A CALL TO ACTION for the CPRI market

James Esdaile gives a rallying cry for collective action to take the market to the next level as it's no longer a 'dirty little secret'

Over the past four decades, the specialist Credit and Political Risk Insurance (CPRI) market has grown exponentially. Twenty years ago there were only 10 or so individual insurers seriously committed to the business, now we have nearly 60. And while the demand for the CPRI market's offerings has grown due to heightened political instability and increased use of the product by banks looking to achieve capital efficiencies and risk mitigation, much of the growth can also be accredited to the significant capital being drawn in to the market on the supply side.

This capital injection stems from a long-standing low interest rate environment and the increased desire among insurers to diversify their product offering, both in the context of depressed general classes of insurance and under the auspices of Solvency II.

The specialist CPRI market is now a US$2.5-3bn industry in terms of annual premium throughput, with an estimated gross market exposure of US$260bn. Certainly, these numbers make for impressive reading and demonstrate that the CPRI market is now a firmly established insurance class with a true sense of identity – however, it wasn't always thus.

Origin stories and evolution

The CPRI market's earliest origins can be traced back to the 1970s and 1980s when private insurers were simply being offered risk that either Export Credit Agencies (ECAs) were unwilling or unable to take, or were transactions deemed 'un-bankable'. A market of last resort. These days, however, given strong financial ratings and large single risk capacity in terms of liability and tenor, the market now finds itself competing with ECAs for client's risks as well as providing reinsurance support to the ECAs themselves. The dynamic between the ECAs and the CPRI market has been debated at length, and it is a debate I'll avoid here. However, given the CPRI market's current size and influence, we at BPL Global believe it needs to become better organised to promote both its own and its clients' best interests.

Barriers to overcome

As anyone involved in the CPRI market will advise, creating cooperation between insurers (and for that matter, brokers) in terms of promoting and safeguarding their collective franchise is much like trying to nail jelly to a wall. Other than a clear lack of coordination, there are several other factors that have held the market back. Confidentiality of the product is one, with the fundamental driver being concerns that the obligors' knowledge of the presence of insurance negatively influences their willingness to discharge their debts, as well as insurers' preference to be silent partners to their clients.

It can be argued that the lack of market coordination is a positive for clients as it demonstrates fierce competition within the CPRI market, which can only be in their interest. However, while client interest should always be at the forefront of any market practitioner's mind, that interest needs to be considered on a more holistic basis. All stakeholders should be conscious of the greater need for the market to promote itself in a more general sense by pooling statistics and jointly tackling threats to the business – be those regulatory or otherwise, for the collective benefit of both the clients and the market as a whole. Certainly, this can be achieved without jeopardising any individual policy confidentiality.

Indeed, while Lloyd's insurers have a group that meets regularly and are beginning to look at this issue in more detail, Lloyd's Syndicates themselves represent only half of all the insurers active in the CPRI market, so the challenge is to create one truly representative market body. A private market Berne Union equivalent, if you like. Though the Berne Union itself currently has a number of private insurers within its membership (which is of course healthy) facilitating the sharing of data between the public and private sectors, it is not representative of the private CPRI market as a whole, and nor are we advocating that it should be. The private CPRI market needs to establish a separate body to serve that purpose.

Market cooperation essential

Two other areas which could benefit from market cooperation are technology and product development. While BPL doesn't believe that anything other than face-to-face broking/underwriting can achieve the best results for clients, there is an argument that, for high volume business, the market could and should develop an IT system subscribed to by all active insurers. A few of our competitors have made noble efforts on this front, but we need a market-wide and owned platform. This can't be achieved unless all active insurers buy into the concept and all brokers access one platform. The other area is on the product side. Innovation in policy wordings is a key competitive dynamic in the market but this is currently driven by brokers with a vast divergence of approach. Insurers would do well to look jointly at streamlining and updating their offering in the face of continuous demand for more consistency and simplicity of the product.

We can have the best of both worlds. We can retain transactional and client confidentiality, but we need to give the market a coordinated voice. By doing so, we can potentially develop our own influence equivalent to the 'halo effect' often credited to ECAs, with obligors being aware of the size and impact our market has. Without a coordinated effort, our presence will continue to be somewhat denied with our voice going unheard, and it is this that threatens the development of our market, and in turn our offering to clients. The CPRI market is no longer a dirty little secret – it's time to take it to the next level.

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