



IACPM

INTERNATIONAL ASSOCIATION OF
CREDIT PORTFOLIO MANAGERS

INSURANCE AND PORTFOLIO RISK MITIGATION: EXPANDING THE APPLICATIONS

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www.iacpm.org

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CONTENT

AGENDA

- A Brief Overview of Insurance
- Bank Usage of Insurance
- Current Market Capabilities
- Claims Experience
- Looking Forward – Product Adaptation & Innovation

It's all about "Perspective" ...



VS.



(Re)Insurance – Risk is everywhere



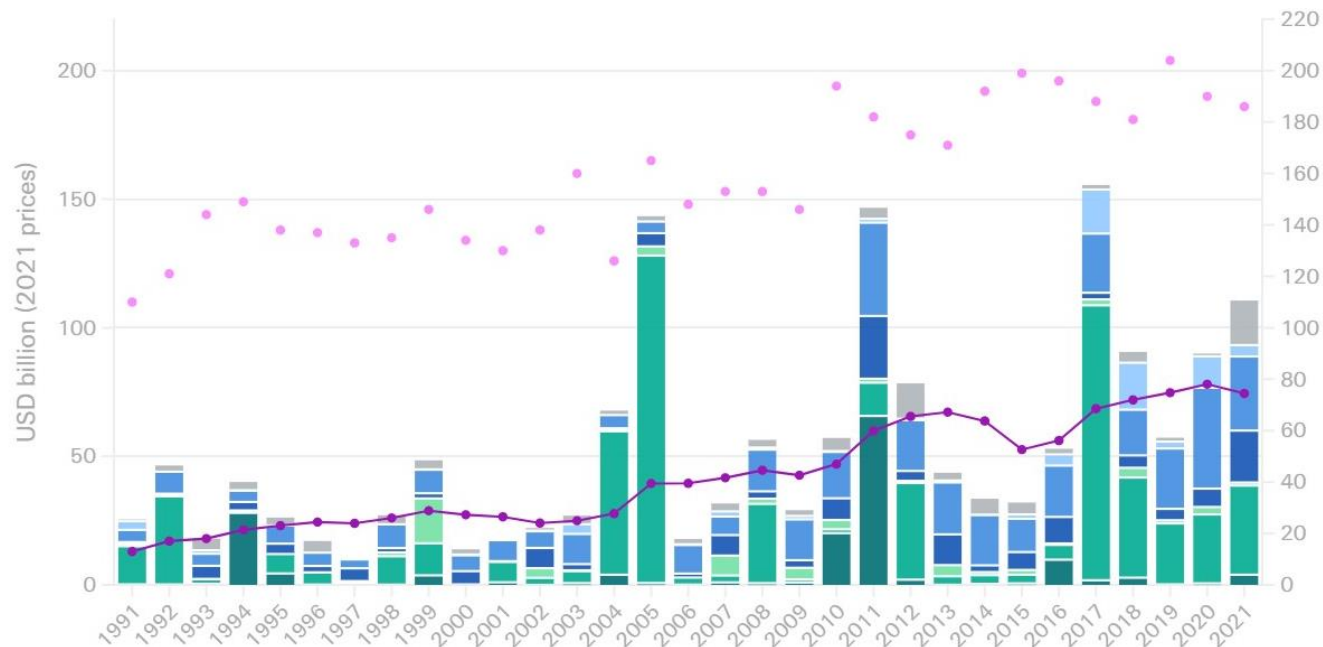
We will lose money...at some stage

- The market pays out an incredible amount of claims on an annual basis.
- Natural Catastrophe losses are becoming more regular, and present the single highest threat to insurance capital.
- New and alternative forms of capital help to maintain market capacity.

A return to long-term trend

Global insured natural catastrophe losses by peril

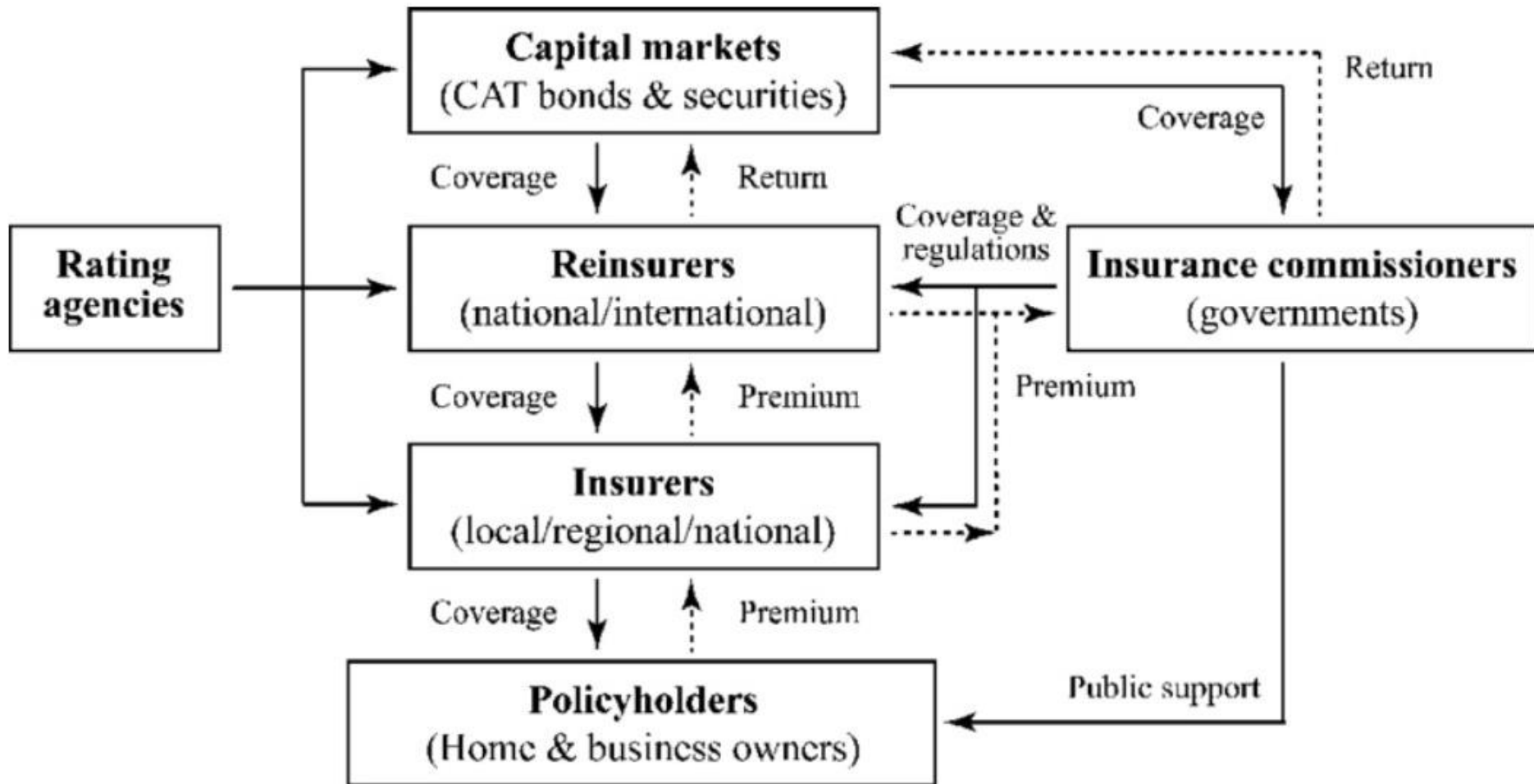
Number of natural catastrophe events 10-year average natural catastrophe losses Earthquakes Tropical cyclones Winter storms Europe Floods Severe convective storms Wildfires Other secondary



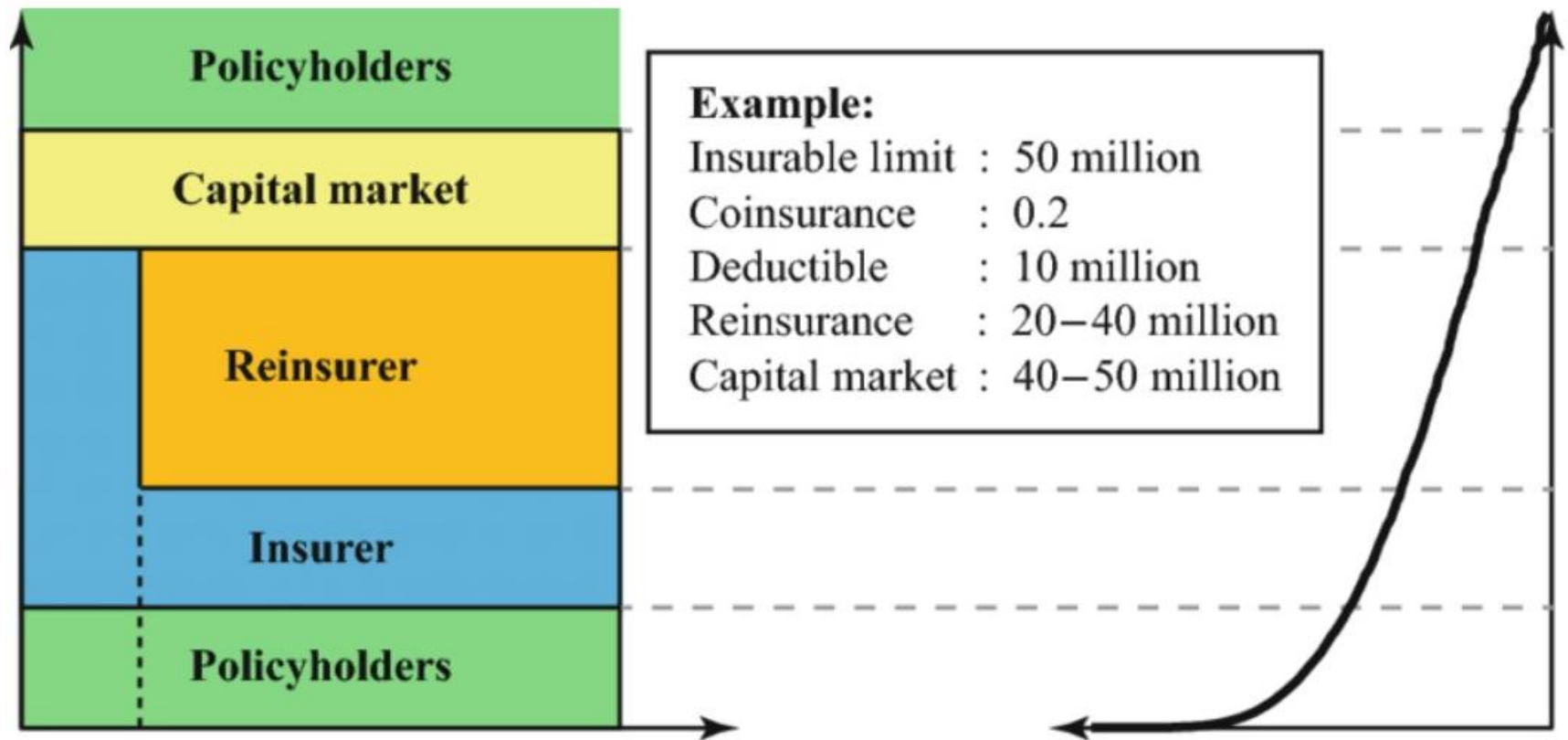
Source: Swiss Re Institute

Note: Primary perils: earthquake, tropical cyclone, winter storm Europe | Secondary perils: flood, severe convective storm, wildfire

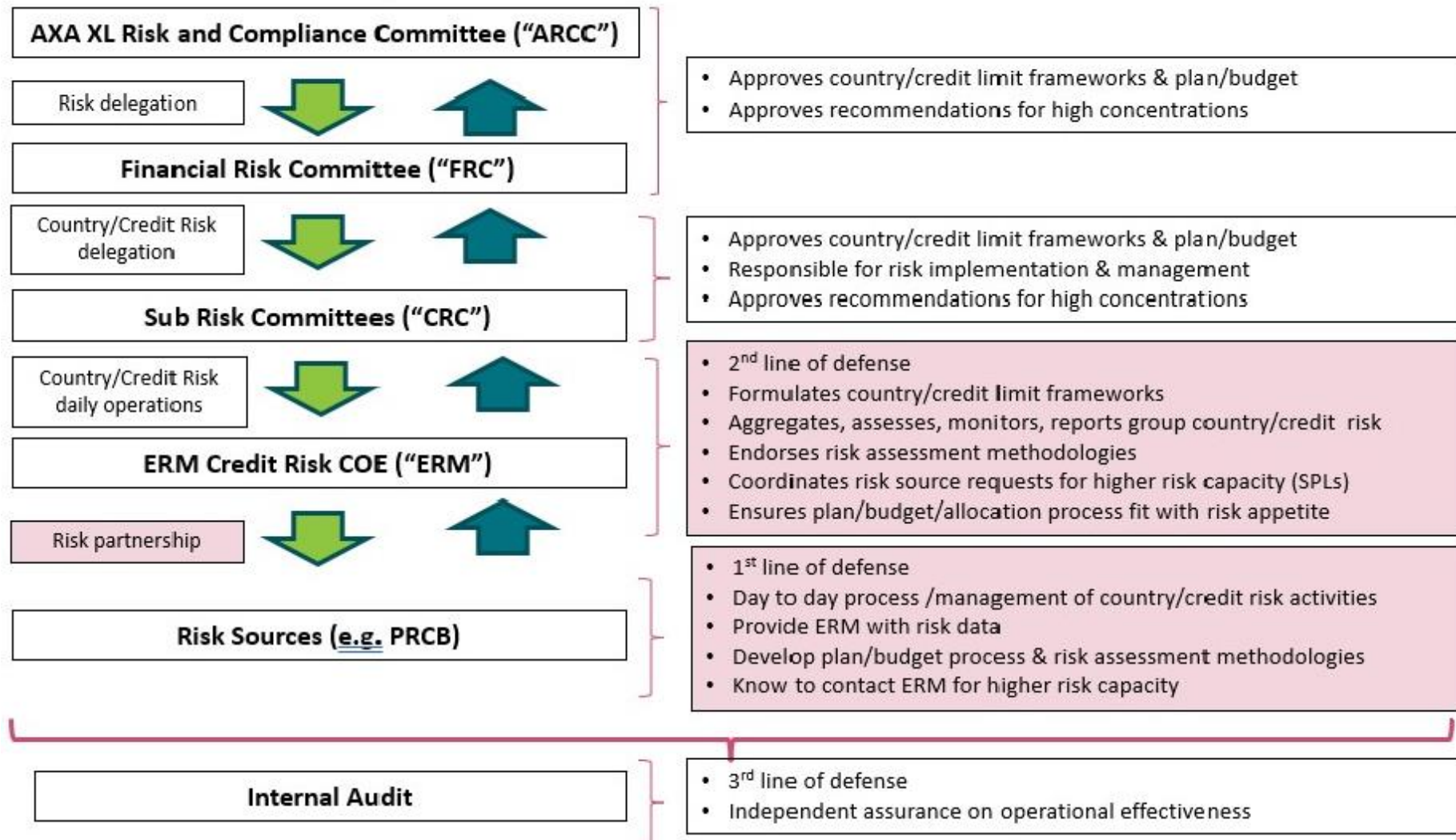
Reinsurance – A form of Risk Distribution



Reinsurance – A form of Risk Distribution



Enterprise Risk Management – Credit & Country Risk Frameworks



What about Credit & Political risk?

SNPC won't be able to pay back advance funding

Singapore oil trader Hin Leong owes banks at least \$4.25 billion

Danish Fuel Supplier OW Bunker Collapses Months After Its IPO

OW Bunker had a 10 percent share of the \$150 billion bunkering business

Shandong Industrial Debt Crisis Claims Two More Companies

Default Alarms Go Off as Azeri Bank's Collapse Prompts Scare

Mozambique Sinks Deeper Into Default After Missing Loan Payment

Fashion group Shandong Ruyi's creditors seek control of Lycra

Sri Lanka defaults on debt for first time in its history

Current Market Capabilities – Coverage

Product	Product Coverage	Typical Client	Benefit
Political Risk	<p>Equity and Debt: Expropriation, Currency Inconvertibility, Political Violence, and Arbitration Award Default</p> <p>Contract Frustration (CF): Non-payment (public sector borrowers/obligors)</p> <p>License cancellation; trade embargo; war</p>	<ul style="list-style-type: none"> • Financiers (banks, NBF) • Foreign asset investors (e.g. infrastructure, mining) • Manufacturers • Contractors 	<ul style="list-style-type: none"> • Country limit mitigation (banks & corporate) • Obligor limit mitigation (banks & corporates) • Capital Relief (RWA) • Balance sheet protection – equity/ops • Asset protection (aircraft, contractors plant and equipment – repossession risk)
	<p>Non-payment (private sector obligors)</p> <ul style="list-style-type: none"> • Includes project/infrastructure finance, asset backed finance, structured finance, trade/commodity finance, non-trade (i.e. unsecured syndicated loans) etc. 		

What is your experience with CPRI?

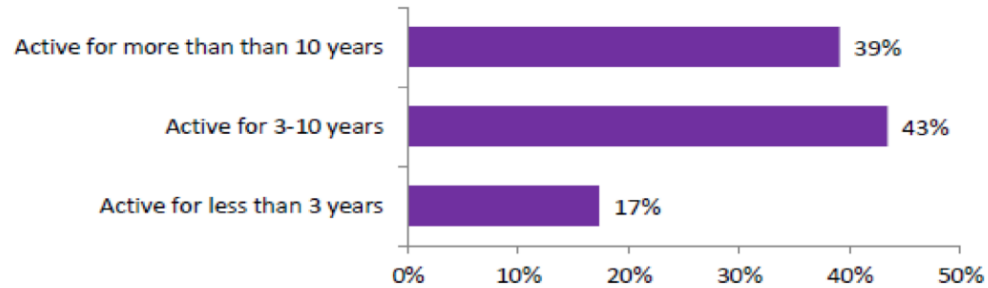
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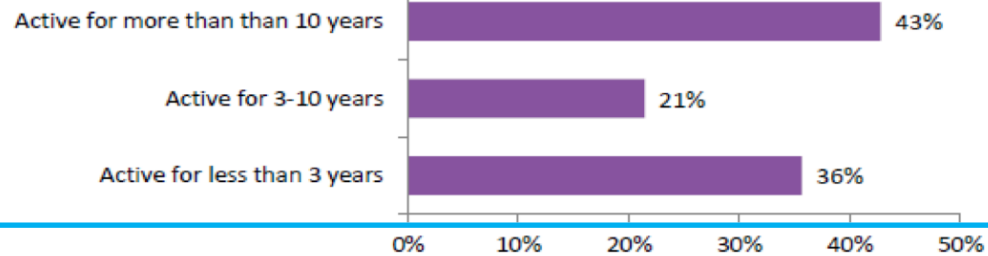
Results

Growing usage among Banks globally

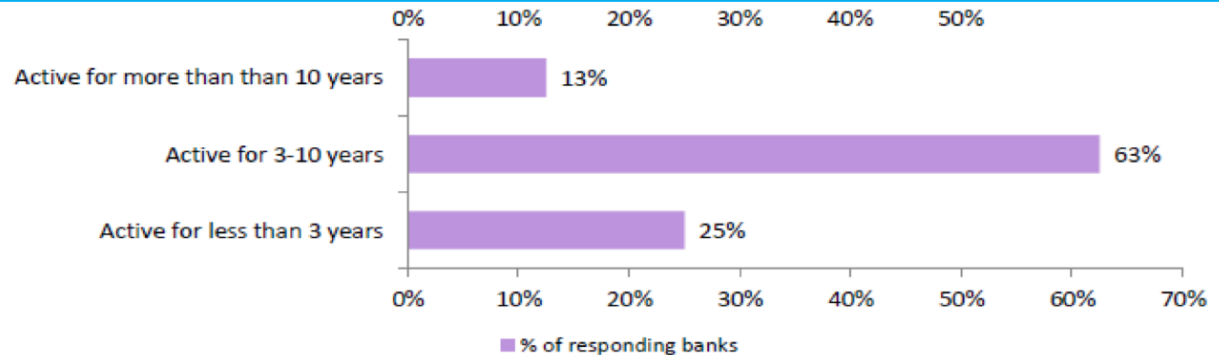
EMEA Region
(N = 23)



Americas Region
(N = 14)



Asia/Australia
Region
(N = 8)



Source: IACPM/ITFFA Private Credit Risk Insurance 2021

Product Overview and Benefits

Non-payment insurance

An ideal credit hedge instrument

- Protection against non-payment by the Obligor due to any reason
- Direct reference obligation credit protection on the specific credit exposure (i.e. tenor, currency, transaction structure, security package etc)

Product description

Political risk insurance

An unique risk mitigation tool

- Protection against non-payment by the Obligor resulting from specific political perils:
- Confiscation
- Expropriation & Nationalisation
- Political Violence & War
- Currency Inconvertibility & Exchange Transfer

Multiple benefits from the use of insurance

Capital relief

Credit rating substitution reducing capital requirements and RWA

Limits relief

Obligor or country limit relief (PRI) enabling incremental exposure or reducing concentration risks

Distribution

Additional source of liquidity from insurers increasing distribution capabilities

Products

Enable incremental credit exposure with Obligor increasing revenue opportunity

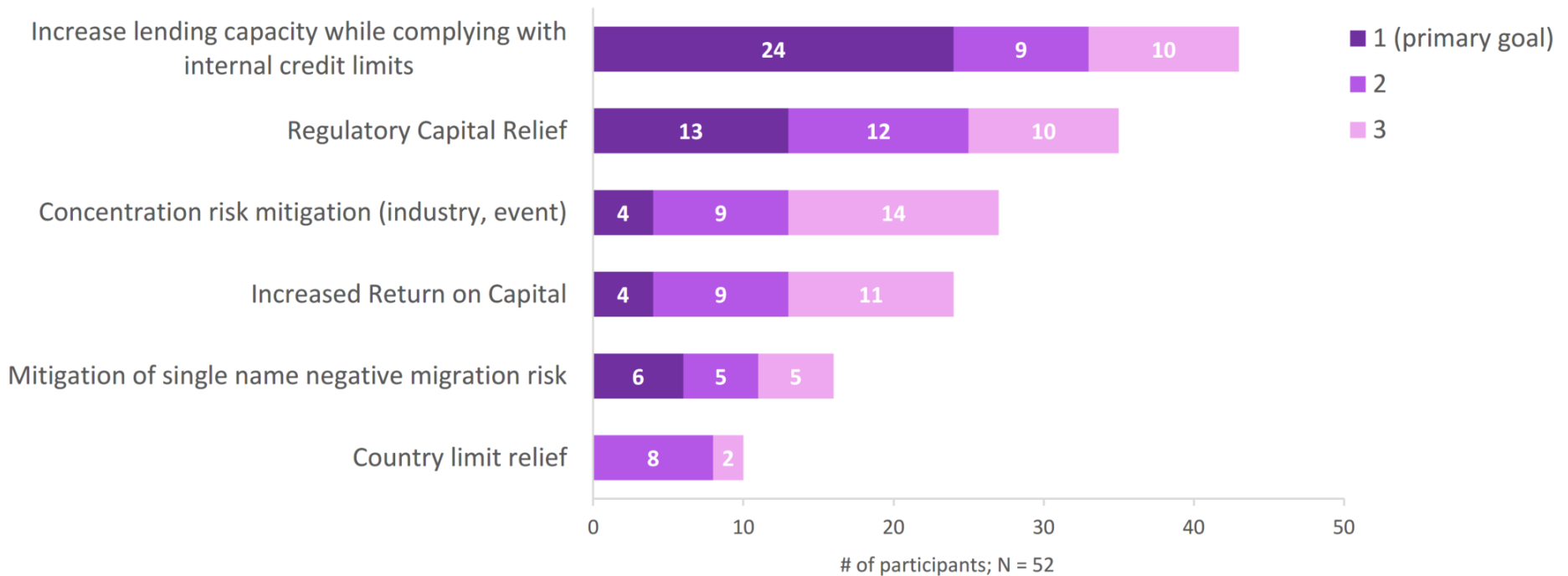
What are the reasons for using CRI?

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Results

Main reasons for using CRI



Source: IACPM/ITFFA Private Credit Risk Insurance 2021

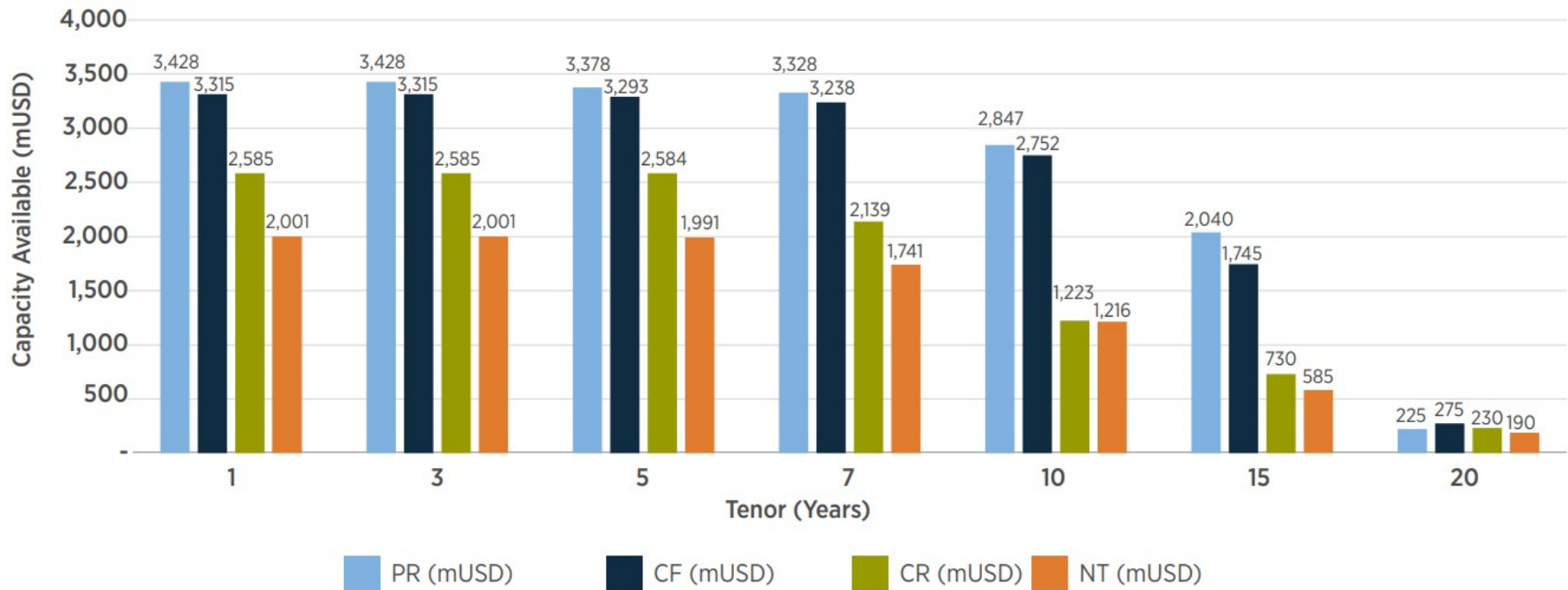
Credit expertise within insurers

Insurers have developed core expertise in credit and are increasingly sophisticated

- Insurers have expanded mandates from traditional trade finance to a broad spectrum of credit products
- Credit products include:
 - Trade finance
 - Structured commodity finance
 - Loans
 - Bonds (USD, EUR or local currency)
 - Derivatives (ISDA based contracts)
 - Portfolio transactions (CLO etc)
 - Asset finance (reserve-based lending, project finance, real estate, aviation and shipping etc)
- Established insurance market players employ credit analysts for in-depth credit work
- Insurers have generally developed internal rating models for credit review
- The London market remains the largest hub, followed by the Singapore market for credit & political risk insurers

Current Market Capabilities – Capacity

Total capacity available by tenor



Source: Gallagher Specialty Structured Credit and Political Risk Insurance Market Update, February 2022

Current Market Capabilities – Claims Data

CLAIMS* FOR FINANCIAL INSTITUTIONS & BANKS: 2007–2020

	Total Market	BPL Global	Rest of Market
Amount claimed	US\$3.75bn	US\$969m	US\$2.78bn
Amount paid in full	US\$3.63bn	US\$955m	US\$2.68bn

CPRI market survey conducted by A2Z Risk Services for LMA/IUA, February 2021

*“Single situation” (transactional) non-payment claims

BPL GLOBAL CLAIMS SINCE 1983

Claims settled: 510

Value of claims collected: US\$2.96bn

Arising from losses occurring in 97 countries with non-payment claims representing 86% by policy frequency

BPL Global figures as at February 2021

Current Market Capabilities – Coverage

1 – 5 Years	5 – 7 Years	7 – 10 Years	10 – 15 (20) Years
<ul style="list-style-type: none"> • Receivables • Working Capital • Documentary Trade • RCF • Bridge Loans • Share Backed • Commodities • Financial Institutions • Corporate Lending • Real Estate • Derivatives 	<ul style="list-style-type: none"> • Equipment Financing • Reserve Based Lending • Export Finance • Metals & Mining Finance • DPR • Bonds • Leveraged Finance 	<ul style="list-style-type: none"> • Vessel Finance • Asset Finance (Other) • Project Finance and also associated derivatives 	<ul style="list-style-type: none"> • Aviation Finance • Project Finance including IRS, FX etc.

Product Adaptation & Innovation

- Trade Credit Insurance has been around since the end of the 19th century. Lloyd's and marine insurance since the 17th century, Chinese merchants during the 3rd millennium BC!!!
- Increase in use of product has been driven economic growth and companies moving into unfamiliar markets – either new products or geographies
- Evolution:
 - Marine Cargo – Trade Credit risks – Political risks – Non Payment Insurance (NPI)
 - NPI: 'trade-related' receivables – structured trade – cashflow lending – PF lending – Corporate Lending – asset-based lending (shipping / aviation / others) - share-backed financing

Product Development	Considerations / Concerns
CLO's / Portfolio Trades	Model/rating capabilities; pricing adequacy
Asset Finance	AFIC Program; Airbus/Balthazar. 100% indemnity, potentially tradeable
Derivatives	Mark to Market valuations; inability to model PFE, proximity to underlying risk
Bonds (incl. Project Bonds, Local CCY)	Not a “wrap”; tradability issues, recovery discipline

What are your views of the default rates in the next 12 months?

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[Results](#)

Evolving Risks...



QUESTIONS?

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APPENDIX

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