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Covid-19 support measures: ITFA calls for EU-wide harmonisation and equality for all insurance products

As the trade finance community copes with the fallout of the Covid-19 outbreak, ITFA's Insurance Committee is calling for regulators and policymakers to be mindful of the vital support that the private credit insurance market provides to the real economy through facilitating bank lending.

In recent weeks, governments across the world have unveiled a variety of public economic support schemes, including state-backed guarantees and access to liquidity packages, to meet the demands of the crisis triggered by the pandemic.

Thus far, governments have channelled this support mainly through export credit agencies (ECAs) and whole turnover insurers – the likes of Coface, Euler Hermes and Atradius – but have yet to turn their attention to other insurance products such as the single risk insurance market or surety, and the diverse range of cover that they bring.

"The single risk insurers bring great support to a variety of businesses financed by banks, including in some sectors and countries that are going to have challenges in managing the current crisis," says ITFA Insurance Committee member, Sébastien Heurteux. "So it's a question of missing an entire array of corporates and sectors that single risk insurance covers."

Moreover – an equally important consideration for ITFA members – the government support schemes that have been introduced to date have not taken into account the impact that such measures will have on the co-operation between public insurers, private insurers and banks, as insureds.

As such, there are questions around, for example, what happens to non-payment insurance solutions in instances where state aid schemes have stipulated that companies can defer payments on their bank loans during the crisis period, and where such delays could be considered a default of the payment obligation under the initial payment schedule.

In other instances, where governments are providing sovereign guarantees to ensure that banks continue to lend to companies, how does private insurance work in parallel with a guarantee from the state in the case of existing insured deals?

Heurteux explains possible complexities of such a scenario: "The mechanics of the state guarantees can have some challenges to implement on existing financing when insurance cover was already taken. State guarantees could conflict or overlap with existing cover. Could you end up losing cover because having one and the other doesn't work on a legal basis, for example, or because having both overweighs the cost of cover?"

Furthermore, in instances where governments are granting liquidity support measures to banks to onlend to companies, the eligibility of insured assets for such schemes – as determined by each scheme's parameters – could be called into question, and may limit banks' ability to access to them, or create a level of intricacy that would require an adjustment of insurance policy wordings, for example.

There could be a situation where banks would regret having insured assets, should the existence of the cover prevent banks from bringing the assets under those schemes which allow them to have access to liquidity, or from supporting corporates backed by state guarantees.

These are just some of the questions for which there are no answers yet – the market is still working through the measures country by country, identifying what they imply.

ITFA takes a stand

For its part, ITFA has recently joined forces with a number of other associations to alert European policymakers and regulators to the fact that private credit insurance should not be overlooked in current discussions and considerations – including with regard to relaxing certain regulations.

ITFA members will have seen the letter to the European Commission and other key stakeholders in Europe, dated 14 April 2020, which outlines the robust regulation and characteristics of the private credit insurance market as an important supporter of bank finance to the wider economy.

The letter welcomes the recent initiatives to reconsider the provisioning requirements for loans covered by ECAs, and asks that if serious consideration is given to allowing more flexible treatment of publicly guaranteed bank loans in respect of the non-performing exposures, that the private insurance market not be neglected in these deliberations.

Elsewhere, in response to the multiplicity of state support schemes that have been introduced thus far, ITFA is joining in industry calls – led by the International Credit Insurance and Surety Association (ICISA) – for a coordinated approach to Covid-19 support schemes across the European Union, which would assist both insurers and insureds in identifying what the various mechanisms are and what impact they may have on their business.

In a recent release, ICISA explains that because companies, large and small, are engaged in cross-border business between one or more EU member states, it is essential that approaches to support schemes within the EU are closely coordinated and harmonised to “avoid unnecessary and costly administrative burden and the possibility of arbitrage which differences in approaches across the EU may lead to”.

ITFA believes that improved clarity on public support schemes, together with due consideration from the regulators of the critical role that private credit insurance plays in enabling bank lending, will help the industry to navigate through the current economic uncertainty.

“In the last crisis, there was a perception that credit insurance refused to play along – that wasn’t the case then, and it isn’t the case in this crisis either,” says Robert Nijhout, ITFA Insurance Committee member and ICISA Executive Director. “Like everyone else at the moment, we are driving in the dark without any headlights on. We don’t know what’s up ahead, but we too need some kind of assurance. The credit insurance industry is ready to join public efforts to combat the consequences of the Covid-19 crisis, by working together with governments to keep trade going.”

In conclusion, the ITFA Insurance Committee would like to draw attention to the following points:

- The European economy relies on a variety of insurance products – public and private, whole turnover and single risk – all of which cater to specific market requirements, for example, single risk policies tend to cover large projects, while whole turnover mitigates risks related to short-term payment obligations. It is essential when setting up public support schemes, whether they be of regulatory nature (i.e. changes to existing regulation such as CRR/IFRS) or as subsidies (i.e. governmental counter-guarantees), that none of these products are neglected. Any disregard of these products would result in disadvantages to certain parts of the economy. Moreover, it is essential that a functioning insurance offering continues to be available once the immediate crisis is over.
- Businesses in Europe no longer provide solely for local or regional needs. Therefore, it is essential to harmonise such measures as much as possible throughout the European Union.

The experts of the ITFA Insurance Committee are available for any questions or advice. Please contact us by email: info@itfa.org.

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