TRANSCRIPT: Tradecast - Growing uncertainty in Trade Credit Insurance: what does this mean for the industry? Part 3

Featuring

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Deepesh Patel

Now we're going to talk about risk appetite in the context of claims. Richard, I think you're probably best placed to answer this, but what is the general consensus on risk appetite at the moment from an ICISA perspective?

Richard Wulff

Let me start with two points straight off the bat. The first is a word of caution. Risk and appetite is very often seen as something which is almost binary, so either you've got appetite or you don't. What the past has shown is that is not the case. We were approached by a treasury of a large Western European company saying, "Okay, how did the market perform through COVID?" What we saw is that the risk of appetite did diminish, but that the dip was less than 10%. Secondly, we're in a competitive market, so there are differences between players, there are different strategies. So when I talk about the market, I'm talking about a wide average, and that's what AON talked about in a recent research paper as well. And echoing what was just said, they said underwriters are becoming a bit more selective. They are moving up the credit curve but there continues to be sufficient capacity in the market, although that capacity comes at a price, and that price is increasing at the moment. It is increasing in line with the increase in capital costs that we see throughout the world, and it is increasing in line with what is happening in the reinsurance market. Now, best estimates that — and this is general reinsurance capacity — all lines will decrease at renewal 2023 by some 8%, a little bit more. There is sufficient reinsurance capacity expected for 2023, but again, it'll come at a price, and what you'll see is that there will be competition between lines of business. The credit business will have to compete with property, casualty, marine, what have you. So yes, there is sufficience, yes, there is risk of appetite, but it does come at a price.

Deepesh Patel

Gary, how do we work this out? How can the market respond to some of these challenges?

Gary Lowe

I started the insurance desk at Standard Chartered about 10 - 12 years ago, having had a background in M&A and project finance, and I was astonished at that time. All we were doing was mining, commodities, sovereigns. You fast forward 10 - 12 years today and it's a much broader spectrum of business that the credit insurance market is participating in. I'd like to take some of the credit for that, but there's plenty of other men and women doing my job at other banks who've had a role in developing the insurance market. I think what I love about it is the strength of partnership. What we do when we want to bring a new name, a new sector, a new country, a new product, to the insurance market is we sit down together and we have an education session, we bring insurers into the office, they meet the deal team, we quite frequently do road shows, we take insurers out to meet our deal teams and even clients on the ground. We used to do it in Hong Kong, we've done it in Dubai, we've done it in Oman, we've done it in a whole bunch of places around the world. It's an extremely powerful tool to be able to educate insurers who are absolutely finance professionals, but none of them claim to be experts in every single sector or geography, or product, or country. Therefore, that partnership is incredibly important. Bringing insurers on a journey with us as the bank who have the origination relationship with the underlying borrowers, obligors, customers, is incredibly important. That is also demonstrated in terms of the risk-sharing. This is not a tradable CDS market. You can't be short an insurance contract or long an insurance contract and short the underlying, that these terms simply don't have any meaning in our market. This is about partnership, risk-sharing, and a long-term journey. I think we mentioned claims, but before you get to a claim, sometimes you get stress situations where there are restructurings, workouts, sometimes things that aren't anticipated in the documentation. But what I have found, and I think in some ways is equally important to the 100% claim payment record, - we do have that, but we also have a great track record of working with insurers to resolve stresses on a borrower, and if it comes to it, enforcing and recovering, and making sure that all right, they might have paid out a claim, but over time, that is reduced with recovery. It's that long-term partnership that I think has been incredibly important to enabling us to do more, and enabling the market to broaden its horizons and spread its wings.

Deepesh Patel

Thank you very much, Gary. I guess being reactive to resolve some of those stresses and really looking at partnership and risk-sharing is really important. Jérôme, I'm going to ask a question to you now around the role of technology and the role that a company like Tinubu can play in encouraging risk-sharing, and especially with regards to different structures that perhaps didn't exist 10 years ago, and talking about some of the innovative ways that Gary looked at financing in sub-Saharan Africa. What role can Tinubu —and more widely, technology— play in encouraging risk-sharing and partnership?

Jérôme Pezé

I would say even more broadly, it's clear that credit insurers are going to face, in the coming years, a huge test of their business model. There will be winners and losers. Clearly, we are going to realise that technology can play a major role for credit insurer to insure those market challenges. This, I would say, in essentially six different dimensions. First, the first one I would say probably, is the portfolio analysis, the understanding of the exposure, the consolidation of risk, the ability to report, to have adequate reporting, a good governance, and transparency. Reinsurers are going to be, for example, more and more demanding for a level of information regarding the risks of the seeding company. Second, business intelligence. I'll give you just two examples. After an inflow of cash in companies in the last two years, financial statements are less readable. Classic statistical models are less accurate. Artificial intelligence can play —and we see that already— increasing the scope of data which is utilised, an ability to better assess the obligor, and to better also price the product. Second example, regarding country risk. Just give you an example. We have started to develop two-and-a-half years ago a model which we call the country risk report which is based on open data, machine learning, and which enable to capture the dimension of the country selling and the country of export, and identifying that, depending on the type of product, there is an impact of that dimension, which we call the affinity. So again, in this world where deglobalisation takes place, where situation are very different from one country to another, that plays a role. Third, it's clear, cost efficiency. There are some players which will have already transformed their organisation to be more cost-efficient. Reactivity and agility will play a major role, including the ability to launch — the other point— product innovation. Technology will play a role in all those elements, as well as, you mentioned it, the ability for credit insurers to integrate themselves in a wider ecosystem, which includes the ability to collaborate with ECAs for a private player or with other private players and the ability as well to integrate with the banks and to then support the bank better and more seamlessly. There will be a pressure and the technology will demonstrate its ability to better serve, at the end, the policy holder and the community. That will be a key element of the response in the coming three years.

Deepesh Patel

Thank you very much, Jérôme. I think it's fair to say on behalf of everyone, the challenging context of the macroeconomic picture right now really has forced collaboration partnership, the development of technology, and also innovating within the trade credit insurance industry. Janusz, have we seen ECAs increasing their willingness to collaborate and share risk? Do you have any examples or case studies here?

Janusz Władyczak

Yes, we do. Definitely as mentioned before, I think during the COVID time, we started to see the willingness then to collaborate, and it's not only between ECAs, especially on developing markets, but it is as well between ECAs and banks and obviously, all the environment which surrounds us, and I think that's what Jérôme said here, or the point that Gary touched, I think they're very crucial. Just during the COVID time, for instance, ourselves, we've changed completely our export support system. In fact, we really twisted it, and to do so, we had to come up obviously with ideas, what is needed by the market, by all the players. So in fact, we've gone to meet loads of banks. we've met loads of customers, so we've been educated, as Gary has mentioned, as well, by the banks, what they will need in the nearest future. I think that was extremely crucial for the whole project we performed. I'm not going to be extremely boastful about that, but I think it is one of a few really flexible and interesting brand new export support system here in European Union that could be easily used to collaborate with other ECAs in order to share the risk. I think we've already started doing it with plenty of success, especially on those African markets. We've done a couple of projects with other ECAs and I think this is really important.

Deepesh Patel

Thank you very much. So, just to summarise that section really around risk in the current market, as you said, we've changed and twisted our support system. Richard, as you said, had you put forward your predictions two years ago, you'd have been wildly wrong today. And Gary, you've really highlighted the nature of some of the unprecedented risks that lie ahead. I know when we are planning for this tradecast, I don't think we knew that a third of Pakistan would be flooded and underwater as it is right now. I'm not going to hold you to account on the invisible crystal ball I'm going to magic up, but let's take a future look on where the industry is headed in terms of outlook and innovation.