PLATFORMS, EMBEDDED AND OPEN FINANCE: OPPORTUNITIES AND CHALLENGES FOR CREDIT INSURERS.

MARKET ANALYSIS THOUGHT

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Platforms have recently become a hot topic, although the concept is not new. In the last few years, corporates and financial institutions have shown a growing appetite for platforms in a broad sense. Indeed, there are many kinds of platforms. Marketplaces allow businesses to transact with many suppliers and buyers from a single point. Some solutions give companies the means to connect with their different financial suppliers and get a 360-degree view of their facilities and exposures. Blockchain-based platforms enable financial institutions to connect with their extended ecosystem. Temporary solutions were designed in an emergency to cope with the COVID-19 situation. These are just a few examples of what is on offer. New platforms are emerging every day, and it is impossible to know which ones will succeed in the longer term and which ones will only be a passing fashion.

Such circumstances bring about a challenge both for platform builders and credit insurers in terms of integration. On each side of the fence, Application Programming Interfaces – the famous APIs – have been considered the magic solution, allowing data to be exchanged seamlessly. However, in the absence of standards, each platform and insurer is developping it's own API, and each integration is a one-off project. As a result, the number of partnerships is limited. Besides this technical aspect, business considerations are also slowing down the rise of platforms in the credit insurance industry.

From integration with platforms to embedded products

First, some financial institutions have built their platforms, either alone or via consortiums, and then attempted to connect them to their competitors. Such an approach has not proven to be very successful since founders are considered to have a competitive advantage over the users of the service. Therefore, carriers are reluctant to become customers of their competitors.

On top of its traditional form, credit insurance will undoubtedly develop in new areas by combining distribution channels connecting extended ecosystems and underwriting new products thanks to data that were barely accessible or used until now.

Then there is the fact that the organization of companies buying credit insurance is seldom adapted to platforms that offer integrated financial services. For instance, in medium to large companies, there is a split of duty between sales, credit management, and sometimes credit insurance purchase. This makes the idea of a single platform where all actions could be performed from the same place much less appealing since it would require powerful workflows replicating what companies have already developed for their internal needs. Finally, there is a question of adaptation of the platform model to current business practices. The customer base of credit insurers consists mainly of whole turnover and excess of loss policyholders. Evaluating the extent to which they would benefit from greater integration between platforms and credit insurers is challenging.

Yet, the opportunities offered by platforms and by embedding a form of credit insurance as a value-adding service should not be underestimated. In its report on the rise of embedded finance, Dealroom.co estimates that there is a $3,500 billion opportunity for retail and e-commerce by 2030 and that a significant part of it will come from supply and trade financing and insurance for business trade platforms. It is a unique occasion for carriers to extend their customer basis. For example, platforms could be the means to reach the untapped segment of SMEs.

Success will probably depend on performing an extensive marketing exercise. Credit insurers must segment their prospects' portfolios and consider developing products adapted to each segment, including a dedicated pricing strategy. It will also be an opportunity to further build business intelligence by leveraging data to define new underwriting approaches.

Open banking, via access to bank account data, offers the opportunity to contemplate credit risk differently, and Buy Now Pay Later (BNPL) players are already relying on it in B2C. Even if the B2B environment is more complex, similar approaches will likely emerge, especially when it comes to SMEs. More and more SMEs are showing that they are willing to give access to their accounting data via ERPs such as Sage or QuickBooks to receive financing. They should also be ready to open this data to credit insurers if it would facilitate their subscription to policies and the management of these policies.

As is the case for individuals, companies increasingly understand the value of having an accurate and reliable digital identity. After a relatively slow start, the Global Legal Entity Identifier (GLEI) is gaining traction, showing that the value of digital identity is becoming more evident. Another example is the fact that more and more governments are considering developing a digital financing passport for their SMEs, which would facilitate access to financial services and will undoubtedly facilitate trade by enabling trust between parties. Such a passport would include identification, financial, and ESG data. It would be owned and controlled by the SME and certified by third parties and could then be instrumental in developing the platform economy.

The future is unknown, but it will be digital.

The trend of digitalization is unlikely to slow down, and credit insurers should also contemplate it from a prospective point of view. For instance, France will make the adoption of electronic invoicing mandatory for domestic businesses for all their B2B transactions within three years. Spain is introducing a law called **'Crea y Crece'** on the same topic. It is very likely that within a decade, such a regulation will be developed at the European government level. This will create new conditions to manage intercompany credit, VAT, and, most likely, dunning and collection practices.

On top of its traditional form, credit insurance will undoubtedly develop in new areas by combining distribution channels connecting extended ecosystems and underwriting new products thanks to data that were barely accessible or used until now. Credit insurers that have attracted diverse talents to think outside the box and who have invested in emerging technologies like Artificial Intelligence are the ones more likely to succeed in this.

About Tinubu

Tinubu is the business facilitator and exchange enabler that delivers fluidity and simplicity to the insurance industry by using the strength of collective performance.

Our company is an alliance of technology software and insurance expertise offering the best combination to its clients. It covers the entire value chain of credit insurance & surety with one end-to-end platform, connecting every part of your business with one digital highway.

Established in 2000 and headquartered in Paris, France, Tinubu is an independent software provider and employs 170 people, located in Paris, London, New York, Orlando, Singapore, and Montreal. Its clients represent 30 of the top 60 Credit & Surety underwriters worldwide.

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Thomas and his team are developing outside-the-box solutions to tackle the industry pain points, and are augmenting Tinubu's competence in advanced technologies (blockchain, AI, quantum computing).

He has built an expertise in trade finance and balance sheet management as an advisor for financial institutions at CSC Peat Marwick and lead the European business analysis team dedicated to surety bonding at Atradius.

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