Market Insight 2021

Credit and Political Risk Insurance

BPL Global

World Leading CPRI

spear clapham junction

a resurgo partner

Helping young people facing disadvantage in the UK back into employment or training

WE SEE HOPE

Creating sustainable change for vulnerable children in Southern and Eastern Africa

JUSTICE & CARE

Rescuing the victims of modern slavery and bringing to justice the criminal networks responsible

BPL Global is proud to be supporting these organisations, our three main charity partners, which are working to promote lasting positive social impact, particularly amongst disadvantaged young people.

bpl-global.com/charities

Foreword

James Esdaile
Managing Director,
BPL Global

It is hard to fathom that only a few weeks after we released last year's report, we switched off the lights at our London office in the Scalpel and entered the first UK lockdown. Nearly a year on and we are in the grip of the latest lockdown measures in the UK – although, happily, some of our overseas offices are now enjoying a little more freedom.

Much has been discussed about the impact of the COVID pandemic on the credit and political risk insurance (CPRI) market – not least by us through our regularly-issued COVID Update papers – so we don't intend to dwell on that subject in this year's *Market Insight*. What can be said is that market appetite for credit insurance was hardening pre-COVID and the pandemic has merely accelerated that trend.

Despite this, our annual market-wide capacity survey reveals resilience in our market in 2020, through steady aggregate capacity and numbers of active CPRI insurers. Client enquiry levels also remain strong. Of course, these are just headline numbers and do not tell the full story in terms of actual insurer appetite. As such, in this year's report we take the time to analyse specific areas which we hope you'll find informative.

Though there have been some winners and losers, we believe that, overall, the market has done a good job of continuing to meet our clients' demands.

As for us: while we are very much missing the day-to-day, in-person meeting of clients, insurers and colleagues (a vital feature of a normally-functioning CPRI market), there is no doubt that as a company with six offices globally, we have continued to operate well, even increasing our annual gross premium throughput to US$450 million.

Brexit is behind us – and while the equivalence between the UK and the EU on financial services remains uncertain, we are covered for every eventuality through our long-standing Paris subsidiary and continue to monitor the regulatory impact on our financial institution business. Investment in our IT capabilities also continues as a priority, with the pandemic accelerating the market's ability to trade digitally.

Furthermore, 2020 saw us forge two partnerships with specialist brokers in Israel (TCS) and Canada (EQUA), which are already bearing fruit. What's more we were one of the first brokers to conclude a transaction under Euler Hermes' Green2Green initiative, which insures green transactions and then invests the related premium in certified green bonds. We explore insurer appetite for green business in more detail within the report.

And though the CPRI market (along with our previous *Market Insight* analysis) remains dominated by bank buyers and their use of the non-payment product, in this year's report, we take the time to focus on market appetite for PRI for corporate buyers and banks, and update on the political violence (PV) market.

We hope you enjoy this latest *Market Insight* issue.

In this report

Market Capacity Survey

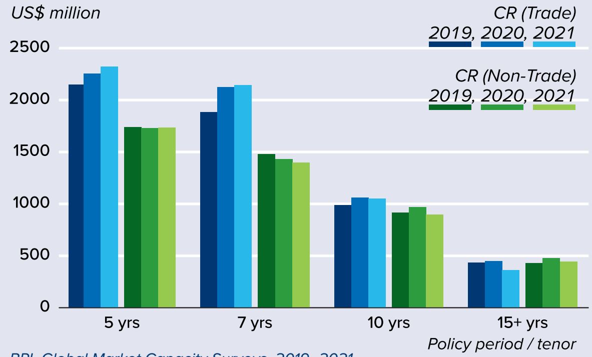
After a year of economic turbulence and uncertainty in the wake of the COVID-19 pandemic, the results of our most recent market capacity survey show that, overall, maximum per risk capacity has remained stable in 2021 compared to the previous two years. Indeed, there has been a marginal increase in the maximum capacity per risk for non-payment private obligor risk (CR), with the amount of capacity still available for tenors of seven and 10 years similar to last year's survey, as well as a small rise in maximum capacity for political risk. And despite the rhetoric from some quarters of a significant decline, maximum per risk capacity for non-trade private obligor risks has broadly held up in our survey with only a marginal reduction this year. Nevertheless, these figures of course reflect aggregate and theoretical capabilities of CPRI insurers as opposed to their appetite – and we have unsurprisingly seen decreased appetite to cover risks relating to those sectors of the global economy most negatively affected by the COVID-19 pandemic, such as hospitality, retail and aviation.

MAXIMUM PER RISK CAPACITY

	2019 (US$)	2020 (US$)	2021 (US$)	Max. Tenor (years)
Non-payment private obligor: trade (CR)	2.2bn	2.3bn	2.4bn ▲	20
Non-payment private obligor: non-trade (CR)	1.7bn	1.8bn	1.7bn ▼	20
Non-payment public obligor (CF)	3.2bn	3.2bn	3.3bn ▲	20
Political Risk (PR)	3.2bn	3.1bn	3.2bn ▲	20
Project Finance (PF)	1.8bn	1.9bn	1.9bn –	20

BPL Global Market Capacity Surveys, 2019–2021

CAPACITY BY POLICY PERIOD



BPL Global Market Capacity Surveys, 2019–2021

Claims Update

While our claims team has been hard at work on various cases during 2020, increased claims activity as a direct result of the COVID-19 pandemic has not yet materialised, with the CPRI market still awaiting the full financial impact of the pandemic, which we think will take considerable time to filter through. As was true on the placing side, the market's claims professionals responded well to the shift to remote working with no noticeable impact on insurers' claims handling.

As in previous *Market Insights*, we have leveraged BPL Global's own claims statistics, as well as those available for the wider CPRI market, to provide an update, with a particular focus on banks and financial institutions.

Since we were founded in 1983, we have settled nearly US$3 billion in claims. 100% of claims made by banks and financial institutions in 2018, 2019 and 2020 were paid in full with US$3.7 billion settled to such entities between 2007 and 2020 across the entire market. BPL Global alone handled 26% of these claims by value. Of the compromised claims (comprising 3% of the total number between 2007 and 2020), 44% of the amount claimed was still paid through settlements. In all of these instances, dispute arose due to the non-fulfilment of an obligation or term under the policy that was within the policyholder's control, rather than the efficacy of the CPRI product itself.

CLAIMS* FOR FINANCIAL INSTITUTIONS & BANKS: 2007–2020

	Total Market	BPL Global	Rest of Market
Amount claimed	US$3.75bn	US$969m	US$2.78bn
Amount paid in full	US$3.63bn	US$955m	US$2.68bn

CPRI market survey conducted by A2Z Risk Services for LMA/IUA, February 2021
**"Single situation" (transactional) non-payment claims*

BPL GLOBAL CLAIMS SINCE 1983

Claims settled: 510
Value of claims collected: US$2.96bn
Arising from losses occurring in 97 countries with non-payment claims representing 86% by policy frequency

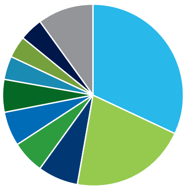
BPL Global figures as at February 2021

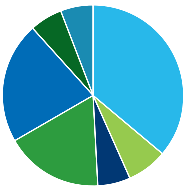
Deep Dive: Project Finance and Infrastructure

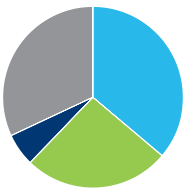
With rising focus on Environmental, Social, and Governance (ESG) issues and the next UN Climate Change Conference (COP26) in Glasgow later this year expected to enhance environmental ambitions set in the 2015 Paris Agreement, we anticipate ever-increasing demand for coverage on renewable energy projects – and for the CPRI market to respond accordingly.

While the overall number of enquiries we received in 2020 (2,247) fell by 9% from 2019 (with this drop mainly felt in the first half of the year), the proportion of PF-related enquiries – approximately 10% of this total – remained stable and comparable to 2019. This reflects the long-term nature of PF deals, which are modelled to ride out market volatility and at least one economic downtown.

91% of our PF enquiries regarded comprehensive non-payment cover (10% being fully supported by state-sector guarantees). The remaining enquiries concerned Political Risk coverage only.





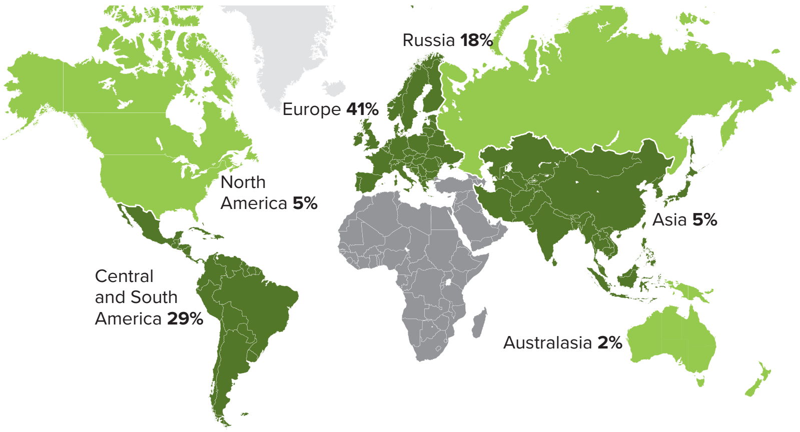


**BPL Global enquiries in 2020. Sample size: 216. Total number of enquiries: 2,247.*

Demand to support power projects

At 32%, the power sector represented the largest proportion of PF enquiries we received in 2020, up from 28% in the previous year. Of these enquiries, two-thirds related to renewable energy projects.

PF RENEWABLE ENERGY POLICIES: REGIONAL BREAKDOWN BY EXPOSURE (TOTAL: US$416.6M)



Aggregate policy limits across PF renewable energy deals: US$416.6m. BPL Global unexpired policies as at February 2021.

36% related to projects in Asia, with particularly noteworthy demand for coverage for both onshore and offshore wind farm projects in Vietnam and Taiwan. Meanwhile in the OECD, we have also seen strong demand for PF coverage for onshore and offshore wind in northern and western Europe, and solar projects in Australia, the US, Chile and parts of southern Europe.

Portfolio insights

As at February 2021, we have an aggregate policy limit of approximately US$416.6 million across existing PF policies covering renewables projects. Just over 40% of this exposure relates to Europe, and Russia alone accounts for a further 18%. CPRI insurers have also covered a number of renewable energy projects in Central and South America for our clients, representing another 29%. While the bulk of this portfolio relates to comprehensive coverage for banks and financial institutions, we have also placed a smaller number of political risk insurance policies for corporate clients investing in or financing these projects.

Key drivers

What's driving this shift? Firstly, many of the large European banks, key clients of the CPRI market, are specifically allocating more liquidity to support renewables projects.

Secondly, insurers are increasingly embedding their own ESG initiatives and targets beyond asset-side investment decisions and into their underwriting. Support for renewables projects also gives CPRI insurers diversification to other areas in the energy sector.

Regional Focus: Africa

While Africa continues to be exposed to political instability, and its economies remain sensitive to shocks – such as the recent Zambian sovereign default, and the pandemic more broadly – the continent remains BPL Global's largest regional exposure, with approximately US$9 billion of aggregate insured limits, as of February 2021. What's more, we have seen strong appetite from both clients and CPRI underwriters to venture into new African deals.

Both our enquiry flow and the number of policies bound in 2020 support this view that the private CPRI market is stepping up to support projects in Africa. Both clients and insurers – seeking well-priced, structured deals – are driving this trend.

Despite a reduction in enquiries of around 20% year-on-year for Africa-located risk, we have received around 450 enquiries relating to this continent in the last 12 months. Around two-thirds of this total were from banks, with the remainder split between commodity traders (20%), and exporters and corporates (14%).

In terms of insurer interest, underwriters have tightened their criteria, meaning it has been challenging to secure support from insurers for transactions with private obligors. They are, however, choosing to support sovereign or sub-sovereign obligors, and preferring deals with export credit agencies, development finance institutions, or multilateral involvement.

Crucially, however, we have seen client and insurer appetite translate into action. In 2020, we bound 82 new policies where the "country of risk" was in Africa – with an aggregate limit of US$2.4 billion.

Regarding the wider trend of green project coverage (as discussed on page five), we have received an increased number of enquiries for lenders' Political Risk Insurance

CPRI underwriters have increased their appetite for renewables projects in Africa

(PRI), in relation to renewables in Africa. These enquiries have been predominantly from European investment funds and Independent Power Producers looking to establish, or invest in, solar projects for private clients. These enquiries have attracted strong interest from underwriters, given the off-takers on such projects are private, as opposed to state-owned, entities.

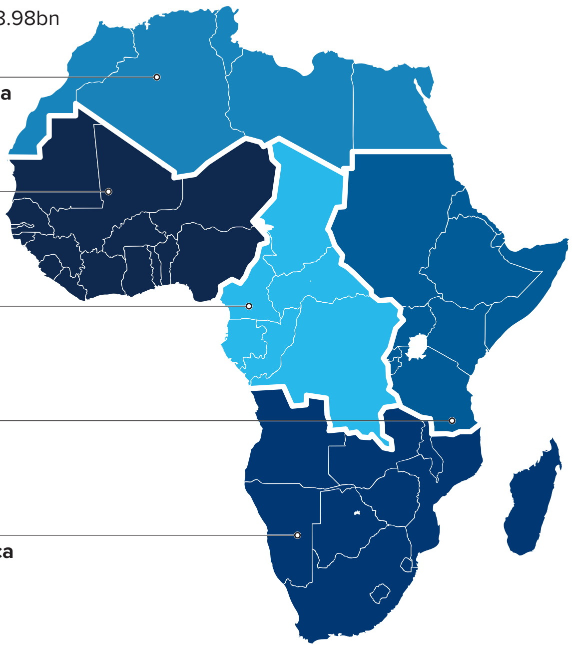
TOP 5 AFRICAN EXPOSURES

#	Country	Exposure
1	Angola	US$1.50bn
2	Ivory Coast	US$1.24bn
3	Egypt	US$1.08bn
4	Nigeria	US$750m
5	Ghana	US$729m

BPL Global figures as at January 2021

AFRICAN EXPOSURES BY REGION

Aggregate Exposure in Africa: US$8.98bn



Spotlight on: Political Violence

Unlike other areas of the CPRI market, political violence insurance (PV) is intrinsically linked to developments in the property insurance market and provides protections where property programmes have coverage gaps.

Rising relevance

Recent market hardening in the property space is resulting not only in a recalibration of pricing, but also in restrictions in policy terms and conditions, creating narrower coverage. This is at a time when political instability fed by social inequality has heightened, thus increasing risk for corporates.

The pandemic and resultant economic shockwaves have served to exacerbate the gulf between rich and poor, leading to increased political tensions manifesting into protests and violence in previously socially stable areas of the globe, such as the US and the Netherlands. Indeed, a nation's relative GDP alone does not necessarily cushion it from such stresses – making predicting where events will manifest, and in what form, far more challenging.

In a year that saw protests escalate across the world rising from such diverse foundations as historic colonial links to slavery and the modern-day world's just demands for diversity and inclusion, to accusations of electoral fraud (US), military coups (Myanmar), infringements of civil liberty (Hong Kong), constraints on democratic opposition (Russia), tensions between the authorities and sectors of their populations have visibly increased, spilling over into violence.

WHAT IS POLITICAL VIOLENCE INSURANCE?

- Focuses on property damage and business interruption caused by opponents of the incumbent government: protestors, rioters, terrorists, insurgents, rebels and rival powers
- Typically these coverages excluded by virtue of the "war risks exclusion" in general property insurance
- **Programme policy limits:** vary, but typically US$500m–US$600m and above on BPL Global programmes
- **Types of BPL Global clients:** global retailers, commodity traders, construction and nuclear power sector players

Plugging coverage gaps

The role of the PV market is to plug the gaps in a traditional property policy. A PV programme for a global corporate should be highly tailored to the insured's own needs, taking account of the property programme structure, and with clear focus on the exclusions. This dovetailing approach facilitates a seamless protection against political violence events.

There has been much recent innovation in PV market wordings but there is still more work to do, as we continue to push the boundaries of the available coverage in order to produce the most comprehensive cover available.

The role of the Political Violence (PV) market is to plug the gaps in a traditional property insurance policy

BPL Global

bpl-global.com

@BPL_Global

berry-palmer-&-lyle

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

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

Broking Firm of the Year
2019

LONDON • PARIS • NEW YORK • GENEVA • SINGAPORE • HONG KONG