ITFA'S INSURANCE COMMITTEE HAS ENCOURAGING MEETING WITH EBA

Written by **Rebecca Spong,** Editorial Consultant, March 2024

Representatives from ITFA and a number of other industry bodies had an encouraging meeting with the European Banking Association (EBA) last month about the impact of finalised Basel III regulations on the use of credit insurance.

The meeting – held in Paris on 20 February – was the culmination of four years of advocacy work which has seen ITFA play a major coordinating role bringing together evidence from across the financial sector about the potentially negative implications of new Basel regulations on the use of credit insurance. The European interpretation of the finalised Basel III rules will come into force next year.

"It was very much a unified front put forward by the whole industry – but behind the scenes it was all coordinated by ITFA," explains Jean-Maurice Elkouby, chair of ITFA's regulatory advocacy working group and member of the Insurance Committee.

"This meeting was really an opportunity to give the EBA all our messages in one go. The EBA listened carefully and there was a lot of good engagement. When we started to mobilise efforts back in 2019, the EBA didn't even have us on their radar. Little by little we have won a few battles. We don't know the outcome of this latest meeting, but at least they heard us," he adds.

ITFA coordinated the compilation of a number of presentations – including [the joint survey by ITFA and the International Association of Credit Portfolio Managers (IACPM)] – to illustrate the current use of credit insurance and its benefits. The International Underwriting Association of London (IUA) and the International Credit Insurance and Surety Association (ICISA) were among the other contributors.

The package of presentations was created in response to earlier questions posed by the EBA. The timetable for the February meeting gave each industry body a chance to present their findings and answer questions from the EBA.

"We weren't sure how engaged they would be on the topic as we know they have a lot on their plates. We were all very encouraged by the level of constructive interest they showed," remarks Sian Aspinall, member of the ITFA Insurance Committee.

"They were very prepared and had insightful questions for us – although nothing we weren't anticipating," she adds.

One of the key messages put forward by the credit insurance industry was the issue around the current proposed 45% Loss Given Default Ratio (LGD) under the finalised Basel III regulations – which the ITFA-led group argue is "too conservative" and "not in line with observed losses".

It also fails to reflect the "dual recourse" aspect of the product – in that in the event of a default a bank can pursue both the borrower and the credit insurer, Elkouby explains.

The submission to the EBA proposed a couple of suggested LGDs for either secured or unsecured transactions that the industry deems a more appropriate reflection of the risk involved.

While ITFA and other industry bodies have long been calling for lower LGD ratios, this package of presentations aims to provide the evidence to back up their arguments.

The industry needs to show the EBA that a lower LGD does not pose any systemic risk to the wider financial sector and real economy, explains Aspinall.

“The EBA’s role is to maintain stability in the financial sector so they need to ensure there is enough capital allocated behind the lending and that it doesn’t destabilise the wider economy,” she says. “They need the necessary evidence to determine what is appropriate for the product, so they are not creating greater risk.”

The EBA is now in the process of reviewing the information provided and will prepare a report by June, which will be handed to the European Commission. The Commission will have at least until the end of the year – if not into 2025 – to assess the evidence.

The next step for ITFA is to finalise an additional piece of commissioned research being conducted by the non-profit organisation Global Credit Data (GCD) – which is pulling together data on claim collections by banks. It is hoped it will include more than 100 claims from various institutions and will examine the ‘observed LGD’ when insurance was in place.

“That is a massive piece of work from an industry perspective, and it is all coordinated by ITFA,” explains Aspinall. The report is expected to be completed by April before being given to the EBA.

There are also plans for a much smaller and more informal piece of research to be given to the EBA which involves the collection of data on the asset classes that make use of credit insurance. This is expected to be compiled by brokers within ITFA’s membership.

It is likely there will not be a final decision made on the treatment of credit insurance until 2026, predict Elkouby and Aspinall, given the number of different EU bodies that will need to review and amend any potential new legislation.

To read the full package of presentations presented to the EBA on 20 February, click here.