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# Supporting exporters through the pandemic

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## Cooperation between credit insurers, export credit agencies and governments prove how far we have come since 2008.

March 2020: The COVID-19 pandemic hit Europe, the US and other regions hard. What started in Wuhan, China at the end of 2019, had spread across the globe a few months later. On top of a health crisis, an economic crisis was looming.

With unprecedented government restrictions hindering manufacturing and cross-border transport, there was a drop in both supply and demand in several economic sectors, with widespread uncertainty. Tourism, aviation and oil and gas were among those worst impacted.

Credit insurers were anticipating losses and there was a serious question whether underwriting capacity could be maintained.

That was then. The market responded fast and robustly to the challenge. Insurers, through cooperation between the private sector, ECAs, and governments, have largely maintained capacity for trade credit insurance. This happened first in China (primarily driven by the Chinese ECA) and the European Union, followed soon after in other developed markets as well.

In the EU, public-private cooperation was facilitated by the European Commission's decision to suspend the restrictions for government involvement in so-called marketable risk. As a consequence, ECAs and their governments could take on risk that before was the exclusive domain of the private insurance market. In particular, this referred to short-term credit risk on buyers in high-income countries. The cooperation arrangements introduced vary significantly in scale and applicability from country to country, but most have been structured as an arrangement with the state or the ECA reinsuring a certain percentage of the risk of the private insurer, in return for a percentage of the premium.

One of the advantages of keeping the private insurers in place has been that there was no disruption in the policies of the insured companies. They largely kept the same cover while the new reinsurance was arranged 'at the backdoor' of their insurer. Governments and private insurers outside the EU, such as the UK (which was last year still in its transition period out of the European Union) and Canada have set up similar arrangements.

The response of governments in spring 2020 was very different from the response in the previous crisis, the global financial crisis of 2008-2009. Back then, the arrangements came much later during the cycle of the crisis, sometimes to the extent that they were hardly needed as the market circumstances had already partly improved. They were also more complex in nature, such as top-up cover instead of reinsurance, and, therefore, more difficult to arrange and administer.

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One can, therefore, conclude that trade credit insurers and EU and other governments alike have learned from the crisis in 2008-2009. This time around, the response has been much more effective.

Many of these new reinsurance arrangements are scheduled to end in the course of 2021, as it is expected that the private market can soon again fully play its role in short-term credit insurance. But much will depend on how governments will phase out their national fiscal support schemes for businesses. Governments have spent large sums to keep companies affected by the pandemic afloat. The winding up of such schemes needs to be carefully managed, to avoid a wave of insolvencies of companies heavily indebted by the current crisis. A sudden end could send a shock through the market, in a worst-case scenario making the prudent underwriting of new credit risk for some classes of business very difficult.

But most members of the Berne Union – ECAs, multilaterals and private insurers – are mildly optimistic about the near future. Many business sectors have withstood the COVID-19 crisis remarkably well so far. As a matter of fact, credit losses have only slightly increased, of course also thanks to the government support schemes for business in general, but thanks to the recent rebound of trade as well.

In addition to the reinsurance arrangements, many insurers have taken measures to support their exporting customers. They have, for instance, been able to avoid losses for exporters by allowing payment extensions and debt restructuring of their buyers. The pandemic has also been a driver for product innovation for some insurers, such as for working capital cover and bond cover. As a trade association, the Berne Union plays a unique role in bringing together both public and private credit insurers. The exchange of information between members on market trends, products, and specialised areas such as reinsurance is enabling the industry to develop, innovate, and cooperate.

Trade credit insurance is an important tool to keep trade flowing within and between economies. This is more important during times of crisis when companies are strapped for working capital and liquidity. Credit insurance can lighten this financial burden.

In April 2020, we co-signed a letter to the European Commission and other European authorities. The objective was to raise awareness among policy makers of the complementary and comparable role of private credit insurance to public credit insurance. At that time the authorities were reconsidering the provisioning requirements for bank lending in the context of the European policy response to the COVID-19 pandemic. It is encouraging to note that European, Chinese, and other governments have realised what value credit insurance brings to trade and, therefore, to the economy at large.