

Market Insight 2020

Credit and Political Risk Insurance



BPL Global: Broking Firm of the Year 2019
Insurance Day London Market Awards



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BPL Global is the world's leading broker specialising exclusively in credit and political risk insurance (CPRI) for multinational corporations, banks and financial institutions.

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Foreword

As we begin a new decade, the third edition of our *Market Insight* report looks back on 2019 and considers some of the expected trends and challenges for the credit and political risk insurance (CPRI) market in 2020, drawing upon our own statistics and data as well as a market-wide survey.

The risks faced by insurers continue to evolve, with civil unrest in the robust economies of Hong Kong and Chile being good examples. In the same vein, and as illustrated on page 5, we continue to witness an increase in enquires for OECD risk. Our figures also show that the CPRI market is still heavily reliant upon demand from the extractive industries at a time when there is increasing focus on environmental, social and governance (ESG) issues. With many insurers now closed to any coal-related risk, and enquiries for renewables increasing, it will be interesting to see how this trend develops over the next few years. Certainly, we can expect the CPRI market to continue to diversify away from its traditional bedrock.

Notwithstanding the satisfactory outcome of the Prudential Regulation Authority (PRA)'s consultation on credit risk mitigation, the CPRI market should be mindful of the continuing regulatory risk it faces and the need to manage this. We have added a dedicated legal resource to the team to help us address this challenge.

In addition, while there continues to be strong capital support for our specialty insurance business, the general insurance classes are witnessing hardening conditions. This, combined with greater scrutiny of insurers active in CPRI, means the market cannot rest on its laurels. Inefficient and under-performing insurers are in the spotlight and, in particular, Lloyd's attempt to get its house in order led to the loss of

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Sian Aspinall
Managing Director,
BPL Global

several CPRI market participants. However, as our market capacity survey illustrates, 2020 appears to represent a year of stability, as some of those that have left our market have been replaced by new capacity, and the trend towards more medium-term capacity continues.

At BPL Global, we are very proud of the sector-specific awards we have collected over the years but were particularly pleased to have been named "Broking Firm of the Year" in the 2019 *Insurance Day* London Market Awards. This broader industry-wide accolade, together with the appointment of our Chairman, Charles Berry, as President of the Insurance Institute of London, appropriately recognises our long-standing "best-in-class" position and affirms our core principles of being a specialist, employee-owned, and global retail broker.

Our commitment to technological development remains very strong, and we are working hard to develop our own systems as well as contribute to wider market initiatives. Advances in technology can address the issue of volume, create efficiencies and still enable the market to accommodate more of the complex risks on which it thrives. On the subject of efficiency, we also believe that an increased use of portfolio-based approaches to manage risk will continue – which is why we launched our in-house Global Reinsurance and Portfolio Solutions offering in 2019.

We hope you enjoy this latest issue of our *Market Insight* report.

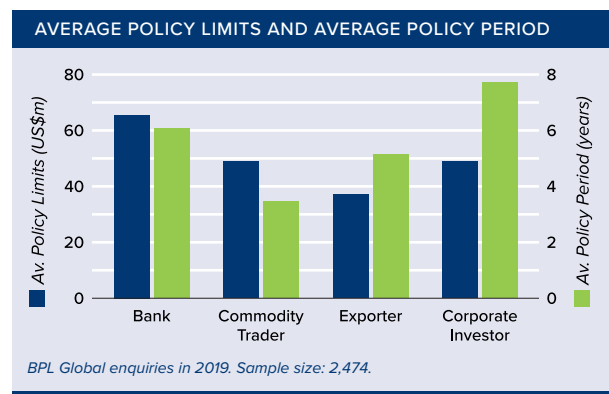
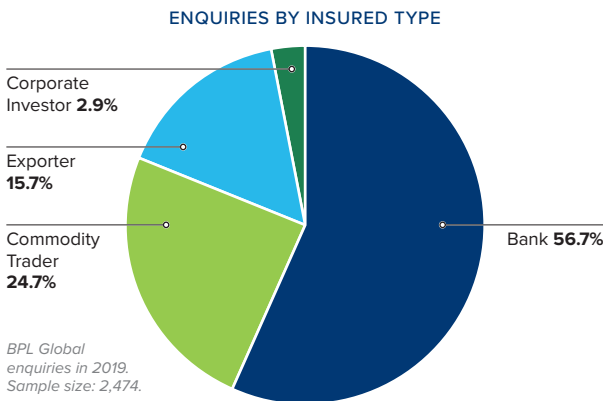


CPRI Demand Trends in 2019

Enquiries by Insured Type, Average Policy Limit and Average Policy Period

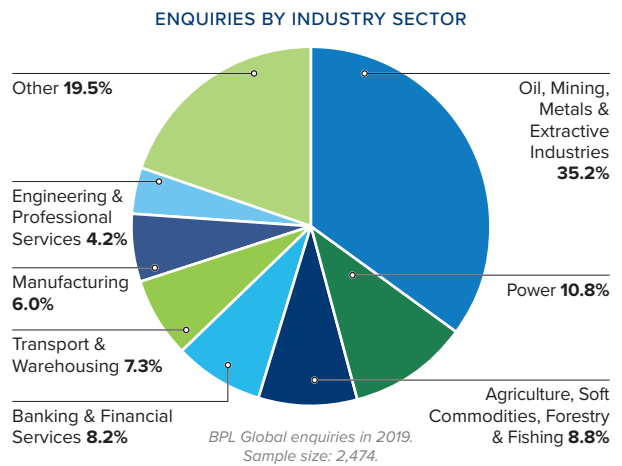
Across all of our 2019 enquiries, the average policy limit requested was highest among our bank clients at US\$65.5m. The corresponding average policy limit for bound policies for the same period is considerably lower at US\$21.5m but this can be explained by a combination of factors such as the evolution of the underlying transaction during the placement process,

the final coverage amount actually required, competition in the banking sector and the availability of both CPRI capacity and other risk mitigants. Our enquiry data also illustrates growing demand for longer-term coverage for exporters' project and investment risks irrespective of the source of financing, with the average policy period requested being 5.2 years in 2019.

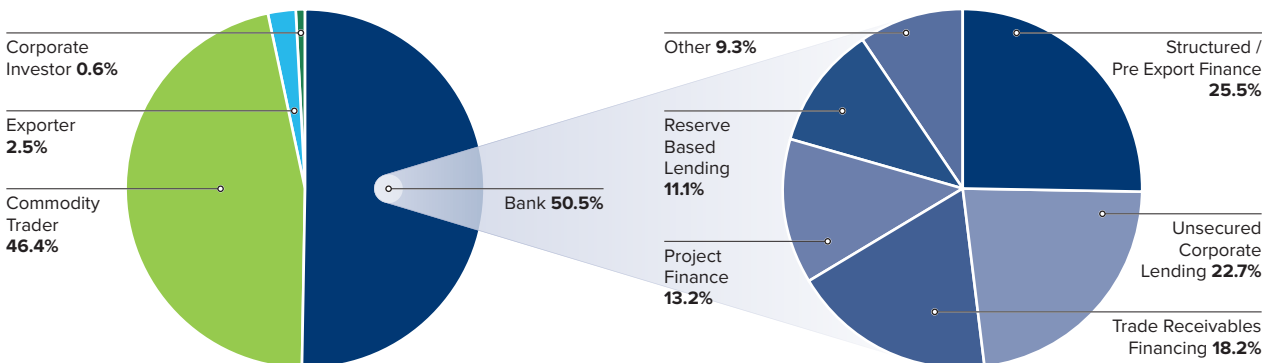


Enquiries by Industry Sector

In 2019, around a third of all BPL Global enquiries (2,474 in total) related to the oil, mining, metals and extractive industries – half of which were bank-financed deals. This represents a certain level of industry sector concentration risk for insurers, and it will be interesting to see how this picture develops over time as we expect increased demand for CPRI products to support renewable energy and related infrastructure projects over the medium-to-longer term.



OIL, MINING, METALS & EXTRACTIVE INDUSTRIES: ENQUIRIES BY CATEGORY OF INSURED & FINANCING TYPE



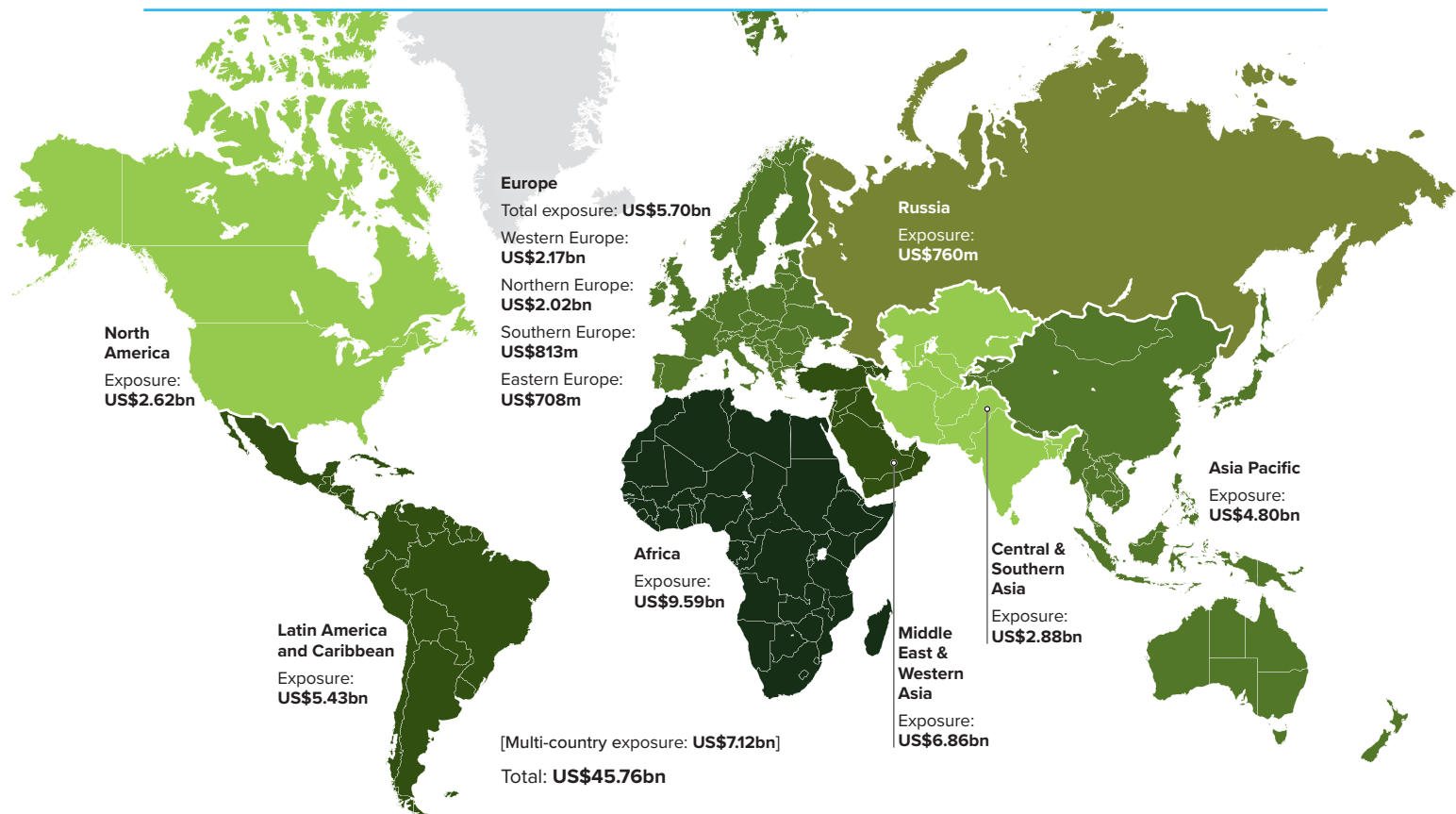
Enquiries by Country of Risk

While the CPRI market has historically covered emerging market risk, just over 10% of all enquiries we received in 2019 related to deals where the US, UK or France were the underlying country of risk. The increased demand for CPRI to cover OECD-located risk (representing approximately a quarter of all BPL Global enquiries in 2019) has been a general trend in recent years, in large part due to the wider application of insurance as a credit risk mitigation tool by banks' business lines.

ENQUIRIES BY COUNTRY OF RISK				
#	Country		Enquiries	%
1	United States		128	5.2%
2	Brazil		103	4.2%
3	Turkey		91	3.7%
4	United Kingdom		66	2.7%
5	China		66	2.7%
6	France		62	2.5%

BPL Global enquiries in 2019. Sample size: 2,474.

BPL Global's Portfolio: Regional Exposures



As at January 2020, the total exposure of BPL Global's portfolio of live policies stood at US\$45.76bn. Africa continues to represent our largest regional exposure, accounting for just over 20% of the portfolio. Of note is the increase in exposure in North America, which is up 46% on 2019 and has nearly doubled since January 2018 when it stood at US\$1.35bn.

Likewise, exposure to Europe stands at US\$5.70bn – up from US\$4.84bn as at January 2019 and by 75% compared to January 2018 when it stood at US\$3.65bn. Conversely, the CPRI market's exposure to Russia has decreased by approximately a third since January 2018 when it was US\$1.13bn, reflecting the increasing impact of international sanctions on our market.

Regulatory Developments



The European Commission is currently formulating its adoption of Basel III in consultation with the European Banking Authority. The Basel III Finalisation Package is on a timeline to be translated into national regulations before 2022.

Twelve months ago, the CPRI market was still nervously awaiting the Prudential Regulation Authority (PRA)'s considered position in response to the consultation paper CP6/18 issued in February 2018. This consultation solicited an unprecedented response (some 31 submissions) from the CPRI community, from banking and insurance trade bodies through to bi-lateral responses from banks, broker and insurers – all relating to the eligibility of guarantees as unfunded credit risk mitigation (CRM) and the ability for credit insurance to fit within these parameters. On 13th March 2019, the resulting Policy Statement (PS8/19) crucially incorporated some significant changes from the original proposals and served as an affirmation that credit insurance could meet the eligibility criteria if certain conditions were fulfilled.

Though this outcome was a huge relief for the industry, the experience served as a real catalyst for market change. It has driven greater recognition of the need for more market transparency, aggregated market data, better dialogue with state regulators and co-operation from all stakeholders to voice a consistent and unified message.

Such momentum needs to be harnessed, and the timing could not be more critical. The Basel III Finalisation Package is due to be translated into national regulations before 2022. In anticipation, the CPRI market is mobilising itself to provide the necessary inputs into this process to try to ensure there are no unintended consequences for the efficiency of credit insurance as a Credit Risk Mitigant when the Finalisation Package is rolled out at a national level. Given the domicile of many major CPRI clients, the initial focus for these inputs is the relevant European Union institutions.

The European Commission is currently formulating its adoption of Basel III in consultation with the European Banking Authority. To most effectively communicate the proficiency of credit insurance as a CRM, a consistent message from the CPRI community – validated by relevant data and communicated via specialist lobbyists – will be crucial.



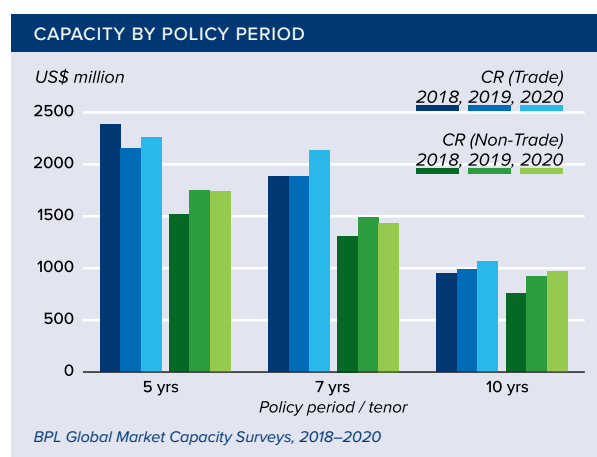
Market Capacity Survey

Given Lloyd's focus on the "Decile 10" of the least well-performing syndicates and the challenging broader market conditions, it is not surprising that we saw some consolidation in 2019. This has meant a few casualties in terms of insurance providers – although where these insurers have ceased underwriting our class of business, it has typically been part of a wider withdrawal from the insurance market across multiple business lines, and not specifically due to their CPRI book of business. That said, we have also seen some new joiners to the CPRI market and the results of our

latest market survey show that, overall, maximum per risk capacity has remained stable in 2020 compared to the two previous years. Of particular note is the amount of capacity still available at longer policy periods for non-payment private obligor risk (CR) – whereas in previous surveys we saw a sharper drop-off in capacity between policy periods of five and seven years, the latest data set shows that US\$2.13bn of capacity is still available for CR (Trade) risks at seven years, an increase of 13% on 2019.

MAXIMUM PER RISK CAPACITY				
	2018 (US\$)	2019 (US\$)	2020 (US\$)	Max Tenor (years)
Non-payment private obligor: trade (CR)	2.4bn	2.2bn	2.3bn ▲	20
Non-payment private obligor: non-trade (CR)	1.5bn	1.7bn	1.8bn ▲	20
Non payment public obligor (CF)	3.0bn	3.2bn	3.2bn –	20
Political Risk (PR)	3.0bn	3.2bn	3.1bn ▼	20
Project Finance (PF)	2.0bn	1.8bn	1.9bn ▲	25

BPL Global Market Capacity Surveys, 2018–2020



Claims Update

As in previous *Market Insight* reports, we have leveraged our claims statistics dating back to 1983, as well as that available for the wider market relating to banks and financial institutions, to provide an update on the performance of the CPRI market. Claims from banks and financial institutions constitute the bulk of our collections since the global financial crisis of 2008 – with just over US\$3bn across 486 claims settled to such entities between 2007–2018 across the market as a whole, and US\$500m paid in 2018 alone.

Of the compromised claims (comprising 3% of the total number during this period), 44% of the amount claimed was still paid as a result of settlements. In all these instances, the reason for the dispute did not concern the workings or effectiveness of the CPRI product itself, but rather the fulfilment by the policyholder of an obligation or term under the policy within the policyholder's control. We anticipate the latest 2019 claims data for banks and financial institutions will be available in the first half of 2020.

BPL GLOBAL CLAIMS SINCE 1983	
Claims settled:	489
Value of claims collected:	US\$2.66bn
Arising from losses occurring in 96 countries, with non-payment claims representing 85% by policy frequency.	

BPL Global figures as at January 2020

CLAIMS* FOR FINANCIAL INSTITUTIONS & BANKS: 2007–2018			
	Total market figure	BPL figure	Market figure
Amount claimed	US\$3.19bn	US\$880m	US\$2.31bn
Amount paid	US\$3.07bn	US\$866m	US\$2.21bn

CPRI market survey conducted by LMA / IUA published, May 2019
 *"Single situation" (transactional) non-payment claims for banks & financial institutions



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Best Trade Credit and Political Risk Insurance Broker
2009 2010 2011 2012 2013
2014 2015 2016 2017 2018
2019



Best Insurance Broker in Trade
2009 2010 2011 2012 2013
2015 2016 2017 2018
Best Insurance Broker
2019



Best Trade Credit and Political Risk Insurance Broker
2013 2014 2015



Best Credit and Political Risk Insurance Broker
2016
Best Commodity Finance Private Insurance Broker
2017



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