

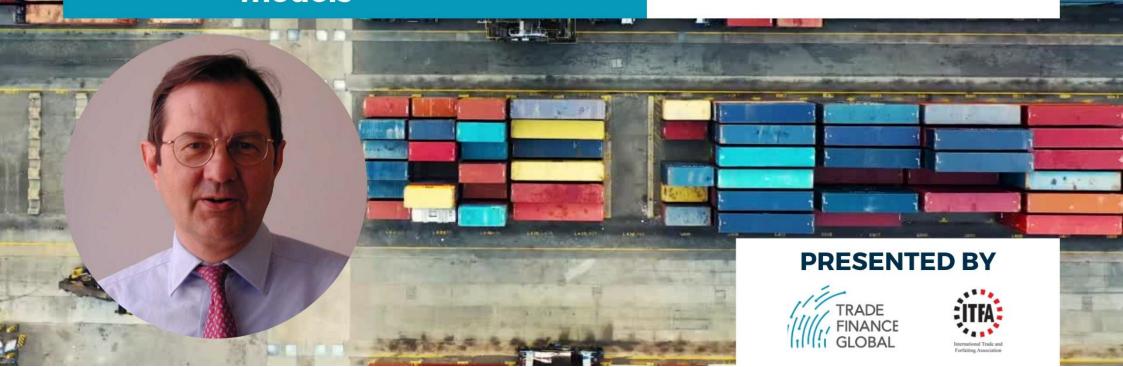


02

Risk & Insurance
Perspective: present and
future impact on capacity,
coverage and business
models

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Risk & Insurance Perspective: present and future impact on capacity, coverage and business models

- 1. What is the current state of the trade credit insurance market, especially trade receivables and payables, given the recent COVID-19 pandemic?
- 2. Where do the biggest risks lie for both FIs and corporates?
- 3. Is there enough capacity in the market to support the demand?
- 4. What should users be doing to manage their ongoing demands?
- 5. What changes might happen in the market will insurers' appetite change?

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1. What is the current state of the trade credit insurance market, especially trade receivables and payables?

- 1. Response from structured credit risk insurer: "We are open for business. Clearly the C-Virus impact combined with the Russian-Saudi spat re oil production has materially changed our view on risk outlook"
- 2. Response from trade credit/receivables insurer: "We are actively working to enable a smooth delivery of services, as well as addressing ways of supporting your clients.." Coupled with immediately effective policy amendments "to give your clients greater flexibility to manage any payment delays from buyers"
- 3. Given the rapid and significant economic and political changes, open offers of coverage need to be revalidated, but with the exception of one insurer, the position adopted generally is to review each case on its merits
- 4. To a certain extent the underwriters are also looking for guidance from their clients to see how they in their turn are modifying their credit and risk procedures





2. Where do the biggest risks lie – for both FIs and corporates?

- A broad and difficult question, best to consider key exposures in the market
 - Sectors: oil and gas, aviation, Fls, autos, retail, leisure
 - Countries: African oil dependent economies, China, Turkey
- Types of exposures insured range from short-term (receivables and L/Cs) through medium term (syndicated and bilateral lending to corporates and sovereigns) to long term (aviation, project finance)
- In 2009 the short and medium term exposures were either claims or rescheduled, with relatively little long-term exposures
- It remains to be seen whether the market's greater element now of complex long-term transactions will be problematic
- Operational pressures and demands across all classes will be considerable, with front-end underwriting resources being stretched by workouts and claims – at least for a period







3. Is there enough capacity in the market to support the demand?

- Right now, demand is hard to quantify
- Capacity tends to be limited in high commitment countries, sectors or obligors
- Market capacity is governed by insurers' management of their portfolios and by their ability to make annual increases, based on reinsurance support
- These high commitment areas are currently under pressure from a risk point of view – but it is also likely that the demand will decrease as well
- On a positive note: the regular market capacity survey which WTW recently completed (prior to COVID-19) showed that overall capacity for 2020 had grown, despite some participants having pulled out at end 2019
- 2020 capacity was up slightly with over \$3.2bn notional capacity* available per transaction for Contract Frustration (non-performance by government obligors), \$2.4bn for Credit (private obligors) and \$3.1bn for Political Risks.

^{*}These are the theoretical maximum lines in aggregate of all active platforms, which are used as the headline control figures

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4 What should users be doing to manage their ongoing demands?

- For pending transactions, users need to work closely with their brokers to revalidate insurers' offers, which may be subject to review and amendment
- For existing business, users need to give regular updates to their insurers
- For any transactions that are in difficulty, users should discuss with their brokers how to provide timely, measured information to insurers, with a careful eye on the Claims provisions of their policies
- Communication, Communication, Communication (apologies to Tony Blair) should be the overriding principle
- The most successful users treat their insurer relationships as risk partnerships
- Brokers play a key role in this two-way traffic, managing clients' messaging and monitoring underwriters' positions
- Users will also want to monitor closely the financial and operational positions of their counterparties
- Managing these different interactions in a remote, virtual community of c.50 insurance platforms is the essential contribution of the broking community

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5 What changes might happen in the market – will insurers' appetite change?

- So hard to make projections here, in such a fluid and unprecedented situation
- Basic start point: insurers have taken a strong "open for business" approach, which confirms underlying commitment, and therefore appetite for this class
- Any changes will depend on how key sectors respond, survive and emerge – e.g. oil and gas, aviation, leisure.
- Some of these sectors were already subject to revised appetite due to adverse trends: rejection of coal, shift to renewables, excessive leverage
- Based on the experience of 2009, where the market faced its first major test (\$2.5bn claims paid), insurers emerged with undiminished appetite
- Once this crisis is over, business will go on and so will the need for risk support and partnership
- One lesson from the past crisis was that those clients who responded well received noticeably better treatment from insurers subsequently – something which still persists – reputations are made in critical times