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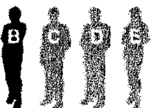
A Primer on Credit Default Insurance

THE PLAYERS

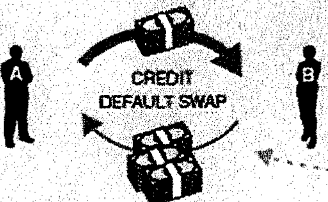
The insurance buyer is often a bond investor seeking protection against default on an asset he owns. But many are speculators, who do not own the asset, but use the credit default swap to bet on the health of a company.



The insurance seller is often a hedge fund, insurance company or bank. It receives premiums from the buyer throughout the contract.

THE PROCESS

1 Party A **buys credit default insurance** from Party B to protect against default on a bond, or to bet on a company's health.



2 **In the case of a default,** Party B would pay the bond's full value to Party A.

THE PROBLEM

3 Party B can **assign the insurance contract to another party**

...who can assign it to another...

...and he to another.

In the case of a default, Party A may have to track down the final party in the insurance agreement. However, this party **may or may not be in a position to pay the bond's full value.**

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