TRANSCRIPT: Tradecast - Growing uncertainty in Trade Credit Insurance: what does this mean for the industry? Part 1

Featuring

Gary Lowe, global head of the Global Credit Insurance Group, Standard Chartered
Jérôme Pezé, CEO, Tinubu
Janusz Władyczak, CEO, KUKE (the Polish ECA)
Richard Wulff, executive director, ICISA

Moderator

Deepesh Patel, editorial director, Trade Finance Global

Deepesh Patel

Good morning, good afternoon, good evening. My name is Deepesh Patel, editor at Trade Finance Global, and host of *Trade Finance Talks.* Welcome to our listeners and thank you for joining us from all around the world. Today, we're live streaming a very special tradecast, broadcasting on LinkedIn, Facebook, YouTube, and TFG's platform. Today, we're talking about CPRI, or non-payment insurance, performance-based, or surety, and export credit insurance. And yes, I'm about to tell you why there's an umbrella in the background. The media often shirk trade credit insurance as an umbrella that doesn't open when it rains but to what extent is this actually true, and how has the product fared during recent times? In a world where roughly 15% of trade is protected by credit insurance, which really does help increase lending capacity, provide regulatory capital risk, manage concentration risk and country limits, eyes are often on the trade credit insurance stage. Managing commercial and geopolitical risk in trade transactions has been paramount recently. We've seen the pandemic shut shop on businesses around the world, the humanitarian and economic ripples of the Russia-Ukraine war, and mounting inflationary pressures. Trade Finance Global are hosting this tradecast today, kindly sponsored by Tinubu, to delve deeper into the realities of today's climate. Therefore, I'd like to welcome to the stage Gary Lowe, global head of the Global Credit Insurance Group at Standard Chartered; Jérôme Pezé, CEO at Tinubu; Janusz Władyczak, CEO at KUKE, the Polish ECA; and Richard Wulff, executive director at ICISA. Welcome to this tradecast. So introductions, in no more than 30 seconds or so, I'd like you to all give a quick elevator pitch. Who are you, where are you from, and what do you do? Gary, I'll start with you.

Gary Lowe

Great to be here, Deepesh. My name is Gary Lowe. I'm the MD and global head of the Global Credit Insurance Group at Standard Chartered Bank, which means that my team and I are responsible for all of the non-payment insurance and some political risk insurance that we purchase across the bank and we use that to manage exposures, capital, and returns.

Deepesh Patel

Thank you very much. Jérôme, over to you.

Jérôme Pezé

Yes, good morning. After decades of being an underwriter and working in trade finance, I co-founded, 21 years ago, Tinubu Square, which is a leading company providing solutions to digitalised credit insurers and surety players.

Deepesh Patel

Thank you very much. Janusz, over to you.

Janusz Władyczak

Good morning, everyone. My name is Janusz Władyczak. I'm a CEO of a Polish credit agency. So trying to support Polish exporters all around the world and trying to be involved in many projects which are happening at the moment, and trying to develop the ECA business altogether with other market players.

Deepesh Patel

Thank you very much. And Richard, last but not least, over to you.

Richard Wulff

Good day. Deepesh, thanks for having me. It's lovely to be here. I'm Richard Wulff. I head up the International Credit Insurance and Surety Association, and it is what it says on the tin. We are an association of largely private trade credit insurers' surety and the reinsurers. We advocate for our members, and we try to spread best practice.

Deepesh Patel

Thank you very much. What an excellent panel we have here from all around the world, from Poland, France, Holland, Singapore, and London. Let's start with a bit of a helicopter view of trade credit insurance. Just to break it down to our listeners, Gary, perhaps can you give us a short overview and synopsis of what trade credit insurance actually is and what it encompasses, perhaps talking about the difference between public and private, short-term, long-term, and how it really underpins global trade.

Gary Lowe

Well, I mean there are multiple parts to this industry, and the piece that I specifically focus on is around non-payment insurance, which is a tool to protect lenders but also traders and corporates against non-payment of a debt by a borrower, or by a buyer, or an obligor. Therefore, it sits within our overall distribution strategy. I sit in a platform within the bank which looks to optimise capital, manage risk, enhance returns, but perhaps most importantly of all, support our clients by doing more. Like any prudent lender, we have overall risk appetite on a particular obligor group, sector, country, and we do business that we like doing. But in order to do more of it, there needs to be tools to manage that overall risk. That's where we use the product. We use it in multiple billions per year. We have multiple billions exposed at any point in time. As I said, it's an important part of our overall syndication and distribution strategy. But if you look at the different strands of it, my piece is around its medium-term non-payment insurance. The terminology is a little bit interchangeable, but that's what we call it. Some people call it CPRI or structured credit. It's the same thing. Then trade credit insurance is the original and by far the larger piece of this world which is equally well used by banks and by corporate sellers of goods facilitating cross-border trade across the world. Again, it might be with clients and with buyers you have a perfectly good relationship with but need to manage overall risk exposures or it could be getting into frontier markets and supporting credit risk in a way that really is around risk management more than only aggregations. Then, of course, there's the surety piece of this which is more around performance protection. And then, of course, probably the most famous, and I'm sure Janusz is going to tell us the most important part of it, the multilaterals agencies and public sector bodies who are really about promoting, originally national interest in terms of exports, but increasingly supply of goods, flows, services, but also, ESG objectives where governments have a development interest around ensuring that the trade, project finance, infrastructure development is happening in a way which is bankable, and therefore, credit risk is protected. So that's the world of credit insurance overall. Different strands of it attract different market participants, public and private, and attract different buyers, corporates, traders, and banks. I think sometimes they are quite separate but broadly speaking, we're all trying to do the right thing here, which is manage exposures, manage capital, manage returns, and facilitate global trade and investment.

Deepesh Patel

Thank you very much. I'm very impressed you managed to give that overview in just under two minutes, talking about CPRI, non-payment trade credit insurance, surety, and the ECA side of that. For sure, we'll move to Janusz in just a second but actually, Richard, I'd like to ask you, and also, within the context of the umbrella that doesn't open, according to some media outlets, why do you think that that was portrayed? And also, can you talk about why banks utilise trade credit insurance?

Richard Wulff

Why banks utilise trade credit insurance is very similar to what Gary just said. In speaking with our members and looking at industry research, we basically see five reasons why banks utilise the product. That's first, to increase lending capacity while complying with internal credit limits. That's what Gary said, helping clients, helping to do more. The second really important one is regulatory capital. If we can make the whole process just a little bit cheaper and just a little bit more smooth by saving capital of the clients of our members, the financial institutions, I think we've done a pretty good job. That's why clients buy. You can also think of concentration risk management to specific industries, to specific events, for instance, and something Gary mentioned, increased return on capital. Yes, it is important. If our capital for a specific risk is cheaper than the one with the financial institution we serve, we've done a good job. Last but not least, country limit relief. Some financial institutions are full on countries. They turn to us and say, "Can you take some country risk off our hands?" Now this applies to basically all asset classes that banks place. My members generally cover the risks stemming from non-payment of trade finance, so meaning receivables, meaning payment undertakings and LCs, and also supply chain finance. Now, talking about the umbrella that doesn't open, the product works. I think the best proof of that is that the loss ratio hovers around 50% with $346 billion in transaction facilitated for banks. Of all the claims that we've received in the time period between 2007 and 2020, 96.8% of all claims were paid and factoring companies were easily four times that amount. So this umbrella opens, Deepesh.

Deepesh Patel

Thank you very much. Janusz, if the umbrella does open, what's the purpose of an ECA in terms of providing that public support? Is it when the private market stops?

Janusz Władyczak

It really depends. I think nowadays we have an issue that, for already a couple of years, we're seeing a lot of turmoil going on around the world. So in fact, trying to be involved in long and medium-term transactions, it is hard not to use the umbrella of ECAs or other multilateral type of institutions. If we are talking about the short-term business, then maybe it's not an issue because we can always find the solutions, especially if we are talking about trade which will be happening in so-called developed world, whereas we've got loads of commercial type of players on the market. Whereas if we go towards developed or developing countries, but in a slightly different tenor perspective, and what we are observing even in countries which in the history we've perceived them as quite safe, nowadays you cannot be really sure if they're still in the same situation. With all those turmoils going on, I think all the market players, not only investors, but financial institutions, all of those need someone who is going to support them and I think ECAs are playing much more crucial role than they used to. I think the whole industry went through, especially through COVID times, it went through plenty of changes. In fact, we are not only those who are eager to be involved in transactions in countries which are more risky, but at the same time, we've been employed during COVID times in many countries to help domestic economies, to help, not only exporters, but to help companies. In fact, our role has changed a lot. We are not only those who are, in fact, at the end of the day, supporting or helping to do the transaction, but at the same time, we try to facilitate the trade. So we are those who are playing the role of middle-men who is searching for projects with investors, with financial institutions, with banks, and together with them, then we are trying to find companies who are eager to perform those projects and for instance, we're trying to facilitate trade on the global scale, looking for suppliers. The role of an ECA, it's not the pure role as we have in the past.