UK SPOTLIGHT: CREDIT INSURANCE AT A DECISIVE TURNING POINT

INDUSTRY VIEW

Credit Insurers are watching with caution after support measures return to prepandemic levels. In an economy facing multiple challenges, what will the impact be on the industry and how should it respond?

Despite the predicted fallout of 2020-21, insolvencies and claim ratios in Britain have been lower than expected. Now that the various support schemes of the pandemic have come to an end, many predict 2022 to be the time for the inevitable sink or swim. Will economic uncertainty see insolvencies finally spike? How will insurers stay relevant and respond to growing competition? With evolving challenges, there is little doubt that this is a period that will shape credit insurance in the UK for years to come.

From Early Beginnings

Credit Insurance has played a role in supporting trade in the UK for more than a century, dating back to 1919 when a group of businesspeople incorporated a credit insurance entity to promote exports and help stimulate the post-war economy in Britain. Eventually this divided in two: Trade Indemnity which focused on domestic trade credit insurance, and what is now known as UK Export Finance (UKEF), holding the title of the longest running export credit agency in the world.

Since those early days, there have been many economic shocks where the benefit of insurance gave confidence to UK businesses to trade on credit terms. Along the way, lessons have been learned and new support measures applied in response to changing conditions.

> *The temporary Trade Credit Reinsurance scheme enabled co-operation between public and private to ensure the continuation of trade despite a wave of uncertainty, supporting over half a million businesses.*

The Covid-19 pandemic did not see the industry react in the same way it did during the Global Financial Crisis of 2007/8. This time, insurers could not reduce cover levels and raise premiums without impacting their business. The temporary Trade Credit Reinsurance (TCR) scheme introduced by the UK Government was a good example of co-operation between the public and private sectors to ensure the continuation of trade despite a wave of uncertainty, supporting over half a million businesses.

Measuring a Multi-Faceted Economy

Against the current backdrop, 2022 looks set to be an historic year for Credit Insurance in the UK, as insurers respond to an uncertain economy. With prepandemic conditions returning, further evolution of the industry will be critical as businesses focus on supply chain, liquidity and trade for survival and sustainable growth.

The far-reaching sanctions following on from the invasion of Ukraine have increased the industry's awareness of political and corporate risk. In an environment of many unknowns, businesses and insurers watch closely as the possibility of a recessionary climate looms.

The UK has experienced a period like never before. In addition to Brexit, the Covid-19 pandemic brought with it further complexity to an already changing economy. With two major events occurring side by side, it is difficult to ascertain the impact of them in isolation of each other. What are the true costs of these two seismic events, and when will they materialize? For the Credit Insurance industry, many see 2022 as the year when the real fallout will be felt, and when the winners and losers will surface.

The usual measure of GDP has not proven as reliable a marker as in previous downturns. While the nation's GDP contracted significantly in 2020 as expected in response to Brexit, the concern over insolvencies was not as high. Thanks to the British Government's various pandemic support schemes, some businesses who would have otherwise struggled have until now survived.

The OECD has lowered its forecast for the UK's 2022 GDP from 5.2% to 4.7% growth, and just 2.1% in 2023, signaling a period of slowdown. Now that the Government's support tap has been turned off, slower growth may now be more of an accurate indicator as insolvencies inch closer.

Further pressure will be felt as inflation and interest rates are on the rise, with cracks starting to appear in those businesses who may have otherwise failed now facing the possibility of unmanageable debt. Insurers must be prepared for significant impacts on claim ratios as this readjusts.

After years of low interest, zombie companies across the UK have been operating with relative ease. These companies, unable to service their' debts over an extended period have enjoyed very cheap debt and accessed pandemic financial support, despite being poor contributors to the national GDP. While their collapse has been contemplated for many years, will rising interest rates and inflation finally mark the end to the zombies? For insurers, this ticking time bomb of debt is cause for concern as the real number of zombies is unknown.

Adapting Supply Patterns

As the trade war with China continues, pressure is mounting on businesses in the UK and fueling concerns over economic security. With fluctuating costs and delivery schedules, planning and forecasting with uncertainty of supply is a significant challenge. As shipping companies record large increases in profits, suspicion of collusion between suppliers and shipping companies is rising, adding to further fear and frustration among local businesses.

The uncertainty and delays impacting cash-flow and production put UK manufacturers under greater financial pressure. With increased border costs on imports and exports after Brexit, soaring energy prices and rising wages, many British manufacturers are struggling.

There is growing pressure to re-think local manufacturing in the UK to mitigate the burden of supply chain risks. Companies are starting to look for reliable local solutions as a way of reducing disruption. Far from a knee-jerk reaction, this is likely to create longer term patterns for local manufacturing and logistics across the UK and indeed the world as companies adapt and seek to diversify.

Now that Britain is no longer subject to the EU rules that do not permit a country to favor its own domestic products, increased local manufacturing makes sense as a long-term strategy in building resilient supply chains and supporting economic security.

While in the shorter term this means a cost increase, in the longer term it will see the economy better equipped with a more resilient and diversified supply chain. Credit insurers in the UK will need to take a forward view to develop new ways of supporting a changing industry with smarter, faster and adaptable services that continue to facilitate and sustain trade for a more diverse business community.

Maintaining Value in Credit Insurance

Premiums are on the rise and are expected to rise further. How much more can they increase without impacting on the value of the insurance? After a period of relatively low claims, businesses that now face rising premiums are questioning the worth of credit insurance, with some moving to self-insure as they seek better value.

With the long-term value of credit insurance under question, insurers must look at their retention strategies through a new lens and respond with enhanced offerings. The market will increasingly demand smarter, inclusive solutions and systems that provide value for money and confidence.

Facing a New Breed of Competitor

As the Credit Insurance industry moves rapidly towards intelligent, faster benchmarks, those with the benefit of speed and accuracy that come from digital risk underwriting are gaining a competitive advantage in an industry where the rising cost of premiums are already a cause for concern.

> *Credit insurers in the UK may need to rethink their strategy and develop new ways of supporting a changing trade industry and a more diverse business community.*

Insurers are facing increased competition as new players set their sights on growing their market share. Innovative newcomers such as Cartan Trade based in France have made it clear that they are here to stay, with strong global growth ambitions and a focus on technology and value to transform trade credit. Unburdened by legacy risk underwriting systems, Cartan Trade and other new competitors favor solutions that accelerate processing, provide real time data and reduce the cost to serve.

With this evolving competitive landscape, those insurers that have comfortably been at the top of the chain will need to watch new players closely as they continue to emerge with value focused solutions that appeal to a broader business spectrum. As speed and real time data and information become the norm, the need to adapt is important now more than ever. In order to stay relevant and competitive, insurers must look closely at their own operations and keep ahead of new underwriting trends and technologies.

Looking Beyond 2022

While the United Kingdom experiences a time of economic adjustment, credit insurers are facing various challenges. It is critical for insurers to find new ways of supporting trade in a changing business environment. As Britain moves through the current period before it eventually stabilizes, a diverse business community will demand solutions that are more relevant and agile for the future. Credit Insurance will remain a vital tool for supporting trade, but it must adapt to be faster and more strategic in order to demonstrate long term value.

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About the Authors

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Since joining Tinubu in October 2012 as a senior credit management specialist, Mike has worked on a number of missions to improve clients' operational efficiency. His strategic and innovative thinking has made for continuous success in his key change management roles.

Mike has over 25 years of trade credit and surety experience in international credit insurance in all aspects including trade finance. He previously was head of foreign risk underwriting at Euler Hermes UK leading a large team of risk underwriters.

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Marc joined Tinubu in 2005. With more than 30 years of experience in the Credit Insurance industry, he plays a major role in the development of the international portfolio.

He started his career in 1989 as a credit analyst in NatWest. In 1993, he joined Euler as a senior Risk Underwriter. He then participated in and led projects which resulted in acquisition and opening of 14 subsidiaries in 13 countries, and took part in the merger with Hermes.

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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