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ITFA KEEPS PRESSURE ON REGULATORS TO CHANGE CREDIT RISK INSURANCE STANCE, June 2025

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ITFA remains committed to convincing regulators that the use of credit insurance is a safe and useful risk mitigation tool that requires a far lower loss given default (LGD) ratio than currently prescribed under Europe's new Capital Requirements Regulation (CRR).

ITFA is ramping up its efforts to persuade the EU's regulators that the use of credit risk insurance is being unfairly treated under the new Capital Requirements Regulations (CRR), which implement the principles of the Basel III framework.

The organisation is now taking a two-pronged approach to its campaign, having published **detailed statistical evidence and analysis** this June to support its arguments, as well as winning the public support from high-profile industry leaders within major European banks.

The fresh approach follows the publication of The European Banking Authority's (EBA) long-awaited report on the use of credit risk insurance at the end of last year, within which it said there was a "lack of satisfactory data" to support any "potential re-calibration" of the loss-given default (LGD) ratio applied to credit insurance-backed transactions under Basel III framework.

The new CRR came into force at the start of this year. It applies a 45 percent LGD to any transactions – including trade finance and corporate loans - that uses credit insurance cover.

Following many years of lobbying, meetings and presentations with the European regulators, the EBA's response was "very sobering," remarked Silja Calac, ITFA board member, speaking to delegates at ITFA's Insurance Day held in Switzerland in early June.

She reiterated ITFA's view that the ratio is not reflective of the actual risks of using insurance. The EBA's insistence on the 45% LGD is not good for the credit insurance market, trade and the long-term health of Europe's economy, she added.

"We banks have already noticed the impact and we do have problems using insurance as it often results in making the use of insurance economically unviable. And we need to tell our regulators that what they are doing now is not correct and it is punishing our economy," she told delegates at the Swiss event.

The data-led approach

Determined to persuade the regulators to change their stance, ITFA decided to commission additional analysis of existing data compiled and published by Global Credit Data (GCD) last year.

The data – published in April 2024 - looked at the observed LGD on credit risk insured exposures as well as observed LGD on direct exposures to insurers. It included details of all defaulted credit insurance-backed facilities between 2009 and 2023 from nine banks.

The data demonstrated that there was 0% Loss Given Default on the insured portions of €3 billion worth of defaulted facilities. Taking into consideration the EBA discount factor, this would equate to a 6% Loss Given Default. And even for the LGD for direct exposure to insurers – which the 45% is deemed to represent – the statistical evidence shows that it is even in the most conservative analysis a maximum of 22%, so less than half the rate suggested by the Basel framework.

However, given that this data was deemed insufficient by the EBA, ITFA in conjunction with external consultants – have now conducted further and much more detailed analysis within its new “Additional Report in relation to Article 506” – available on the ITFA website.

This detailed report finds that the CRR-prescribed LGD is at least twice higher than the observed LGD of both lending to insurance companies directly and on insured exposures. It concludes that a LGD for exposures insured by Solvency II regulated insurers rated better or equal to A-, should be a maximum of 22.5 percent.
“The report demonstrates through two different methods that the own funds requirements for insured exposures under CRR3 are more than twice what the data tells us that they should be,” said Jean-Maurice Elkouby, chair of the regulatory advocacy working group and member of ITFA’s insurance committee, in an official statement accompanying the release of the new analysis this month.

“We believe that the ITFA Additional Report provides the required data evidence to anchor a re-calibration of the LGD applicable to insured exposures,” he added.

The political approach

In addition, ITFA has managed to secure the signatures from industry leaders at seven major European banks – all large users of credit insurance - on a joint industry letter that argues that the implementation of CRR “unduly penalises and therefore impacts a critical source of support for financing in Europe”.

The letter draws the direct link from the regulators’ actions to a detrimental impact on the availability of finance for Europe’s small and medium-sized businesses and large infrastructure projects.

It argues that the regulation contradicts the EU’s efforts to ramp up investment and improve Europe’s competitiveness, as promoted by former European Central Bank president Mario Draghi’s 2024 report on European competitiveness.

The letter was signed by senior global heads at BNP Paribas, Deutsche Bank, ING, Natixis, Santander, Société Générale, Commerzbank and ITFA, and sent in March to the finance ministers of all 27 EU countries and the European Commission.

“Credit risk insurance is a valuable instrument in Europe which European banks have been using for a long time. It is important for our market,” Silja remarks after the insurance day event.

“Why make it more difficult in the current market when we need everything we can have to strengthen our economy. Why would we take away an instrument that works, where we don’t have significant losses and where banks and insurers work together to diversify risks to make the market safer and enable lending to the real economy. Why would there be a need to take this away,” she adds.

Of course, banks are still using credit risk insurance – but its use as a means of reducing a bank’s Risk Weighted Assets (RWAs) has been diminished for many banks, making it a less useful tool for those institutions that had previously regularly used the product.

These banks may need to reconsider what transactions they can do and how they distribute their risks effectively. “To increase our capacity, we can no longer easily diversify outside of the market - we will have to share our risks among banks. Of course we can also go to funds. But the insurance market had a big advantage. It helped support greater diversification of our risks and enabled us to increase our capacity to support real day-to-day ‘bread and butter’ business,” Silja adds.

Next Steps

There is still a long road ahead in terms of ITFA convincing regulators of its argument, Silja explains, particularly given that the capital requirements regulation (CRR) has already been implemented.

ITFA has a small chance to submit its new evidence this year if it is included within the European Commission’s new securitisation proposal published on 17 June. Any potential revisions to the regulation will not be effective until at least 2027.

The alternative is ITFA will have to wait until there is an official revision of CRR Level 1 – a process that starts at the end of 2026 – with any potential revisions unlikely to be implemented until at least 2028-2029.

In the meantime, Silja calls for ITFA members to continue to engage with ITFA’s advocacy efforts and work to heighten awareness about this issue with their internal management teams.

“We need to draw management’s attention to how important this issue is. Get your regulatory advocacy teams involved and explain what’s at stake. Explain it to your product team why we may not be able to do certain transactions anymore.

“We need to persist and spread our story,” she says.

To read further:

- ITFA Releases Data-Driven Report Supporting Recalibration of LGD for Insured Exposures
- ITFA’s Position Paper on Credit Insurance and CRR