



berneunion



14 April, 2020

To: Financial Services Committee Members
DG FISMA (Mr John Berrigan, Director General, Mr Martin Merlin, Ms Nathalie Berger)
EBA (Mr Peter Mihalik, Acting Executive Director)
EIOPA (Mr Fausto Parente, Executive Director)
ESMA (Ms Verena Ross, Executive Director)
ECON (Ms Irene Tinagli, Chair, ECON)
EU Member States Permanent Representatives

Re: Credit insurance and its role in facilitating bank lending in the times of Covid-19

The International Trade and Forfeiting Association (ITFA), the Bankers Association for Finance and Trade (BAFT), the Berne Union, the International Association of Credit Portfolio Managers (IACPM), the International Underwriting Association (IUA) and Lloyd's Market Association (LMA) follow with great interest and appreciate the ongoing discussion of the policymakers in the European Union about facilitating bank lending amid the COVID-19 crisis. The aforementioned industry representatives believe that when it comes to credit insurance and guarantees, public and private sectors are inextricably connected through their respective complementary roles.

We welcome the initiatives to reconsider the provisioning requirements for loans covered by Export Credit Agencies and other publicly guaranteed loans. This will be a very helpful measure to enable banks to continue the flow of much needed trade finance.

We wish to highlight that the private credit insurance market also provides important support to economic activity within Europe through facilitating bank lending in the same way as public sector Export Credit Agencies. Like Export Credit Agency cover, private credit insurance support a wide range of short, medium and long-term bank lending, including trade-related, asset-backed and corporate loans, for activities across the entire European Union and worldwide.

It should be noted that multilateral agencies also play an equally important role as official Export Credit Agencies.

The World Trade Organization reports that 80% to 90% of world trade is in some way reliant on trade finance [\[here\]](#). Private credit insurance plays a significant role in trade financing, particularly in Europe. A survey was conducted in 2018 among ITFA members. Based on the data representing approximately 25% of the market, it is estimated that the private credit insurance market as a whole facilitated EUR 600 billion of bank lending to the real economy in 2018. European banks are amongst the largest and most sophisticated financial institutions users of the product. Further information can be found [\[here\]](#). A survey conducted by IACPM has demonstrated that private credit insurance is the

second most important risk mitigation tool for corporate exposures. Further information can be found [\[here\]](#).

European insurance and reinsurance companies are subject to a robust regulatory and supervisory framework (Solvency II), and consequently are well capitalised. This strong foundation, combined with the intrinsic characteristics of the private credit insurance market which have developed over the last two decades, including incorporating lessons learned during the financial crisis, make credit insurance a powerful credit risk mitigation tool for banks, on a par with Export Credit Agencies and multilateral agency cover.

A few of the key features are:

- Credit risk insurance covers a bank (or corporate) against the default risk of an obligor (or debtor) and functions as an eligible guarantee within the CRR, recognised as such – see for example the EBA Single Rulebook Q&A (2014 768) [\[here\]](#) and EBA draft guidelines [\[here\]](#);
- Credit risk insurance is a tool which is used like Export Credit Agency insurance to provide credit risk mitigation in support of all forms of trade finance;
- Under the Solvency II rules, the bank as a policyholder is guaranteed a privileged senior position in case of the insurer's insolvency;
- Credit Risk insurance contributes to the distribution of risk by banks, as part of prudent credit portfolio management, and reduces systemic risk due to sharing between banking and insurance sectors, which present low levels of correlation; possible contagion risks in case of economic downturn such as the current one are limited due to the diversified strength of general insurers' balance sheets;
- Risk exposures in the insurance market are further mitigated through re-insurance, which helps to further assure the stability of the system – underpinned by the strict portfolio controls applied by insurers and reinsurers.

It is important to note – in the context of reinsurance – that Export Credit Agencies within the European Union (as well as worldwide) are actively distributing credit risk to the private sector insurers and reinsurers. This further emphasises the complementarity between public and private sector risk transfer mechanisms.

Due to the abovementioned robust regulation and the characteristics of the private credit insurance, the insurance sector stands ready to fulfil all the commitments stemming from the existing contracts. Credit insurance policies are bespoke contracts that create and require a trust-based long-term collaborative relationship between banks and insurers. This enables the assessment and the mechanisms to cover credit risk with high levels of precision. It is worth noting that in the medium to long-term credit insurance market policy limits and policies are non-cancellable, so the cover cannot be withdrawn on existing commitments. This is also the case with similar coverage provided by Export Credit Agencies and multilateral agencies. Claims performance has been of the highest quality. It has proved to be a well-functioning insurance covering the expectations of all parties. According to published statistics in the period from 2007 to 2018, including the 2008 economic downturn, which capture data from the single risk credit insurance market, claims on banks' policies were paid to a total amount of USD 3.07 billion.

The signatories to this letter appreciate the steps that the policymakers are planning to take to facilitate bank lending in Europe in the current situation. Acknowledging the extraordinary nature of the recently enacted State Aid Temporary Framework to support the economy in the context of the COVID-19 outbreak, we agree that public guarantees can provide a valuable last resort solution (ultimate backstop) at a time when the short-term trade credit financing guaranteed by the monoline

insurers may require backup. That is why we agree that the Member States and regulators should bring support and/or enlarge their scope of action.

In these exceptional times, it is vital that recognition is afforded not only to official Export Credit Agencies and other guarantees provided by public entities, but also to private credit insurers which are equally important supporters of bank finance to the wider economy. Multilateral agencies should also be recognised.

If serious consideration is given to allowing more flexible treatment of publicly guaranteed bank loans in respect of the non-performing exposures, we would like to raise awareness in respect of the complementary and similar role played by the private insurance market and multilateral agencies in the context of regulatory treatment of non-performing medium to long-term exposures.

The signatories to this letter are at the disposal of the Member States and the regulators offering their experience and expertise. We are ready to play their role in the acute phase of this crisis, and to contribute in the recovery phase, facilitating bank lending to the real economy businesses and supporting the trade flow, thereby contributing to the European economy being competitive and standing strong again.

We thank you in advance for your consideration of this important matter.

Sincerely,



Silja Calac,
Head of Insurance, Member of Board
ITFA



Som-lok Leung
Executive Director
IACPM



Tod R. Burwell
President and Chief Executive Officer
BAFT



Christopher Jones
Director of Legal and Market Services
IUA



Vinco David
Secretary General
Berne Union



David Powell
Head of Non-Marine Underwriting
LMA

Appendix: About the signatories

ITFA

Founded in 1999, the International Trade and Forfaiting Association (ITFA) is an association of over 190 financial institutions who are engaged in originating and distributing trade-finance related assets and risks across the industry all over the world. Expanding from its original focus on the purchase and discounting of simple but robust payment instruments, such as drafts and letters of credit, the

forfeiting industry has embraced new instruments and created new structures for risk mitigation becoming a prominent part of both the international and local supply chain finance. Find more information on ITFA and its members on www.itfa.org/about-us.

BAFT

The Bankers Association for Finance and Trade (BAFT) is an international financial services industry association whose membership includes a broad range of financial institutions throughout the global community. As a worldwide forum for analysis, discussion, and advocacy in international financial services, BAFT's nearly 300 members provide leadership to build consensus in preserving the safe and efficient conduct of the financial system worldwide. BAFT closely monitors the impact that new policy initiatives could have on the provision of trade financing and payment services that support the real economy.

Berne Union

The Berne Union, founded in 1934, is the leading global association for the export credit and investment insurance industry. Its 85 members include government-backed official export credit agencies, multilateral financial institutions, and private credit insurers worldwide. In 2019, Berne Union members provided Eur 2.2 trillion of payment risk protection to banks, exporters and investors - equivalent to 12.5% of world cross-border trade for goods and services.

IACPM

The International Association of Credit Portfolio Managers (IACPM) is an industry association established to further the practice of credit exposure management by providing a forum for its members to exchange ideas. Membership in the IACPM is open to all financial institutions worldwide that manage portfolios of corporate loans, bonds or similar credit sensitive financial instruments.

The Association represents its members before regulators around the world, holds bi-annual conferences and regional meetings, conducts research on the credit portfolio management field, and works with other organizations on issues of mutual interest relating to the measurement and management of portfolio risk. Currently, there are 115 financial institutions worldwide that are members of the IACPM. These institutions are based in 25 countries and include many of the world's largest commercial wholesale banks, investment banks and insurance companies, as well as a number of asset managers.

IUA

The International Underwriting Association of London (IUA) represents international and wholesale insurance and reinsurance companies operating in or through London. It exists to promote and enhance the business environment for its members. The IUA's London Company Market Statistics Report shows that overall premium income for the company market in 2018 was £28.437bn. Gross premium written in London totalled £19.559bn while a further £8.877bn was identified as written in other locations but overseen by London operations.

LMA

The Lloyd's Market Association (LMA) represents the interests of the Lloyd's community, providing professional and technical support to our members. All managing and members' agents at Lloyd's are full members, who together manage a gross premium income of around £32 billion per annum. Through the LMA, their interests are represented wherever decisions need to be made that affect the market. The purpose of the LMA is to identify and resolve issues which are of particular interest to the Lloyd's market. We work in partnership with the Corporation of Lloyd's and other market-related associations to influence the course of future market initiatives. Our agenda is driven by and on behalf of our members - many of whose staff freely give up their time to participate on our committees and business panels, as well as other groups who are essential to the strength of the association.