Meeting Between Staffs of the Federal Deposit Insurance Corporation, Federal Reserve System, Office of the Comptroller of the Currency and Representatives from the International Trade and Forfaiting Association ("ITFA") and the International Association of Credit Portfolio Managers ("IACPM")

March 26, 2024

Participants:

Benedetto Bosco, Iris Li, Ernest Barkett, Richard Smith, Kyle McCormick, Merritt Pardini, Brian Cox, Adam Casella, Bob Charurat, Meraj Allahrakha, Huiyang Zhou, Lauren Brown, David Riley and Michael Maloney (Federal Deposit Insurance Corporation).

Johan Kind, Sarah Dunning, Jasmin Keskinen, Cecily Boggs, Mark Buresh, David Alexander, Isabel Echarte, Jasmin Keskinen, Matthew McQueeney and Abigail Roberts (Federal Reserve System).

Andrew Tschirhart, Amrit Sekhon, Kevin Korzeniewski, Carl Kaminski, Benjamin Pegg and Jie (Diana) Wei (Office of the Comptroller of the Currency).

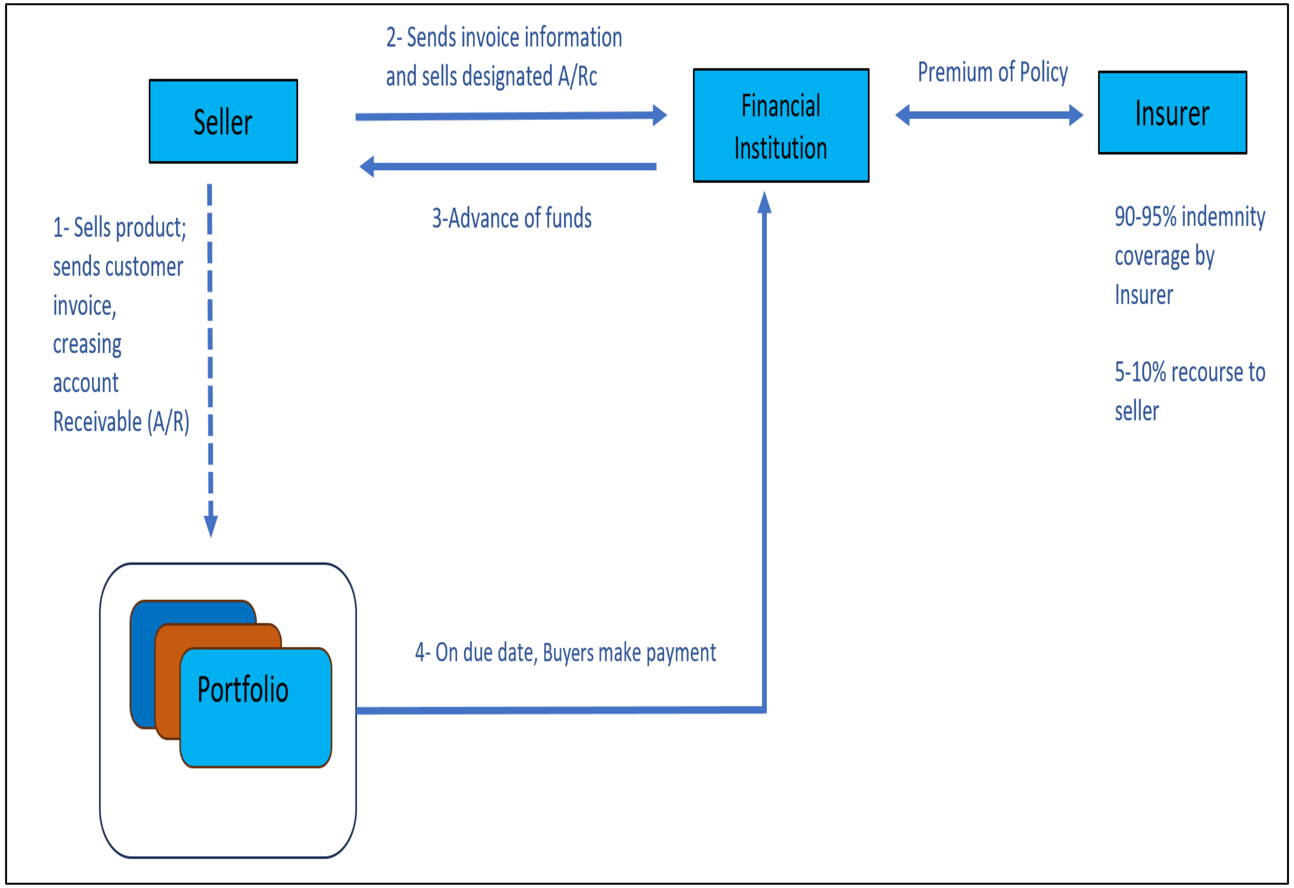
Sanjeev Ganjoo and Rajat Singhal (Citibank); Luigi Deghengh (Davis Polk & Wardwell LLP); Harpreet Mann (Amynta Group); Scott Pales (WTW); and Jennifer Bearden (IACPM)

Summary: Staffs of the Federal Deposit Insurance Corporation, Federal Reserve System, and Office of the Comptroller of the Currency (collectively, the "agencies") met with representatives from ITFA and IACPM (collectively, the "ITFA/IACPM representatives") regarding the agencies' Notice of Proposed Rulemaking on Regulatory Capital Rule: Large Banking Organizations and Banking Organizations With Significant Trading Activity (FDIC RIN 3064–AF29) (the "NPR"), which was published in the Federal Register on September 18, 2023 (88 FR 64028). The ITFA/IACPM representatives discussed insurance-backed receivables transactions and the timeliness of payments as outlined in the attached slide presentation that they provided in connection with the meeting.

Insurance Backed Receivables Finance

March 2024

Illustration of a typical Insurance Backed Receivables Transaction



Insured	Financial Institution
Insurer (Eligible Guarantor)	Prudentially regulated company that has issued investment grade public debt
Covered event of loss per the insuring agreement	Nonpayment by the buyer for which the insured financial institution has purchased a receivable from the originator
Amount of loss	The amount not paid by the obligor on the due date
Conditions	Within the control of the insured financial institution
Tenor	Short term (180 days or less) self liquidating transactions covered under 1 year policy

Today’s Topic: Timeliness of Payment

- In our white paper dated June 2023 and in a prior presentation to the Federal Reserve dated November 2023, we explained how banking organizations could analyze certain trade credit insurance policies as meeting the requirements of a “guarantee” and “eligible guarantee”, provide that they were issued by an insurer that qualified as an “eligible guarantor”

- Those submissions briefly evaluated trade credit insurance policies against all of the definitional criteria of an “eligible guarantee”

- Today’s topic is focused on just one of those criteria: timeliness of payment

Structural Policy Item	Policy Section	Basel Eligibility Criterion
Timeliness of Payment	The policy is established typically with a 90-day waiting period. See Endorsement #1 (Country Limits of Liability and Waiting Periods Endorsement).	The seventh criterion requires the guarantee to require that the protection provider make payment to the beneficiary upon the occurrence of an obligor default on the reference exposure in a timely manner without the beneficiary first having to take legal actions to pursue the obligor for payment.

- The following slides will explain why we believe appropriate trade credit insurance policies could satisfy the timeliness of payment criterion

Timeliness of Payment

Date of Loss Occurs → Waiting Period Starts → Bank Files Claim → Insurer Reviews Claim → Insurer Pays Claim

- **Date of loss** is the date when **nonpayment** by or **insolvency** of the obligor occurs; waiting period commences on the **date of loss** (note, the **waiting period** for **insolvency** generally is 0 to 30 days)
- From the **date of loss** through the **waiting period**, the bank mitigates the loss
- During the **waiting period**, the insurer is in conversations with the insured about the event and quantum of loss; reserves reviewed by the insurer
- Claim filed by bank with documentation evidencing the event of loss and quantum of loss
- Claim reviewed by the insurer; claim approval is not contingent on any specific risk mitigation action (such as commencement of legal proceedings)
- Claim payment made by insurer

Timeliness of Payment

- In summary, a typical trade credit insurance policy requires the insurer to make payment within 15 business days after the expiration of a 90-day waiting period
    - A banking organization may have been advised prior to then that the claim has been accepted for payment
- While we believe that the meaning of “timely manner” depends at least in part on the commercial context and industry common, on the basis of how typical trade credit insurance policies work with respect to timing of payments, banking organizations could conclude that such a policy would generally meet the definitional criterion for timeliness of payment

Appendix

Historical Losses

	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2018 to FY 2023
Total Insurance Claims ($MM)	501	232	329	331	55	409	1,857
Claims Paid in Full and On time ($MM)	501	232	329	331	55	409	1,857
Compromised Claims ($MM)	-	-	-	-	-	-	-
Loss estimate	0%	0%	0%	0%	0%	0%	0.0%

- Full Comprehensive Non-Payment Industry Data as published by A2Z Risk Services Ltd.
- 100% of the claims made by regulated financial institutions from 2018 through 2023 were honored as required by the insurance policy.
- Though all policies do not have the same waiting period, as a general rule these policies will contain a 90-day waiting period or less.

Reserving

- ❑ Reserving ensures that an insurer can meets its liabilities in the future
- ❑ Reserves can be specific to a claim reported or claims that are incurred but not reported (IBNR)
- ❑ Regulatory requirement for insurers to maintain reserves in an “amount estimated in the aggregate to provide for the payment of all losses or claims incurred on or prior to the date of statement, whether reported or unreported…” (NY Ins § 1303)
- ❑ For every $1 of premium earned, a portion will be put towards reserves for payment of losses as well as loss adjustment expenses
- ❑ Reserves are adjusted regularly depending on loss activity or anticipated loss activity
- ❑ On an annual basis, use external audit firms to confirm and sign off on reserves set by internal reserving actuaries