



Texel Insights

Managing Counterparty Limits in Credit and Political Risk Insurance: A Strategic Perspective

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About *Texel Insights*

Texel Insights are reports that analyse how the credit and political risk insurance market is evolving and what these trends and changes mean for our clients. We combine data and emerging trends with our specialist expertise and market perspective to support informed decision making in a complex and ever changing environment.

Executive summary

The increasing integration of credit and political risk insurance (CPRI) into banks' risk distribution and capital optimisation strategies is creating a new and often underestimated constraint: **the management of counterparty limits**. As institutions scale their use of CPRI, exposures to insurance counterparties grow structurally, driven by recurring transactions, renewals, and broader application across business lines.

Despite the continued development of the CPRI market, exposure remains concentrated in a small group of highly rated insurers, reflecting both credit considerations and practical execution dynamics.

At the same time, internal risk frameworks often fail to fully capture the diversification benefits of contingent insurance exposure, treating it similarly to direct lending risk and, in doing so, potentially overstating concentration.

If left unaddressed, these dynamics can become a binding constraint on the further deployment of CPRI, limiting banks' ability to optimise capital, manage portfolios efficiently, and deliver tailored solutions to clients. However, this challenge is not a sign of structural weakness, but rather a natural consequence of the successful adoption of the product.

Our experience across the market suggests that an initiative-taking and strategic approach—combining diversification, portfolio steering, and more nuanced risk frameworks—enables institutions to manage these constraints effectively while sustaining growth and maintaining a client-focused proposition.

Andres Ortiz

Consultant

September 2026



Market context

Over the past decade, CPRI has evolved from a tactical risk mitigation tool into a core component of syndication, risk and balance sheet management for banks and financial institutions (FIs).

Its appeal lies in its flexibility and efficiency: as an unfunded risk transfer mechanism it enables institutions to expand distribution capacity without transferring the underlying assets off balance sheet, optimise regulatory capital, and potentially enhance returns, among other benefits.

As organisations mature in their use of CPRI, the initial operational challenges associated with onboarding the product—such as coordinating across origination, credit risk, legal, and finance teams—are gradually overcome. Processes become more standardised, internal stakeholders more aligned, and the product becomes embedded within broader portfolio management strategies.

Yet, this greater level of adoption brings with it a second-order effect. The unfunded nature of CPRI means that while credit risk is transferred away from borrowers, it is simultaneously transferred onto insurers. Over time, and particularly in environments characterised by recurrent transactions and renewals, this results in a structural accumulation of exposure to a limited set of counterparties.

This dynamic is further exacerbated by market realities. Although the number of insurers active in the CPRI space has increased –and continues to do so– the pool of highly rated and consistently reliable counterparties remains finite.

In practice, banks tend to concentrate their exposure among a smaller group of insurers whose appetite, expertise, and execution capabilities align closely with their needs.

The treatment of Lloyd's as a single credit exposure in many internal frameworks can amplify this concentration effect, even where risk is distributed across multiple syndicates.

Texel analysis

From our perspective, the emergence of counterparty limit constraints should be understood as a structural outcome of successful CPRI adoption rather than a discrete or temporary issue.

Several interrelated drivers underpin this phenomenon.

01

The cumulative nature of CPRI utilisation plays a vital role. Insurance coverage tends to persist over time, either because underlying financings are long-dated or because shorter-term transactions are repeatedly refinanced and renewed. In both cases, new coverage is layered onto existing exposure, resulting in a gradual but sustained increase in insurer utilisation.

02

As institutions expand their use of CPRI beyond traditional distribution purposes into areas such as capital optimisation and portfolio risk management, the volume and diversity of insured transactions increase significantly. This expansion, while strategically beneficial, accelerates the rate at which counterparty limits are consumed.

03

Third, diversification in theory does not always translate into diversification in practice. Even where banks have onboarded a large number of insurers, exposure frequently concentrates in a small subset. This is often driven by alignment in risk appetite, sector expertise, and execution record, as well as the preference for higher-rated insurers that offer more efficient capital treatment.

A further, and particularly important, consideration relates to how risk is measured. In multiple institutions, contingent exposure to insurers is treated in an equivalent manner to direct lending exposure, despite the fundamentally different risk profiles. Direct lending exposure is typically correlated and linked to the performance of a single borrower or group, whereas CPRI exposure is usually diversified across multiple underlying transactions, sectors, and geographies.

This lack of differentiation can lead to an overestimation of effective concentration to insurers, reducing the available headroom under counterparty limits and constraining usage unnecessarily. In our view, this represents one of the most significant—and addressable—inefficiencies within current frameworks.

Importantly, counterparty limit challenges tend to emerge only after institutions have reached a certain level of maturity in their use of CPRI. As such, they should be interpreted as a sign of success and scale, rather than a limitation of the product itself. However, once reached, these constraints can quickly become binding if not addressed proactively.

Counterparty risk

Understanding counterparty risk: why financial strength rating (FSR) matters more than credit ratings

When assessing counterparty risk in CPRI, a frequent misconception is to rely on traditional credit ratings such as financial credit rating (FCR) or issue credit rating (ICR). From an insured's perspective, the FSR should be the most relevant metric. This reflects the insurer's ability to meet its policy obligations and incorporates structural protections that favour policyholders in stressed scenarios. In practice, an insured's exposure is to the claims-paying capacity of the insurer rather than its general corporate creditworthiness.

Two perspectives on the same counterparty

Insurers are assessed through different rating lenses depending on the stakeholder. **The FSR focuses on policyholders and evaluates whether the insurer can meet its contractual obligations under insurance policies.** By contrast, issuer credit ratings such as FCR or ICR evaluate whether the organisation can repay its financial debt, reflecting the perspective of lenders and capital markets. These ratings address different risks and should, ideally, not be used interchangeably.

The difference between these ratings is not merely technical. It reflects the distinct legal and economic treatment of insurance liabilities versus financial debt. Insurance obligations benefit from regulatory oversight, capital requirements, and dedicated reserves. Debt obligations, on the other hand, are subject to broader corporate credit dynamics and are structurally subordinated to policyholder claims in a downside scenario.

Insurance frameworks are designed with the explicit objective of protecting policyholders. Regulatory regimes require insurers to maintain sufficient capital within the operating entity and restrict the transfer of assets that could impair their ability to pay claims.

This creates a ring-fenced environment in which policyholder liabilities are prioritised. As a result, the insurer's balance sheet is structured in a way that favours claims-paying capacity over the servicing of external debt.

Implications in an insolvency scenario

In a remote insolvency scenario, the distinction becomes particularly relevant. Policyholders benefit from priority mechanisms embedded in both regulation and insolvency practice. While they may formally sit within unsecured creditors in some jurisdictions, they are typically given preferential treatment within that class, reflecting the protected nature of insurance claims. Investors and unsecured lenders, particularly at holding company level, are therefore exposed to a structurally subordinated position.

Relevance (and difficulties) for CPRI transactions

For banks and corporates using CPRI solutions, this structural framework has direct implications. The exposure to the insurer is not equivalent to unsecured lending risk. Instead, it is exposed to a regulated entity whose primary obligation is to honour insurance contracts, supported by capital and supervisory safeguards. This distinction explains why FSR provides a more accurate representation of counterparty risk in insurance transactions.

However, most banks and FIs do not distinguish between their credit risk exposures to counterparties with whom they face FCR/ICR and FSR, and hence, end up treating the counterparty risk exposure equivalently. The potential effect may have consequences in terms of the ratings of the counterparties –when there may be a difference between the FSR and the FCR/ICR—and more importantly for this article, the lack of differentiation between the counterparty limits allocation to contingent risk counterparties vs. direct lending ones.

Implications and strategic response

The implications of unmanaged counterparty limit pressure are both strategic and operational.

At a strategic level, banks may find their ability to originate and distribute new transactions increasingly constrained, particularly in areas where insurance plays a critical role in risk transfer and capital optimisation. This, in turn, can impact their competitiveness and their capacity to meet client needs in a flexible and efficient manner.

Operationally, limit constraints introduce additional complexity into execution. Allocating insurer capacity becomes more challenging, transaction timelines may be affected, and reliance on a narrower set of counterparties can increase execution risk. There is also the potential for suboptimal outcomes if institutions are forced to work with less suitable insurers due to capacity constraints.

Potential solutions



Start by building a diversified base of counterparties



Optimising insurer capacity



Differentiate between direct lending exposure and contingent exposure



Re-insuring the insured transaction/
portfolio



Fronting



Other structural solutions

Implications and strategic response

Start by building a diversified base of counterparties

Although this is a quite simple idea, it is important to keep in mind when building up capabilities.

Leading banks are adopting a more structured and forward-looking approach to managing counterparty limits. A key pillar of this approach is the active diversification of insurer panels, with a focus on expanding relationships with both established and emerging providers. This requires continuous engagement with the market and close coordination with internal credit risk functions to facilitate onboarding and limit allocation.

Equally important is the active management of insured portfolios. By steering renewals and extensions towards a broader set of counterparties, institutions can optimise the use of available limits and preserve capacity with key insurers for transactions where their participation is particularly valuable.

Optimising insurer capacity

When FIs constantly face challenges with limits of certain insurers, they may also want to review their existing insured portfolio. This is to anticipate renewals and extensions of insured transactions that could be directed to additional insurance counterparties in order to “reserve” some capacity of [INS-A] for transactions where the FI knows that [INS-A] will either have an edge or be the only one with whom they can insure, i.e. optimising the counterparties’ capacity.

Differentiate between direct lending exposure and contingent exposure

CPRI teams should also engage in constructive dialogue with the credit risk team, the broader risk team and other internal stakeholders to assess the possibility to differentiate credit risk exposure to direct lending vs contingent risk. They should consider both of these - the diversification of the underlying portfolio of the

contingent risk exposure, as well as the difference between FSR and FCR/ICR to define the guidelines to increase limits for contingent risk counterparties, as well as the implementation process.

Re-insuring the insured transaction/portfolio

From time to time, there may be specific operations, counterparties or times in which banks/FIs face challenges with credit limits with a counterparty that may be crucial to close the insurance coverage of a specific deal. One option that may be explored is to (re)insure the insured operation. This implies that the FI would insure an underlying operation with an insurer [INS-const] with whom it has limit constraints, while simultaneously, (re)insuring that insured transaction with another insurer [INS-reinsur] with whom they have available capacity. The idea would be to transfer the credit risk to insurer [INS-reinsur], as they would be the ultimate credit risk counterparty, in case both, the underlying transaction and insurer [INS-const] were to simultaneously fail.

This type of coverage, while not common, may be available. The insured risk for insurer [INS-reinsur] would be remarkably high quality, as the chance of having a double default by the underlying debtor and insurer [INS-const] would be very slim. Nevertheless, it is reasonable to expect that it would come at a cost as any coverage requires a premium, however low.

This solution is not frequently seen, nor recommended for high or repetitive volumes. However it could be considered for cases that are highly valuable and where there is no other option than an insurer with constrained limits.

Implications and strategic response

Fronting

Here the FI would work with an insurer [INS-frtr] to “front” the insurance coverage, i.e. to be the underwriter of the transaction. From the FI perspective, they would work with [INS-frtr], as they do with any other insurer, which means that [INS-frtr] needs to be onboarded and have available credit limits.

The issue here is that the insurer [INS-frtr] would not normally have either the appetite or capacity to underwrite this transaction on its own, and they would only do it because the insurer [INS-const] would actually insure them on the back, transferring the ultimate credit risk to themselves. The reason the FI would do this is because of a lack of credit limits with [INS-const].

This solution is feasible, though uncommon for several reasons, including the difficulty to find fronters with:

- Equivalent rating
- Product capabilities
- Spare capacity
- A willingness to front

The “fronter” could potentially offer to do this on a particular occasion, either because they have a good relationship with the FI, with [INS-const] or with both. However they could be genuinely concerned about using their limits with the specific FI to front transactions that may not be their core business, while they would earn very low premiums for their sole “fronting” role. On the other hand, the potential upside could be that they develop an appetite for those types of transactions.

Other solutions

There are other ways to solve particular or structural challenges created by the lack of available limits to certain insurers. These could include the funding of a specific structure, in order to free up space of the insurer, all the way to setting up a credit insurance captive for the FI. However these solutions may require a deeper look into the roots of the problems and the expectations of the FI in terms of costs, time and complexity.

Outlook

The importance of effective counterparty limit management is set to increase as CPRI continues to evolve as a core strategic tool for banks. While the supply of insurance capacity is expected to grow, it is unlikely to keep pace evenly with demand, particularly in the higher rating segments.

At the same time, regulatory and internal expectations around risk management are likely to drive greater sophistication in how institutions measure and allocate exposure. This creates an opportunity for banks to revisit and refine their frameworks, aligning them more closely with the realities of CPRI risk transfer.

Those institutions that adopt a hands-on and strategic approach—combining market engagement, portfolio optimisation, and internal innovation—will be best positioned to sustain growth, optimise capital, and deliver differentiated solutions to their clients.

Counterparty limits are an inherent feature of a mature CPRI strategy and a natural by-product of its successful integration into banks' operating models. Rather than constraining growth, they should be viewed as a dimension to be actively managed and optimised.

Our experience demonstrates that, with the right combination of market insight, analytical rigour, and client-focused execution, institutions can navigate these constraints effectively.

In doing so, they not only preserve the benefits of CPRI, but also reinforce their ability to deliver consistent and innovative solutions in an increasingly competitive landscape.

About Texel

We are the leading independent credit and political risk specialist insurance broker based in London, with offices in Brussels, Singapore, and New York. We create innovative, bespoke non-payment insurance solutions for financial institutions, corporations, multilateral development banks and commodity traders. In 2025 we cemented our independence by transitioning to 100% employee ownership through the creation of the Texel Employee Ownership. This move ensures our long-term independence, protects our unique culture, and directly rewards the dedication and hard work of our employees.

Philanthropy is a cornerstone of our culture and identity and in 2015 we formalised our volunteering and fundraising activities through the creation of the Texel Foundation. Businesses have a social responsibility to give back – and the more profitable we are, the more money we can give away. Every year we allocate 10% of net profits to the Foundation, which partners with charities and social enterprises that promote health, education, social mobility and artistic opportunity. Since its formation, it has supported over 100 programmes across 25 countries, donating over £4,500,000.

We received a Bronze medal from EcoVadis in 2026, a company that helps others assess and manage sustainability practices within their supply chain. We are also a signatory to the United Nation's Environment Programme Finance Initiative (UNEP FI) Principles for Sustainable Insurance (PSI); this initiative is the largest collaborative initiative between the UN and the insurance industry.





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