



IACPM

INTERNATIONAL ASSOCIATION OF
CREDIT PORTFOLIO MANAGERS



2023 Global Survey on Credit and Political Risk Insurance Relevance and Evolution over Time

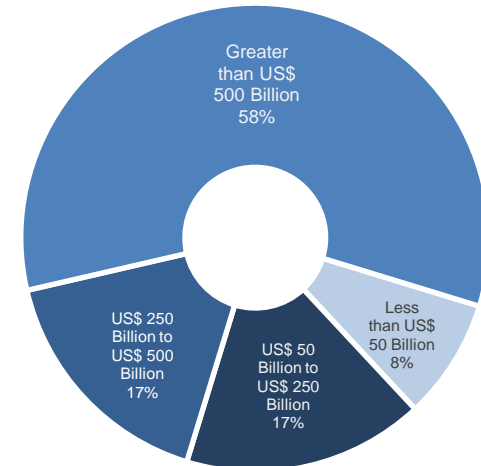
Select High-Level Results

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Survey Goals and Demographics

- The IACPM (International Association of Credit Portfolio Managers) and the ITFA (International Trade and Forfeiting Association) have partnered to conduct a periodic global survey on private Credit and Political Risk Insurance (CPRI), excluding ECA cover, looking at banks' own balance-sheet management.
- Conducted every other year, the survey focuses on 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 focuses 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 those contributing to the survey are current users of CPRI to mitigate risk in the credit portfolio.
- Prior surveys in this series are available: [2021: Attractiveness of PCRI to Mitigate Credit Risk Increases](#)

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



Executive Summary (Page 1)

Credit portfolio managers, regardless of region and firm size, continue to rank private Credit and Political Risk Insurance (CPRI) the **second most important market tool for credit risk mitigation**, just after true loan sale and before unfunded participations/financial guarantees offered by other banks (EMEA and APAC) and true sale securitizations (Americas).

A large majority of participating banks, regardless of size and region, have set up centralized coverage of all CPRI transactions from Head Office, often with single reporting lines to the global heads of Syndications or Credit Portfolio Management, to manage the opportunities but also the specific challenges of CPRI, most notably in implementation (systems, reporting, back-office procedures, etc.) and regulatory treatment.

The relative importance of CPRI as a tool to mitigate credit risk is reflected in the **increasing total insured exposure** among participating banks which has grown over the past four years from US\$130 Billion in 2019 to **US\$167 Billion in 2022**, facilitating a total of **US\$360 Billion in credit transactions across all asset classes**, including corporate loans, asset-based finance, and trade finance, but increasingly also financing related to SMEs.

While the insured ratio (total insured exposure / total transaction amount facilitated) increased from 39% at the end of 2019 to 46% at the end of 2022, the aggregate amount of new claims on CPRI policies submitted decreased from US\$ 372 Million in 2019 to US\$ 300 Million in 2022.

The reported **claim payments received are close to 100%**, which means that during the past four years, we approximate that CPRI insurers relieved the participating banks from over **US\$ 1 Billion of credit losses**.

Over the past four years (2019 – 2022), the premium to insured exposure ratio (total amount of insurance premium paid in any given year / the aggregate amount of insured exposure at the end of the same year) increased from 68 bps in 2019 to 95 bps at the end of 2021 and 90 bps at the end of 2022.

Although claims are still lower than pre-Covid, the claims ratio has started to increase in 2022, compared with the prior year.

The increase of lending capacity is the main goal for banks globally* when using CPRI across any asset class. Therefore, CPRI fulfills a unique function as a Credit Risk Mitigant for firms - regardless of size - to support core lending to the real economy, as well as specialized finance.

* Not weighted by insured exposure volume.

Executive Summary (Page 2)

The main reasons for firms to choose CPRI over CDS are obligors that do not trade or obligor mismatch, as well as mark-to-market and unwinding considerations given the volatility of CDS hedges and time/cost to unwind. Accounting mismatch, which in the past was one of the main reasons for firms preferring CPRI over CDS, doesn't seem to be much of a concern anymore.

Banks domiciled in the EU are benefiting from regulatory capital relief when using CPRI as a tool to mitigate credit risk in the portfolio which can increase return on capital. This is especially true as many protected obligors are unrated, non-investment grade, and do not trade in the CDS market.

It is therefore not surprising, that three-quarters (73%) of the total insured exposure in 2022 has been contracted by European firms (EU 60% and non-EU 13%). This could be, amongst other factors, a reflection of a less deep capital market in the region which makes European banks more exposed to illiquid risks and active in the usage of insurance-based solutions for credit risk mitigation than non-European firms, thereby also diversifying their sources of credit protection.

For 72% of the insured exposure as of the end of 2022, firms are using an Internal Ratings Based Approach - Advanced (A-IRB) to calculate the RWA absorbed by the protected assets and released by CPRI mitigants. This is slightly down from the reported 79% we saw in 2020.

Methodologies applied to calculate the RWA impact and regulatory capital relief of CPRI vary among responding firms. The main approach currently employed is PD & LGD substitution, followed closely by LGD reduction subject to a Risk Weight Floor. After the implementation of finalized Basel III rules, firms expect to see a slight shift to PD substitution only, with many still uncertain on the methodology to apply in the future.

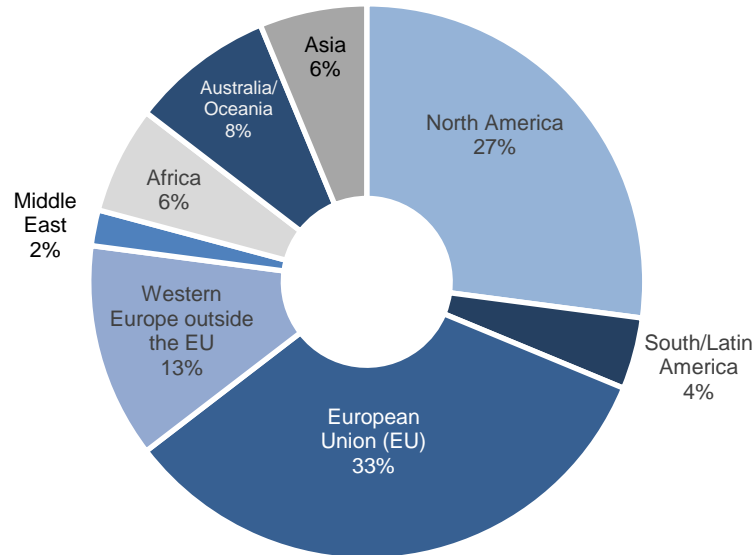
While some 20% of the participating firms anticipate an **increase of CPRI usage prior to** the implementation date of the **finalized Basel III rules**, some 30% are expecting a **reduction post implementation** (18% substantially; or which two-thirds are domiciled in the EU).

The expected decrease is most likely due to the possible reduction in RWA relief by CPRI, which could even affect the economical viability of transactions, leaving one-third of respondents very worried about the long-term future of the CPRI market.

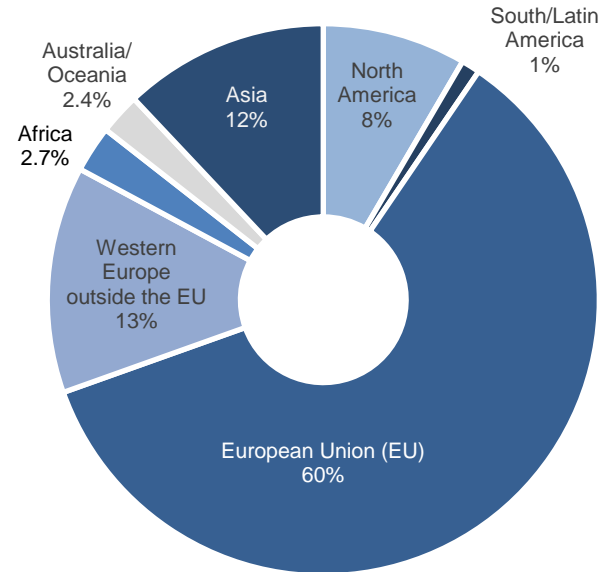
To note: In 2022, 70% of the insured exposure globally was protected at least in part to relieve capital. These exposures might not be insured if some capital relief was not obtained. For firms in the EU this percentage is even higher (84%).

Regional Diversification of Participants and Insured Exposure

Participating Firms' Principal Region of Domicile (N = 48)



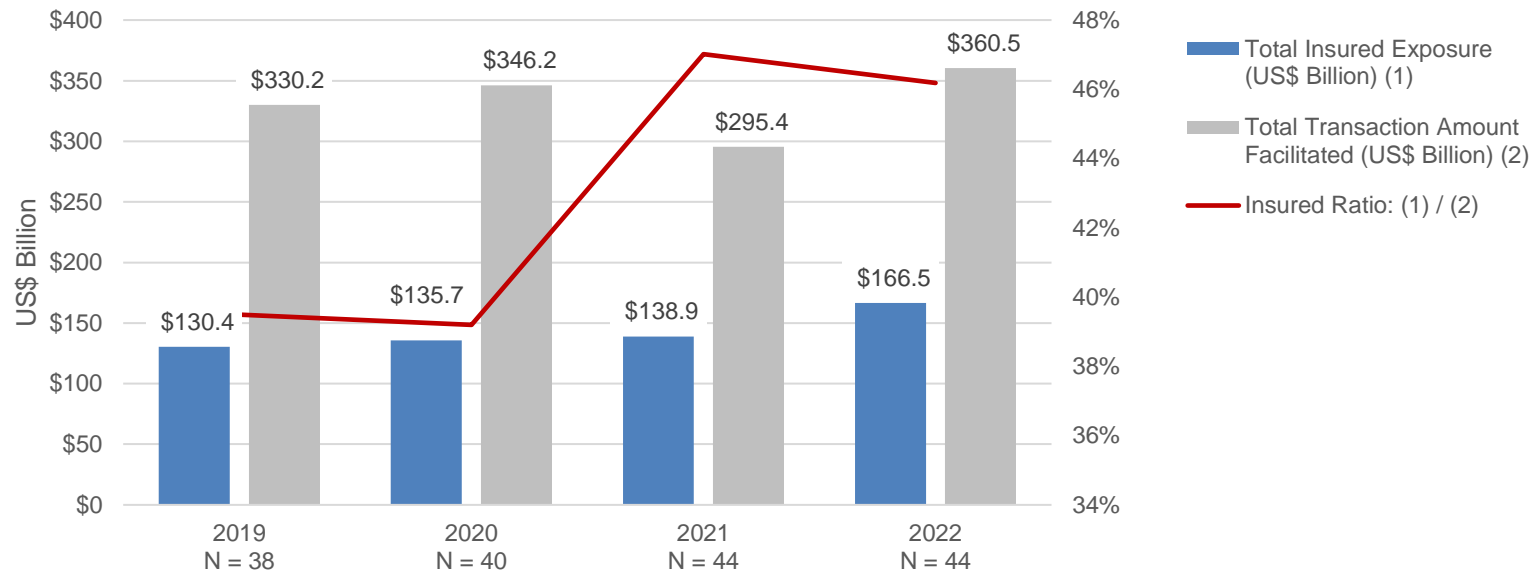
Total Amount of Insured Exposure by Principal Region of Domicile (N = 44)



Source: IACPM / ITFA Credit and Political Risk Insurance Survey 2023 | Questions: Please identify your firm's principal region of domicile. (Q3)
Please indicate the total aggregate amount of your insured exposure at the end of 2021 and 2022 (in US\$ Million)? (Q13)

Participating firms increased their insured exposure by 28% since 2019

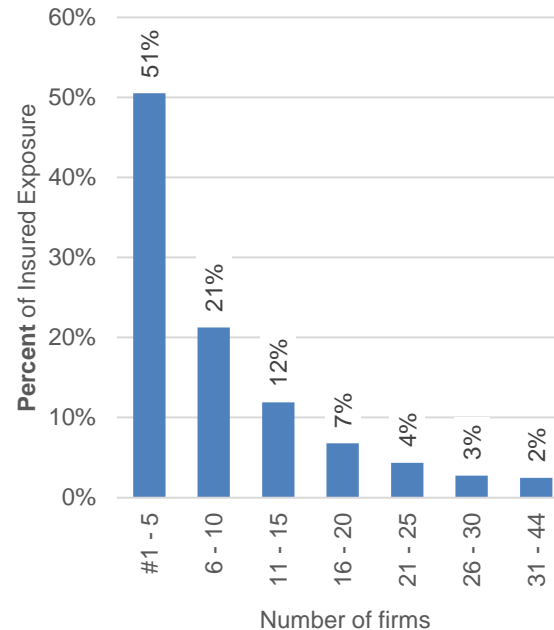
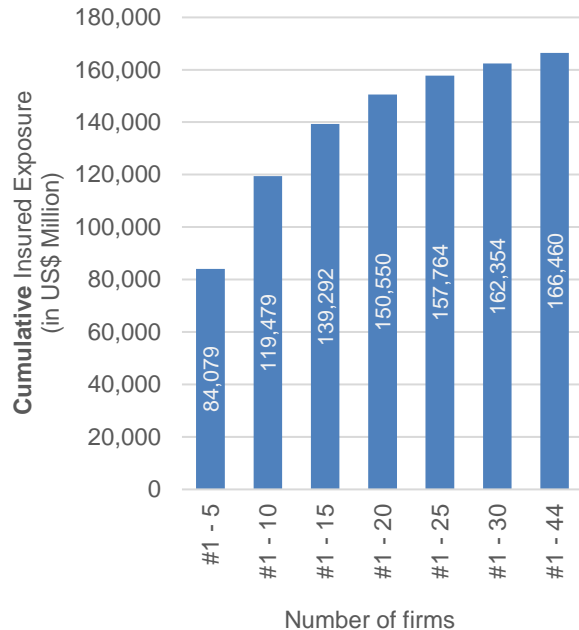
Data reflects total CPRI volume for contributing firms globally (in US\$ Billion).



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).

Global Cumulative Insured Exposure

Data reflects total 2022 CPRI volume for contributing firms globally.



At the end of 2022, the five firms with the largest aggregate amount of insured exposure accounted for just over half (51%) of the total reported insured exposure. All five are larger firms domiciled in Europe (four in the EU, one in Western Europe outside the EU). Looking at the firms with the ten largest insured exposures, they cumulative account for 72% of total exposure, with eight domiciled in Europe and two in Asia. That means that just one quarter of the contributing firms have insured three-quarters of the reported global exposure, with none domiciled in the Americas.

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).

CPRI Volume Globally and Purpose of Insured Exposure

CPRI Volume (US\$ Billion) - Data reflects CPRI volume for the 44 contributing firms Globally	2021	Delta 2022-2021	2022	Insured Exposure Ratio 2022
Total Aggregate Insured Exposure (US\$ Billion) (1)	138.9	+20%	166.5	
Total Transaction Amount Facilitated (US\$ Billion) (2)	295.4	+22%	360.5	
Insured Ratio: (1) / (2)	47.0 %	-2%	46.2%	
Exposure Insured for Credit Risk Mitigation Purpose only	Information not available		50.4	30%
Exposure Insured to obtain Capital Relief **	Information not available		116.1	70%

(**) 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) / **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). 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)

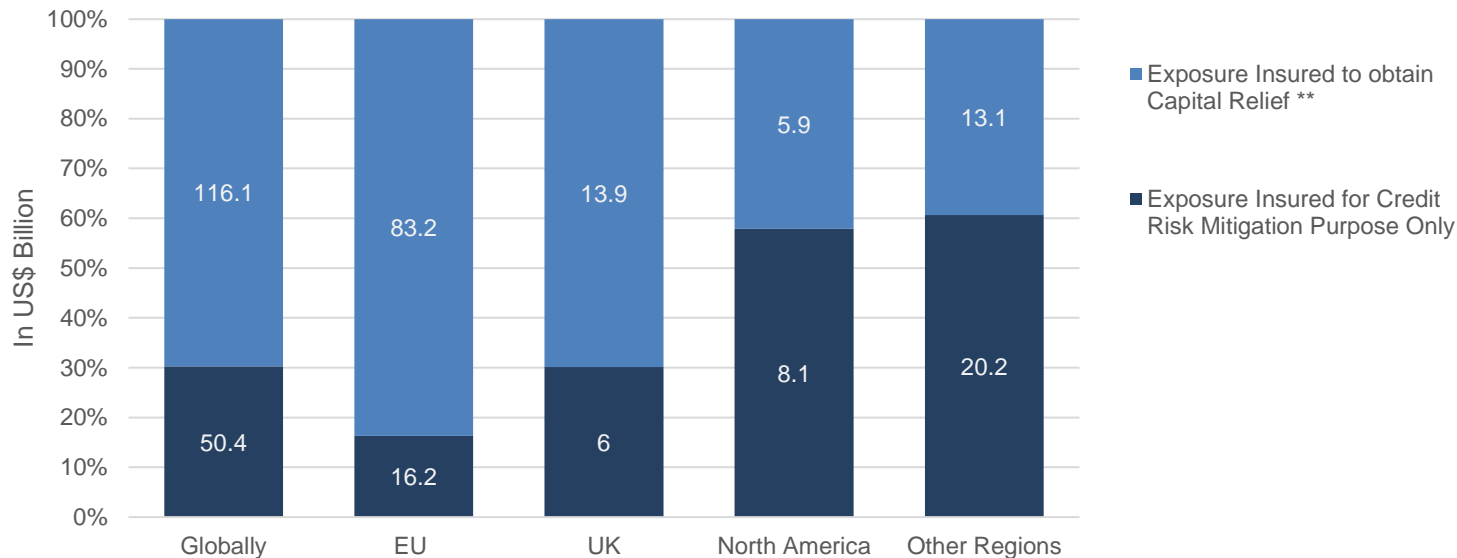
CPRI Volume in the EU and Purpose of Insured Exposure

CPRI Volume (US\$ Billion) - Data reflects CPRI volume for the 16 contributing firms Domiciled in the EU*	2021	Delta 2022-2021	2022	Insured Exposure Ratio 2022
Total Aggregate Insured Exposure (US\$ Billion) (1)	76.8	+29%	99.4	
Total Transaction Amount Facilitated (US\$ Billion) (2)	167.0	+32%	219.6	
Insured Ratio: (1) / (2)	46.0%	-1.7%	45.2%	
Exposure Insured for Credit Risk Mitigation Purpose only	Information not available		16.2	16%
Exposure Insured to obtain Capital Relief **	Information not available		83.2	84%

(*) Firms' 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) / **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). 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)

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

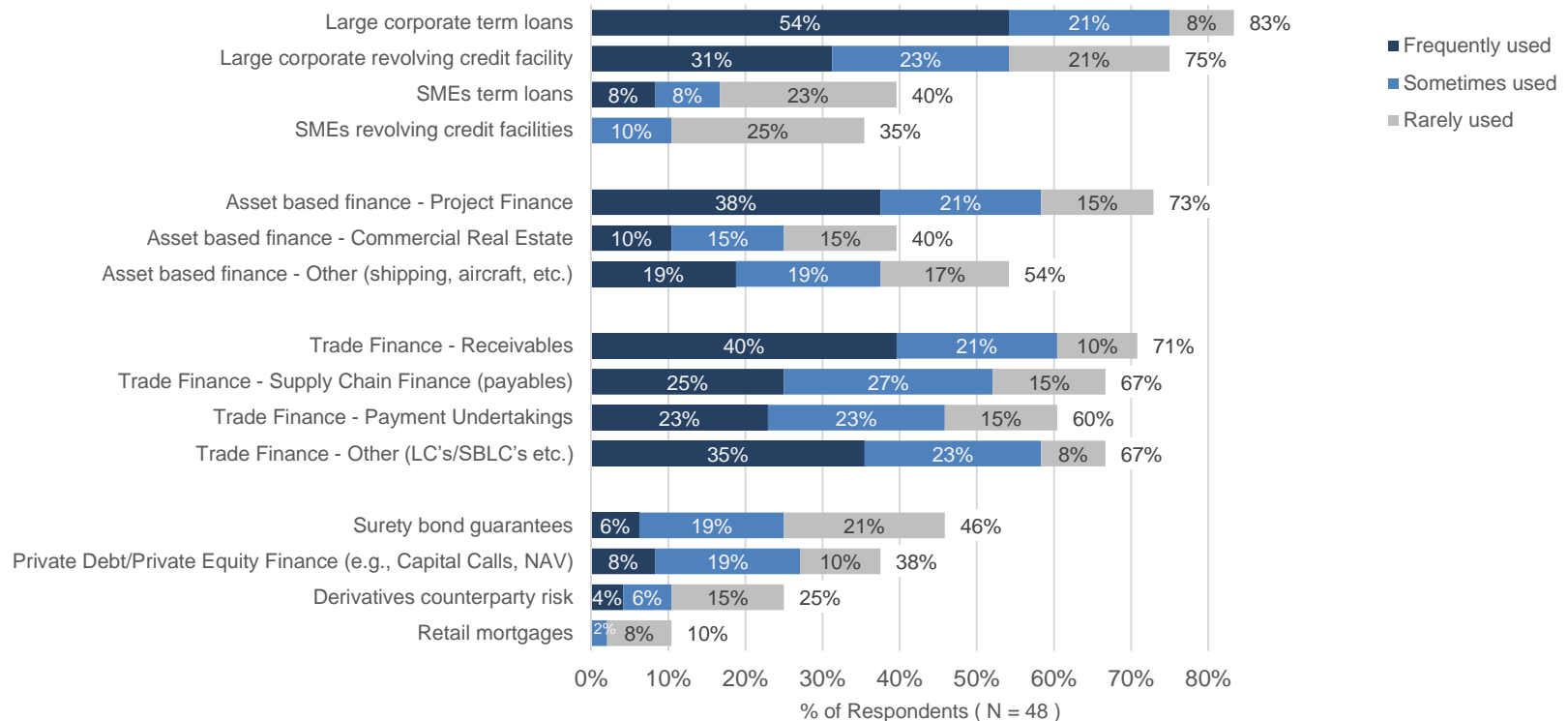


Aggregate Amount of Insured Exposure As of December 31, 2022
By Region of Domicile *

(*) 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.

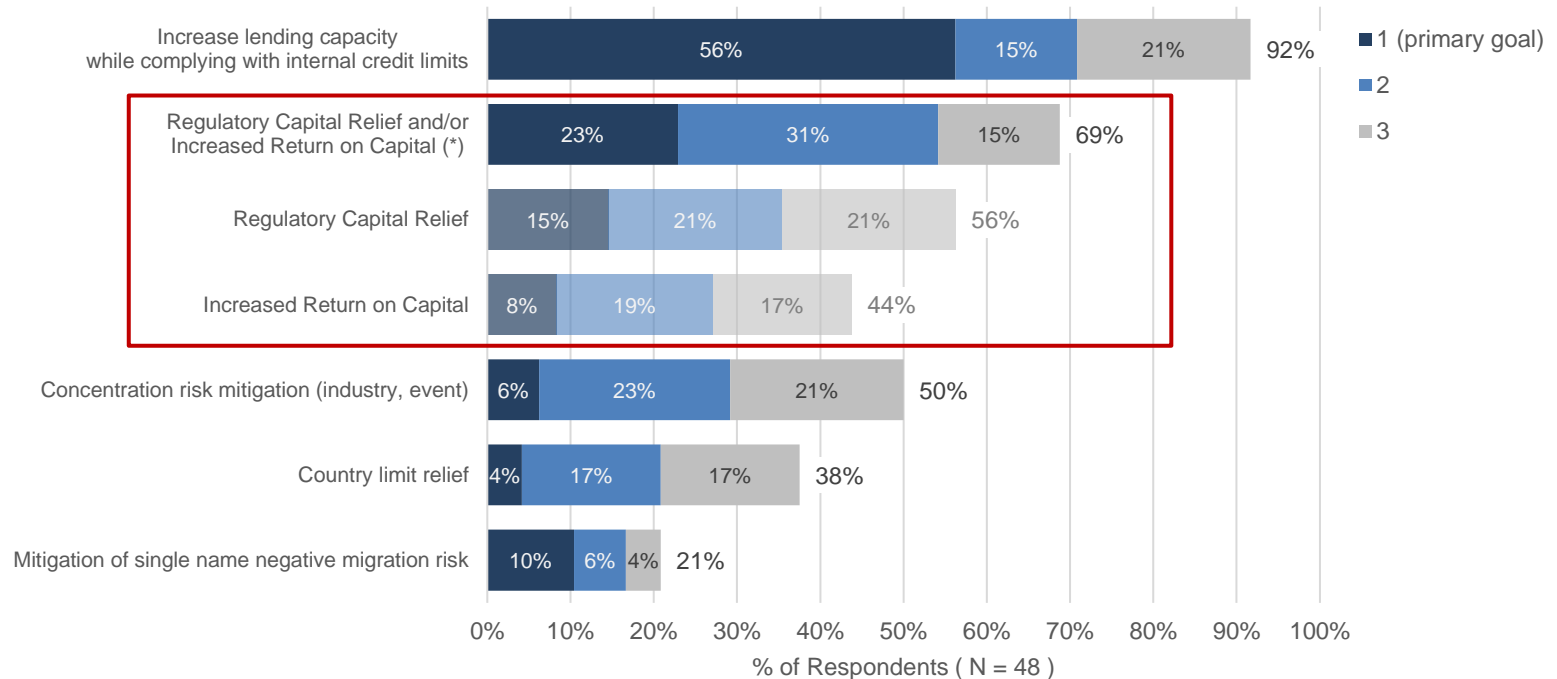
Source: IACPM / ITFA Credit and Political Risk Insurance Survey 2023 | Questions: Please indicate the total aggregate amount of your **insured exposure** (Q13); Please estimate to the best of your knowledge the percentage split of your aggregate insured exposure as of December 31, 2022, based on the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

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)

Top 3 Goals for Using CPRI : Unchanged to prior years, firms globally are using CPRI solutions primarily to increase lending capacity



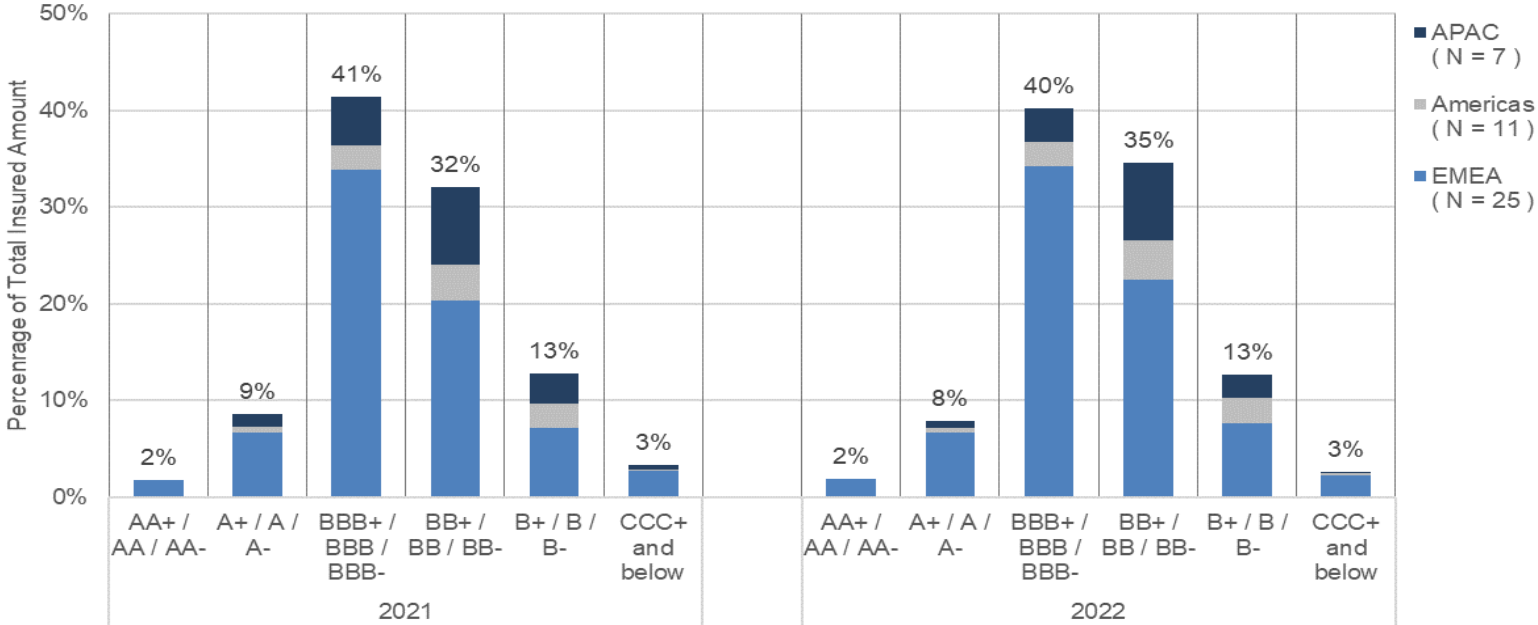
(*) Total of responses to "Regulatory Capital Relief" and "Increased Return on Capital". To avoid double-counting, percentages reflect only one Capital related ranking per firm, e.g., if a firm ranked "Regulatory Capital Relief" 1st and "Increased Return on Capital" 2nd, the total only reflects Rank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

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

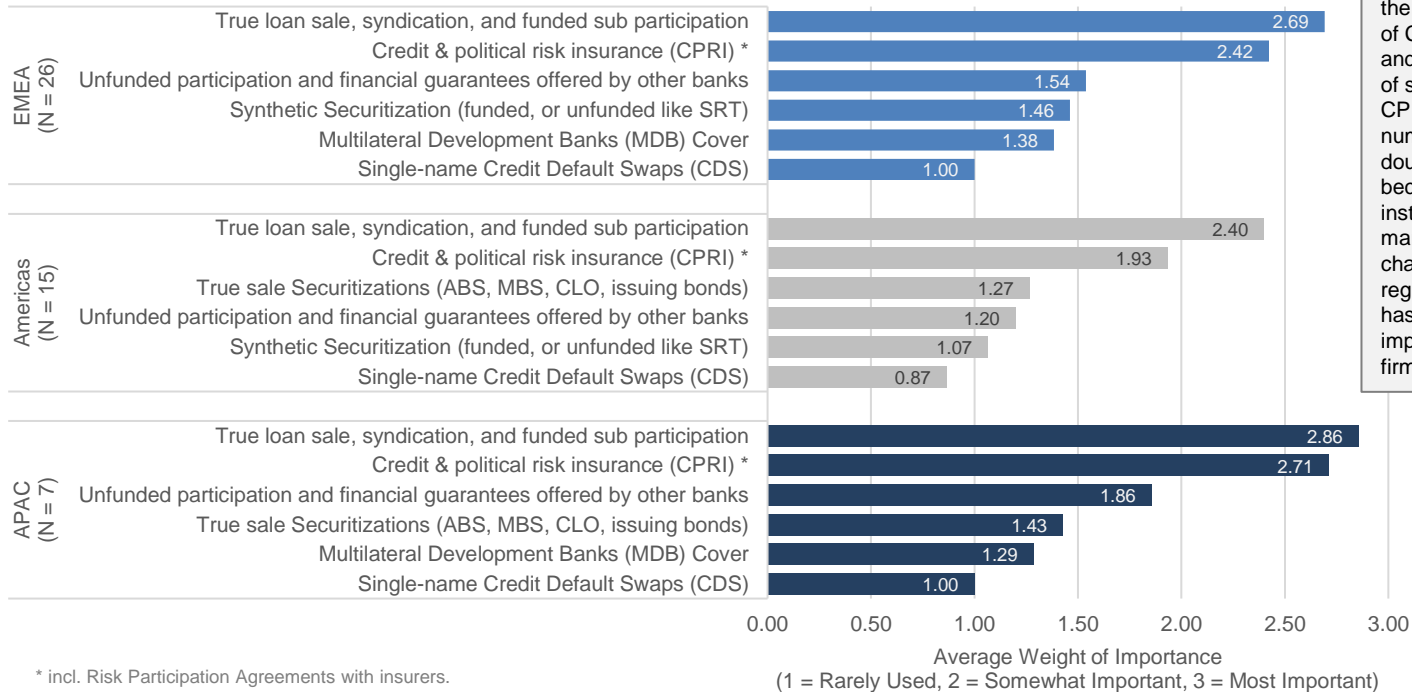
Ratings weighted by insured amount; N = 43



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)

Relative Importance of Market Tools for Risk Mitigation

By Region of Domicile

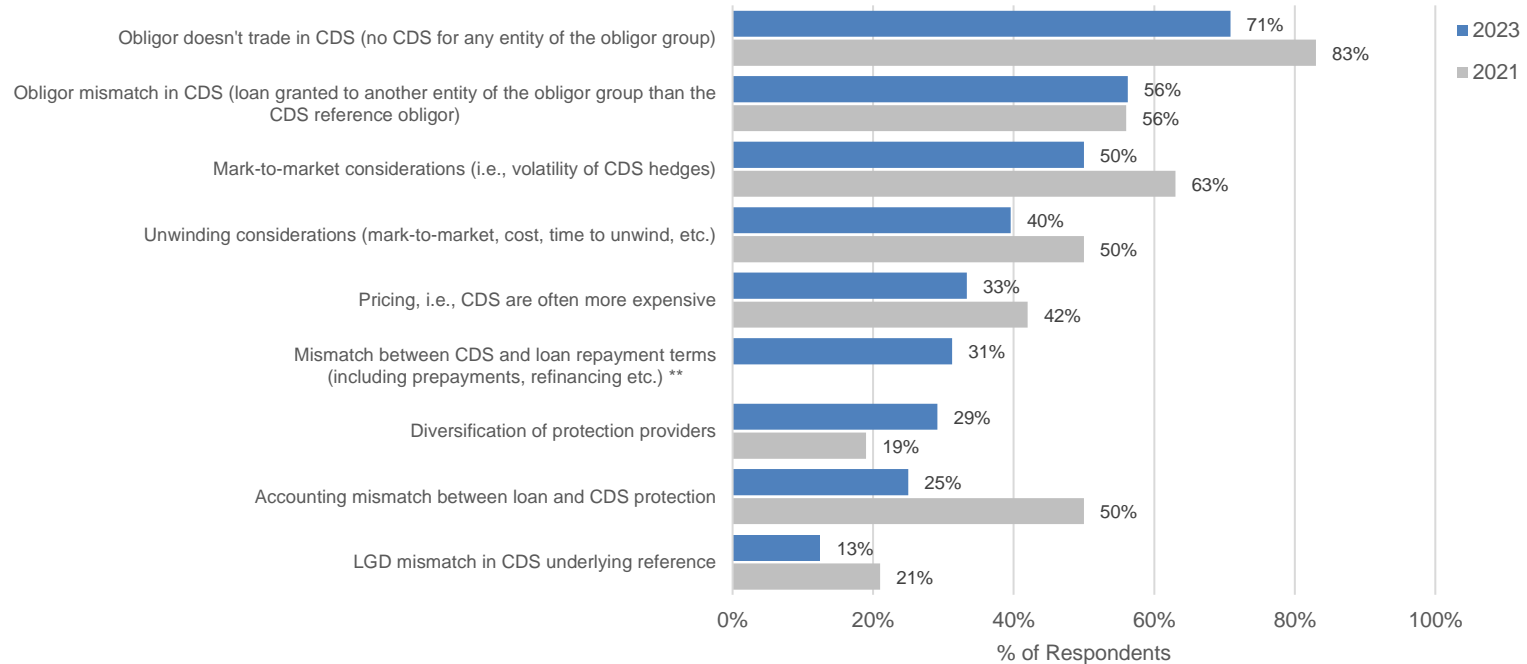


Survey results demonstrate the high relative importance of CPRI across all regions and for all firms regardless of size. The importance of CPRI to mitigate risk is - numerically - more than double that of CDS. Perhaps because CPRI is a private instrument, without the many mismatches that are characteristic to CDS, regulatory attention this far has not reflected the importance of CPRI for all firms.

* incl. Risk Participation Agreements with insurers.

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)

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

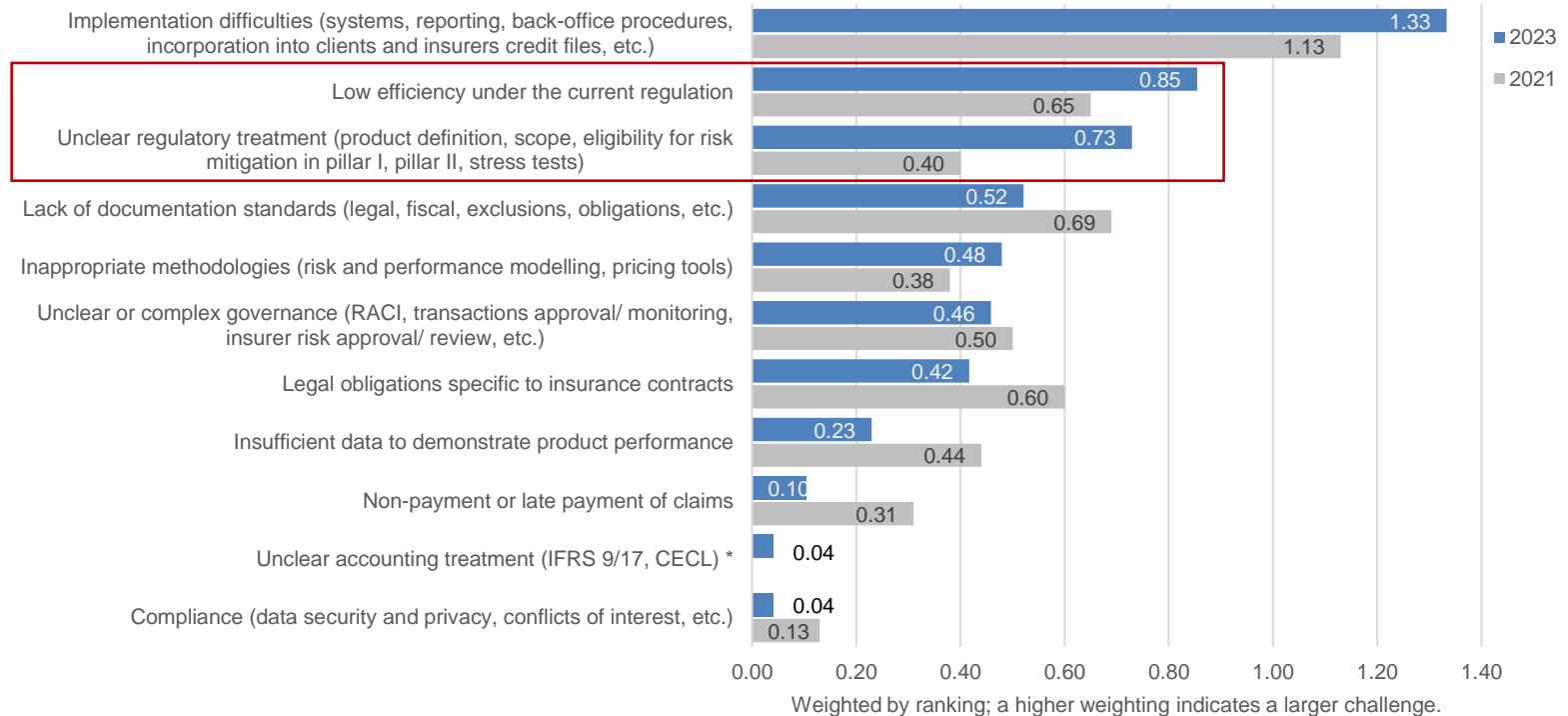


Source: IACPM / ITFA Credit and Political Risk Insurance Survey 2023

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

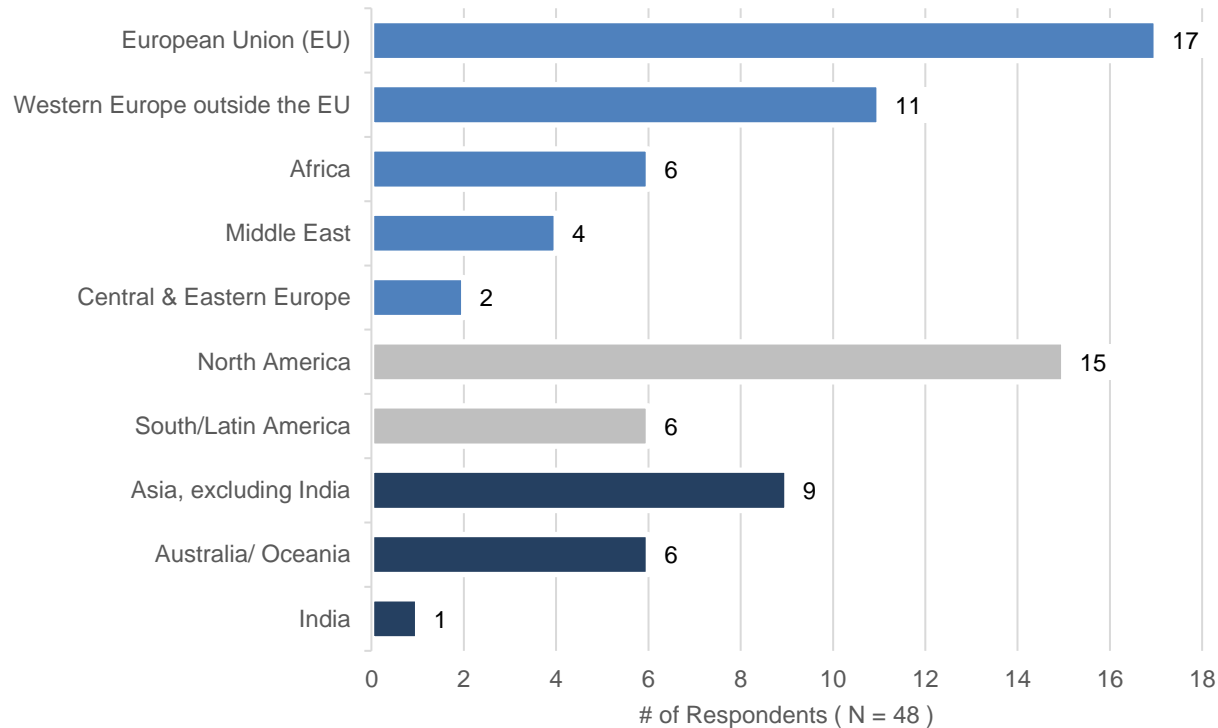
* Single name credit default swaps. | ** Not an answer option in 2021.

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)

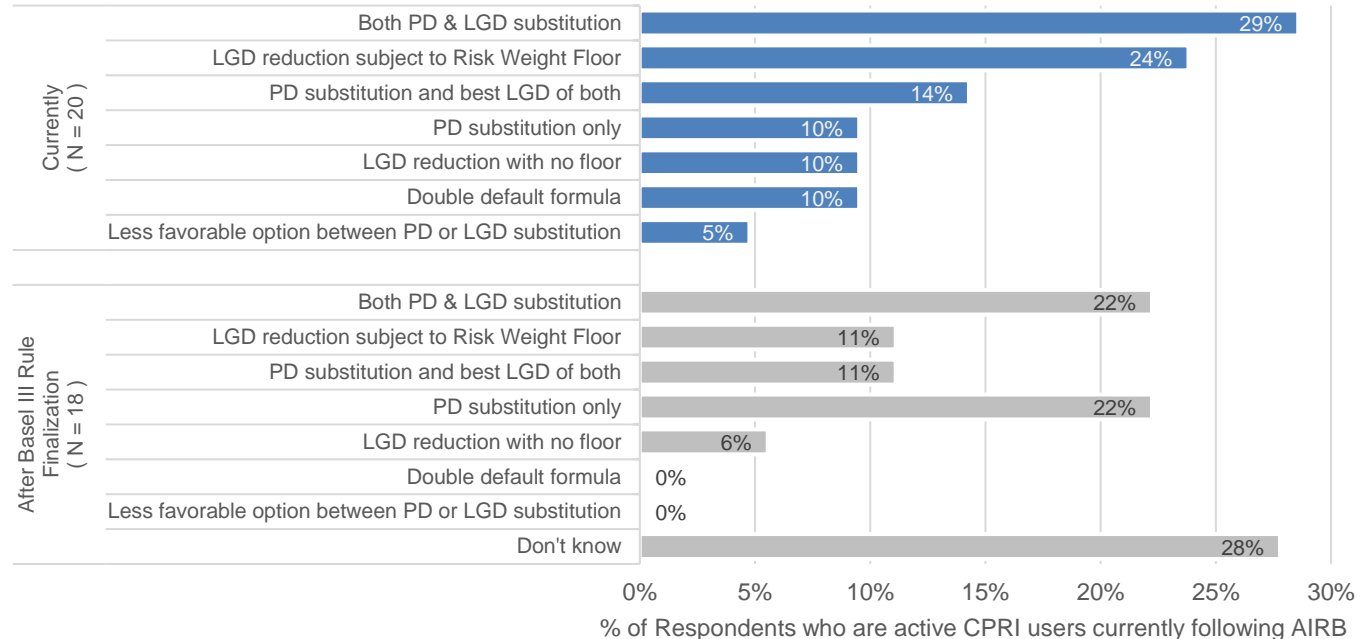
Jurisdictions under which RWA and Capital Relief are Calculated



Source: IACPM / ITFA Credit and Political Risk Insurance Survey 2023 | Question: Please indicate under which jurisdiction you calculate RWA on insured assets, as well as capital relief from CPRI protections. Please check all that apply. (Q22)

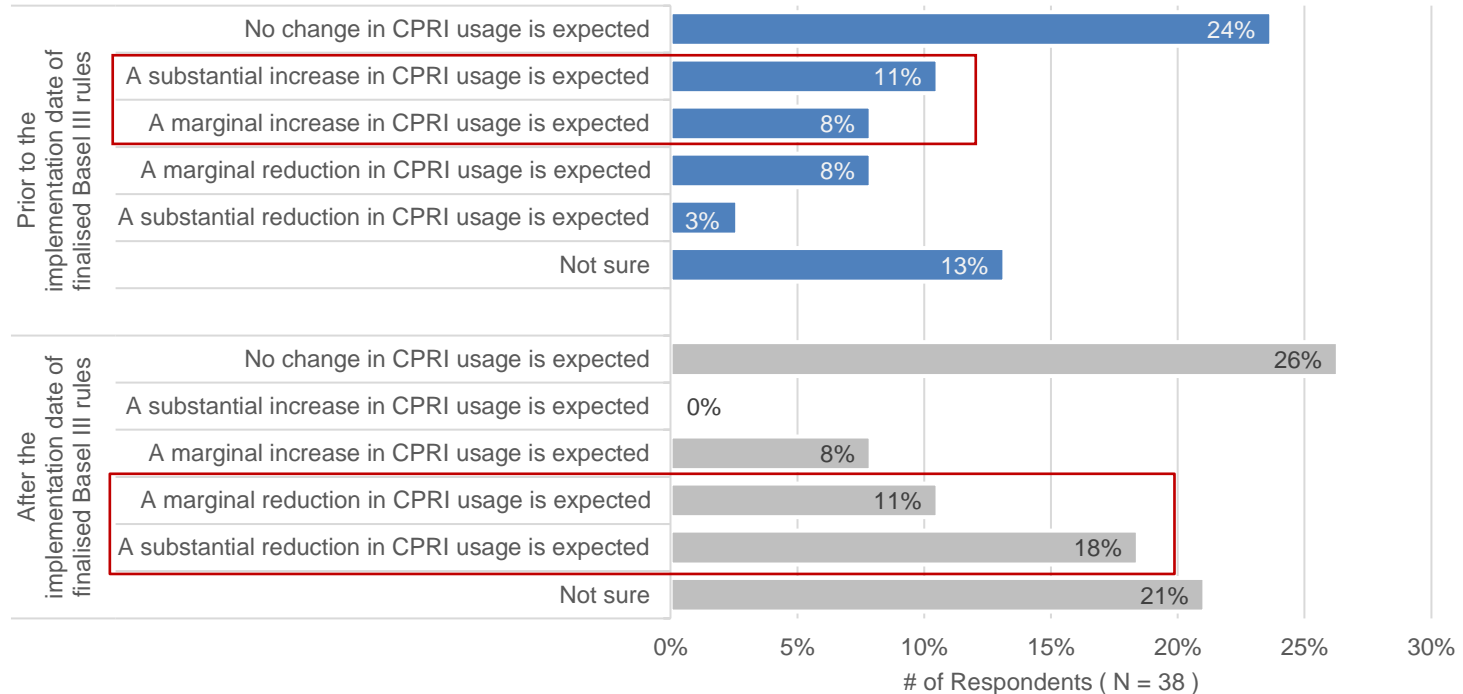
The methodology used to calculate regulatory capital relief will change after implementation of Final Basel III Rules

Active CPRI users who are currently following AIRB



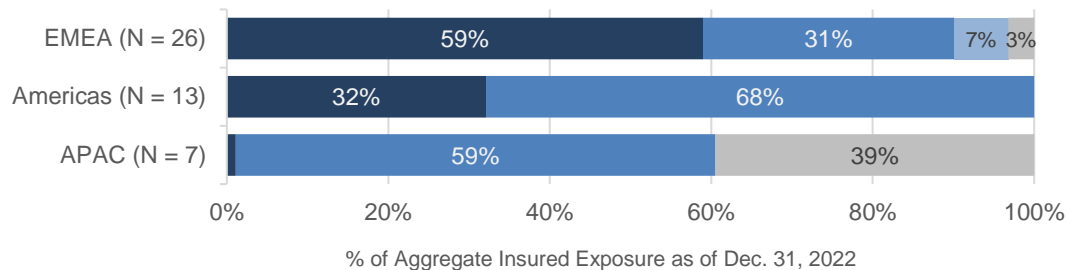
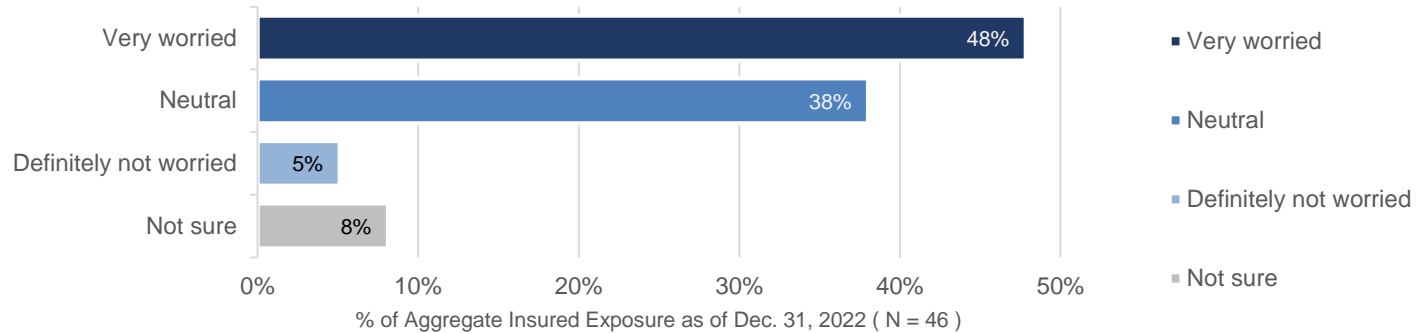
Source: IACPM / ITFA Credit and Political Risk Insurance Survey 2023 | Question: If your bank is currently following AIRB to calculate RWA for most of its insured portfolio, please indicate the methodology your bank is applying to calculate the regulatory capital relief by CPRI protections. (Q25)

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)

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.

This paper and the associated questionnaire were prepared by the International Association of Credit Portfolio Managers (IACPM) and the International Trade & Forfaiting Association (ITFA). The content of this paper are the sole and exclusive property of the IACPM and ITFA.

The information contained in the paper is based solely on responses to the questionnaire. While the IACPM and ITFA exercised reasonable care in collecting, processing, analyzing and reporting the information furnished by surveyed institutions, their responses were not independently verified, validated, or audited to further establish the accuracy and completeness of the information provided. IACPM and ITFA make no warranty as to the accuracy and completeness of any of the information set out in the paper and shall not be liable for any reliance on its contents.

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