CREDIT RISK INSURANCE (CRI) SURVEY 2019

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INTRODUCTION

- This survey was conducted on an anonymous basis by the ITFA Insurance Committee between February and March 2019. Some of the most active and significant users of the Credit Insurance Market are included in the survey.
- Results provide a snapshot as at end 2018 of the members' usage of the Credit Risk Insurance market and a split of the total insurance cover provided to the transaction banking sector per sector / rating / obligor size etc.
- Most of the banks that contributed are also members of ITFA, whose membership is made up of 70% of banks. Respondents include ABSA, Bank of Montreal, BayernLB, BNP Paribas, CACIB, Commerzbank, DnB, ING Bank, KfW, Natixis, Oddo BHF, Royal Bank of Canada, SMBC, Societe Generale, Standard Chartered, UBS and more.
- Respondents were asked only to consider insurance cover providing capital relief (non-payment credit risk insurance, surety, risk participations by insurance companies), not loss payee positions nor other non-CRR compliant policies. ECA cover is not included in this survey either.
- For the first time, banks have accepted to enter into a comprehensive survey sharing their figures. This was aimed at providing full transparency at a time of consultation and future transposition into law of the reforms of the Basel III rules, which in the past has not captured the specificity of credit insurance. ITFA intends to conduct a similar survey on a regular basis to demonstrate the importance of credit insurance products in particular to European banks.

EXECUTIVE SUMMARY

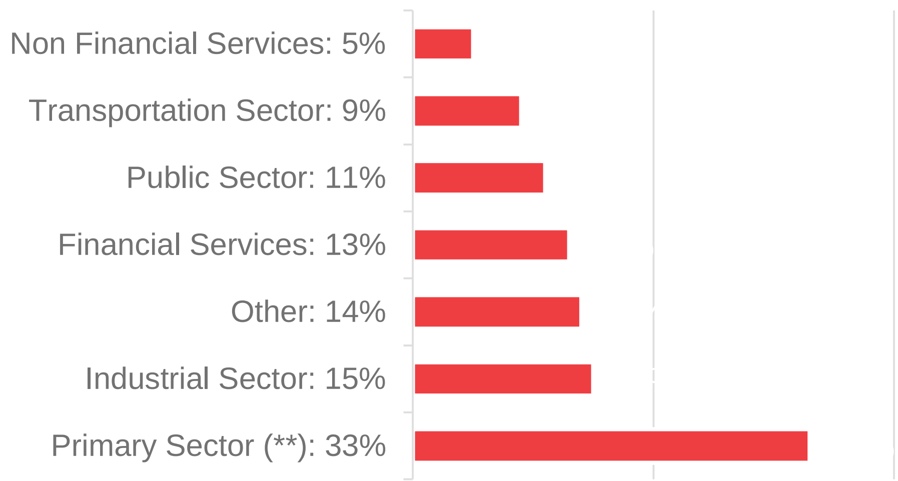
- Over 20 banks responded to the survey. 75% of them are European banks. The sample includes some of largest buyers of credit insurance. ITFA intends to repeat this exercise on a regular basis.
- The quantum of insurance obtained by banks is nearly EUR 90bn and is deemed to have facilitated over EUR 150bn of loans to the real economy. We estimate that the sample, whilst being representative, accounts for only a quarter of the total market for bank-procured credit insurance. Therefore, this topic concerns potentially EUR 600bn of support to the economy.
- Other surveys are being carried out and point to the above figures being on the conservative side.
- European banks are amongst the larger users of the product, mainly for portfolio management purposes but also for capital relief. A lack of recognition of Credit Insurance will impact on the usage of the product, which will in turn hit the economy and trade. Alternatively, it will impact European banks by reducing the capital relief available on the same loan and receivables exposures.
- The survey shows that credit insurance is especially important as a risk mitigation on Non Investment Grade Borrowers/Obligors or specialised finance, which is something Credit Default Swaps cannot fulfil.

QUANTUM OF INSURANCE COVER

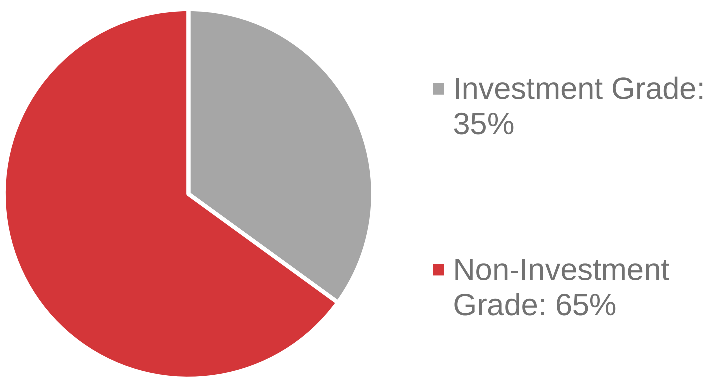
	Amount in EUR bn	# Respondents
Total bank exposure insured as at 31st December 2018	86.8	21
Total bank exposure facilitated*	154.6	17
Total premium paid in 2018	0.46	17

(*) this assumes that the lending would not have taken place to such an extend if insurance cover was not available

Split by Industry Sector



Split by borrower / obligor Rating

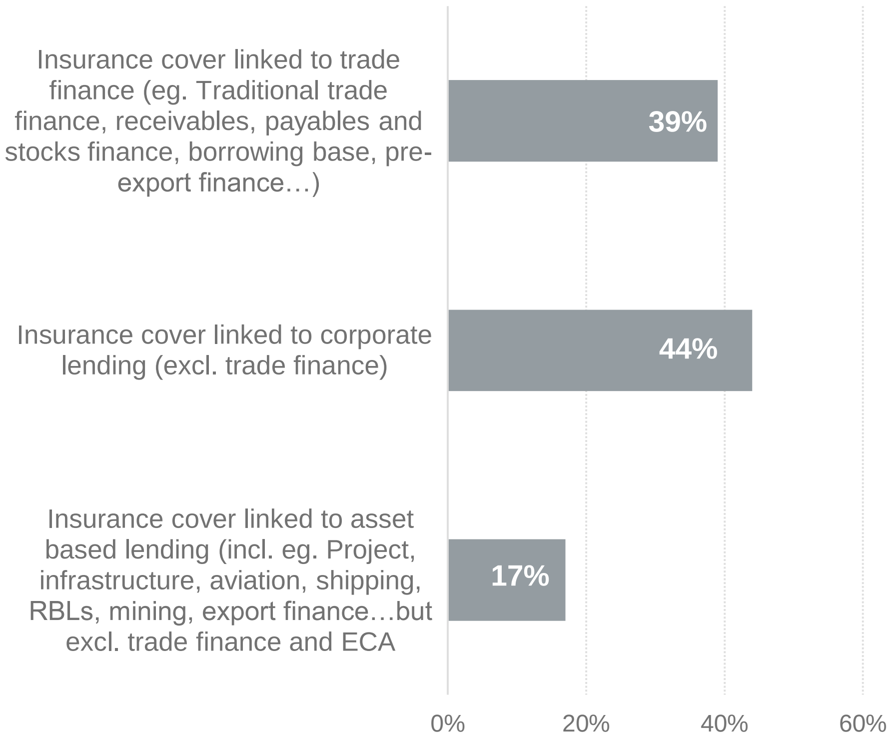


(**) Primary sector = agriculture, mining, natural resources, energy and renewables

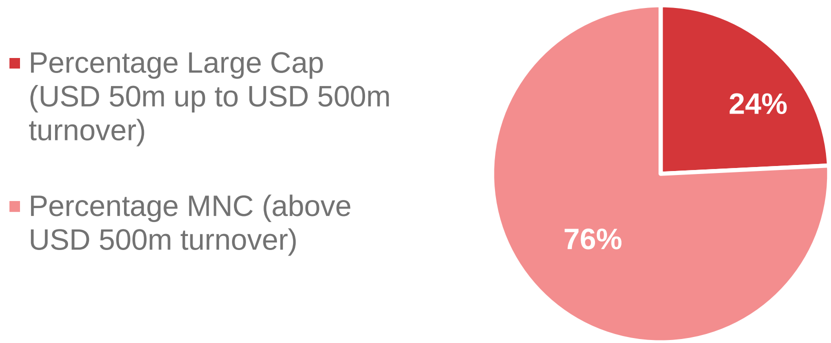
Source: ITFA insurance committee survey Q1,Q2, Q3, Q4 and Q10

MORE DETAILED BREAKDOWNS (1)

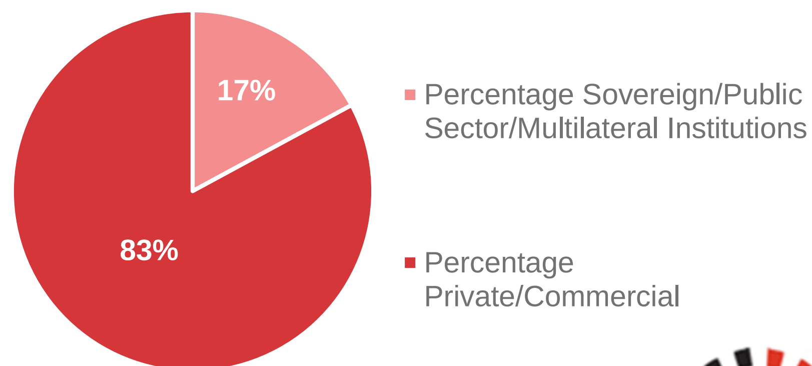
Split by type of exposure



Split by Size of Corporates/Obligors



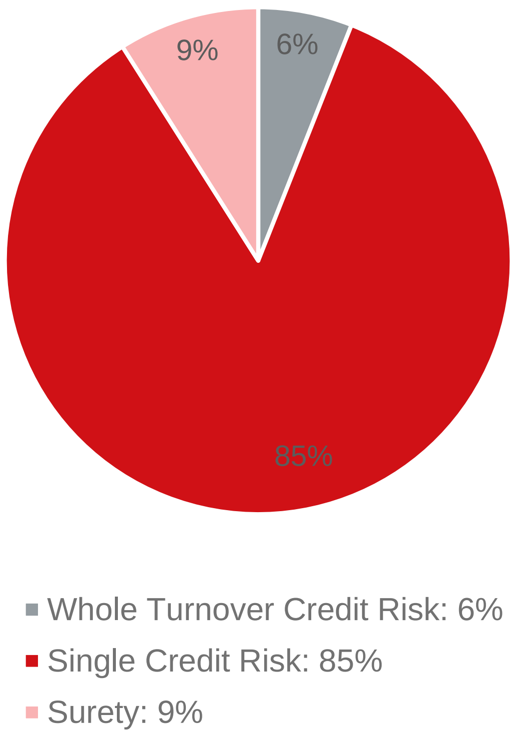
Split by Type of Borrowers/Obligors



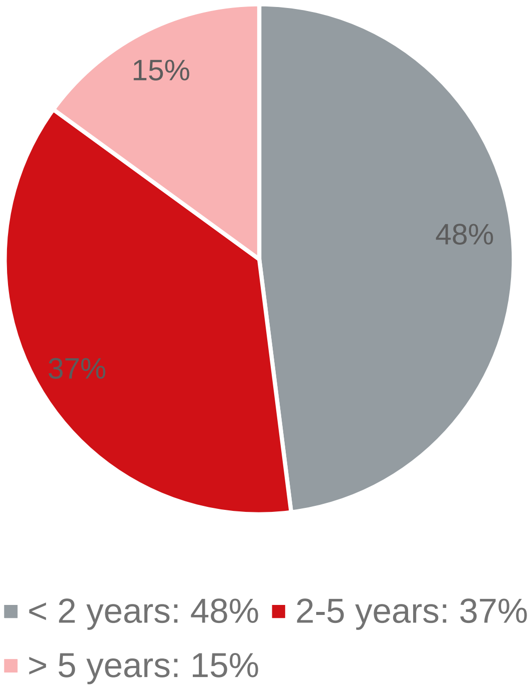
Source: ITFA insurance committee survey Q5, Q6, Q7

MORE DETAILED BREAKDOWNS (2)

Split by Insurance Product Used



Split by Insurance Policy Period Remaining



Source: ITFA insurance committee survey Q8 and Q9

SURVEY CONCLUSIONS

- The survey sample indicated up to EUR 0.46n of premium to insurers annually, with 85% related to Single Risk cover. This compares to the worldwide insurance market for Single Risk which is estimated at EUR 2.2Bn insurance premium annually, of which 60% is accounted for by Financial Institutions as Insureds. We therefore conclude that the survey sample accounts for an estimated 28%* of the total market for Credit Insurance for Single Risk, which can be considered as representative.

- The survey shows that EUR 87Bn of Insurance cover supports at least EUR 155Bn of banking facilities provided to the real economy. The Insured Percentage of c. 55% is high enough to suggest that without Credit Insurance, these banks might not have supported to such an extent the corporates benefiting from the underlying banking facilities. As our sample represents an estimated 28% of the Credit Insurance usage, one could see the importance of the topic from the extrapolated figure for 100% of more than EUR 550Bn of support to the real economy.

- ITFA deems the above estimates to be conservative and the total contribution to the real economy might indeed be much larger. Whole turnover credit insurance is for instance a CRR efficient risk cover, which is often taken by subsidiaries of banks or factoring companies which are also subject to CRR. Whole turnover credit insurance has practically not been taken into consideration in this survey.

- European Banks are the most extensive users of Credit Insurance to manage their exposures and resources. A lack of recognition of Credit Insurance will impact on the usage of the product. BCBS released in March 2019 2nd QIS on Q2 2018 data: for Group 1 banks (80 across regions), the impact of Basel 4 will be very significant for European banks (+21% vs American banks +1.5%). It is important to recognize Credit Insurance properly when transposing Basel 4 or reviewing the current Basel 3 framework for A-IRB on CRM, to avoid a double hit on European banks.

- As shown on page 3, Credit Insurance allows risk mitigation on Non Investment Grade borrowers/ Obligors. Credit Insurance therefore provides a complement to other Credit Risk Mitigation tools such as CDS which only provide cover on a limited population of Investment Grade corporates. Moreover, unlike CDS, Credit Insurance provides bespoke solutions to industries or bank financing structures as shown by the survey.

*footnote: (460x0.85) / (2200x0.60)) x 100 = 28%

APPENDIX: SURVEY QUESTIONS

1) What is the total aggregate amount of risk covered / outstanding insured amounts as of end of 2018?
2) What is the total amount of lending / finance / facilities insured to which amount in 1 above is applied?
3) Please indicate the Credit/Risk Rating breakdown of outstanding amount insured:
4) Please indicate the breakdown of outstanding amount by industry sector:
5) Please indicate the breakdown of the outstanding amount by type of exposure:
6) Please indicate the breakdown of outstanding amount by corporate size:
7) Please indicate the breakdown of outstanding insured amount by obligor type:
8) Please indicate the breakdown of outstanding insured amount by insurance product used:
9) Please indicate the breakdown of outstanding amount insured by insurance policy period remaining:
10) What is the total of insurance premium paid in 2018 on instalment of new and prior year's policies?
11) General Comments (if any)

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