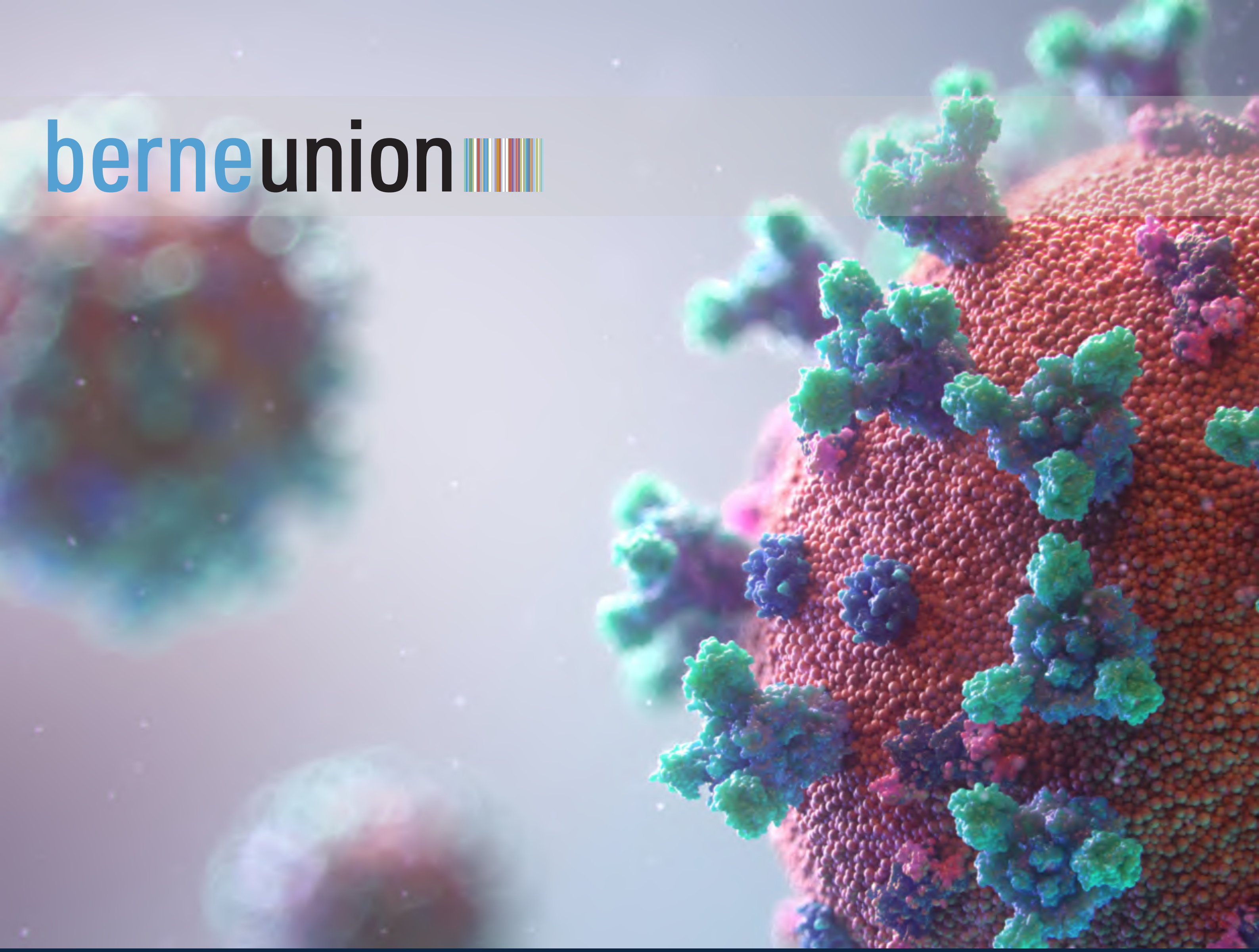

International Union
of Credit and Investment Insurers

Export Credit Insurance

Industry response to COVID-19

Support measures introduced by Berne Union Members in response to the COVID-19 Pandemic

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Export Credit Insurance Industry Response to the COVID-19 Pandemic

Impact of COVID-19 on Trade

The COVID-19 Pandemic has swiftly engulfed the world, affecting almost every region and penetrating most aspects of business, society and daily life.

The full consequences for the global economy in the long term are still unknown and will depend as much on the actions of central banks and government spending, as on the duration and severity of the unfolding health crisis.

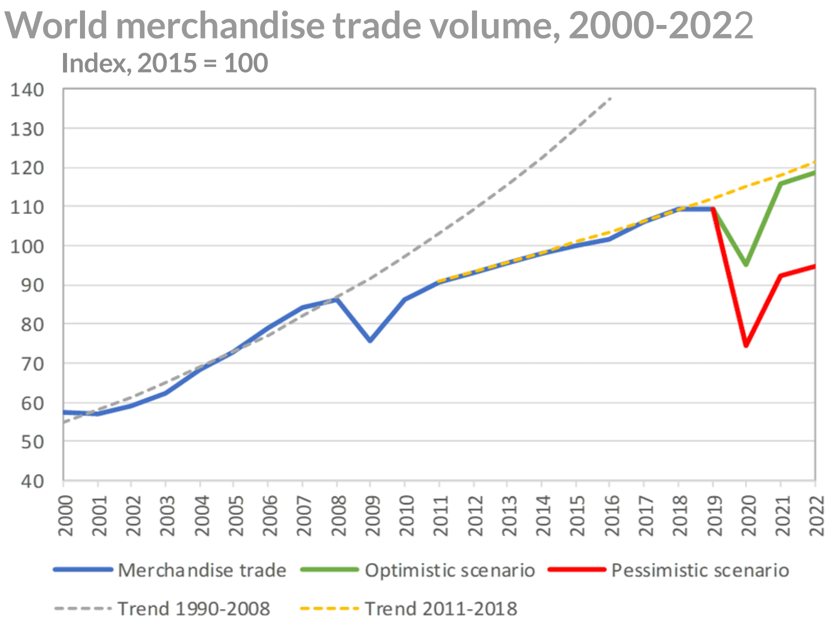
The immediate impact on global trade is already profound. The widespread physical lockdown has brought some industries to a halt and is strangling others, with disruptions to supply chains aggravating both supply and demand. This disruption, combined with uncertainty and plummeting cashflows are putting pressure on corporate liquidity, increasing credit risks and ultimately driving a spike in defaults and insolvencies.

The latest estimates from the WTO predict a fall in merchandise trade between 13% and 32% for 2020.[i] Even at the optimistic end of this estimate we would expect a decline in excess of that seen in 2008-2009, at the start of the global financial crisis (GFC).

Despite the fact this this was not initially a financial or economic crisis, a quick rebound is not assured even after the acute phase ends.

While the suppression of trade is unavoidable during the pandemic itself, it is vital that we maintain the structure and capacity of the trade ecosystem during this period in order that it may drive a robust recovery on the upside.

This means supporting exporters, their value chains and their access to finance until we reach that point.



The WTO estimates a fall in merchandise trade between 13% and 32% for 2020... a decline in excess of that seen in 2008-2009

Export Credit Insurance

Export credit insurance indemnifies exporters and financing banks against the risk of non-payment in cross-border trade, due to either commercial (buyer default and insolvency) or political risks.[ii] In addition to this direct function – mitigating credit and political risks – it is also used to enhance bank lending terms and in conjunction with trade finance instruments to manage cashflow and liquidity.

Cover is available for short term credit transactions with one or multiple buyers, on a revolving or single-risk basis. Medium or long-term cover is used to unlock bank financing for capital goods exports, and to support project finance structures.

As such, credit insurance helps to promote trade and foreign investment across the globe, acting as a lubricant between finance and export.

> The role of an ECA is typically to fill market gaps and to provide capacity for higher-risk transactions

Market Composition

The industry is composed of a mix of private insurance companies and public policy institutions (both national and multilateral). National export credit agencies (ECAs) operate under a range of different structures, mandates and regulatory regimes, but are united in their mission to facilitate and promote national exports for their home country. The role of an ECA is typically to fill market gaps and to provide capacity for higher-risk transactions characterised by long tenors, very large ticket-sizes, high-risk markets, or involving SMEs.

Multilateral institutions usually have a developmental mandate and mission to use public funds to catalyse private investment to this end. Private credit insurance companies operate in a very competitive market.

In addition to credit and investment insurance, many of these organisations provide additional complementary finance and insurance products which also support trade, either directly or indirectly: for example, direct loans (mainly by ECAs) for trade, working capital or internationalisation; surety bonds; and insurance or guarantee of all of these.

The Berne Union is unique in representing all sides of this market. Members collectively provide cover for approximately USD 2.5 trillion of exports annually, equivalent to 13% of global cross-border trade.[iii]

> Berne Union Members provide cover for USD 2.5 trillion exports annually

Current State of the Industry

Trade finance has historically proven to be a relatively low risk[iv] asset class and the export credit insurance industry has been in a healthy state at the start of the current crisis: well capitalised and strongly regulated.

ECAs globally have developed a range of products to serve exporters and support the private sector banks and insurers facilitating trade. Since the global financial crisis (GFC) in 2008-2009 especially, official export credit schemes have become increasingly flexible and innovative, many with a particular focus on supporting the SME sector.

At the same time, the private insurance market has grown considerably in capacity over the past couple of decades and works increasingly in partnership with ECAs and multilateral institutions across all areas of business.

This is seen through public and private insurers standing side by side to underwrite large transactions as well as through distribution of risks from ECAs to the private insurance market.[v]

Cover for short term trade risks in developed countries is well provided for by the private market, and is not typically part of an ECA mandate,[vi] but under extreme pressure, when there is a broad deterioration of risk – such as we are now seeing with the COVID-19 pandemic, as in previous crises – gaps can also arise in this provision.

Here, the complementary relationship between public and private sector ensures stability of the industry.

As a counter-cyclical risk-mitigation tool, credit insurance is inherently designed to support trade through challenging environments, by helping to manage risk and liquidity.

In that sense, simply maintaining the availability of these instruments is a positive support to banks financing exporters and exporters themselves during the current crisis.

> Since the global financial crisis in 2008-2009 especially, official export credit schemes have become increasingly flexible and innovative

Tracking the Industry Response

Berne Union members have introduced a range of specific measures to combat the negative economic impact of COVID-19 upon exporters and their financiers.[vii] This is evidence of a swift response to the crisis from all sides of the industry to support the stability of their underlying value chains.

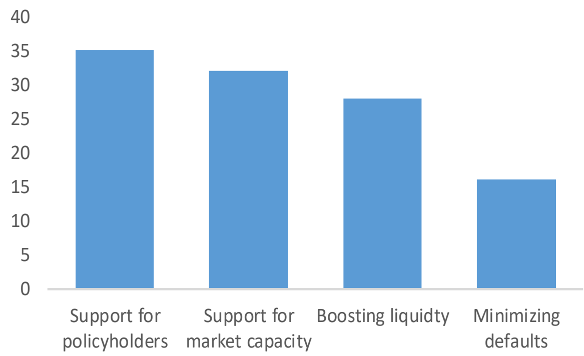
Easing the burden on policyholders

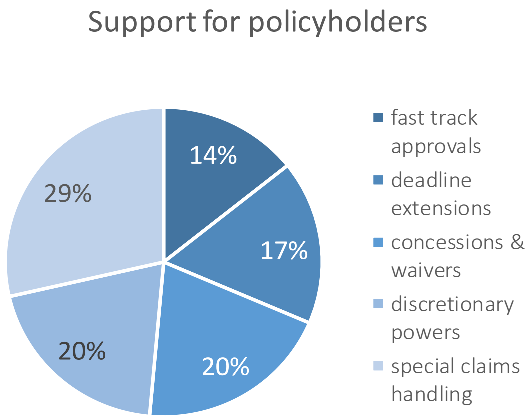
Responses from the private insurance market are predominantly targeted to ease the pressure on exporters (the policyholders) through: relaxation of some administrative obligations; granting of extra time for notifications of payment delays by importers; granting of extended payment terms to importers; flexibility on premium payments in some cases.

ECAs are likewise supporting policyholders with a range of measures including:

- **Expedited approvals** process and extended validity period of offers
- **Extended time for notification** and claims filling
- **Special claims handling** processes
- **Concessions and waivers** on premiums and various fees
- **Discretionary powers** for policyholders to extend credit terms to buyers without additional consent

Broad categories of ECA responses to COVID-19 *(number of individual measures reported)*





Maintaining industry capacity to support trade

In addition to supporting policyholders, many ECAs have also moved to bridge market gaps in available cover by expanding their scope, capacity and limits of cover. At the most basic level, this means maintaining cover policy and country limits at pre-crisis levels, but in many cases this is accompanied with an overall increase in available capacity, new product lines and a higher % cover, either for specific clients / industries, or quite broadly.

Following the introduction by the European Commission of a Temporary Framework for State Aid,[viii] in response to the COVID-19 pandemic, a number of EU ECAs have extended cover for short term risks on buyers in developed countries (previously 'marketable risks'), where private market cover has become unavailable. Some non-EU ECAs, not normally active in this space, have taken similar actions in response to a reduction in private sector capacity.

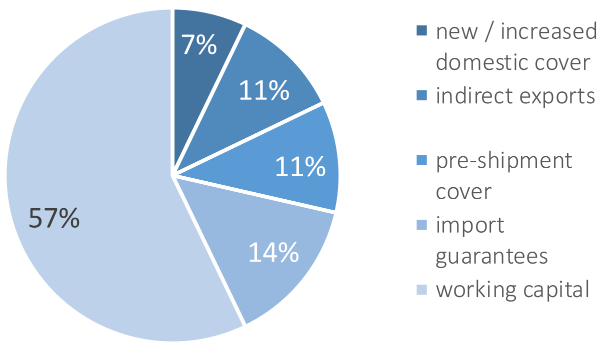
- **Maintain or increase** country, sector or transaction limits
- **Increase capacity** in one or more product lines
- **Reinsurance or top-up** of private market
- **On cover** for 'marketable' risks
- **Increase % cover** offered

Reducing pressure on cashflow

With pressure on cash-flow one of most pressing challenges facing many companies, a significant number of ECAs have boosted their programmes to support working capital, including direct lending and guarantees. Some ECAs have introduced new lines, while others have extended the scope of existing products with, e.g. longer credit periods, relaxed eligibility requirements, increased % cover.

Other forms of new or increased support introduced include extended cover for pre-shipment risks, domestic supply cover to exporters and import guarantees for specific industries.

Support for cashflow



Minimising defaults

ECAs who provide direct financing are reducing pressure on obligors with restructured repayment terms: deferred payment schedules and / or extended repayment periods and waivers of some interest or fees. Other ECAs are working in conjunction with their national banking system to introduce similar arrangements for borrowers. Some ECAs are offering portfolio guarantees to banks as collateral, and others are permitting cover for already existing loans, to facilitate risk transfer of banks.

Target beneficiaries and end dates

Many ECAs already have an explicit mandate to provide special support for the SME sector, which is often underserved by private sector banks and insurers, due to small transaction sizes, high compliance costs and limited availability of information.

In new measures introduced to mitigate the COVID-19 pandemic, SMEs are singled out most often, especially with respect to working capital and other liquidity-promoting instruments. It is notable that several agencies are also extending schemes usually limited to SMEs to provide support for larger corporates as well.

Beyond the SME sector, the majority of measures introduced are industry-neutral, with a handful of exceptions relating to: airlines, medical supplies, and tourism.

Most measures with a specified end-date are indicated to expire by the end of the calendar year, or sooner (3, 6, 8 months duration). A significant portion are in place for around 1 year until April 2021. Only a small handful are set to be in place for longer than 1 year.

It should be noted, however, that a significant majority measures implemented have no specified end date reported.

This partially reflects the unknown duration and progress of the pandemic and its related effects, but also serves to highlight the diversity of the measures themselves. Temporary mesaures related to filling market gaps (which in some cases depends on regulation, anyway) are in a completely different category here to those targeting a reduced burden for policyholders, for example.

Non-financial modes of support

In addition to financial support, ECAs and private insurers are providing their clients with increased non-financial support, including:

- **Proactive risk monitoring,** communication and preventative support
- **Digital communications** platform, help desk or FAQs
- **Prioritised direct contact** with underwriters and case-handlers
- **Regular communications** and bulletin of status updates
- **Paperless processing** wherever possible
- **Uncharged access** to collection and recovery support

Role of the Berne Union

The Berne Union's primary role is to facilitate knowledge sharing and cooperation amongst our members. In the current environment, as we have seen, a transparent and cooperative engagement between public and private insurers and financiers is vital to ensure a resilient whole-industry response to the crisis and the protection of trade infrastructure. We will continue to facilitate engagement and cooperation between our members wherever possible.

In addition, we coordinate exchange of information and joint initiatives with other associations and counterparts in the ecosystem of international trade and finance.

We have recently co-signed[ix] a letter sent to the European Commission and other European Authorities with the objective to raise awareness amongst policy makers of the complementary and comparable role of private credit insurance to public guarantees, in their consideration of provisioning requirements for bank lending, in the context of the European policy response to the COVID-19 pandemic.

We continue to facilitate the engagement between the export credit insurance industry and the export finance market, through our engagement with the Banking Commission of the International Chamber of Commerce.
We will continue to collect information and to maintain a record of the industry response to the COVID-19 pandemic, issuing additional updates where appropriate.

A note on interpretation of the data

The survey data is compiled from initial responses recevied up to 20.04.20, reflecting reporting from around two thirds of all Berne Union Members. The research presented here should be interpreted as a broad impression of the overall shape of the response measures idetified so far, and not a detailed specification of total industry response.

The included graphs indicate the relative frequency of measures falling within each category, and not the absolute % of adoption.

This report will be revised and updated as new data becomes available.

References:

i. https://www.wto.org/english/news_e/pres20_e/pr855_e.htm
ii. Typically: expropriation, contract frustration, currency transfer / inconvertibility, wrongful calling of bonds, or political violence
iii. www.berneunion.org/DataReports
iv. https://iccwbo.org/media-wall/news-speeches/icc-trade-register-affirms-trade-finances-decade-long-low-risk-profile/
v. ECA distribution to the private (re)insurance market has more than doubled since 2014, and as od 2019 stands at approximately 54 bn, or 13% of total ECA commitments outstanding (see p7 Berne Union data report under ref iii)
vi. EU ECAs are specifically barred from underwriting so-called 'marketable risks'
vii. The survey was launched on 24th March, with initial responses collected by 27th March. Since then additions and updates have been collected ad hoc
viii. https://ec.europa.eu/competition/state_aid/what_is_new/sa_covid19_temporary-framework.pdf
ix. Along with ITFA, BAFT, IACPM, IUA, LMA – http://cdn.berneunion.org/assets/documents/events/Media/uploads/200414_Joint%20association%20letter_Credit%20insurance%20and%20bank%20lending%20facilitation%20in%20the%20Covid-19%20crisis.pdf

About the Berne Union

The International Union of Credit and Investment Insurers (Berne Union) is an international not-for-profit trade association, representing the global export credit and investment insurance industry.

Our mission is to actively facilitate cross-border trade by supporting international acceptance of sound principles in export credit and foreign investment. This is achieved by providing a forum for professional exchange, sharing of expertise and networking among members, as well as through engagement in collaborative projects with other stakeholders from across the wider trade finance industry.

Our 84 members include government-backed export credit agencies, private credit and political risk insurers and multilateral institutions from across the globe who provide insurance products, guarantees, and, in some cases, types of direct financing in the support of cross-border trade - providing a vital link in the flow of goods, services and investment capital world-wide.

The insurance products members provide offer protection for exporting companies, investors and financial institutions against losses as a result of commercial credit risks (buyer default) and political risks (currency inconvertibility; political violence; confiscation or expropriation of foreign assets).

Collectively, members provide payment risk protection for approximately 13% of world annual cross-border trade in goods and services (amounting to $2.5 trillion in 2018) and since the start of the global financial crisis in 2008, have paid out more than $50 billion in claims.

For more information, visit: www.berneunion.org

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