

Content of question:

Which risk weight shall be used for calculating the risk-weighted exposure amount protected by insurance provided by Komerční úvěrová pojišťovna EGAP, a.s.?

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Approved by: **Pavel Vacek**

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Piece of law	Decree No. 123/2007 Coll.
Provision	Annex 15, B, c), 8
Explanation	<p>Komerční úvěrová pojišťovna EGAP, a.s. (the Commercial Credit Insurance Company EGAP, plc) (hereinafter "KÚP") conducts insurance business pursuant to Act No. 363/1999 Coll. Nevertheless, it falls outside the scope of the application of Act No. 58/1995 Coll., on Insuring and Funding of Exports with State Subsidies. Therefore, it is excluded from the provision of state support. An insurance company is generally deemed an unfunded credit protection provider pursuant to Annex 15, B, c), 8 to the Decree – the so-called "other legal persons". Consequently, one of the eligibility requirements is that it has a rating which corresponds to a risk weight of 50% or less under the Standardised Approach.</p> <p>In case the provided insurance meets the unfunded credit protection eligibility requirements laid down by the Decree, a liable entity using the Standardised Approach (after reflecting possible currency or maturity mismatches) shall apply a risk weight determined on the basis of the rating assigned to KÚP by an eligible rating agency to the part of the exposure fully covered by the KÚP insurance. The risk weight shall be determined in accordance with the credit quality step assigned to the rating in question by the Czech National Bank. Information on mutual correspondence between external ratings and these credit quality steps is available on the CNB website.</p> <p>In the case of liable entities applying the IRB Approach the eligibility is determined on the basis of the internal rating assigned to KÚP and in accordance with the provision of Annex 15, B, c), 8, 8.2 to the Decree.</p> <p>If the existing rating of KÚP corresponded to a risk weight of more than 50% it would not be possible to reflect the insurance for the purposes of lowering the credit risk capital requirement, because one of the eligibility requirements laid down by the Decree would not be met. Such exposure would be risk-weighted as an unsecured exposure.</p> <p>In case the Advanced IRB Approach is applied the establishment of concrete criteria to assess the eligibility of unfunded credit protection providers remains up to the liable entity to a certain degree. However, the requirements</p>

	laid down by the Decree must always be fulfilled (for more detailed guidance see the explanatory standpoint of the CNB on the issue of recognised unfunded credit protection providers for liable entities applying the AIRB Approach, which is available on the CNB website).
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