

Background

The universe of credit protections offered by insurance companies encompasses a wide array of products, e.g., non-payment insurance, credit and political risk insurance, private comprehensive risk insurance, risk participation agreements, trade credit insurance, structured credit insurance, etc.

The IACPM decided to establish a standard terminology for a particular type of contract within this universe, to align its communication with the financial industry and regulatory bodies. Therefore, a working group of insurers, brokers and law firms from Europe and North America was set up and held regular meetings from mid-2024 to mid-2025.

Purpose

By using this standard terminology, the IACPM wants to align its communications with regulatory bodies and with the financial industry across all jurisdictions in IACPM research work and in advocacy discussions for an appropriate treatment of credit risk mitigation solutions provided by (re)insurers to protect against losses on banks' credit exposures.

Scope

In-scope insurance solutions must comply with all the characteristics listed below:

- ✓ **Credit Risk Mitigation** (CRM) technique offered to Banks
 - i.e., credit protections eligible under Basel "credit risk mitigation (CRM) framework"
- ✓ Recognized in Basel regulations as an **Unfunded Credit Protection** (UFCP)
 - i.e., as a CRM technique where the reduction of credit risk derives from the obligation of a third party to pay an amount or compensate for expected cash-flows in the event of the non-payment of the obligor or in the occurrence of other specified covered events
- ✓ Offered by a regulated third party which qualifies as a **private insurance** or a **reinsurance** company
- ✓ Recognized in Solvency2 (or equivalent) insurers' prudential regulations as a **contract** which is
 - accounted on the **liability side** of (re) insurers' balance-sheets and
 - **senior** to insurers' bondholders and other providers of credit
- ✓ Whatever the **credit protection coverage**, i.e.,
 - Single loans
 - Portfolios of loans
 - Tranches of true sale or synthetic securitizations
 - Other types of financings or credit instruments

As this definition is solely based on the economic substance of the risk mitigant, branding a contract as "Credit Risk Insurance" does not imply that it is an "insurance" under local law.

Included/Excluded Products

The universe of financial products providing a guarantee or protection against a default of a monetary obligation encompasses a wide array of products. Such products cover everything from trade receivables to long-term project finance loans, with coverage provided both on the level of an individual exposure and on a portfolio basis. The terms of such products range from simple, absolute and unconditional obligations to nuanced insurance policies with extensive conditionality requirements. The purchasers of such products range from corporate entities to regulated financial institutions. The net value of such products issued every year is in the hundreds of billions, and such products provide extensive support to the global economy.

For IACPM standard terminology purposes, the universe of coverage can be divided along three axes – the **beneficiary**, the **protection provider**, and **obligation insured**.

The purpose of this project has been to establish a consistent brand for a particular type of insurance within this universe. Defining a thing requires both establishing what it is, and what it is not. We begin in the negative.

On one end of the spectrum of products, we have **trade credit insurance**, which encompasses policies covering defaults of the obligor engaged in the trade of goods or services. The purchasers of such products are often corporate entities rather than banks, and the protection providers are often insurance companies.

On the other end of the spectrum, we have **guarantees and participations**, often covering more traditional loan obligations. The recipients of such coverage are a mix between corporate entities and banks, and the protection providers vary between other corporate entities (usually affiliated with the underlying obligor), banks and insurance companies.

With these guideposts in mind, the **IACPM standard terminology “Credit Risk Insurance”** focuses on policies falling in a middle range between these products – where the product is an insurance policy, the protection provider an insurance company, and the beneficiary a bank, acquiring the policy for the purposes of internal exposure management or capital risk weight mitigation under the applicable Basel regulations, wherein losses accrue at the individual exposure (as opposed to a netting concept for larger portfolio).

