Market Insight 2019

Credit and Political Risk Insurance

BPL Global
World Leading CPRI

Foreword

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It is no exaggeration to say that 2018 was a year like no other for those active in the credit and political risk insurance (CPRI) market. From Brexit preparations, to the coordinated market response to the Prudential Regulation Authority (PRA)'s consultation paper on credit risk mitigation (CP6/18), and much more besides, last year was one that will live long in the memory. Despite these regulatory challenges, there remains plenty of optimism for the continued growth and reach of our market in the coming years.

At the time of writing, we are less than two months away from the date that the UK is set to leave the EU. Whatever the outcome, and as our analysis on the following pages shows, BPL Global and the CPRI market are well-prepared to continue extending our high-quality service levels to our EU-based clients and to maintain a business-as-usual environment post-Brexit.

That said, it is not surprising that the CPRI market, given its size and maturity, has seen some casualties in terms of insurance providers. But even with the decision of a few insurers to discontinue writing CPRI in 2018, we have some new joiners, and capacity and product offerings continue to grow. Our 2019 market capacity survey indicates that while there has been a slight decline in overall credit capacity, there is an encouraging increase of around 15% in non-trade credit capacity and increases to both non-payment public obligor and political risk lines.

Last year's report touched on the importance of better harnessing data for the market's benefit and, in 2019, our dedicated IT team will continue to develop internal applications to enable this. Indeed, in 2018, BPL Global became the first broker to place a CPRI risk via PPL, the London market's electronic placing platform. Going forward, we will continue to embrace technology to create efficiencies and enhance our capabilities to support clients and the wider CPRI industry.

Last year saw us celebrate many milestones; we marked our 35th birthday with an event at London's Natural History Museum and opened two new offices in New York and Geneva. Now with seven global offices, this expansion reiterates our commitment to providing the best possible service to our global client base, while strengthening BPL Global's unique position as the CPRI market's leading broker – and one of the insurance market's largest independent and specialist broking firms. As we soon move into our new offices in the Scalpel, opposite the Lloyd's building, this theme is set to continue into 2019 and beyond.

We hope that this second edition of our Market Insight report makes for some interesting and informative reading.

In this report

Deal Or No Deal: The Market Prepares For Brexit

Contract continuity and long-term policies

One of the major concerns for the CPRI market since the UK's decision to leave the EU has been its potential impact on existing long-term policies. A prominent feature of the CPRI market, such policies extend beyond Brexit day and were underwritten by UK insurers relying upon their EU passporting rights.

Does the loss of UK insurers' passporting rights mean that these policies become unenforceable after Brexit?

We have obtained legal opinions in a number of key European jurisdictions confirming that, whatever the outcome of Brexit, the validity and enforceability of all insurance contracts will not be affected by an insurer's loss of licence or authorisation.

Can UK insurers continue to service and pay claims under such insurance contracts post-Brexit?

The picture is mixed depending on the jurisdiction of the insured. However, the transferral of business by CPRI insurers to new European entities of equivalent financial strength (shown on the map below) is removing any potential ambiguity on their ability to service existing, long-term contracts and pay claims.

In addition, France, Germany and the Netherlands have all committed to introducing emergency legislation allowing them to remove any legal or regulatory risk facing UK insurers suddenly deemed unlicensed carriers in the event of a "no-deal" Brexit.

Post-Brexit plans from UK-based insurers

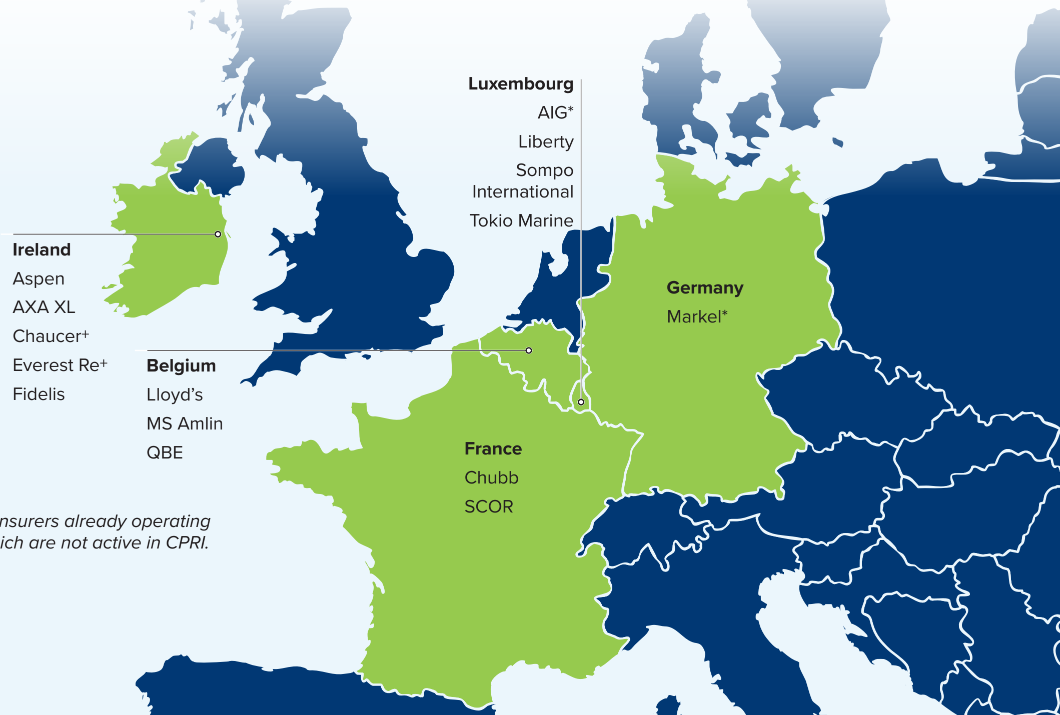
While, at the time of writing, the terms on which the UK will leave the EU and any future trade deal remain uncertain, insurers in our market have spent the past year putting contingency plans in place.

It has been clear for some time that in any future trade deal with the EU, the UK government will not seek passporting rights or an equivalent regime to continue after the UK has left the EU. As such, UK-based insurers currently relying on EU passporting rights to conduct cross-border business from London have either re-domiciled an existing company to within the EU or established a new European company and transferred existing business to this entity via a portfolio transfer (known as a "Part VII").

What are the prospects for EU-based insurers?

EU-domiciled insurers already operating in the London CPRI market via a UK branch (e.g. Coface, Atradius, etc.) will benefit from the Financial Conduct Authority's Temporary Permissions Regime (TPR) in the event of a "no- deal" Brexit. The TPR, announced in early 2018, will enable EU firms currently passporting into the UK to maintain their authorised status from a UK perspective for a limited period. After this, they will be required to convert their UK entity into a UK-authorised Third Country branch.

European insurers established in 2018/19 by location



KEY

* Insurers which have, or are, undertaking a Part VII portfolio transfer of European business (underwritten by their UK entity) to their new respective EU-domiciled company.

+ Insurers with a pre-existing European subsidiary.

This map does not include those European insurers already operating in the London market via a UK Branch or which are not active in CPRI.

Market Capacity Update 2018–2019

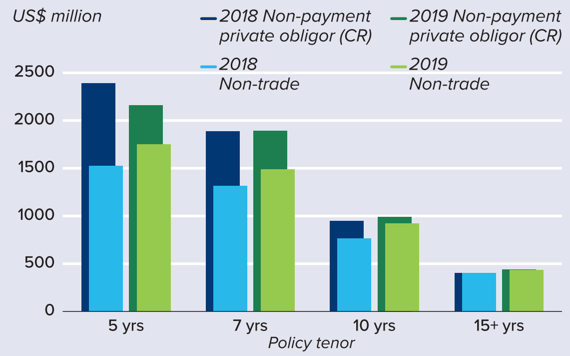
While the headline maximum per risk capacity has dropped slightly in some lines, a closer look at the data for non-payment private obligor risk shows that market capacity at tenors of seven years or more is on a par with last year (see bar chart). This demonstrates the CPRI market's continued appetite for covering long-term risks in this business line where the availability of capacity for short-tenor risks is rarely an issue. As for non-trade business (formerly coded as "Financial Guarantee" until Lloyd's regulations changed last year), we have seen an increase in maximum per risk capacity. Much of this comes from Lloyd's syndicates, partly due to the redefining of Lloyd's regulations governing this line of business during 2018, with syndicates now able to obtain approval in their business plans to write non-trade risks from 2019 onwards.

MAXIMUM PER RISK CAPACITY

	Max. Line (US$) 2018	Max. Line (US$) 2019	Max. Tenor (yrs)
Non-payment public obligor (CF)	3.0bn	3.2bn ▲	20
Non-payment private obligor (CR)	2.4bn	2.2bn ▼	20
Non-trade	1.5bn	1.7bn ▲	20
Political risk (PR)	3.0bn	3.2bn ▲	20
Project finance (PF)	2.0bn	1.8bn ▼	25

(BPL Global Market Capacity Surveys, 2018 & 2019)

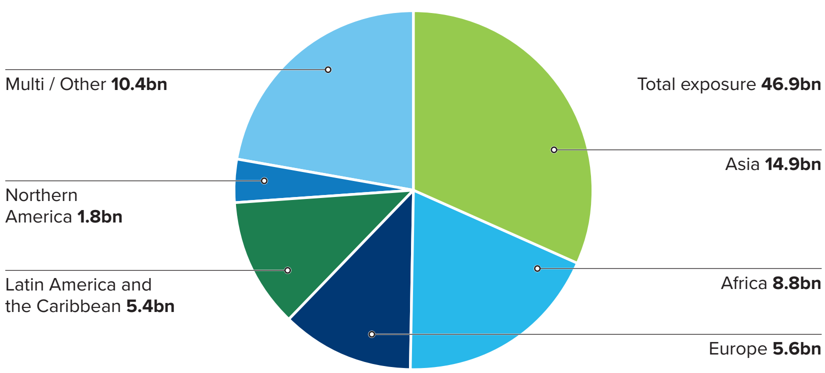
CAPACITY BY TENOR *(BPL Global Market Capacity Surveys, 2018 & 2019)*



Portfolio Update

Over the last 12 months, we have observed a marked increase of over 14% in the gross exposure across our portfolio, rising from US$41.1bn in January 2018 to US$46.9bn as at January 2019. Of particular note is the increase in OECD exposure in our portfolio which accounts for half of this uplift, with nearly US$2bn emanating from Northern and Western Europe.

OUR PORTFOLIO'S EXPOSURE BY REGION (US$)



BPL Global figures as at January 2019

Claims Update

BPL GLOBAL CLAIMS SINCE 1983

Claims settled: 474

Value of claims collected: US$2.54bn

Arising from losses occurring in over 90 countries, with non-payment claims representing 92% by policy frequency.

BPL Global figures as at January 2019

ALL TIME CLAIMS BY VALUE VS. CLAIMS BY VALUE 2016–2018

ALL TIME CLAIMS BY VALUE: AMOUNTS PER COUNTRY (US$m)

#	Country	Amount
1	Ukraine	509
2	Brazil	239
3	Russia	197
4	Indonesia	172
5	Venezuela	117
6	Kazakhstan	108
7	India	98
8	Thailand	71
9	Singapore	62
10	Cuba	56

CLAIMS BY VALUE 2016–2018 (US$m)

#	Country	Amount
1	Venezuela	113
2	Brazil	91
3	India	65
4	Congo	37
5	Azerbaijan	32
6	Spain	32
7	Germany	27
8	Gabon	27
9	Morocco	24
10	Eq. Guinea	19

BPL Global figures as at January 2019

As in last year's report, we have leveraged our unrivalled historical data (collected since 1983) to provide a claims update for the CPRI market. Last year was a continuation of the broadly consistent market trends that we have seen since the global financial crisis of 2008. Financial institution clients have received the bulk of our claim collections since then, with the African continent remaining the most challenging environment both economically and politically, resulting in both claims and restructurings.

Europe, too, has not been immune to such issues over recent years. Our data from the past three years shows some notable EU countries appearing in our top countries by claims rankings, which is a reflection of the diversity of risk the CPRI market covers. At BPL Global, we handled significant claims resulting from state-controlled banks suspending payments on principal and interest liabilities.

In both continents, the loss pattern is consistent with overall global claims activity for the past 12 months, which evidences that financial institution clients received almost 70% of all new claim payments made during the calendar year – which strongly correlates with their market share.

Although the market has paid out significant claims to our clients, the restructuring of financial models and refinancing of obligor debt has resulted in meaningful recovery payments in insurers' favour, again demonstrating the collaborative relationship between CPRI underwriters and BPL Global's clients.

Our historical data highlights the regional diversity of where claims have been collected, with the top five countries by claims value – Ukraine, Brazil, Russia, Indonesia and Venezuela – spanning three separate continents. The development of the CPRI product has largely been driven by our experience of working alongside clients with exposure in these regions. This has enabled us to continuously refine and improve the flexibility of our policy wordings in order to meet the evolving challenges of placing business in emerging markets. In this sense, the value of the CPRI product is self-evident, as the market has been able to respond effectively to client needs across a wide variety of risks and geographies.

Overall, our claims data continues to validate the CPRI market's non-payment product as an effective credit risk mitigation tool for banks under the Basel regulatory framework. The resilience of the CPRI market and efficiency of the claims process has contributed to strong relationships being established across a broad spectrum of organisations based on trust, reliability and professionalism.

Market Trends

BPL GLOBAL'S ENQUIRIES: QUICK STATISTICS BY TENOR

Over 80% of all enquiries were at tenors of five years or less

27% of Export Finance enquiries were at tenors of eight years or more

27% of Asset-Backed Finance enquiries were at tenors of seven years or more

45% of Unsecured Corporate Lending enquiries were at tenors of five years or more

BPL Global's enquiry flow, 1st June – 31st December 2018

Analysing BPL Global's enquiry flow over the last six months of 2018 shows that, in terms of risk location, there was an even distribution of enquiries between continents. Interestingly, OECD countries played host to a third of all risk enquiries. This evidences continuing demand growth for single-situation credit insurance beyond emerging markets.

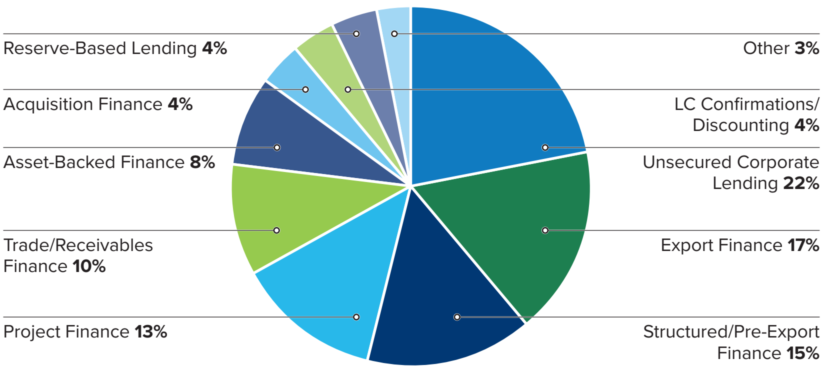
Although we have seen market capacity increase for longer policy periods, half of all enquiries are still short-term in nature (24 months or less). However, this analysis is solely based upon enquiry frequency and does not factor in monetary values or ultimate policies bound. 65% of our bound portfolio – representing approximately US$30.5bn of risk exposure – is generated from medium/long term transactions.

The market is still dominated by enquiries emanating from the extractive industries (Oil, Mining and Metals), which account for approximately 40% of all transactions submitted to insurers. However, Power-related enquiries (most notably from renewables) are increasing, along with Transport-related transactions, primarily for aircraft and shipping.

In terms of client base, financial institutions provide around half of all new enquiries. One in five of these enquiries relate to unsecured lending, driving the shift towards OECD territories. As would be expected, over 80% of unsecured lending enquiries are for tenors of five years or less.

In contrast, we have observed significant demand growth for longer-term project finance (PF) risks – accounting for 13% of all bank enquiries. These mainly emanate from the Power and extractive sectors and naturally push average tenors beyond seven years. Export finance and structured finance transactions also feature prominently, as shown below.

BANK ENQUIRIES BY FINANCING TYPE



BPL Global figures, 1st June – 31st December 2018

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GTR LEADERS IN TRADE

Best Trade Credit and Political Risk Insurance Broker

2012 2013 2014 2015 2016 2017 2018

Trade Finance Awards

Best Trade Credit and Political Risk Insurance Broker

2012 2013 2015 2016 2017 2018

TXF

Best Commodity Finance Private Insurance Broker

2016 2017

TFR

Best Trade Credit and Political Risk Insurance Broker

2012 2013 2014 2015 2016