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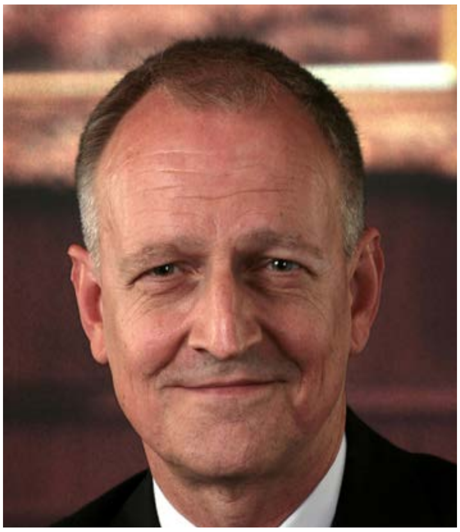
What does 2021 hold in store for credit insurance?



ROBERT NIJHOUT
Executive Director
ICISA

Trade credit insurance remains critical in the economic recovery from the COVID-19 pandemic. Here's why.

Even more so than in previous years, one can only consider the market outlook for 2021 by looking at what happened in 2020. We tend to look forward when assessing future risks, but the long shadow cast by the pandemic and its related unpredictability makes forecasting more challenging than usual.

Like all other industries, the trade credit insurance and surety sectors were hugely impacted by the effects of the COVID-19 pandemic. This was not so much an impact on the insurance companies themselves, as these stayed financially sound and adapted to the new reality just like everyone else, but rather on their clients, and the nature and context of the risks underwritten.

The new year has not changed this. Vaccines and control measures are slowly starting to have an effect in some parts, but overall the outlook remains unclear and the effects of the pandemic still need to fully materialise. Not knowing if and when the pandemic ends, and related to this, when and how governments carefully wean their economies off life-support, are probably the biggest questions influencing the outlook for our sectors this year. Not all sectors suffered equally. Indeed, some saw an unexpected boom in business. But for companies vulnerable to the effects of a lockdown, these government support measures are a necessary life-line.

However, suspension of insolvency legislation, tax- and rent holidays, furlough schemes and similar measures make any risk outlook dependent on when and what governments will do. The traditional tools for forecasting are now determined by political decisions, making predictions almost impossible to make. Nevertheless, we should forecast utilising all the available information, and members of ICISA have a good idea of where things are going.

The outlook for trade credit insurance

As part of a forthcoming survey we recently conducted, a majority of ICISA trade credit members anticipate an increase in demand for credit insurance cover in 2021. For single and political risk underwriters, growth is anticipated in particular in OECD countries and Brazil. For short-term whole-turnover underwriters growth is expected across the board and especially in countries that have recovered more quickly from the pandemic, such as China. This is also the case for countries in Europe, Africa, and Asia with a high GDP growth potential. Increased risk perception in countries such as Spain and Portugal is also expected to lead to higher demand for cover.

An even larger majority of underwriters expects an increase in claims paid. This is not surprising in view of the pandemic fall-out. For many OECD countries, government support measures have supported vulnerable companies. Once this support disappears, it remains to be seen how many of these companies will be able to meet their payment obligations.

Discounting the effects of these support measures, opinions are equally divided on whether or not the pandemic has had an effect on insured volumes. However, a large majority has seen a dampening effect on claims as a result of COVID-19 related measures.

Almost all trade credit members of ICISA expect payment defaults to sharply increase this year. For the coming year they see risks increase in Europe, Latin-America, and the U.S. Political decisions will have a big impact on risk. An orderly and controlled wind-down of support measures may ease this concern.

For 2022 the outlook is more benign with only 40 percent expecting a rise in payment defaults. Members of ICISA are well capitalised and equipped for this.

Pricing is also expected to be affected by the COVID fall-out. Trade credit markets were hardening prior to the pandemic and that trend is likely to continue. In countries without government support schemes or where these are wound down, players expect a harder market to match the increase in risk in these markets.

The outlook for surety

The pandemic has had a unique effect on construction compared with other sectors. Where travel and retail sectors were particularly hit, construction experienced growth in many countries. Given the fact that most surety bonds cover longer tenors, it is not surprising that the lockdowns have had a much smaller effect on the claim volumes of sureties than on credit insurers. As we are entering 2021, the sureties' outlook for the coming year is therefore of particular interest.

A large majority of sureties expect an increase in demand for cover. Growth is expected across the board and especially in Latin-America, Europe (thanks to EU funds), South Africa, China, and the US. The latter two largely due to expected investments in infrastructure.

Almost all sureties expect a sharp increase in claims paid for 2021, and some 40 percent expect this to continue in 2022. Surety members of ICISA are well capitalised and prepared for this. Increased claims are expected in all countries. A wind-down of government support measures is expected to exacerbate this, making it all the more important that governments act prudently and in coordination with other countries. Overall the market is expected to be dominated by strong competition and ample capacity.

The outlook for government support schemes

The way in which governments stepped in in many countries to limit the negative fall-out from lockdowns was unprecedented. The effects of these measures are far reaching.

Trade credit risks and sureties also benefited from government support. It should be stressed that this was not support aimed at insurance companies. In line with Solvency II requirements and those of similar regimes in other jurisdictions, insurers are solvent and remain so.

Rather they were aimed at vulnerable risks in support of jobs and the wider economy. To allow companies with a high-risk due to lockdowns, to continue trading or as a minimum to survive. Back-stop government reinsurance schemes were put in place in several countries to give adequate assurance for underwriters to maintain cover on these companies. It should be noted that these schemes are not a free ride for insurers; governments are paid for this facility and administration of schemes is both resource-intense and expensive.

Most ICISA TCI members participate in one or more government support schemes. An equal number of members see these schemes as either beneficial to their financial results, as negative, or are neutral. The effect of these schemes on risk appetite is mixed. In general exposures were reduced selectively or not at all and this applies to countries with and without a credit risk support scheme.

During the past year there was wide agreement that what was most important was that risks continue to be insured allowing vulnerable, but otherwise healthy companies to stay in business. However, an adjustment is inevitable further down the line as the next phase of the pandemic approaches and economies open up.

A sudden or disorderly cancellation of economic support measures risks creating an unintended shock and exacerbating a situation that these measures aimed to avoid. An orderly and coordinated wind-down, and in particular the speed and manner in which this is done, will determine the ultimate success of governments' approaches. ICISA members will do their part by continuing to support their policyholders and facilitating trade throughout these changes.