TEXEL OVERVIEW

# Credit Risk Insurance for Structured Trade Finance and Export Finance

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Comprehensive non-payment insurance ('NPI') for structured trade finance and export finance transactions has become an important way for banks to manage commodity, performance, geopolitical and cross-border risks as well as looking to reduce their capital constraints for each transaction.

NPI policies are typically, but not exclusively, used for the following types of transactions:

- Pre-export finance
- Borrowing base facilities
- Reserve-based lending structures
- Pre-payment financing
- Warehouse financing
- ECA and uncovered loans

Although a number of these types of transactions benefit from some form of security, the high levels of exposure to certain clients in specific industries or geographies often mean that banks find themselves reaching their internal credit limits for some clients after a few transactions. When a NPI policy is drafted correctly to meet Basel III requirements it can also provide credit limit relief as well as significant capital relief.

These benefits allow banks to gain a competitive edge as they are not forced to hold the entire transaction or sell down in the secondary market and they are able to participate in transactions with larger positions and greater access to higher fees, as well the opportunity for the bank to earn income above the cost of the premium rate. Upfront fees are not shared with insurers. NPI provides banks in the structured trade and export finance space with the opportunity to maintain or grow their lending relationships. The NPI product can therefore become a vital silent distribution tool to allow a client to manage their internal capital and credit limit hurdles whilst expanding their relationships with their core clients.

The credit and political risk insurance market has extensive experience in this area and has paid many claims to banks who experienced a default from producers and obligors globally including Europe, Asia, Africa and South America.

Given the specialist nature of this area of finance, the insurers will want to understand the experience of the deal team in the specific geography or sector as well as relationship the bank has with the commodity producer/ borrower and their management.

Previous performance and payment experience, can help determine where the risk sharing level is to be set. Greater retention can often result in more favourable terms provided by insurers. Partnership with insurers is key to achieving success in using the NPI product to expand a bank's structured trade, commodity and export finance portfolios through this silent and highly rated distribution channel.

### EXAMPLE TRANSACTIONS

| Insured | European Bank |
|---|---|
| Transaction | USD1bn Pre-Export Finance Agreement |
| Obligor | Kazakhstan Mining Company |
| Tenor | 5 + 2 years |
| Cover | USD90m (90 % ) from 6 A+ to AA rated insurers |

| Insured | European Bank |
|---|---|
| Transaction | USD6bn Reserve-Based Loan Agreement |
| Obligor | Independent oil exploration and production company |
| Tenor | 7 years |
| Cover | USD150m (50 % ) from 10 A+ to AA rated insurers |

### ABOUT TEXEL

The Texel Group is a market-leading specialist insurance broker, primarily focused on the development, structuring and execution of NPI policies for our clients. With over 20 years' experience at the forefront of the international insurance markets, we are staffed by individuals with skills and experience to help our clients understand the product and ensure that it is correctly structured to obtain the maximum capital and limit relief possible for each transaction.

### KEY POINTS

- Template policy individually tailored for each single transaction
- Experienced market of insurers rated A- or better
- NPI can provide capital and credit limit relief if appropriately structured
- Partnership approach with insurance coverage of up to 90 % of exposure available