Content of question:
Is it possible to use insurance against not paying back a loan as a credit risk mitigation technique? Must a foreign insurance company be regarded as eligible by the CNB?
Answered by: **Radka Litošová, Martin Pícha** Approved by: **Pavel Vacek** Date: **1 November 2007**

Piece of law	**Decree No. 123/2007 Coll.**
Provision	**Annex 15, B, a), 1**
Explanation	Directive 2006/48/EC, as well as the Decree implementing this Directive, makes it generally possible to recognise insurance as a credit risk mitigation technique. For example, some insurance policies provided by Exportní garanční a pojišťovací společnost, a.s. (Export Guarantee and Insurance Company, plc) can be deemed eligible for recognition for regulatory purposes as "selected legal instruments of a similar function" as bank guarantees and surety pursuant to Annex 15, B, a) to the Decree, being therefore unfunded credit protection. However, the insurer (insurance company) must always meet the requirements on the provider of unfunded credit protection laid down in Annex 15 (especially B, c)) and possibly also B, f)) and, furthermore, all conditions and prerequisites for the eligibility of this type of credit risk mitigation technique laid down in Article 103 and Annex 15 must be met. If credit risk were insured by a foreign insurance company a similar procedure would apply. A foreign insurance company is looked on in the same way as a domestic insurance company. Assessing the eligibility of individual credit risk mitigation tools for the purpose of calculating the capital requirement is fully up to the liable (regulated) entities. The CNB will assess meeting the eligibility conditions during on-site inspections.