

Credit insurance and public guarantees

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Trade finance relies on insurers whom banks and traders call upon to transfer part of the risk. Private credit insurance covers a buyer's default on payment, with ceilings per debtor and deductibles. Political risk insurance covers measures taken by a state — expropriation, inconvertibility, embargo — that prevent the performance of a contract, while cargo insurance covers the loss of or damage to the goods in transit and in storage. These covers, arranged in Geneva through specialised brokers and placed on the London market and with continental insurers, allow banks to grant larger facilities and to reduce the capital required, where the regulator recognises the cover as a risk mitigant.¹

Public guarantees complete this arrangement to a limited extent. Swiss Export Risk Insurance covers exports of Swiss goods and services, a narrow scope for a trading business that sells foreign goods. The export credit agencies of other countries cover their own exporters, while the multilateral development banks offer trade finance facilitation programmes that guarantee the banks of emerging countries towards confirming banks, among them the Geneva banks.² These programmes have gained in importance for the African flows described in Part I, where the risk of local banks limits the documentary credits that the Geneva banks are willing to confirm.

1 Notes

1. GTR, Risk 2024, "Credit insurance market braces for Basel 3.1": credit insurance is recognised as unfunded credit protection; under Basel 3.1, "Basel 3.1 removes the option for banks to model their own LGDs for credit insurance exposures and applies a 45% LGD"; the UK Prudential Regulation Authority confirmed this approach in September 2024, with effect from 1 January 2026, despite the industry's request for a 20% floor; around GBP 6 billion of credit insurance premiums received by

Lloyd's over ten years; Credendo, Annual Report 2020, BCGE testimonial (Credendo – Single Risk cover, the bank retaining more than half of the risk). ↩

2. IFC, “Global Trade Finance Program” (ifc.org): flagship programme having provided “over \$141 billion in trade finance support over the past two decades”, partial or full guarantees covering the payment risk of emerging-market issuing banks for the benefit of confirming banks, response within 24 to 48 hours via SWIFT, maturities of up to three years; African Development Bank, “Trade Finance Program” (afdb.org) and “De-risking trade finance in transition states in Africa: the need to increase the utilization rate of AfDB’s risk participation agreements” (risk participation agreements). ↩

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