portfolio management field, and works with other organizations on issues of mutual interest relating to the measurement and management of portfolio risk. Currently there are more than 100 financial institutions worldwide that are members of the IACPM. These institutions are based in 19 counties and include many of the world's largest commercial wholesale banks, investment banks and insurance companies, as well as a number of asset managers. More information about the IACPM may be found on our website: www.iapcm.org.

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