EUROPEAN BANKING AUTHORITY

Agenda

19-20 February 2024: Industry roundtable on DoD and CI.

EBA Picasso meeting room at Floor 27 of Tour Europlaza

20 Avenue André Prothin, Courbevoie

19 February 2024

14:00 – 16:30

Coffee and registration	**13:45 – 14:00**
1. Introduction by EBA.	**14:00 – 14:10**
2. On the definition of distressed restructuring and the 1% NPV threshold. presented by: *European Banking Federation*	**14:10 – 14:20**
3. On distressed restructuring and the probation period. presented by: *European Banking Federation*	**14:20 – 14:30**
Discussion on topic 2 – 3.	**14:30 – 15:20**
4. Factoring. presented by: *European Federation for Factoring (EUF)*	**15:20 – 15:30**
5. Factoring. presented by: *European Banking Federation*	**15:30 – 15:40**
Discussion on topic 4.	**15:40 – 16:10**
6. Misc. and AOB Industry is welcome to present elements not covered above.	**16:10 – 16:30**

20 February 2024

09:30 – 12:00

Registration and coffee	**09:15 – 09:30**
1. Introduction by EBA	**09:30 – 09:40**
2. Introduction and legal considerations. presented by: *ITFA*	**09:40 – 09:50**
3. The type of exposures most relevant for CI. presented by: *IACPM*	**09:50 – 10:00**
4. Regulatory framework for insurance provider and relation to loss given default of policy insurance claims. presented by: *IUA*	**10:00 – 10:10**
Discussion on topic 2 to 4.	**10:10 – 10:30**
5. Proxies for the quantification of LGD (given default of the insurer) & Reinsurance as a % of Credit Insurers gross written premium (GWP). presented by: *Marsh*	**10:30 – 10:40**
6. Performance of CI sector, observations on claims and exposures, study on losses of trade credit receivables. presented by: *ICISA*	**10:40 – 10:50**
7. Bank recoveries from claims made under non-payment insurance. presented by: *A2Z Risk Services Ltd*	**10:50 – 11:00**
8. Data exercise on GCD databases. presented by: *GCD*	**11:00 – 11:10**
9. On conglomerates. presented by: *BPL*	**11:10 – 11:15**
Discussion on topic 5 to 8.	**11:15 – 11:40**
10. Misc. and AOB speakers: *ESBG, AFME, EBF, other* Industry is welcome to present elements not covered above.	**11:40 – 12:00**

Credit Insurance Mandate – Article 506

Presentation to EBA & its members

February 2024

1. POLICY PROPOSAL

Banks welcome a level playing field and the clarification of rules from the application of FIRB and a straight substitution. Our concern is with the level of prescribed LGD.

We believe the 45% prescribed downturn LGD level is too conservative and not in line with observed losses, the dual recourse and the super senior status of the product. Therefore:

- We would propose 20% downturn LGD when used on its own (unsecured) vs 45%
- We would propose 10-15% downturn LGD when used in combination with an eligible FCP (secured) vs 20-25% for secured FIRB
- Removal of the 1.25x AVC multiplier in light of the low correlation between non-life insurers and the credit cycle

As far as the Standardised Approach is concerned:

- Adoption of the Financial Institution Risk Weights when used as a CRM, i.e., 30% for CQS2

Suggested Limitations:

- Limited to credit insurance (class 14 or 15) used as a CRM
- Only for insurers that are Solvency II regulated or equivalent
- Only for insurers that are A- or above (internal / external ratings)

2. LATHAM & WATKINS MEMORANDUM

Commissioned by ITFA to provide a legal opinion on the dual recourse afforded by credit insurance under English (insurance) law:

1. The promise from a third party to pay the bank when a borrower or counterparty defaults in return for a premium
2. Issued by a Solvency II-regulated non-life insurer (or equivalent – Switzerland / Bermuda)
3. Liability for insurer = the lower of Maximum Limit of Liability and Insured Percentage of the Loss plus its share of recovery costs
4. Dual recourse: **Neither the purchase of credit insurance nor the receipt of protection payments under credit insurance extinguish the rights of the bank on the defaulting borrower**
5. No pre-condition to work out the loan first
6. Recoveries from the borrower are shared pro rata between lender and insurer.

3. OTHER FEATURES & MARKET PRACTICE

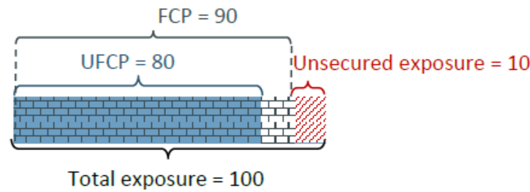
Aside from the legal view & arguments about the robustness of Solvency II and the seniority of policyholders' claims (preferred creditor status):

1. Usual practice of diversifying each placement between a number of insurers
2. Necessity to obtain credit approval for secondary risk on insurers
3. All insurers used by banks are AA to A- externally rated and typically are large multi-line carriers with a well diversified portfolio and different liquidity patterns
4. Reinsurance practice
5. **Rating trigger on all policies set below A- and monitoring by brokers assist in mitigating risks and shortening the effective horizon on the insurer risk**
6. Policy wordings have become ever more standardized under the auspices of trade associations.
7. There are variations in wordings but minimum standards are established
8. Claim during the waiting period (between 90 and 180 days). Reputational damage of disputing a claim.
9. A partnership: strict disclosure requirements for the bank & robust independent credit assessment by the insurer

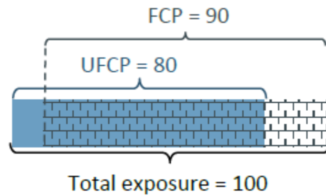
4. COVER ALLOCATION MECHANISM

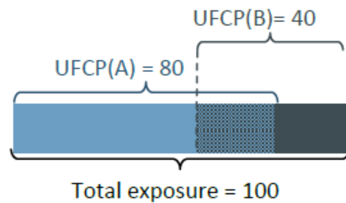
INCORRECT

Allocation A:



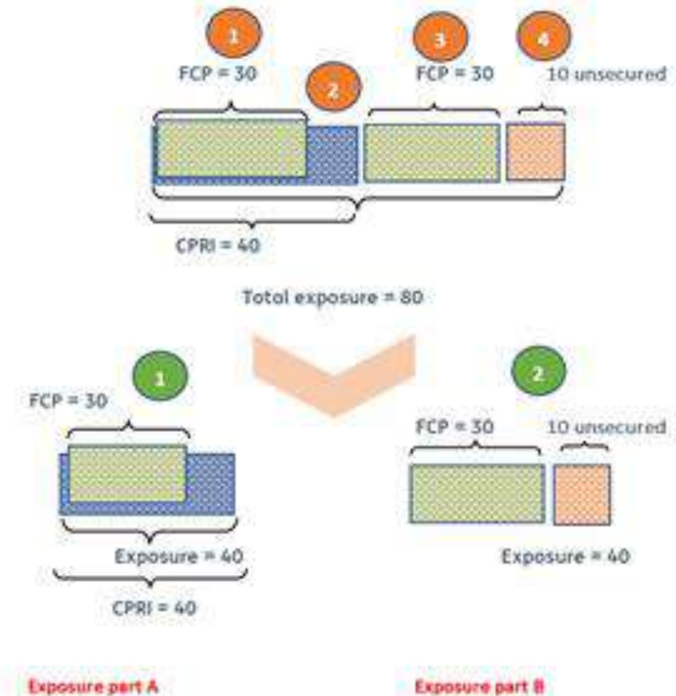
Allocation B:





CORRECT

- An FIRB exposure of 80M secured by:
- CPRI with value 40M
- FCP with value 60M



5A. CONSIDERATIONS ON APPROPRIATE PARAMETERS

Illustration of what the dual recourse (described by Latham & Watkins) offers:

1. Assuming an unsecured exposure to a large corporate and a credit insurance on that loan.
2. The underlying exposure and the UFCP show respectively 40% and 45% LGD under FIRB
3. Therefore, combined LGD is 18% as shown below.
4. Obviously, in the presence of FCP, the bank would have triple recourse.

5B. CONSIDERATIONS ON APPROPRIATE PARAMETERS

We understand that the regulator needs an LGD on non-life insurance companies. This is challenging as insurance companies belong to low default portfolios. Therefore, we propose to use available data:

1. EIOPA suggests that in 30% of failures and near-misses of the insurance companies, policy holders incurred some losses.
2. However, the EIOPA paper includes small insurers and life insurers that would not be used for UFCP; recovery is also slower for life insurers. The paper covers the period 1999-2020 and EIOPA states that 'most of the insurance failures and near misses occurred before Solvency II was introduced.'
3. GCD's report suggests that observed LGDs in the banking and financial institution asset class for senior secured creditors was around 17%.
4. **This would lead to a 5% (30% x 17%) LGD estimate for policyholders on defaulted insurers**.
5. If one were to double both the percentage of policyholders incurring some loss (to 60%) and the LGD observed in the financial sector (to 34%), we would still end up at 20%.

Source:

EIOPA-BoS-21/394, October 2021

Global Credit Data, Banks and Financial Institutions: Observed Annual Recovery Rate Trends (June 2023)

APPENDIX

LATHAM & WATKINS MEMORANDUM

Commissioned by ITFA to provide a legal opinion on the dual recourse afforded by credit insurance under English (insurance) law:

1. The promise from a third party to pay the bank when a borrower or counterparty defaults in return for a premium.
2. Contrary to an appropriate guarantee, the receipt of protection payments under credit insurance does not reduce the amount of recourse the bank has to the defaulting borrower or counterparty. Credit insurance policies meet the eligibility criteria for UFCP in the CRR.
3. Issued by a Solvency II-regulated non-life insurer (or equivalent – CH / Bermuda).
4. Loss = Amounts under the Insured Agreement, which are not received by the Lender when due and which result from a non-payment by the Obligor for any reason.
5. Liability for insurer = the lower of Maximum Limit of Liability and Insured Percentage of the Loss plus its share of recovery costs
6. Minimum Uninsured Retention Percentage for alignment of interest
7. No industry committee decision. No basis risk (ie, 100% based on the insured loan agreement).
8. Dual recourse: **Neither the purchase of credit insurance nor the receipt of protection payments under credit insurance extinguish the rights of the bank on the defaulting borrower.**
9. A directly enforceable contract; a primary obligation.
10. No pre-condition to work out the loan first although a ‘waiting period’ allows time for any work-out process to begin under the bank’s continuing recourse to the Obligor in parallel with the determination of the ultimate amount of liability of the insurer.
11. Recoveries from the borrower are shared pro rata between lender and insurer.

LEGAL NOTICE

This presentation is the property of the International Trade & Forfaiting Association (ITFA). Extracts may be used and distributed provided full attribution is given to ITFA.

The information and opinions contained in the presentation are provided as at the date of the presentation and are subject to change without notice. Although the information used was taken from reliable sources, ITFA does not accept any responsibility for the accuracy or comprehensiveness of the details given. All liability for the accuracy and completeness thereof or for any damage or loss resulting from the use of the information contained in this presentation is expressly excluded. Under no circumstances shall ITFA be liable for any financial or consequential loss relating to this presentation.

Highlights of IACPM/ITFA Credit Insurance Survey 2023 for EBA

Som-lok Leung
Executive Director, IACPM

February 20, 2024

www.iacpm.org

Relative Importance of Market Tools for Risk Mitigation

By Region of Domicile

Region	Market tool	Average Weight of Importance
EMEA (N = 26)	True loan sale, syndication, and funded sub participation	2.69
	Credit & political risk insurance (CPRI) *	2.42
	Unfunded participation and financial guarantees offered by other banks	1.54
	Synthetic Securitization (funded, or unfunded like SRT)	1.46
	Multilateral Development Banks (MDB) Cover	1.38
	Single-name Credit Default Swaps (CDS)	1.00
Americas (N = 15)	True loan sale, syndication, and funded sub participation	2.40
	Credit & political risk insurance (CPRI) *	1.93
	True sale Securitizations (ABS, MBS, CLO, issuing bonds)	1.27
	Unfunded participation and financial guarantees offered by other banks	1.20
	Synthetic Securitization (funded, or unfunded like SRT)	1.07
	Single-name Credit Default Swaps (CDS)	0.87
APAC (N = 7)	True loan sale, syndication, and funded sub participation	2.86
	Credit & political risk insurance (CPRI) *	2.71
	Unfunded participation and financial guarantees offered by other banks	1.86
	True sale Securitizations (ABS, MBS, CLO, issuing bonds)	1.43
	Multilateral Development Banks (MDB) Cover	1.29
	Single-name Credit Default Swaps (CDS)	1.00

0.00 0.50 1.00 1.50 2.00 2.50 3.00

Average Weight of Importance
(1 = Rarely Used, 2 = Somewhat Important, 3 = Most Important)

* 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)

CPRI Volume in the EU

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)*

IACPM

CPRI Volume Globally

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%

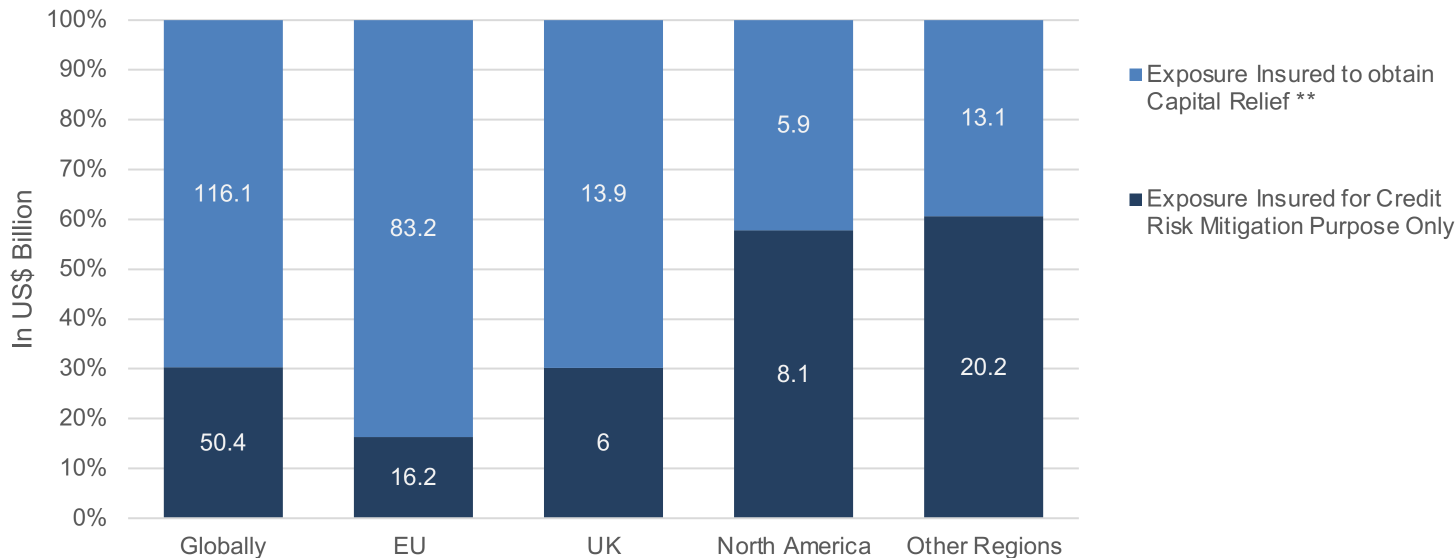
(**) The sum of the exposure insured to obtain (i) Capital Relief only; (ii) Credit Risk Mitigation and Capital Relief; or (iii) Credit Risk Mitigation, Capital Release and Improvement of Return on Capital.

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)*

IACPM

CPRI Volume and Purpose of Insured Exposure

Volume as of Dec. 31, 2022 | By Region of Domicile *



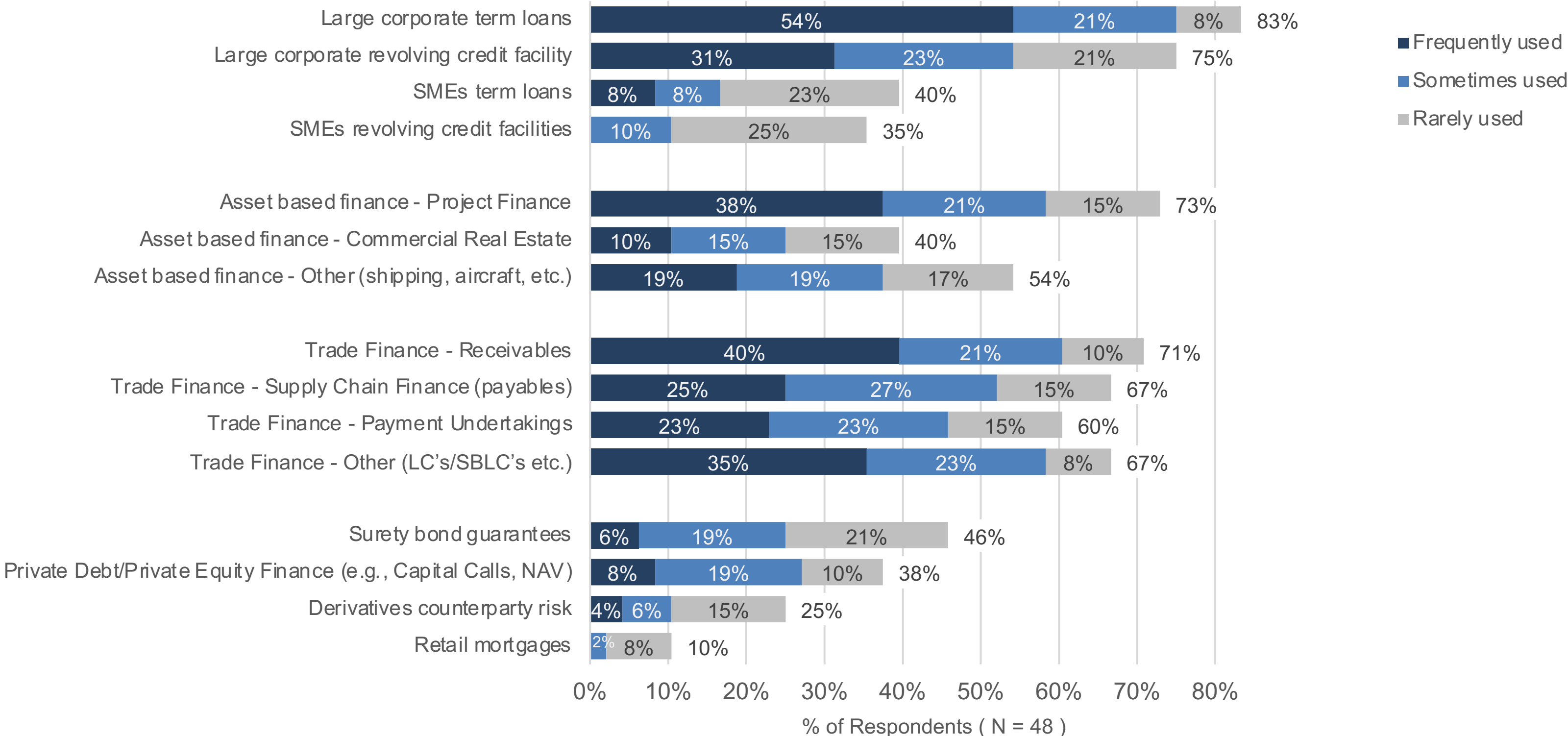
Aggregate Amount of Insured Exposure As of December 31, 2022
By Region of Domicile

(*) 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)*

IACPM

Asset Classes Protected by CPRI

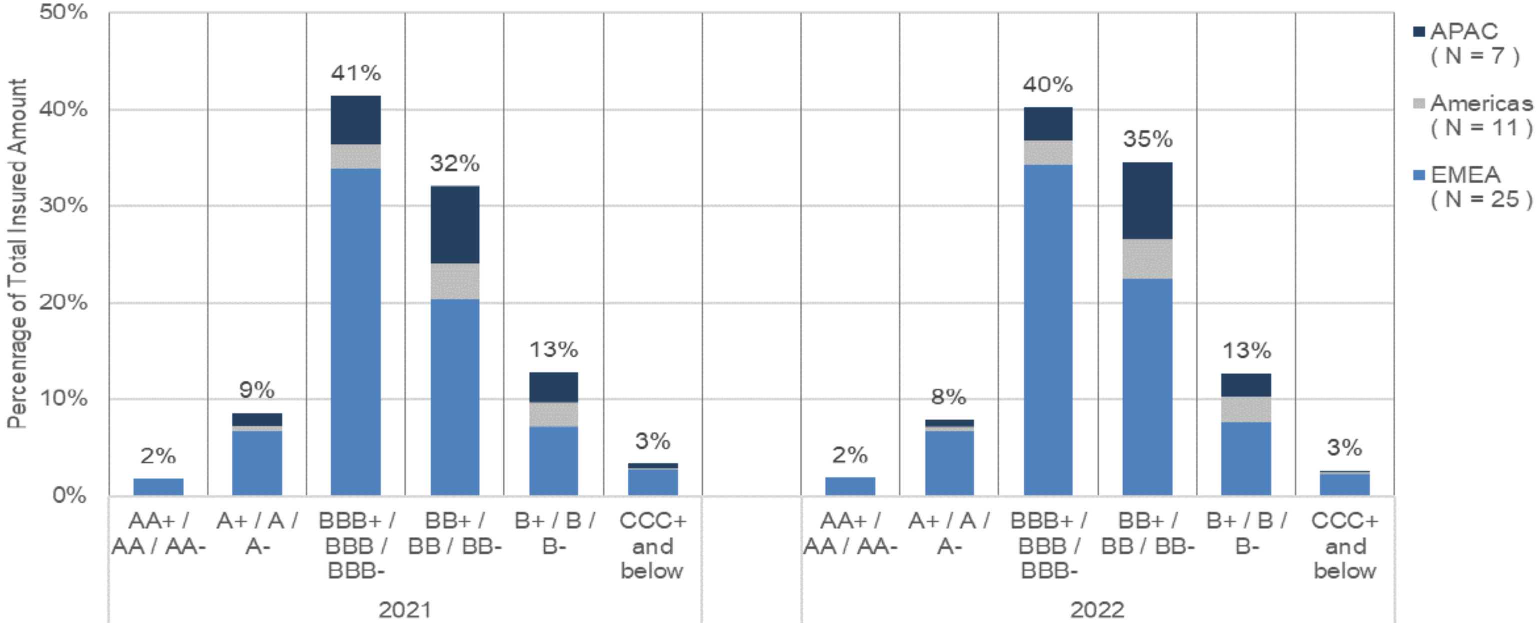


Source: IACPM / ITFA Credit and Political Risk Insurance Survey 2023 | Question: For which of the following asset classes has your bank used CPRI over the past 1-2 years, including today? Please weight frequency relative to your bank's lending volumes and proportion of overall insured portfolio. (Q16)

IACPM

Rating Distribution of Insured Exposures

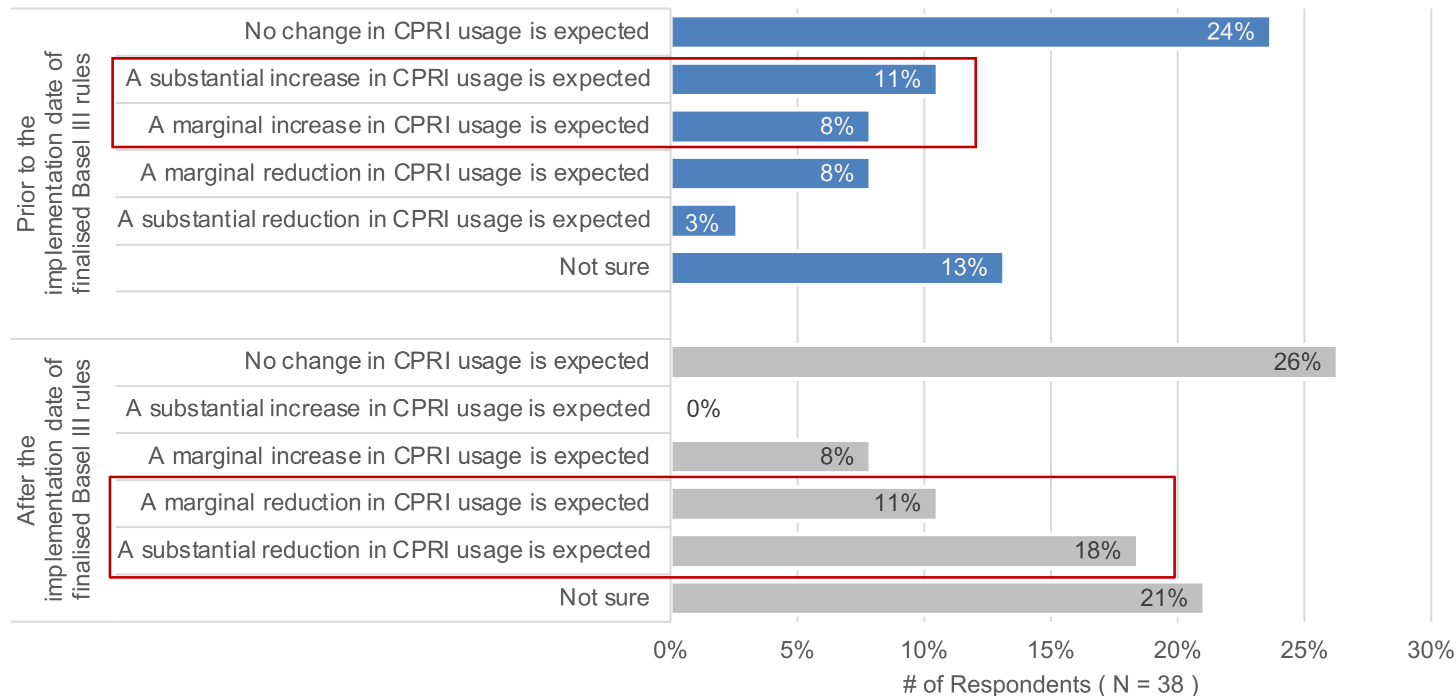
Ratings weighted by insured amount; N = 43



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)

IACPM

Expected Impact on CPRI Usage
Before and After 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)

IACPM

This paper and the associated questionnaire were prepared by the International Association of Credit Portfolio Managers (IACPM) and are the sole and exclusive property of the IACPM. The information contained in the paper is based solely on responses to the questionnaire and interviews with the surveyed institutions. While the IACPM 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 makes 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.

Persons who obtain a copy of the paper shall not circulate, reproduce, modify or distribute any information contained in it, without the express written consent of IACPM. If IACPM provides written consent to a party to use any of the content, full attribution to IACPM must be given.

IACPM

International Underwriting Association of London (IUA)

February 2024

Chris Jones
Director of Legal and Market Services

International Underwriting Association

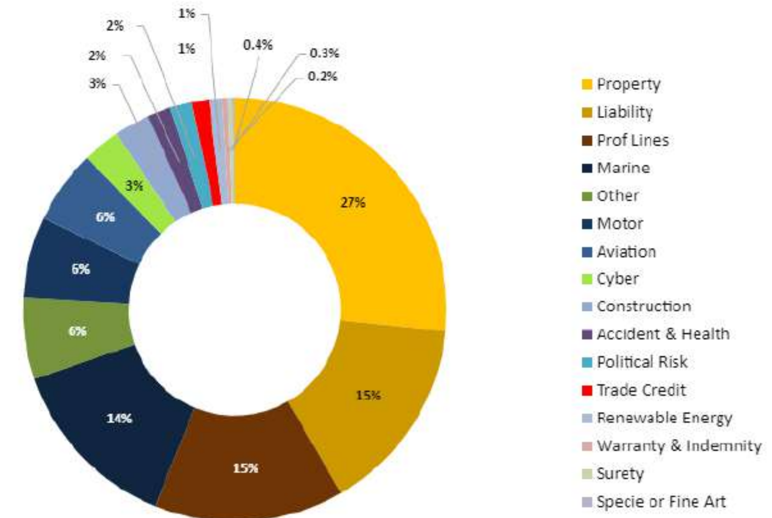
1 Minster Court,
Mincing Lane,
London EC3R 7AA
www.iua.co.uk

London Market Statistics

- The IUA is the representative body for companies in London providing international and wholesale insurance and reinsurance coverage.
- Annual IUA London Company Market Statistics Report publication, latest figures from 2022:

  £44.071bn GWP for the company market

  Overall London Market premium income total of £90.776bn (combining company market total with Lloyd's market figure of £46.705bn)



IUA Membership

ACCELERANT
AmTrust
AIG
Allianz
AVIVA
AXA
Endurance
YOUR RISK IS OUR FOCUS
ALLIED WORLD
GIC Re
Gen Re
HCC
Hartford Steam Boiler
1866
NORWEGIAN HULL CLUB
cfc
QatarRe
Swiss Re
STARR
INSURANCE COMPANIES
Liberty Mutual.
SCOR
bh
MARKEL INSURANCE COMPANY
MARKEL
HAMILTON
TransRe
We value risk.
UNIQA
EULER HERMES
EVEREST
Great Lakes
Munich Re Group
AXIS
FIDELIS
RenaissanceRe
SKULD
BARENTS RE
convex
hannover re
W R Berkley
QBE
RSA
ZURICH
Arch
Insurance Group
Berkley Re
a Berkley Company
gard
helvetia
Lancashire
Sovereign
STARSTONE
VICTOR
Aspen
Chaucer
CHUBB
HDI
North
Global service built around you
THE NEW INDIA ASSURANCE CO. LTD.
TRAVELERS
GENERALI
Berkley Offshore
a Berkley Company
XL CATLIN
MS Amlin
CNA
CONDUIT RE
GLOBAL AEROSPACE
LA RÉUNION AÉRIENNE
THE HARTFORD
Sirius International
TOKIO MARINE KILN

Credit Insurance Market

IUA OF LONDON

- Over 70 insurers provide non-payment insurance
  - Mainly in the major financial centres in Europe (London, Paris, Munich, Zurich), North America (New York and Bermuda), and Asia (Singapore, Hong Kong, Tokyo).
  - All have investment-grade financial strength ratings (from either Fitch, Moody's, or S&P) ranging from A- to AA.
- Specialist companies whose core business is credit underwriting
  - The majority of their business is 'whole turnover' coverage of large portfolios of receivables
  - Coverage against the risk of non-payment, purchased by corporates, banks, factoring or forfaiting companies
  - Also provide surety bonding facilities and 'single-situation' insurance (see below)
- Multi-line insurers for whom credit insurance provides important risk diversification
  - The majority of their credit business is 'single-situation' or 'transactional' credit insurance covering a single exposure with a policy tailored to the transaction which can be a wide range of asset classes
  - Coverage against the risk of non-payment, purchased by corporates and financial institutions
  - Some offer risk participations or cover on portfolio structures such as significant risk transfer trades (SRT)
- *This universe of insurers has honoured financial institution claims and demonstrated robust financial strength as required by prudential regulation and supervisors' capital requirements*

Prudential Regulation

- Solvency II framework, being Directive 2009/138/EC and Regulation 2015/35
  - Insurers domiciled in the United Kingdom, European Union, or Bermuda are subject to the Solvency II framework or equivalent.
  - Lloyd's of London insurers are similarly subject to prudential regulation under the Prudential Regulation Authority as well as the unique rules of Lloyd's.
- DIRECTIVE 2009/138/EC OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 25 November 2009
  - Paragraph 16: "The main objective of insurance and reinsurance regulation and supervision is the adequate protection of policy holders and beneficiaries."
  - "The Solvency Capital Requirement should reflect a level of eligible own funds that enables insurance and reinsurance undertakings to absorb significant losses and that gives reasonable assurance to policy holders and beneficiaries that payments will be made as they fall due." (paragraph 62).
  - Article 275 "1. Member States shall ensure that insurance claims take precedence over other claims against the insurance undertaking in one or both of the following ways: (a) with regard to assets representing the technical provisions, insurance claims shall take absolute precedence over any other claim on the insurance undertaking; or (b) with regard to the whole of the assets of the insurance undertaking, insurance claims shall take precedence over any other claim on the insurance undertaking with the only possible exception of the following: (i) claims by employees arising from employment contracts and employment relationships; (ii) claims by public bodies on taxes; (iii) claims by social security systems; (iv) claims on assets subject to rights in rem."

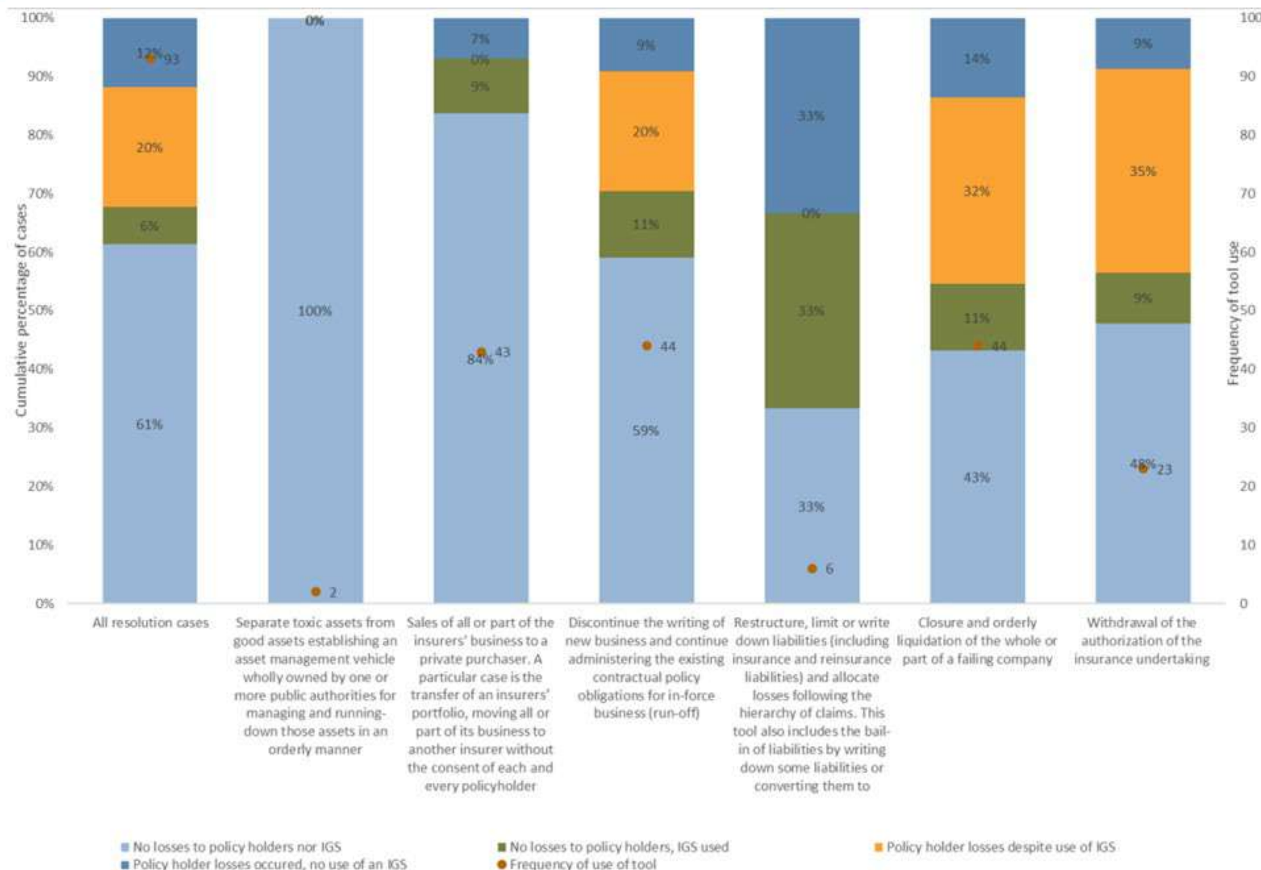
Prudential Regulation - Europe

- The key features of Solvency II
  - market-consistent valuation of assets and liabilities
  - high quality of capital
  - a forward-looking and risk-based approach to setting capital requirements
  - minimum governance and effective risk management requirements
  - a rigorous approach to group supervision
  - a "ladder of intervention" designed to ensure intervention in proportion to the risks that a firm's financial soundness poses to its policyholders
  - strong market discipline through firm disclosures
- Examples of Close Supervisory Monitoring and Related Data
  - EIOPA's Failures and Near Misses in Insurance: Overview of Recovery and Resolution Actions and Cross-Border Issues, EIOPA-BoS-21/394, 08 October 2021
  - EIOPA's Non-Life Underwriting Risk Comparative Study in Internal Models, 04 January 2024
  - EIOPA's Financial Stability Report, EIOPA-BoS-23-532, 11 December 2023

Prudential Supervision

IUA OF LONDON

- Capital ratios provide for a ‘ladder of intervention’ by supervisors, whose tools are shown by EIOPA-BoS-21/394 report dated October 2021



Source: Failures and near misses in insurance: Overview of recovery and resolution actions and cross-border issues, EIOPA -BoS-21/394, 08 October 2021

Prudential Supervision - International

IUA OF LONDON

- International Association of Insurance Supervisors (IAIS): insurance supervisors and regulators from more than 200 jurisdictions.
  - The IAIS has proposed a prescribed insurance capital standard as set out in the public consultation in 2023, which includes premium risk factors and claims reserve factors for specific insurance risks (including the credit and suretyship class) – however, the expectation is that these are less conservative than current Solvency II
- Risk assessment framework to monitor key risks and trends and detect the potential build-up of systemic risk in the global insurance sector
  - Annual Global Monitoring Exercise builds on individual insurer monitoring, covering data collected from approximately 60 of the largest international insurance groups, as well as aggregate data from sector-wide monitoring by supervisors across the globe, covering over 90% of global gross written premiums
  - **Global Insurance Market Report 2023: assessment of global insurance market developments in 2022 in terms of assets, liabilities, solvency, profitability and liquidity.**
    - Levels of capital adequacy remain sound, with the aggregate solvency ratio for insurers participating in the 2023 GME remaining well above 100%, yet slightly declining at year-end 2022 compared to year-end 2021.
    - To manage insurance and banking sector interconnectedness, identifies key measures taken by supervisors include regular monitoring of exposures and, in some cases, setting investment limits on financial sector or counterparty exposures to ensure diversification.
    - Requirements have been set out for funding and liquidity contingency planning to ensure that liquidity sources remain robust and available even during banking sector downturns, and to ensure greater access to capital markets for insurers to enhance fundraising flexibility.

Solvency II Safeguards Against Failing Insurers

- Technical reserves – consisting of insurance liabilities and risk margin
  - reserves for insurance liabilities that should meet the costs of all future expected claims and expenses, calculated using prudent assumptions and regularly verified by supervisors.
  - The risk margin is a prudential buffer which is intended to ensure that, in the rare case that an insurer fails, there are enough funds available to transfer the liabilities to a third party to allow an orderly run-off of the portfolio. It currently totals €157bn.
  - intended to cover lifetime EXPECTED LOSSES and manifest as a 'liability' on the balance sheet
- Solvency II requires every European insurer to hold capital of sufficient quality to cover the cost of potential unexpected claims and expenses. These are based on very extreme, 1-in-200-year stress events. In practice, most insurers set their own capital targets at a significantly higher level.
- Solvency II is forward-looking a 'whole balance sheet' approach and is different to the Basel regime in terms how capital is calculated
- Supervisory ladder of intervention: two clear capital levels
- Solvency capital requirement (SCR): The higher capital requirement that an insurer must hold. Must account for 4 key risks : (1) insurance risk (2) market risk (3) credit risk (4) operational risk. Represents about €679bn for the industry. The European Insurance Overview report (EIOPA) dated 2nd October 2023: for all countries median SCR coverage ratios are above 155%
- Minimum Capital Requirement (MCR): the minimum capital that insurers must hold, intended to be the level below which policyholders exposed to unacceptable risk were the insurer to continue operations. Represents about €238bn for the industry.
- Recovery Plan: As soon as the SCR is breached, the company is required to provide a recovery plan and the supervisor can intervene with a ladder of intervention measures, such as restricting dividends and new business.
- Failures happen over a period of time - possibility for a structured wind-down. Liquidity risk does not play same role as banking.
  Sources: Insurance Europe, EIOPA Solo statistics FY2021

Share capital, share premium and revaluation reserve are effectively the ‘equity’ on the balance sheet – in Solvency II terms these are basic “own funds”

SCR: A firm must hold own funds (commonly referred to as regulatory capital) to cover the value-at-risk to the whole balance sheet (i.e. because of new liabilities or reduced assets) at a 99.5% confidence level over a one-year period – i.e. the 1-in-200.

Sample Insurer Balance Sheet

Balance Sheet – Assets

at 31 December 2019

	2019 $000
Investments	
Shares in related companies	19
Bonds and bonds issued by affiliated companies and loans to these companies	47,499
Shares and other variable-income securities and units in funds	29,072
Bonds and other fixed income securities	3,211,576
Deposits with credit institutions	112,460
Deposits with ceding undertakings	87,439
	3,488,065
Subrogation and salvages	17,534
Reinsurers' share of technical provisions	
Provision for unearned premiums	426,417
Provision for claims outstanding	1,188,927
	1,615,344
Debtors	
Debtors arising out of direct insurance operations - intermediaries	326,705
Debtors arising out of reinsurance operations	1,046,225
Other debtors	224,129
	1,597,059
Other assets	
Tangible assets	5,292
Cash at bank and in hand	150,018
Other assets	8,837
	164,147
Prepayments and accrued income	
Deferred acquisition costs	405,468
Other prepayments and accrued income	23,517
	428,985
Total assets	7,311,134

Balance Sheet – Liabilities

at 31 December 2019

	2019 $000
Capital and reserves	
Called up share capital	290,269
Share premium account	660,000
Revaluation reserve	48,662
Profit brought forward	499,554
Loss for the year	(62,869)
	1,435,616
Technical provisions	
Provision for unearned premiums	[illegible]
Provision for claims outstanding	3,416,420
	4,967,999
Provision for other risks and charges	
Provision for taxation	17,387
Other provisions	1,537
	18,924
Creditors	
Creditors arising out of direct insurance operations	39,479
Creditors arising out of reinsurance operations	383,973
Other creditors including taxation and social security	235,308
	658,760
Accruals and deferred income	229,835
Total liabilities	7,311,134

Technical provisions (commonly known as ‘reserves’) are required to cover all expected future (re)insurance liabilities – calculated as sum of:

(1) Best estimate (expected present value of future cash flows) +

(2) Additional risk margin (cost of holding regulation capital)

MarshMcLennan

Marsh GuyCarpenter Mercer OliverWyman

MMC

EBA ROUNDTABLE: ‘CI MANDATE’

EXCERPTS FROM MMC REPORT DATED FEBRUARY 2024:

‘Treatment of Credit Risk Transferred to Insurers Under CRR 3 – Draft’

20 February 2024
Paris

Proxies for the RW and LGD of credit insured assets

We propose four dual recourse anchor points for the calibration of SA-CR risk weights and F-IRB LGD:

- Loans fully secured by **life insurance** policies, even if the product is mainly used by a debtor who is a private individual with lesser means rather than a corporate. They offer a data point for the calibration of the SA-CR risk weight as well as F-IRB LGD
- Loans fully **secured by senior bonds issued by an insurer** under the Financial Collateral Comprehensive Method **(FCCM)**, could also be an alternative for the calibration of the SA-CR risk weight and effective LGD
- An exposure to an insurer fully backed by **receivables** (given the dual resource nature) could provide an other data point for effective LGD
- Finally, **covered bonds** due to its similar characteristic of double recourse to credit insurance provide proxies for SA-CR risk weights and F-IRB LGD. This is probably the lower bound.

Overview of main features of the proposed proxy approaches compared to credit insurance

	Relevant product	Regulated guarantor	Guarantor & debtor correlation	Stable guaranteed amount	Preferential insolvency rank	Dual recourse	Preservation of security on pursuing the obligor
Loan fully secured by credit insurance	Yes	Yes	Low	Yes	Yes	Yes	Yes
Loan fully secured by corporate guarantee	Yes	No	High	Yes	No	No	No
Loan fully secured by life insurance policies	No	Yes	Low	Yes	Yes	Yes	No
Loan fully secured by senior bonds issued by insurer	Yes	Yes	Low	No	No	Yes	No
Loan fully secured by receivables	Yes	No	Low	Yes	No	Yes	No
Covered bonds	Yes	Yes	Low	Yes	Yes	Yes	No

Overview of proposed proxy approaches for calibration of LGD and SA-CR risk weights for credit insurance

SA-CR	
Risk weight based on CRR 3 Draft: 20% (CQS 1) / 50% (CQS 2)	
Proxy	**Risk-weight derived for insurers rated CQS 1 and 2**
Loan fully secured by life insurance policies	20%-35%
Loan fully secured by senior bonds issued by insurer (FCCM)	11%-34%
Covered bonds	10%-20%
F-IRB	
LGD based on CRR 3 Draft: 45%	
Proxy	**LGD derived**
Loan fully secured by life insurance policies	40%
Receivables	25%-30%
Loan fully secured by senior bonds issued by insurer (FCCM)	9%-13%
Covered bonds	11.25%

Reinsurance as a % of credit insurers GWP

	Name of insurance undertaking	Gross written premiums	Ceded premiums written	Cession ratio (written)	Reinsurance assets	Insurance reserves	Share of reinsurance assets to reserves
Major multi-line insurance groups	Allianz SE	94,190	8,078	9%	25,605	788,883	3%
	Assicurazioni Generali S.p.A.	81,538	5,911	7%	7,268	428,757	2%
	AXA SA	99,415	13,267	13%	39,637	507,703	8%
	Zurich Insurance Group AG	53,386	13,619	26%	24,017	273,010	9%
Weighted average for insurance groups				**12%**			**5%**
Specialized P&C / credit insurers	Allianz Trade	1,962	1,441	73%	1,193	2,080	57%
	Aspen Insurance UK Ltd	559	222	40%	2,632	3,556	74%
	Atradius NV	2,262	861	38%	900	2,566	35%
	AXA XL UK Ltd	1,154	900	78%	1,930	2,535	76%
	Axis Specialty UK Ltd	1,097	970	88%	1,672	1,960	85%
	Chubb European Group SE	6,014	2,454	41%	5,626	11,281	50%
	Coface SA	1,556	426	27%	356	1,433	25%
	Zurich Insurance PLC	6,283	4,075	65%	13,180	20,396	65%
Weighted average for specialized insurers				**54%**			**56%**
Weighted average across all insurers of sample				**15%**			**8%**

Registered in England Number: 3053550 Registered Office: 1 Tower Place West, Tower Place, London EC3R 5BU

We are leaders in risk, strategy and people. One company, with four global businesses, united by a shared purpose to make a difference in the moments that matter.

Marsh GuyCarpenter Mercer OliverWyman

Copyright © 2024 Marsh & McLennan Companies UK Ltd. All rights reserved.

ICISA
INTERNATIONAL CREDIT INSURANCE & SURETY ASSOCIATION

EBA Roundtable on Credit Insurance

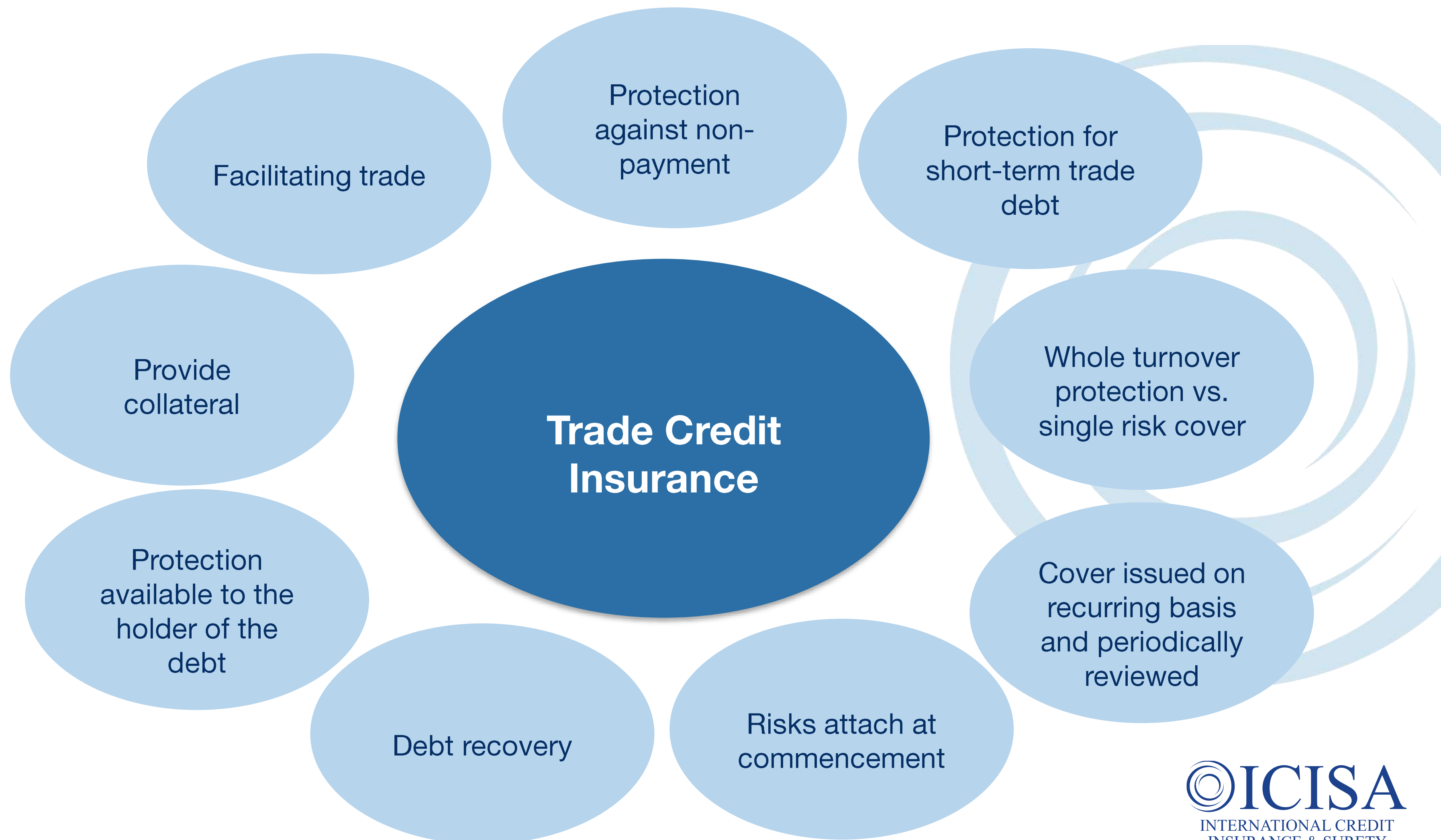
20 February 2024

About ICISA

- The International Credit Insurance and Surety Association is the global trade association for providers of trade credit insurance, surety bonds, and their reinsurers
- ICISA members provide protection against non-payment of trade receivables worth more than EUR 3 trillion each year and billions of dollars worth of construction, services and infrastructure guaranteed annually
- Our members are located worldwide, most are based within Europe or have significant involvement in European markets

ICISA
INTERNATIONAL CREDIT
INSURANCE & SURETY
ASSOCIATION

What is trade credit insurance?

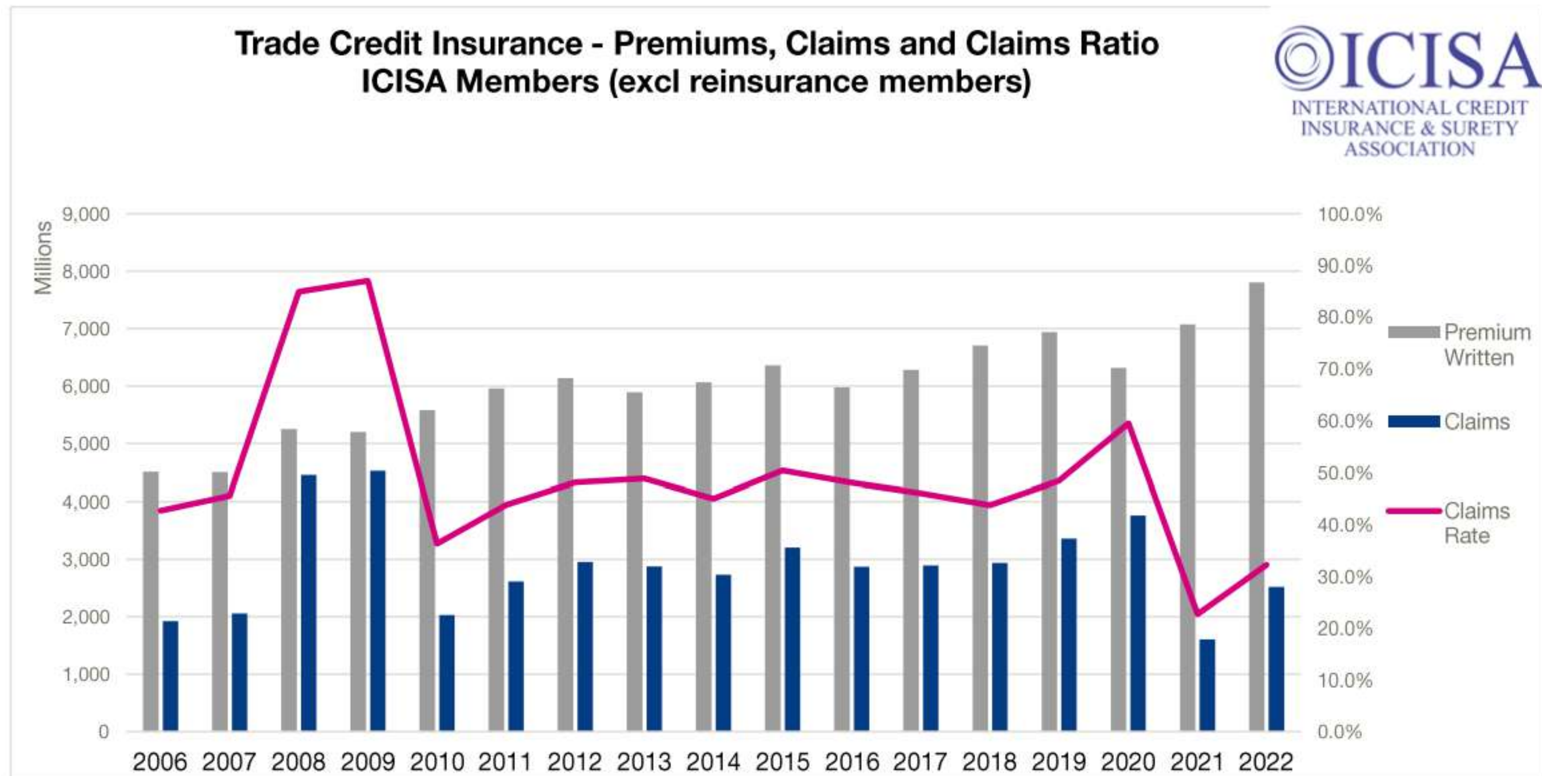


The added value

- Credit insurers analyse and underwrite large volumes of risks, utilising:
  1. Dedicated infrastructure
  2. Deep information
  3. Specialisation in trade receivables
  4. Spread
- Credit insurers are highly skilled and experienced in debt recovery worldwide, which reduces ultimate losses
- These characteristics enable insurers to model and price risk accurately

ICISA
INTERNATIONAL CREDIT INSURANCE & SURETY ASSOCIATION

Trade Credit Insurance market insights



- Worldwide premium income of almost EUR 14 billion
- ICISA members premium income in 2022 of almost EUR 8 billion and claims paid of over EUR 2 billion
- c. 13% of worldwide trade protected by trade credit insurance, insured shipments c. EUR 7 trillion

Financial strength and security of TCI sector

- Supervised under Solvency II in EU or equivalent frameworks, as well as IAIS common framework
- KPMG study on insurer insolvencies shows decreased in instances of insolvency since introduction of enhanced prudential rules, and none in credit insurance since Solvency II
- ICISA study of losses arising from defaults of insured receivables revealed a weighted mean LGD for the period 2017 to 2019 of 6.8%
- ICISA primary credit insurance members rated A- to AA. Financial institutions tend to seek out the strongest parties.

ICISA
INTERNATIONAL CREDIT
INSURANCE & SURETY
ASSOCIATION

What do we hope to achieve?

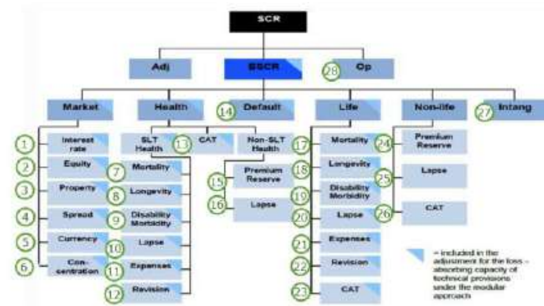
- We are not looking for improved or preferential treatment over what has gone before
- All parties benefit from greater clarity and certainty over eligibility and the LGD to be applied to the product
- We want to continue and enhance cooperation with banks to support the real economy

ICISA
INTERNATIONAL CREDIT
INSURANCE & SURETY
ASSOCIATION

Insurance regualtion (Solvency II) is comprehensive and getting stronger

Very prudent discounting is used to calculate the value of policyholders' claims

A **risk margin** protects policyholders in the case insurer failure/insolvency



Capital requirements are calculated to **cover 28 different risks**

Extensive requirements for strong governance and risk management including to consider their own risk profile in the Own Risk and Solvency Assessment **(ORSA)**

Strong supervisory powers: Two solvency levels, **MCR/SCR,** with a ladder of intervention

Capital add-ons can be applied by NSAs under certain circumstances

ICISA
INTERNATIONAL CREDIT INSURANCE & SURETY ASSOCIATION

ICISA
INTERNATIONAL CREDIT INSURANCE & SURETY ASSOCIATION

Thank you for your attention

Richard Wulff – Executive Director

February 2024

Observed Losses as Policyholder

Less than 2% in observed losses when bank is policyholder (97% claims paid * 3% disputed * 44% in settlement)

2007-2020 data: **97%** of claims paid in full

- USD 3,753,470,551 from 578 claims
- **3%** (USD 684,637,094) disputed
- **44%** of the amount claimed in disputed claims was paid in settlement
- Where claim was disputed, this was due to operational failure of the bank *within its control*

2021: 100% of 140 claims paid (USD 1,010,242,049)

2022: 100% of 190 claims paid (USD 529,534,436)

2023: 100% recoveries (USD 537,005,378 from 227 claims)

Source: A2Z Risk Services, Aon Risk Services, Assetinsure, Axis Capital, BPL Global, Gallagher, GreenStars BNP Paribas, HDI Global Specialty, Marsh, Howden CAP, Miller Insurance, Munich Re, Sovereign Risk Insurance, Swiss Re, Texel Finance Ltd and WTW

Insurance counterparties were rated ≥ A- and experienced providers of credit insurance (per bank requirements)

Typical order of seniority of creditors at insurance operating company level:

1. Policyholder obligations with seniority
2. Policyholder obligations without seniority
3. Secured debt
4. Unsecured senior debt
5. Subordinated debt
6. Hybrids

Source: Fitch Insurer Rating Criteria, 11 January 2019, p.105

Good Recoveries from Defaulted Insurance Companies

EIOPA Database of Failures and Near Misses in Insurance

219 cases of failures/near misses 1999-2020, 31 EU countries

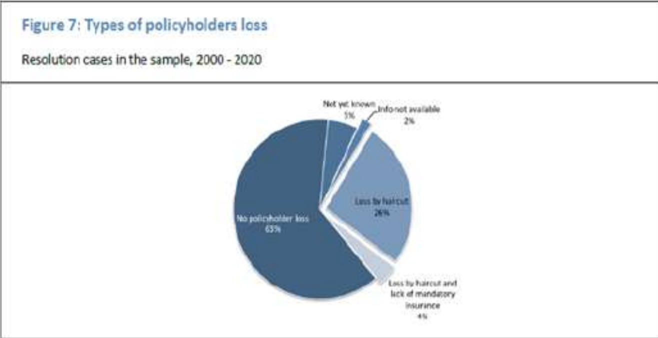
(small % of the operating insurance companies in Europe)

93 resolved cases: 61% no losses for policyholders, no recourse to insurance guarantee scheme (IGS); 6% no losses for policyholder with recourse to IGS

30% of cases: policyholder losses, usually through haircuts

*p.8: 'most of the insurance failures and near misses… occurred **before Solvency II** was introduced'*

Source: EIOPA-BoS-21/394, October 2021



KPMG study February 2020

Marked decrease in number and size of insurance insolvencies since Solvency II (most were small, did not write credit insurance)

All policyholder claims paid in full in all completed solvency cases where KPMG obtained details of distributions

Comparison with Losses as Creditor for Banks and Financial Institutions (17%):

Seniority & Collateral

		Nr of Facilities	Observed Recovery Rate	Time to Peak Recovery
Secured	Primary	807	83%	1.3
	Secondary	875	77%	1.1
	Total	1,682	80%	1.2
Unsecured	Senior	1,084	72%	1.3
	Subordinated	51	76%	2.2
	Other	379	78%	1.4
	Total	1,514	73%	1.4

Source: Global Credit Data, Banks and Financial Institutions: Observed Annual Recovery Rate Trends (June 2023)

Comparison with Losses as Creditor for Corporates (18%)

		Nr of Facilities	Observed Recovery Rate	Time to Peak Recovery
Secured	Primary	50,855	82%	1.4
	Secondary	56,676	73%	1.3
	Total	107,531	77%	1.3
Unsecured	Senior	45,919	74%	1.1
	Subordinated	831	58%	1.8
	Other	13,741	69%	1.9
	Total	60,491	73%	1.3

Source: Global Credit Data, Corporates: Observed Annual Recovery Rate Trends (June 2023)

Global Credit Data

by banks for banks

Policy insurance and GCD

EBA Roundtable on policy insurance mandate

20 February 2024, Paris

Dr Jakub Tomczyk, Risk Insights and Analytics Executive, GCD

Agenda

- About GCD
- ITFA data collection
- GCD data and insurance companies

GCD in numbers

At GCD, we pool credit loss data, directly from banks' books; provide benchmarks; facilitate knowledge exchange and foster research

49
MEMBER BANKS

20+
YEARS OF HISTORY

4
DATA PLATFORMS

DATA SHARING
With your direct peers

SECURITY
ISO 9001
ISO 27001

BEST PRACTICE
Credit Modelling

COMPLIANCE
With regulatory requirements (BCBS239)

GCD member banks

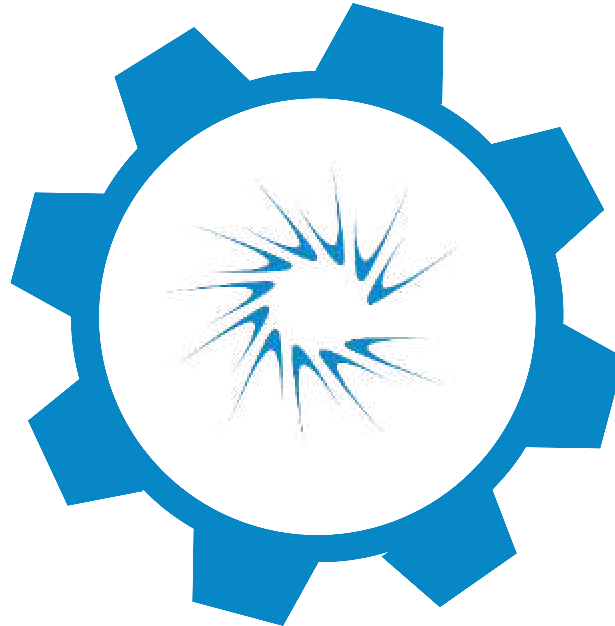
How it works?

Member banks

send data

receive data

GCD



- Data collection
- Standards
- Data quality
- Anonymity
- Analysis

LGD/EAD

Data pooling of historical defaults and realised LGD and CCFs

PD/Rating

Data pooling of ratings, PDs and defaults and migration matrices

Named Peer Ratings

Data pooling of predicted PD/Rating, LGD and CCF for named counterparties and specific banking book clusters

ICC Trade Register

Data pooling of trade finance products

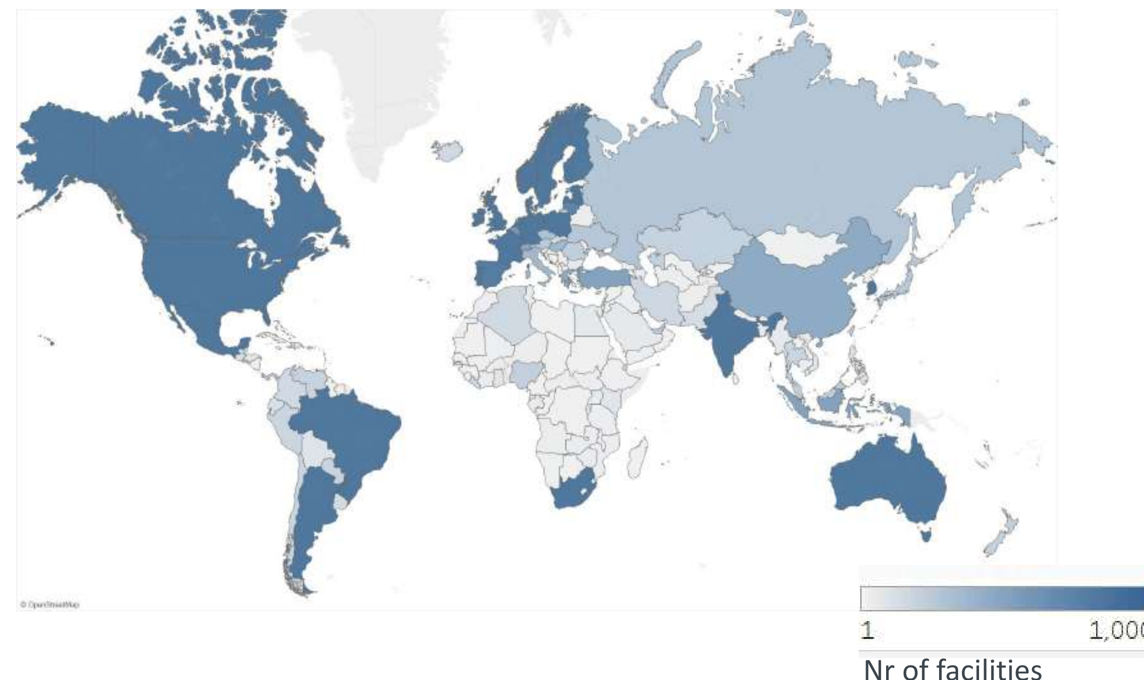
LGD/EAD datapool - global coverage

330,000 Defaulted facilities	175,000 Defaulted borrowers
60+ Global lenders	2000-2023 History period

Asset classes

	Nr of facilities
SME	220,000
Large Corporates	50,000
Banks and FinCo	31,000
Ship Finance	1,900
Aircraft Finance	900
Real Estate Finance	31,000
Project Finance	1,300
Commodities Finance	800
Sovereigns	343
Public Services	654
Private Banking	13,000

Geography (GCD members have exclusive access to country level data)



	Nr of facilities
Africa & Middle East	8,000
Asia & Oceania	16,000
Europe	200,000
Latin America	9,000
North America	100,000

Global Credit Data

PD/Rating datapool - global coverage

550,000
Cohort size

30+
Global lenders

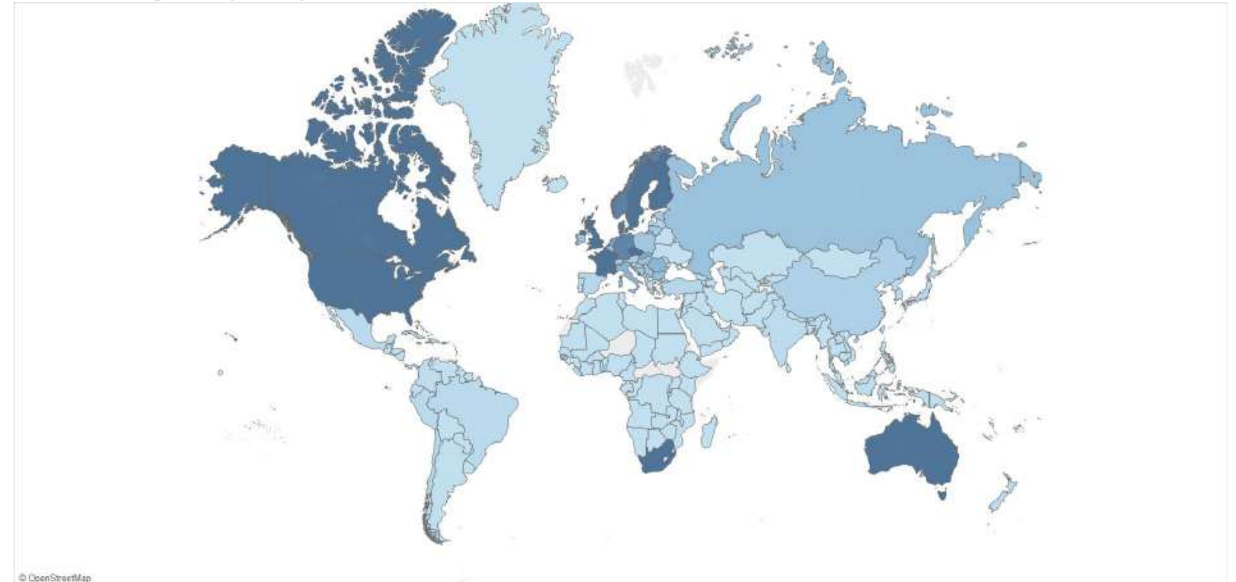
2007-2023
History period

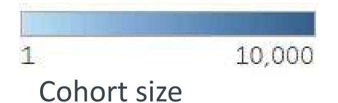
Asset classes

	Cohort size
SME	310,000
Large Corporates	90,000
Banks and FinCo	78,000
SL Real Estate Finance	33,000
Other SL	4,500
Sovereigns	6,900
Public Services	8,000
Private Banking	14,000

Cohort size is the count of performing borrowers on January 1st of each year of the dataset. The overall Cohort size is calculated by averaging the yearly cohort sizes.

Geography





Cohort size

	Cohort size
Africa & Middle East	21,000
Asia & Oceania	120,000
Europe	240,000
Latin America	8,000
North America	160,000

Global Credit Data

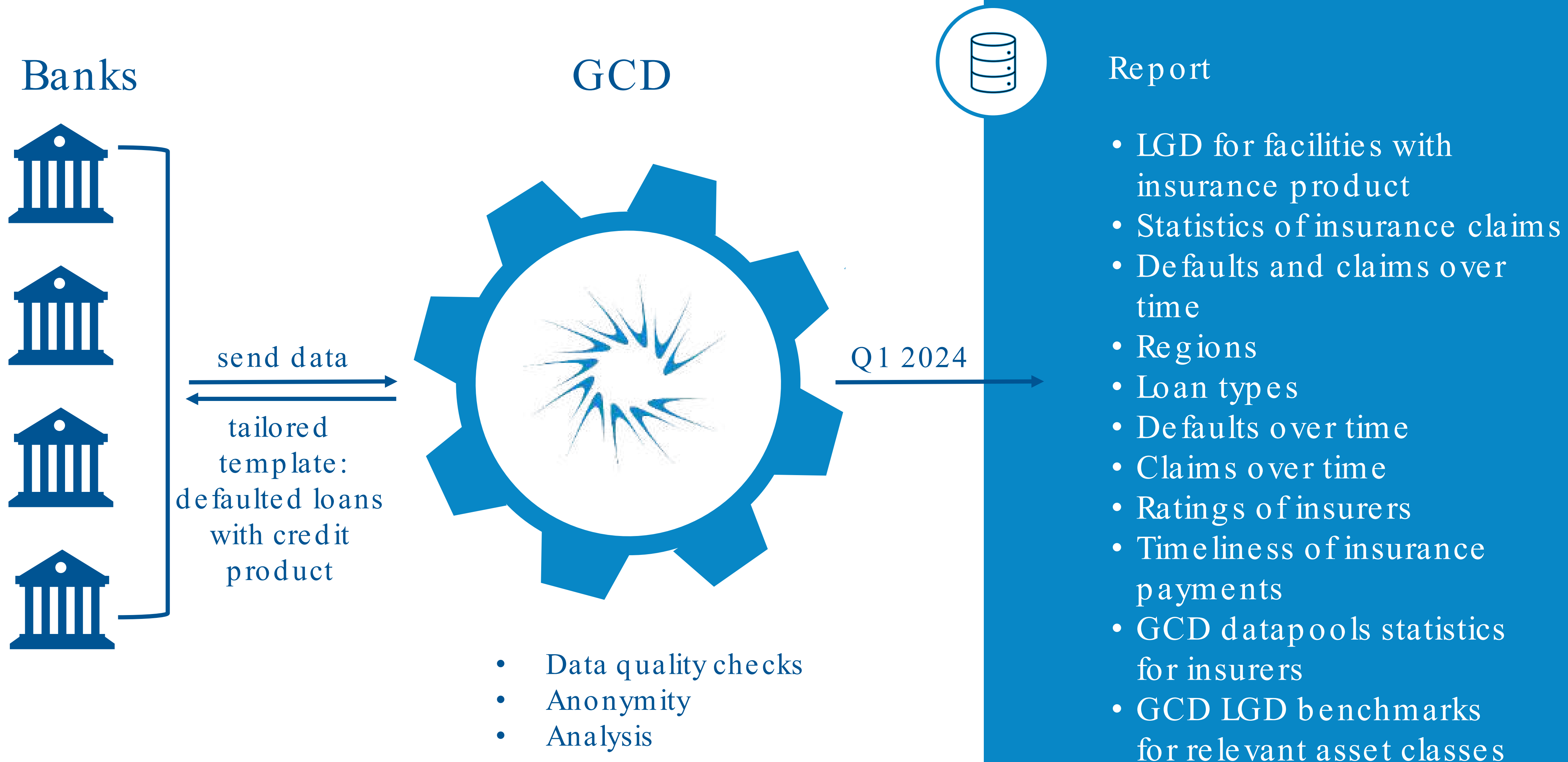
Global Credit Data

by banks for banks

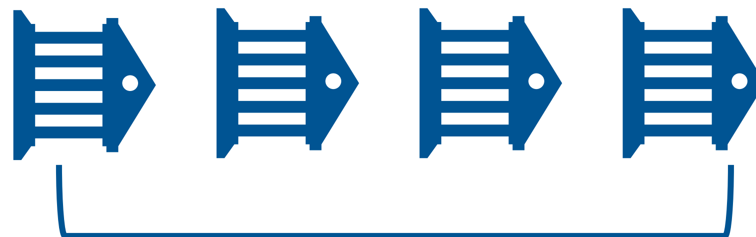
ITFA data collection

Preliminary statistics

ITFA data collection - overview



ITFA data collection – preliminary statistics



Coverage	Defaulted facilities	Insurance claims
9	100+	500+
European banks submitted or finalising submissions	with insurance product covering part of the defaulted facility	separate insurance claims

no borrower and subsequent insurer default observed in the data to date

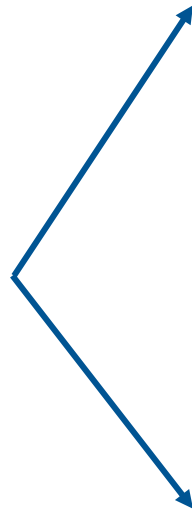
Global Credit Data

ITFA data collection – perspective

Assuming probability of default of

1%

for facilities, which were reported in the data collection



Probability of default

0.2%

for insurers based on GCD PD/Rating datapool

Number of performing loans

50,000

required to observe on average a single case of borrower and insurer default

Defaulted facilities

100

with insurance product covering part of the facility

Equivalent of performing loans

10,000

related to the data collection

GCD and defaulted insurers – preliminary statistics

LGD/EAD datapool

Defaulted facilities

34

on credit obligations between 2000 and 2023

Defaulted exposure

€1,3b

mainly term loans, long term revolvers and overdrafts

LGD

15%

on a count basis
EURIBOR3M + 5%
discounted

LGD

7%

on an EAD weighted basis
EURIBOR3M + 5%
discounted

GCD and defaulted insurers – preliminary statistics

PD/rating datapool

Insurers

2,500+

in each yearly cohort between 2007 and 2022

Insurers

9,000+

insurers operating in Europe

Lenders

18

submitted data

Observed Default Rate

0.17%

average yearly observed default rate between 2007 and 2022

GCD contact details:

Nina Brumma
Head of Analytics
nina.brumma@globalcreditdata.org

Dr Jakub Tomczyk
Risk Analytics and Insights Executive
jakub.tomczyk@globalcreditdata.org

Industry Roundtable on Credit Insurance

PREPARED FOR

EUROPEAN BANKING AUTHORITY

20th March 2024

© Copyright BPL Global

Safeguarding against Regulatory Arbitrage by Conglomerates.

- Landscape:
  - prevalence of conglomerates operating in both the banking and Credit Insurance sectors on an external commercial basis currently minimal.
  - It is a widespread long-established practice for large conglomerates to establish and own Insurance vehicles (Captives) to efficiently manage their own insurance purchases and retentions across a variety of insurance classes.
  - Utilisation of Captives for credit insurance common for exporters. Extremely rare amongst banks (despite captive vehicles being governed by insurance prudential regulatory frameworks).

© Copyright 2024 BPL Global

Safeguarding against Regulatory Arbitrage by Conglomerates.

- Primary Motivations and Benefits for Banks establishing Captives in Credit Insurance
  - Facilitates direct **access to a larger cohort of highly rated/non-correlated counterparties** via accessing Reinsurers directly**.**
  - Reinsurance Treaties with automatic acceptance of qualifying risks **increase stability for the bank.** The bank has greater control and certainty of managing their credit risk as treaties have fixed parameters which govern the risks that can be ceded in terms of countries, tenors, asset classes etc.
  - **Increased Price Effective Credit Risk Distribution**: The reinsurance ceding commission, remunerates the captive for providing the Reinsurer with a self-populating portfolio of diversified risks across multiple bank asset classes.

Other Captive benefits: centralization of operational risk management, option to obtain external ratings

© Copyright 2024 BPL Global

Safeguarding against Regulatory Arbitrage by Conglomerates.

- Embedded Deterrents to Regulatory Arbitrage:
  - To provide credit insurance to a European Bank, the baseline regulatory position is that a captive has to be domiciled within the EU and as such falls under the regulatory framework of Solvency II, under EOPIA and scrutinized by local member-state regulators in line with any other insurance company. Robust prudential regulatory oversight is retained.
  - The harmonization of treatments under CRR3 compared to the more varied optionality provided within CRR2 significantly restricts any misuse of captive vehicles by banks.
  - Setting up a captive is a complex process with associated costs creating natural "barriers to entry" .
  - Capitalisation of the captive under Solvency II would reflect the specific risk composition of the captive itself.
- Possible additional safeguards: Preventing any potential avenues for EU bank captive establishment in territories outside the EU unless equivalent regulatory jurisdictions.

© Copyright 2024 BPL Global

BPL Global

Article 506 CRR3

Consistency assessment of own funds requirements under CRR3 with observed riskiness

- ✓ **Observed riskiness** of **credit risk exposures benefiting from CI used as a CRM:**
  - ✓ **The perimeter of observation: credit risk exposures with CI.**
    Within this perimeter of observation, two different cases:
    - ❖ The insurer didn't default
    - ❖ The insurer defaulted
  - ✓ **Observed riskiness** : **data provided by GCD on this perimeter of credit exposures with CI,** enabling to estimate an LGD based on all claim payments.
- ✓ **Assessment of the consistency of own funds requirements with observed riskiness** could be done by comparing :
  - ❖ own funds requirements with CRR3 parameters (ie PD insurer and 45 % LGD), and
  - ❖ the regulatory capital that would be estimated using observed riskiness, ie using GCD data collection for LGD estimated on the full perimeter of credit exposures with CI.