TEXEL OVERVIEW

Non-Payment Insurance for Banks

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Comprehensive non-payment insurance ('NPI') is used by banks and multilateral development financial institutions to manage counterparty credit exposures and, in many regulatory environments, to reduce risk-weighted assets held against an underlying counterparty.

The market for NPI was developed in the late 1990s but has rapidly grown post the implementation of Basel II to provide a significant pool of silent capacity which has helped lenders to manage their credit exposures in both emerging and OECD markets, whilst optimising their capital ratios.

The insurance market offering NPI is very broad in both number of insurers and notional insurance capacity that can be used to support any one transaction. In very broad terms, there are over 50 insurers operating within this product space in 2020 with between USD2.5bn–3.5bn of collective insurance capacity for each transaction. This is, however, very rarely deployed and would only be applicable for the most simplistic and attractive of trade finance exposures.

NPI when appropriately structured can provide our clients with confidence that the product will provide them with a promptly and timely indemnification in the event of a loss. The insurers are rated A- or higher and have consistently shown not only their ability but their willingness to pay insurance claims to our clients. This can be further reinforced with market claims data.

USD3.3bn* was paid in claims between 2007–2019 under non-payment insurance policies placed via brokers to financial institutions.

The NPI product can be employed by banks and multilateral developmental financial institutions to cover any of the credit exposures that are faced by these institutions. The most straightforward credit exposures generated through trade finance instruments through to the most complex of portfolios of derivative exposures can be insured by an NPI market that is willing to work in partnership with its clients to offer solutions to meet their ever-developing needs.

** Source: Independent Broker Survey published April 2020 as a follow up to the Lloyd's Market Association and International Underwriting Association Survey commissioned in 2017.*

EXAMPLES OF CREDIT EXPOSURES INSURED VIA NPI

- Trade finance products such as letters of credit or SWIFT loans
- Prepayments or pre-export financings
- Reserve-based lending
- General corporate lending
- Asset-backed finance such as shipping, aviation and railcars
- Project finance in commodities, renewables and infrastructure
- Derivatives and bonds

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:

- Global insurance market of A- or higher-rated insurers
- Capacity of USD2.5bn–USD3.5bn for tenors of up to 20 years across NPI markets for 2020
- Payment certainty for valid claims under a NPI policy when appropriately structured
- Partnership across many product lines
- Non-competitive and silent distribution option