

Basel Committee on Banking Supervision
Deputy Secretary General Karl Cordewener

London, 30 June 2016

Dear Sirs,

Consultative Document on Reducing variation in credit risk-weighted assets, March 2016

This is a submission by the Berne Union, the international association of export credit and investment insurers with 82 members from 73 countries founded in 1934. Our membership comprises both government-backed official export credit agencies ("ECAs") as well as private credit insurers. Together, in 2015, members provided payment risk protection to banks, exporters and investors amounting to USD 1.9 trillion, representing approximately 10% of world cross border trade for goods and services. Non-payment credit risk mitigation for banks arranging trade or investment finance loans can be provided via credit insurance or credit guarantees, both for short or long term lending, as the case may be.

We hereby like to provide our commentary for section 4.5 Credit Risk Mitigation.

In this regard we like to point out that there is ample empirical evidence regarding the quality and resilience of trade credit insurance, provided through the ICC Banking Commission's Trade Register for Medium / Long Term Export Finance products: <http://www.iccwbo.org/products-and-services/trade-facilitation/icc-trade-register/>

Export credit and investment credit insurance are solely provided to banks financing real economy trade activities. These type of credit risk mitigation products are neither suitable for any regulatory arbitrage nor do they render themselves for excessive leverage as they are exclusively available for loans financing new trade transactions.

Therefore the Berne Union likes to comment as follows:

- (1) The Basel Committee proposes (second bullet point) to remove the double default approach due to its complexity and the lack of evidence of its use by banks for certain credit derivatives and similar products used as credit risk mitigants.
All export credit or investment insurers providing risk mitigation products are soundly regulated counterparties for the banks. During the 82 years of its operation, the Berne Union has never encountered a default of any Trade Credit Insurer on its obligations. Therefore the Berne Union is convinced that a continued double default application is fully justified for loans benefitting from export credit or investment insurance that provides *comprehensive cover*, i.e. protection against both political as well as commercial payment risks.
- (2) The Basel Committee confines the definition of what constitutes unconditional guarantees that remain eligible as credit risk mitigants (third bullet point).
The Berne Union proposes to broaden this definition by deleting the section "and has completed the work-out process" as it is standard and practice for credit insurance to be payable following an agreed waiting period during which the bank, in consultation with the credit insurer, pursues the original obligor. Such waiting periods are not conditional on the completion of work-out process we therefore we consider the definition as proposed as too narrow and potentially demotivating banks from using trade credit insurance with very robust empirical evidence of substantially reducing Loss Given Default amounts for trade loans.

Yours sincerely,



Kai Preugschat
Secretary General



Topi Vesteri
President