



# ITFA Insurance Committee

**Basle III compliant standardised policy wording: one of the key themes driving developments in the bank - insurance market in 2022**

**Carol Searle**, General Counsel, Texel Group

**Marcus Miller**, Managing Director, Global Lenders Solutions Group Leader, Marsh

**David Neckar**, Client Director, WTW Financial Solutions

December, 6<sup>th</sup> 2021



# INTRODUCTION



- ITFA 2015 SURVEY
- 2016 GUIDELINES [UPDATED 2019]
- REGULATION AND CRR/BASEL III
  - ITFA'S ADVOCACY WORK
  - STANDARDISATION
- ITFA MEMBERS ENGAGEMENT WITH PRODUCTION OF STANDARD TEMPLATE FOR NAMED BUYER TRADE FINANCE INSURANCE TEMPLATE



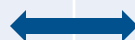
# INSURANCE MARKET OVERVIEW



## PRIVATE CREDIT MARKET FOR FINANCIAL INSTITUTIONS

Receivables and Payables Finance

**Trade Credit Market**



**Structured Credit Market**

Whole Turnover + Single/Multi Debtor Solutions

### Whole Turnover

- Euler Hermes, Atradius, Coface (+ ca. 10 others)
- Cover is a percentage of pooled exposures against all buyers up to value of individual credit limits
- Distinct underwriting teams
- Distinct reinsurance treaties
- Integrated IT systems to monitor PD and exposures with instant credit limit decisions
- Short term exposures under RPA's

### Single/Multi Debtor

- x60 Insurers
- Cover is a percentage of the exposure for single named buyer(s) obligations
- Distinct underwriting teams
- Distinct reinsurance treaties
- Policy obligations only
- Insurers comfortable to underwrite evergreen RPA's



# INSURANCE MARKET OVERVIEW



## Continued.....

Whole Turnover	Single/Multi Debtor
<ul style="list-style-type: none"> <li>• Priced on insurable turnover against expected credit limit exposures</li> </ul>	<ul style="list-style-type: none"> <li>• Priced as a percentage of the lending margin against the limit of liability.</li> </ul>
<ul style="list-style-type: none"> <li>• Primary underwriting is against the PD of the underlying debtors</li> </ul>	<ul style="list-style-type: none"> <li>• Underwriting the balance sheet of the debtor</li> </ul>
<ul style="list-style-type: none"> <li>• Cancellable credit limits (incl. discretionary)</li> </ul>	<ul style="list-style-type: none"> <li>• Non cancellable fixed limit of liability agreed at policy inception.</li> </ul>
<ul style="list-style-type: none"> <li>• Specific Policy Terms e.g.               <ul style="list-style-type: none"> <li>– Credit limit principles</li> <li>– Credit management requirements</li> <li>– Reporting requirements</li> <li>– Collection agents</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Uniform policy terms. Typically banks use the same policy form across all asset classes e.g. Commodity, Project, Corporate &amp; STEF etc. with minor deviations e.g. Disputes provisions</li> </ul>
<ul style="list-style-type: none"> <li>• CRR compliance is achievable but is inconsistent and requires significant re-drafting of proprietary insurer policies.</li> </ul>	<ul style="list-style-type: none"> <li>• CRR compliance is well established since 2009 with the majority of single name policies sharing commonality of terms and eligibility.</li> </ul>



# MARKET OVERVIEW



CREDIT RISK INSURANCE						
Tenors	Short Tenors		Short to Medium Tenors			Long Tenors
Type of Insurance	Trade Credit Insurance	<b>Trade Finance Insurance</b>	Trade Finance Insurance	Bank Loan Insurance	Bank Loan Insurance	Bank Loan Insurance
Type of Underlying Transaction(s)	Open Account	<b>Receivables/Payables Finance Agreements</b>	Letters of Credit/Documentary Credits	Export Finance Including Pre-Export Finance	Commercial Loans - Bilateral &/or Syndicated	Asset-backed/Non-recourse Finance
Applicable Insurance Policy Structure(s)	Whole Turnover & Multi-Buyer Trade Receivables	<b>Multi-Debtor Trade Receivables/Payables</b>	Portfolios/Baskets		Portfolios/Baskets	
	Single Buyer Receivables	<b>Single Debtor Receivables/Payables</b>	Single Transactions	Single Transactions	Single Transactions	Single Transactions
Insured Parties/Policyholders	Corporates	<b>Banks</b>	Banks	Banks	Banks	Banks

# WHERE WE ARE NOW



- **CONTEXT**
  - DIFFERENCES – USA VS EUROPE
  - US BANKS' ENCOUNTER WITH EUROPEAN BASEL ISSUES
  - NEED FOR A STANDARDISED WORDING TO FACILITATE RISK DISTRIBUTION
  - KEY FOCUS IS TRADE OBLIGATIONS – RECEIVABLES / PAYABLES
- **MAJOR DIFFERENCE FROM MAINSTREAM BANK “NON-PAYMENT INSURANCE”**
  - UNDERLYING TRANSACTIONS NOT UNCONDITIONAL PAYMENT OBLIGATIONS
  - DISPUTES
  - SELLER RECOURSE
- **BASEL CRR IMPLICATIONS**
  - CONDITIONALITY ISSUES
  - NUCLEAR EXCLUSION
- **STANDARDISATION PRESSURES**
  - ITFA INITIATIVE:> PUBLIC / PUBLISHED TEMPLATE WITH LAWYER COMMENTARY
  - SUPPLIES BENCHMARKS
- **MAY NOT PROVIDE ALL THE HCFs BUT PROVIDES A SET OF NECESSARY LCDs**
  - [Highest Common Factors vs Lowest Common Denominators]



# CONCLUDING COMMENTS



- OTHER COMPLEMENTARY MARKET INITIATIVES
  - LMA – DIFFERENT PRODUCT
- NUCLEAR EXCLUSION
  - WHY IS IT AN ISSUE?
  - HOW CATERED FOR IN TEMPLATE
- MARKET TEMPLATES
  - UNLIKELY TO REPLACE EXISTING WORDINGS
  - BUT:
    - HELPFUL FOR REGULATORS
    - BENCHMARKS
- WHAT'S NEXT FROM THE ITFA INSURANCE COMMITTEE?



# ITFA Insurance Committee

**Basle III compliant standardised policy wording: one of the key themes driving developments in the bank - insurance market in 2022**

## QUESTIONS

**Want to join ITFA? Consult [www.itfa.org](http://www.itfa.org)  
Need more info? Want to engage? Email [info@itfa.org](mailto:info@itfa.org)**

