

Credit insurers prepare for increases in COVID-related claims in early 2021

- Current environment may be the 'eye of the storm' -

LONDON 23rd October – During last week's online annual general meeting, Berne Union members have engaged in a virtual 'stocktake' of the state of the export credit and investment insurance industry during the COVID pandemic.

While claims activity is currently relatively subdued – USD 3.3 bn paid in 2020 H1, compared to 3.2 bn in 2019 H1 – many members have reported a marked increase in payment deferrals and pre-claim situations and most expect to see COVID-related claims levels rising from early next year.

Increasing corporate insolvencies and the wide economic recession are the biggest ongoing concerns. Members flagged particular vulnerabilities in the transportation sector - especially aeronautics and shipping – as well as retail, construction and product manufacturing.

Insurance demand is increasing while underwriters exercise prudent risk selection

In a Berne Union survey, 80% of members reported an increase in new demand, most commonly for short term credit and working capital products. Around a third of respondents indicated that this includes a substantial increase in inquiries from new clients.

Berne Union data shows that ST commitments in the first half of 2020 (USD 1,644 bn) were marginally down y-o-y, but new cover for domestic risks (largely cover for working capital and manufacturing risks) increased almost 50% in the same time, up to USD 36 bn in the first half of 2020.

In terms of risk appetite, the majority of respondents (78%) indicated that they are either increasing (43%) or at least maintaining (35%) overall capacity, while most members are simultaneously decreasing limits for individual countries, sectors and counterparties.

Secretary General, Vinco David, explained that “a combination of the natural claims cycle, and mitigating efforts from governments around the world means that COVID-related claims will not appear immediately. We do expect to see increasing claims in 2021, but exactly how much is still not clear. Many of the special government measures are set to expire by the end of this year. This may be a determining factor, as indeed will be the substantive course of the pandemic itself, which remains to be seen. The credit insurance industry continues to maintain capacity but is exercising prudent risk underwriting.”

There is some tightening of bank financing and a flight to quality, but lenders and insurers are working proactively to maintain capacity

The commercial export finance industry is taking a cautious stance and Berne Union members noted banks becoming more selective while seeking to distribute risks they may previously have held. This is translated into lower overall capacity for high risk countries, especially those disproportionately affected by the pandemic, as well as oil-dependent economies and countries covered by the Debt Service Suspension Initiative.

During the meetings, Members voted on the election of officials for a new 2-year term, including the re-appointment of Christina Westholm-Schroder (SOVEREIGN) as Vice President and the new appointment of Michal Ron (SACE) as President.

Outgoing President Beatriz Reguero (CESCE) remarked that her Presidency has been characterised by an environment of unprecedented uncertainty, with the COVID pandemic the most visible manifestation of this. She affirmed that “in challenging times like these, we always do best when we focus our collective efforts to nurture positive change out of crises. The Berne Union continues to be a positive force for our industry and I am extremely proud and humbled to have served as President during this tumultuous period. I would like to thank all of the Berne Union colleagues who have supported me in this endeavour and am excited to see Michal and Christina continuing to develop our community and industry for the better”.

Michal stated that one of her major objectives for the Presidency term would be that of inclusiveness, as bridging the gap between export credit insurers from advanced economies and developing economies is key to an apolitical multilateral approach – characteristic of the Berne Union spirit ever since its inception in 1934. She will aim at further promoting an open dialogue between OECD and non-OECD members, Eastern and Western hemisphere institutions, private and public operators, contemporaneously providing a wider platform to emerging market members of the Berne Union. Michal also emphasized that, with global trade representing a key factor behind economic growth, especially in context of Covid-19 and the forthcoming recovery phase, access to knowledge as well as innovative solutions and products will receive a special attention to facilitate further collaboration between the most important export credit providers worldwide.

In a landmark move, Members also voted during the meetings to restructure the Berne Union’s Committees to better reflect the real-world structure of the market and products of export credit and investment insurance

The new ‘MLT Committee’ will bring together both public and private market participants and will focus on all matters relating to Medium / Long Term commercial credit as well as political risk and investment insurance. Meanwhile a separate ‘ECA’ committee will maintain the established forum for discussion of policy and practice among insurers working to national government mandates.

According to Vice President Christina Westholm-Schroder, “The Committees are the central structure for collaboration and collective action in the Berne Union. These changes will enable a closer cooperation between ECAs and private insurers and are both in line with the ethos of the Berne Union and reflective of market developments.”

Note to the editor

Export credit insurance is a vital instrument in support of international trade. It indemnifies exporters and financing banks against the risk of non-payment, due to commercial and political risks. As a through-the-cycle risk-mitigation tool, credit insurance is designed to support trade through both benign and challenging environments, by helping to manage risk and liquidity for exporters.

About the Berne Union

The Berne Union is the international association of export credit and investment insurers. The 84 members include government-backed export credit agencies, private credit and political risk insurers and multilateral agencies from across the globe. Members collectively provide payment risk protection equivalent to approximately 13% of annual world trade.

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