



Webinar

Credit Risk Insurance Insights

Relevance and Evolution over Time | March 18, 2024

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Panelists

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- Moderator:
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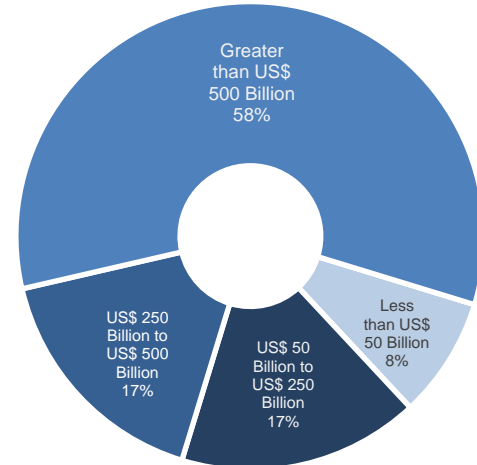
Agenda

- Background: IACPM/ITFA 2023 Survey Results
- Overview of Risk Mitigation Tools
- Global Credit Risk Insurance Market
- Purpose & Benefits of CPRI
- Challenges
- Regulatory Framework
- Q & A

IACPM conducted an industry survey in collaboration with ITFA* to explore current Credit & Political Risk Insurance practices. Survey results provide the **data support for the panel discussion.**

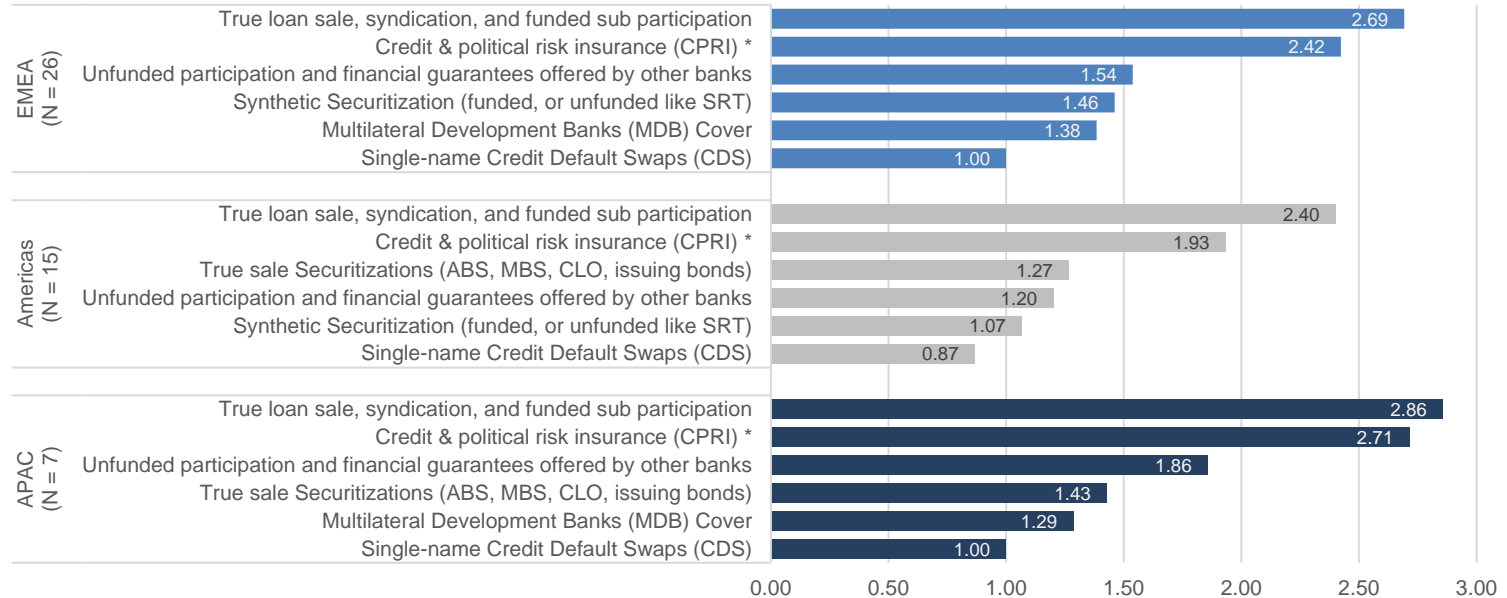
- The biennial survey explored current practices for CPRI policies eligible as Basel-compliant financial guarantees and used by banks as a credit risk mitigation (CRM) tool to release capital and/or increase lending capacity at single loan/single borrower level.
- The survey focused exclusively on insurance protections provided by private firms, and therefore excludes government backed protections like ECA covers.
- Globally, 48 IACPM & ITFA member firms participated, including 45 banks and three multilateral development banks (collectively referred to as “firms” throughout these results).
- Ninety percent of firms reflected in the survey are current users of CPRI to mitigate risk in the credit portfolio.
- High level results are available on IACPM’s website: [Survey Demonstrates Global Importance of CPRI](#)

**Participating Banks’ Balance Sheet Size
(N = 48)**



* International Trade and Forfeiting Association

CPRI is the second most important risk mitigation tool across all regions and for all firms regardless of size



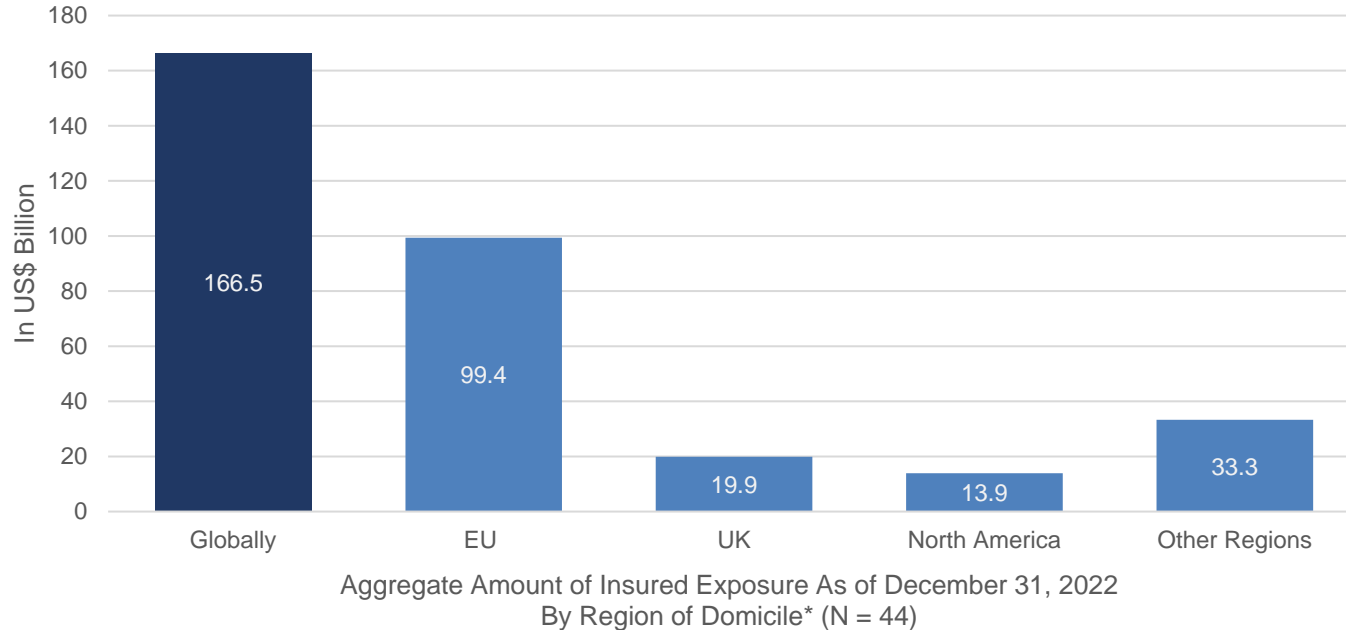
(*) incl. Risk Participation Agreements with insurers.

(**) Firm's principal region of domicile.

Average Weight of Importance By Region of Domicile ** (N = 44)
 (1 = Rarely Used, 2 = Somewhat Important, 3 = Most Important)

Source: IACPM / ITFA Credit and Political Risk Insurance Survey 2023 | Question: Please rate the following market tools used to mitigate risk in your credit portfolio over the past twelve months by importance (based on monetary volume). Note: Market tools listed include solutions to release risk and capital at loan/borrower level, e.g., syndication, and solutions to release capital only at portfolio level (e.g., synthetic securitizations). (Q5)

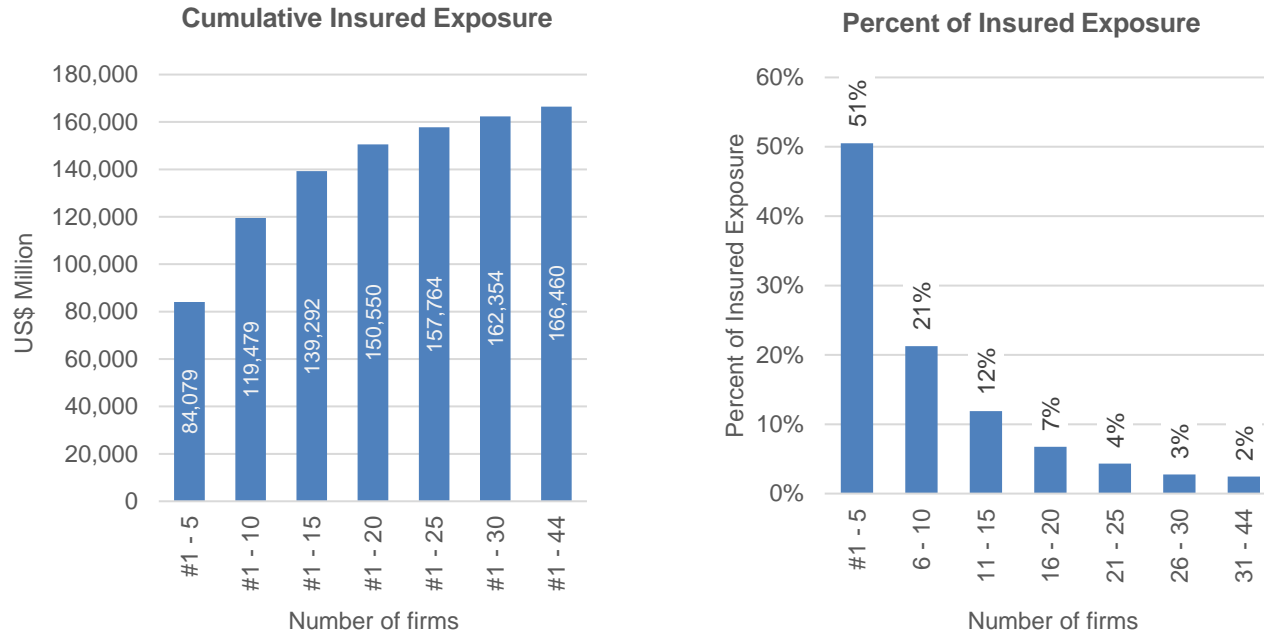
In 2022, three quarters of the total insured exposure has been contracted by European firms



(*) Firm's principal region of domicile.

Source: IACPM / ITFA Credit and Political Risk Insurance Survey 2023 | Questions: Please indicate the total aggregate amount of your **insured exposure** (Q13)

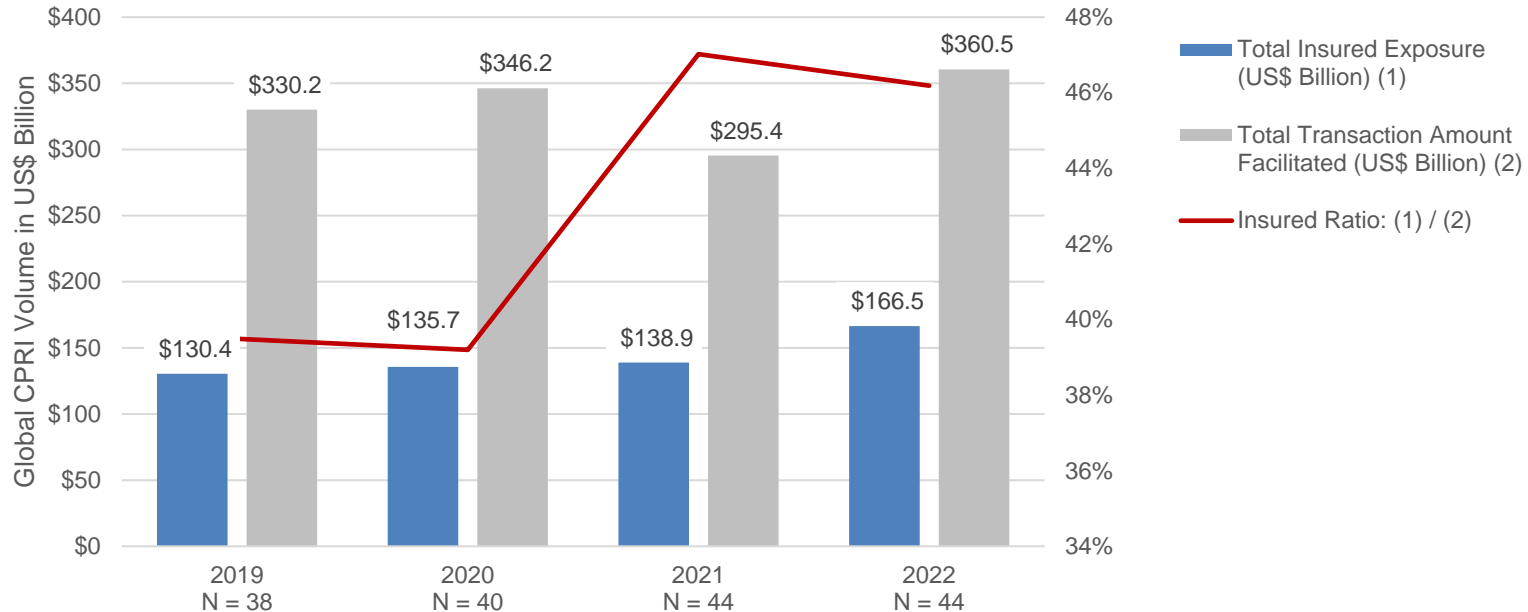
One quarter of the contributing firms have insured three quarters of the reported global insured exposure



Source: IACPM / ITFA Credit and Political Risk Insurance Survey 2023 and 2021

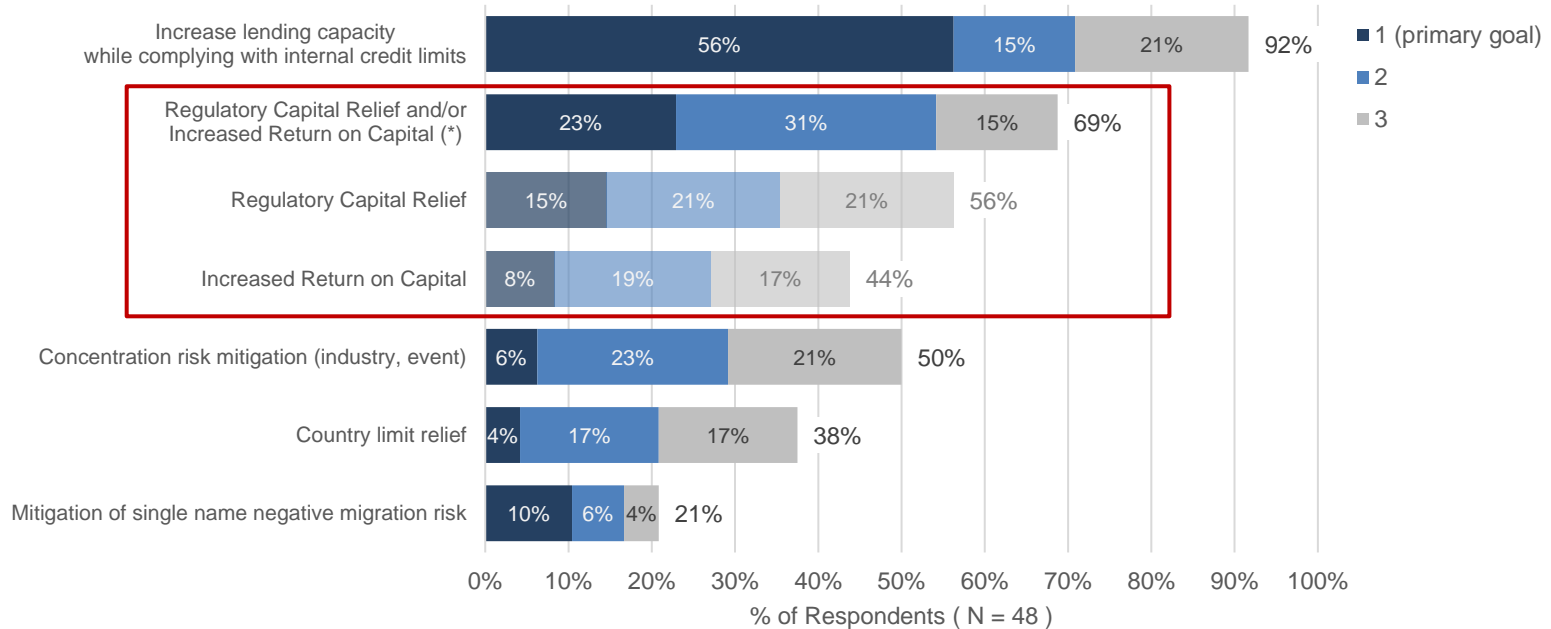
Questions: Please indicate the total aggregate amount of your **insured exposure** (Q13) at the end of 2021 and 2022 (in US\$ Million).

Participating firms increased their insured exposure by 28% since 2019



Source: IACPM / ITFA Credit and Political Risk Insurance Survey 2023 and 2021 | Questions: Please indicate the total aggregate amount of your **insured exposure** (Q13) / **underlying credit facilities** held by your institution for which CPRI is used as a CRM technique (Q14) at the end of 2021 and 2022 (in US\$ Million).

Unchanged to prior years, firms globally are using CPRI solutions primarily to increase lending capacity

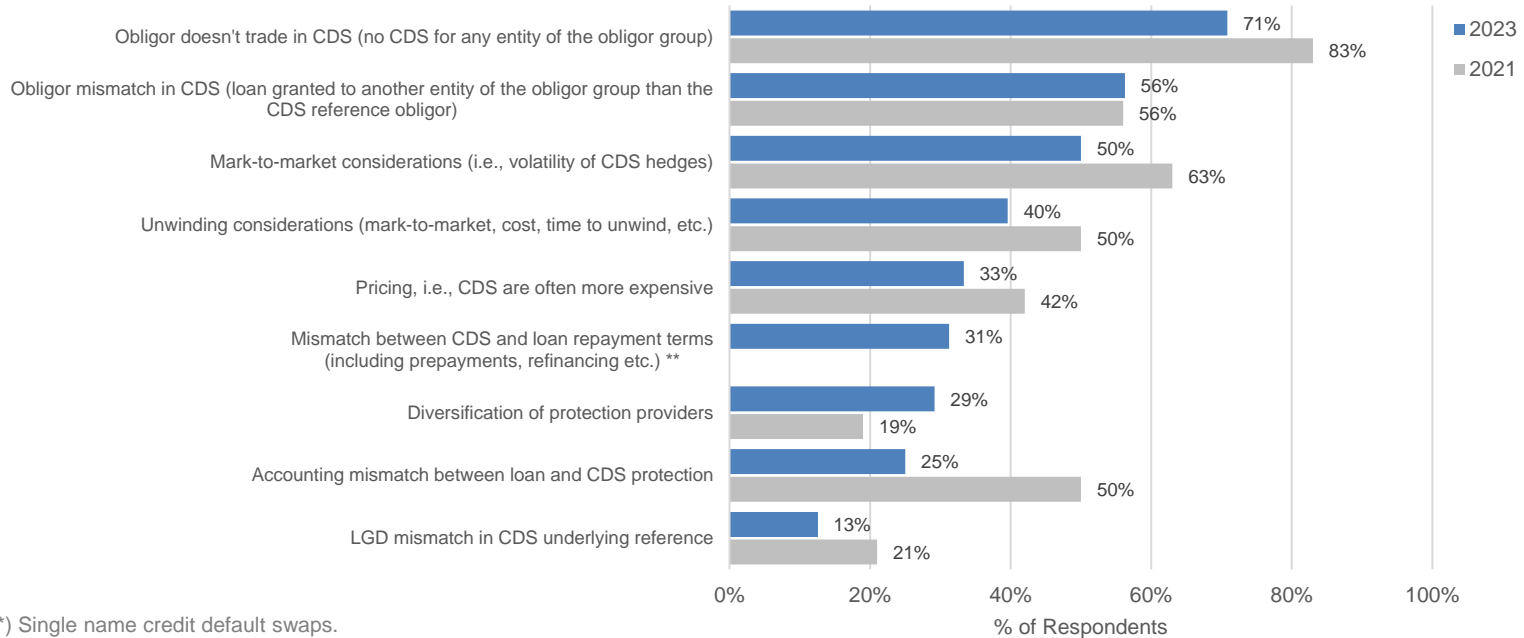


(*) Total of responses to "Regulatory Capital Relief" and "Increased Return on Capital". To avoid double-counting, percentages reflect only one Capital related ranking per firm, e.g., if a firm ranked "Regulatory Capital Relief" 1st and "Increased Return on Capital" 2nd, the total only reflects Rank 1 for "Regulatory Capital Relief".

Source: IACPM / ITFA Credit and Political Risk Insurance Survey 2023

Question: What are your top 3 goals when using CPRI for any of the asset classes indicated above? Please rank from 1 (primary goal) to 3. (Q17)

Banks use CPRI mainly to protect loans granted to obligors that do not trade in the CDS* market



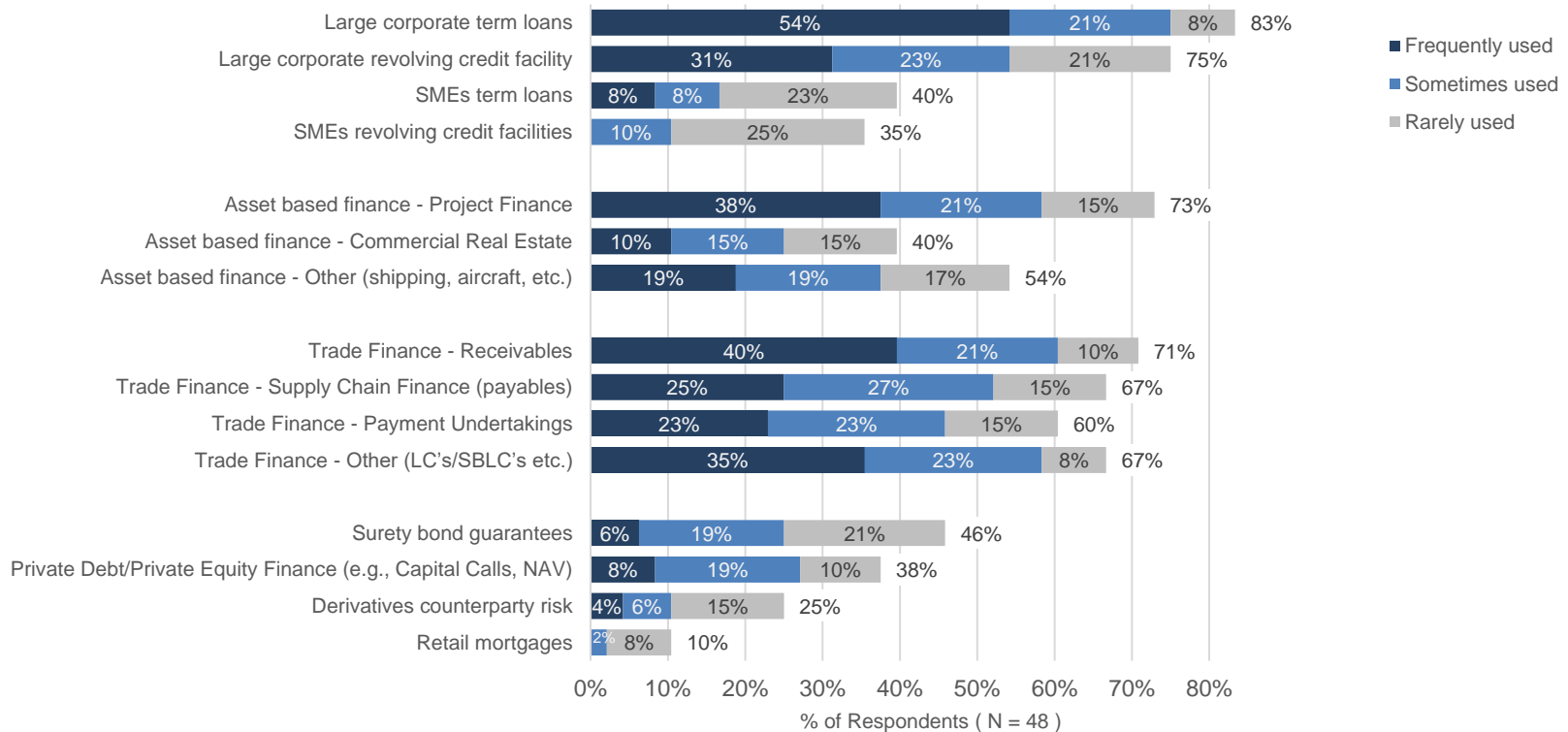
(*) Single name credit default swaps.

(**) Not an answer option in 2021.

Source: IACPM / ITFA Credit and Political Risk Insurance Survey 2023

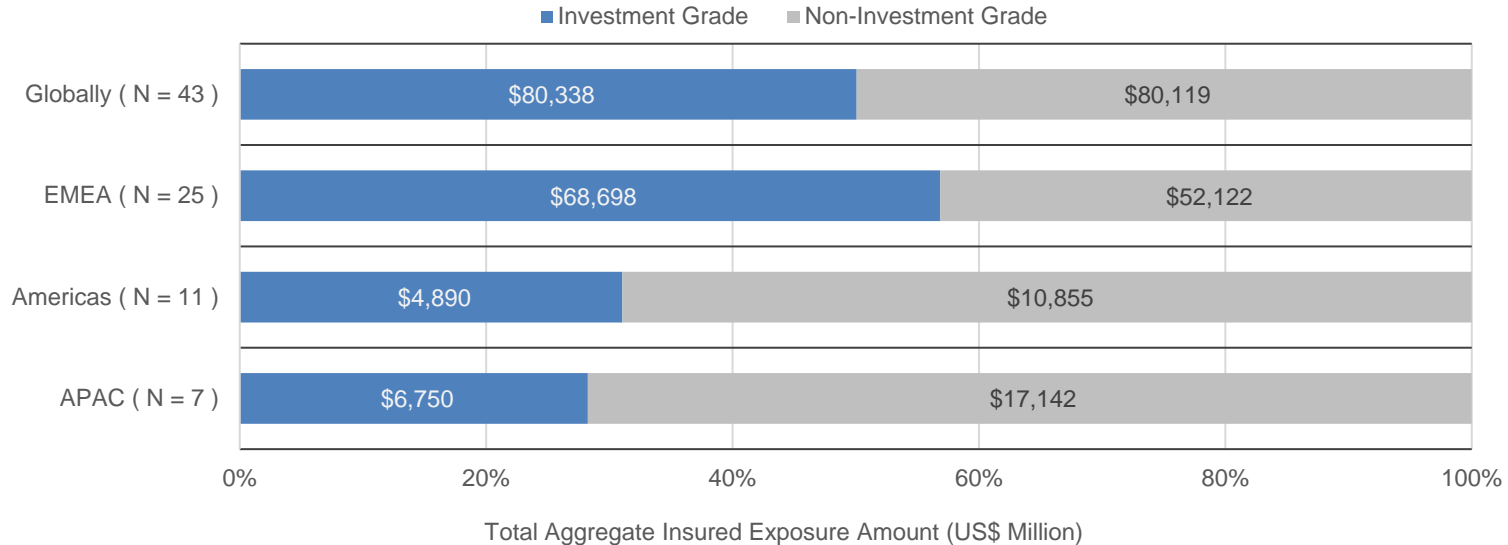
Question: What are your institution's main reasons for choosing CPRI over single name credit default swaps (CDS)? Please check all that apply. (Q7)

Asset Classes Protected by CPRI get more diversified



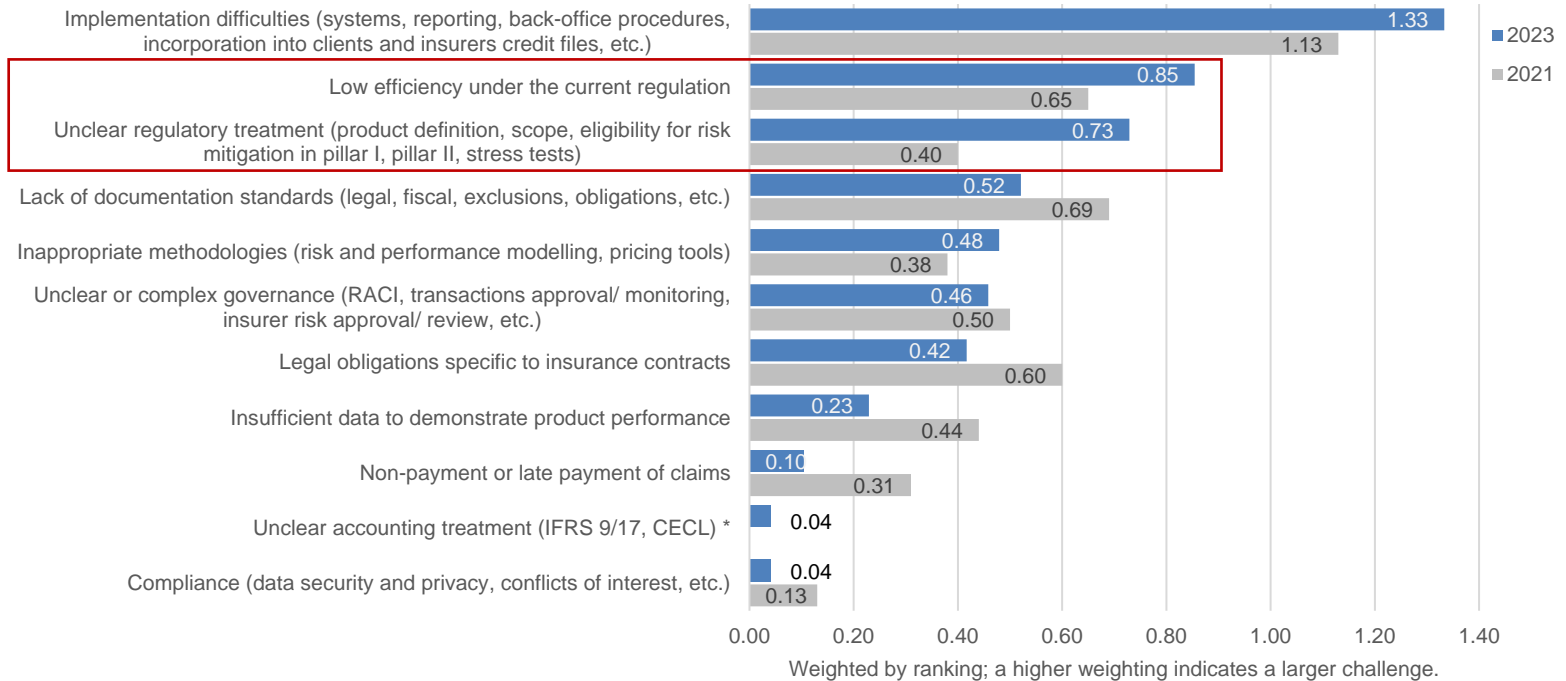
Source: IACPM / ITFA Credit and Political Risk Insurance Survey 2023 | Question: For which of the following asset classes has your bank used CPRI over the past 1-2 years, including today? Please weight frequency relative to your bank's lending volumes and proportion of overall insured portfolio. (Q16)

Most of the globally insured exposure is BBB or BB rated, with firms in EMEA leaning slightly towards investment grade



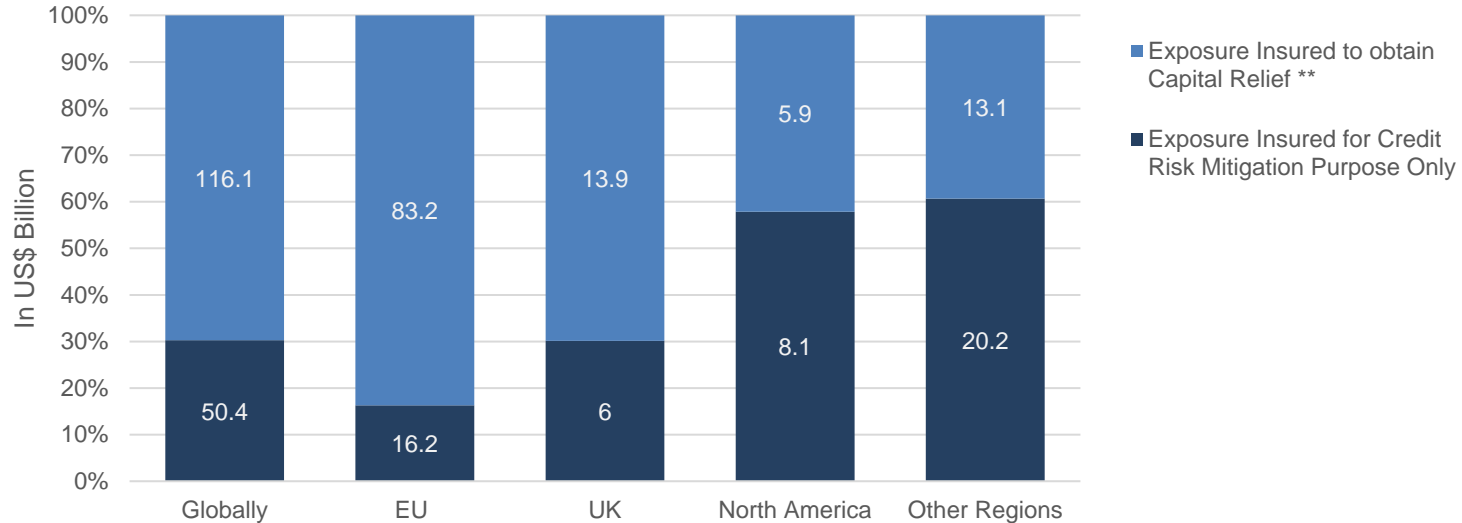
Source: IACPM / ITFA Credit and Political Risk Insurance Survey 2023 | Question: Please indicate the underlying borrowers' average equivalent credit rating for your bank's portfolio of insured exposure at the end of 2021 / 2022 (in %). Please use internal equivalent where appropriate. (Q18 / Q19)

Operational challenges differ per region, between implementation in EMEA and APAC and low capital efficiency in the Americas



Source: IACPM / ITFA Credit and Political Risk Insurance Survey 2023 | Question: If your bank is currently using CPRI, please indicate your top 3 operational challenges? If your bank is currently not using CPRI, please indicate your top 3 challenges that prevent you from doing so. (Q8)

In 2022, 70% of the insured exposure globally was protected at least in part to relieve regulatory capital

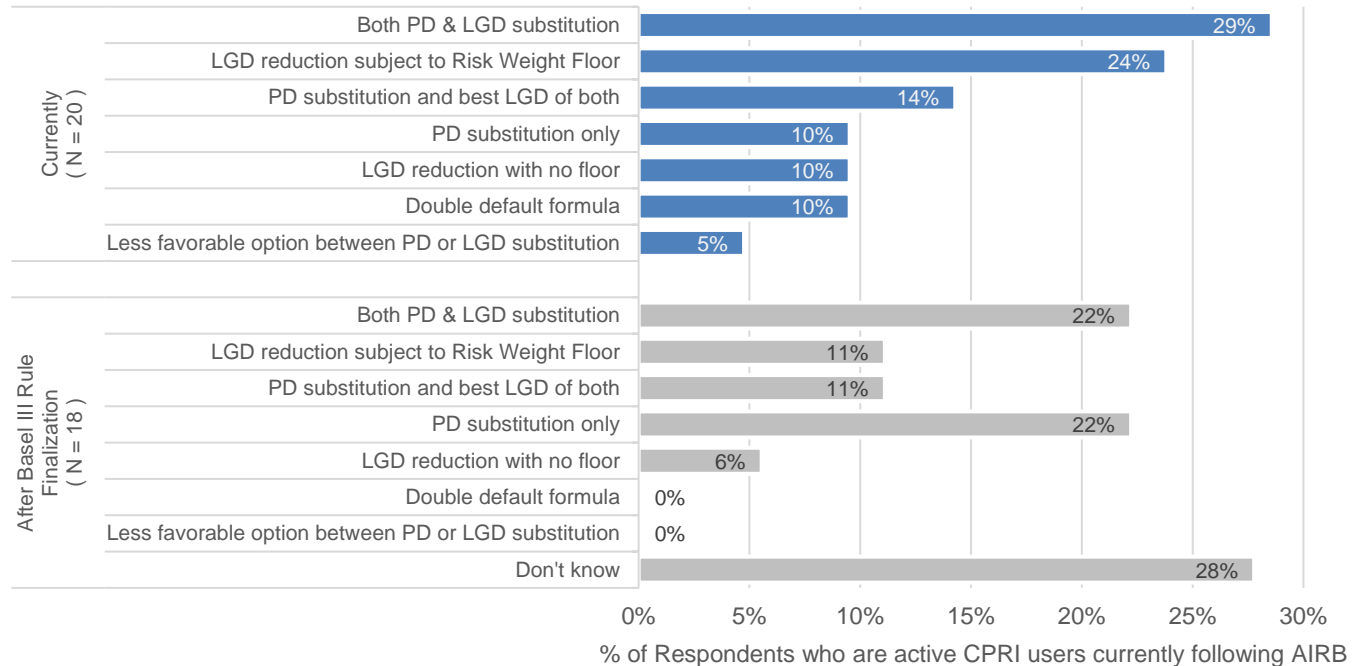


Aggregate Amount of Insured Exposure As of December 31, 2022
By Region of Domicile * (N = 44)

(*) Firm's principal region of domicile. | (**) The sum of the exposure insured to obtain (i) Capital Relief only; (ii) Credit Risk Mitigation and Capital Relief; or (iii) Credit Risk Mitigation, Capital Release and Improvement of Return on Capital.

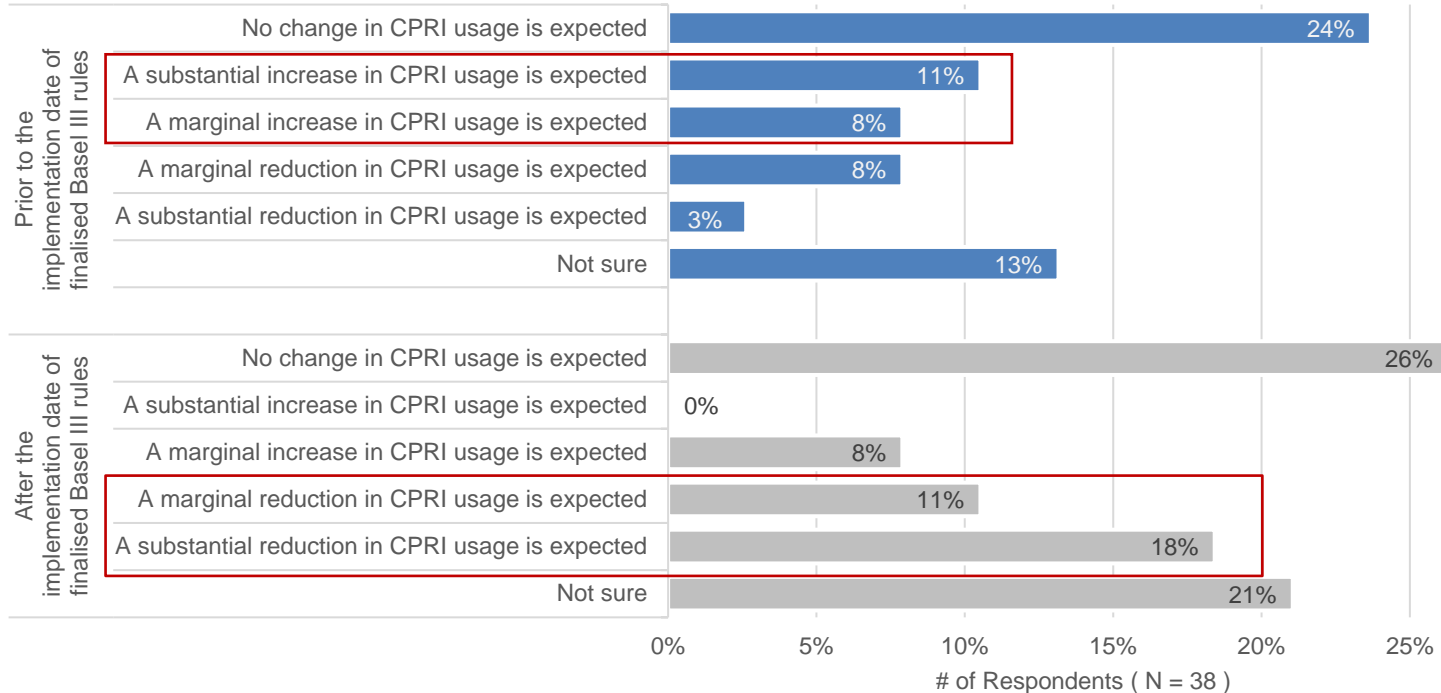
Source: IACPM / ITFA Credit and Political Risk Insurance Survey 2023 | Questions: Please indicate the total aggregate amount of your **insured exposure** (Q13); Please estimate to the best of your knowledge the percentage split of your aggregate insured exposure as of December 31, 2022, based on the reasons for obtaining the CPRI cover. (Q15)

The methodology used to calculate regulatory capital relief will change after implementation of Final Basel III Rules



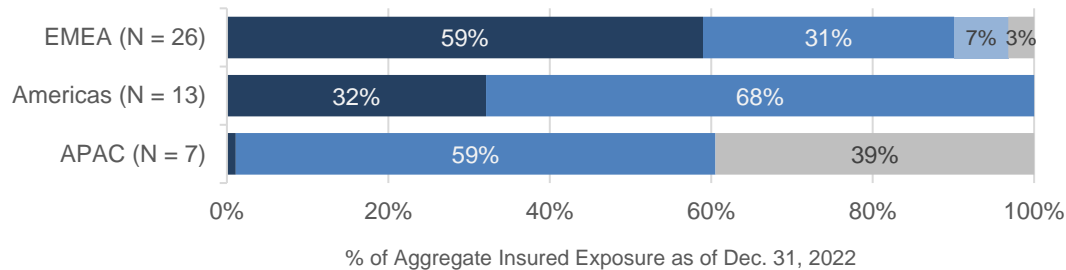
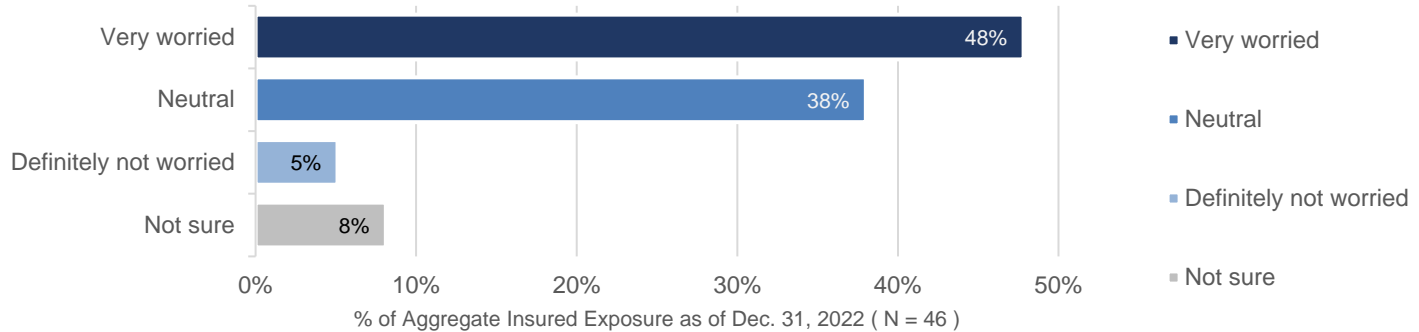
Source: IACPM / ITFA Credit and Political Risk Insurance Survey 2023 | Question: If your bank is currently following AIRB to calculate RWA for most of its insured portfolio, please indicate the methodology your bank is applying to calculate the regulatory capital relief by CPRI protections. (Q25)

29% of the participating firms are expecting a reduction in CPRI usage under the final Basel III rules



Source: IACPM / ITFA Credit and Political Risk Insurance Survey 2023 | Question: Do you expect a change in CPRI usage prior or after implementation date assuming the finalized Basel III rules as applying to your bank are adopted as per the BCBS guidelines (Q26)

Respondents globally representing 48% of insured exposure (59% for EMEA) are very worried about the Long-Term Future of CPRI Market under Finalized Basel III Rules



Source: IACPM / ITFA Credit and Political Risk Insurance Survey 2023 | Question: Are you worried about the long-term future of the CPRI market in light of the potential uncertainty of the capital treatment of the CPRI transactions after implementation of finalized Basel III rules? (Q28)

Q & A

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Glossary

CECL/ IFRS 9

Approach used for accounting–based assessment of expected losses (Point-in-Time (PIT) and forward-looking expected losses).

Credit and Political Risk Insurance (CPRI)

Credit and Political Risk Insurance cover both non-payment by the borrower/obligor and Government intervention that prevents payment on a specific loan, for any reason whatsoever. The only conditionality outside the insured bank’s control might be a nuclear/biological warfare and radioactive contamination exclusion and in some rare cases insurers accept not to ask for it. All other conditionality which can prevent a claim payment are within the bank’s own control. CPRI is offered by non-governmental organizations, and therefore exclude ECA cover.

Importantly, for the purpose of this survey, CPRI also includes RPAs (Risk Participation Agreements) when provided by insurers or reinsurers.

ECA Cover

Credit Insurance provided by a governmental Export Credit Agency (ECA). The insurance premium is to be paid by the importer.

MBA Cover

Guarantee products offered by multilateral development banks in the form of credit guarantees (triggered irrespective of the cause of the default, political or commercial) and risk guarantees (called only when a government-owned entity fails to meet specific obligations).

Private Market Insurance

Insurance coverage written by firms in the private sector of the economy (as opposed to government insurers).

Surety bond (incl. Master participation agreement)

A surety bond is a contract between three parties—the principal, the surety and the obligee (the entity requiring the bond)—in which the surety financially guarantees to an obligee that the principal will act in accordance with the terms established by the bond. When the guarantee relates to nonpayment, the surety bond can be a form of Non-Payment Insurance.

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