ITFA International Trade and Forfaiting Association

itfa.org
info@itfa.org

Industry players call for a harmonised view of credit insurance during Covid-19 | Global Trade Review

By **Eleanor Wragg, Senior Reporter at GTR**

As policymakers pull out all the stops to prevent economic collapse in the face of the Covid-19 pandemic, supporting trade credit insurance to facilitate bank lending has become of prime importance. A disproportionate focus on ECA guarantees and whole turnover insurers, however, has many players warning of the potential for a distortionary effect on the real economy.

The importance of insurance as a risk management solution for exporters and financiers alike has arguably never been greater, and at the GTR insurance webinar held earlier this week, speakers from across the industry outlined the pressures facing the market as it works to maintain businesses afloat during lockdowns and support banks to finance trade even as both demand and supply around the world are buffeted by shocks.

"Credit insurance protects exporters against non-payment by the customers, it unlocks bank finance and it facilitates exporters to explore markets which otherwise they would find too risky, but this ability is at risk of being jeopardised if no measures are taken," said Vinco David, secretary general of the Berne Union, a global association for the export credit industry, in his webinar presentation.

As export credit agencies (ECAs) have burst into action in Europe, the US, Africa and Australia, policymakers have reworked provisioning requirements for the financing they cover in order to provide more favourable treatment to public guarantees during the crisis.

Whole turnover insurers, such as Euler Hermes, are also benefitting from government support, with initiatives including the German federal government's €30bn "protective shield", announced last month, which will guarantee compensation payments until the end of the year in order to ensure that German trade credit insurers can maintain their existing cover commitments. What is missing, however, from all of these initiatives, is an acknowledgement of the importance of other insurance products such as the single risk insurance market or surety, and the diverse range of cover that they bring. This risk creating gaps in the market, Silja Calac, senior underwriter at Swiss Re and head of the International Trade and Forfaiting Association's (ITFA) insurance committee, tells GTR.

"ECAs have a very important role to play in areas that the private insurance market cannot access. But if you now only support ECAs, then they will take over the business that was done before by private credit insurance," she says. "This means that once the crisis is over, the private credit insurance market might not be readily available anymore."

The same applies if subsidies and public sector support are solely given to certain types of insurance products, she says. "At the moment, whole turnover insurance is seeing a lot of support from governments. This is understandable, because whole turnover has an immediate impact on the supply chains of corporates, and it is important to take quick action. However, in the long term, if you do not support single risk insurance, companies will not be able to sign new projects. In surety, if companies are no longer able to issue guarantees which they need for their daily business, this will have a huge impact."

In a letter to the European Commission last month, ITFA, the Bankers Association for Finance and Trade (Baft), the Berne Union, the International Association of Credit Portfolio Managers (IACPM), the International Underwriting Association (IUA) and Lloyd's Market Association (LMA) called for policymakers and regulators not to "neglect" private credit insurance in discussions on relaxing regulations or providing subsidies, asking for recognition to be afforded not only to public guarantees, but also to the role played by private credit insurers in supporting bank finance to the wider economy.

Some progress has been made. Earlier this month, the UK government said it will temporarily guarantee business-to-business transactions currently supported by trade credit insurance in an attempt to maintain the majority of insurance coverage across the market. But overall, Calac says, "private credit insurance is a product which is little known by the regulators, because it is a bespoke bilateral contract."

Speaking at the GTR webinar, Carol Searle, general counsel at Texel Finance and ITFA insurance committee member, said better recognition of the differences between the single risk market and the whole turnover market in particular will be necessary to strengthen the industry through the current situation. "Trade credit insurers are better known. They predominantly support the export or sale of goods and commodities on a short-term basis, normally offer their product on a whole turnover or a named buyer basis, and tend to hit the news more in times of crisis," she said.

"Meanwhile, the main users of structured credit insurance products, where there are 60-plus players, are the commodity traders and banks who are using this not just for credit risk but also for various regulatory capital optimisation or balance sheet protection. That product is non-cancellable and has longer tenors with policy sizes running to hundreds of millions." She added that while this area of the market has traditionally been more difficult to address as a result, it remains "incredibly important" for mobilising lending and economic development.

Private insurers around the world now want regulators to recognise that trade and the global economy relies on a variety of insurance products – public and private, whole turnover and single risk – all of which cater to specific market requirements.

"Between the public and the private segment and between the banking and financier side and the insurance side, the rules should be accessible and similar and rights should be similar to all players involved," says Robert Nijhout, executive director of ICISA.