Does CPRI live up to its claims?

By James Esdaile, Managing Director of BPL Global

As we arrive in New York for the first ExCred in the US, we are bound to be asked the crucial question: does the Credit and Political Risk Insurance (CPRI) product actually work? The simple answer is yes (but that would make for a rather short article). In insurance, the best evidence of product effectiveness is provided by claims history. In this respect, BPL Global has settled over 400 claims worth in excess of US$2.3 billion. Our claims statistics – tracing back to 1983 and covering hundreds of transactions – give us unrivalled historical data, demonstrating not only our claims handling ability but also the performance of the CPRI market in general. What's more, the CPRI market is currently pooling overall claims statistics from the past decade and so far, these figures corroborate our claims success rate.

If we break down these claims figures, we can appreciate the value that CPRI brings to financial institutions, corporates and investors. Over the years, BPL Global has successfully collected US$1.9 billion relating to non-payment policies and US$400 million relating to pure political risk, arising from losses that occurred in over 85 countries worldwide.

In the aftermath of the 2008 crisis, US$1.6 billion of CPRI claims were paid out – in full and on time – to our clients. Indeed, this and other financial crises, such as the Russian oil price crisis in the late 1990s, have spurred uptake in the CPRI market, as they reveal just how exposed banks and corporates are to such risk.

US appeal

Of course, such crises do not strike everyday – yet the CPRI product doesn't exist simply to mitigate the risk of such major events. Indeed, our most popular product is comprehensive non-payment insurance, which provides cover against default by public and private obligors without prescribing causation, thereby protecting against both political and day-to-day commercial risk.

In the US, we expect this demand to continue to rise. According to statistics from the United States Census Bureau, US corporates are diversifying from traditional export and investment markets to emerging markets such as China, Malaysia, Brazil and Russia – bringing increased risk of buyer default due to unknown political, economic and legal environments. For medium-long-term (MLT) deals, US corporates would traditionally approach their Export Credit Agency (ECA) to cover this risk. Yet, the private market has emerged as a genuine alternative to ECA-finance. Indeed, two thirds of our portfolio comprises MLT non-payment covering extended policy periods (in excess of 15 years), with our top three regional exposures being Africa, Eastern Europe and Asia.

James Esdaile

We are also witnessing significant – and increasing – demand from financial institutions seeking to cover lending and investment activities, through both short term trade finance, asset-backed finance, and clean corporate loans. For banks, the appeal of CPRI lies in the capital relief that it can provide. Of course, under the Basel II framework, regulatory capital must be earmarked to back up loans – however Basel III, introduced in the US in 2013, determines that as long as loans are insured, this regulatory capital can be released back into bank cash flow. In turn, this capital relief clause means that banks are able to reap more rewards from CPRI on a day-to-day basis, with immediate effect.

Since 2008, the global capacity of the CPRI market has nearly trebled due to its proven value and reliability. Making the most of this flourishing CPRI market requires a broker that is both experienced and solely focused on CPRI. At BPL Global, we have grown with the market over the past 30 years and are recognised as the leading specialist credit and political risk insurance broker, handling an annual premium volume of US$400 million. We look forward to continuing to support our clients in the US, delivering tailored insurance solutions that meet their individual requirements. ■