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HOW ARE STARTUPS DRIVING INNOVATION IN CREDIT INSURANCE?

INDUSTRY VIEW

With new players and solutions, trade credit insurance is evolving. How do newcomers achieve success, and how does the industry overall stand to benefit?

Short-term credit insurance is going through a period of growth and change. As some insurers stepped back from the short-term (ST) trade credit business in some parts of the globe, newcomers joined the trade credit insurance (TCI) business, bringing fresh solutions and challenging service level expectations. What are the key success factors for these new entrants, and how must established players respond?

The changing of the guard

While insurers like Zurich and QBE have recently stepped away from the short-term trade credit business in North America, others have surfaced. Many have been new or revived government export credit agencies (ECAs), such as Etihad Credit Insurance in the UAE, EGE Egypt, and EXIM Pakistan which have emerged due to the absence of major insurers and to support the growth of small and medium-sized businesses within their economies.

Taking Egypt as an example, in 2018, its government decided to digitize the 28-year-old Export Credit Guarantee of Egypt (ECGE), changing its name to Export Guarantee of Egypt (EGE) and refreshing and expanding the ECA, opening it up to a much larger field of activity: the domestic market.

New private players have appeared in mature markets in the past decade, including Australia, the US, and France. Having identified specific gaps, they saw the opportunity to serve niche areas.

Further, some existing private insurers have started to offer short-term credit insurance for the first time, diversifying their portfolios by offering their customers additional services and generating profitable growth.

While it is still considered a niche market, new entrants competing with the 'big three' believe the stakes to be worth it, even in mature markets. With the Berne Union reporting that demand for short-term credit has experienced a steady increase in demand throughout 2022 , the private and public influx is a strong sign for the industry and trade overall, especially for end users.

Will new ventures be successful?

This is a common question across the industry; however, it is difficult to form a decisive view without a crystal ball. In most cases, the recipe for success relies on three main ingredients. Those who strike the right balance can set themselves up to make the most of immediate opportunities and establish their place as prominent players in the future. Let's take a closer look at each of these ingredients.

- **Expertise and intelligence**

Decades of experience can go a long way in ensuring success. A strong team with in-depth understanding and brilliant ideas will help a new player quickly become operational and attract customers.

Knowledge will also drive innovation. An understanding of the intricate workings of credit insurance, coupled with technology that is associated with industry experts, are both key.

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While new players may have fresh ideas, for many of them (for example, a government setting up an export credit agency from scratch), a lack of experience in operating a short-term export credit business means they must quickly find ways to acquire it, without inflating their operating costs or competing for talent.

It is a matter of securing the knowledge, either internally or by outsourcing, to ensure a strong and sustainable understanding of the various operational aspects, which are specific and very different from other insurance business lines.

Technology can multiply the capacity and knowledge of a new team and quickly bring the business up to speed. This way, they can operate with a leaner core team of experts and gain a competitive advantage by being more agile and flexible than long-established operators with larger headcounts.

Business model

Depending on the market and overall objectives, new entrants must determine which products to launch (Whole Turnover, Excess of Loss, Top Up, Single Risk, etc.) and which customers to target (domestic, export, SMEs, or large companies). They must understand the needs of customers and what is missing from the current offers available in the marketplace.

They must also establish a distribution strategy (direct, via brokers, banking networks, financial platforms, or online) and secure reinsurance capacity.

Strong stakeholder backing is critical. The business case and plan must convince stakeholders and be ready to engage. Most private newcomers have the backing of an insurer or reinsurer under a Managing General Agent (MGA) setup, which offers agility and high responsiveness.

Several new players have deployed business models with much lower overheads than their more established counterparts. For example, a new French operator launched in 2021 with strong stakeholder support and a plan to become the fourth major European player, with an "innovative and complementary offer which vows to simplify access to credit insurance."

> *The emergence of new players will likely force established players to improve their offerings, which should benefit the entire market.*

Quick launch via technology

A critical enabler is the adoption of a software platform and related services that allow for a quick launch and a sustainable growth trajectory. Take, for example, the case of export credit agency Etihad Credit Insurance (ECI), which was set up in 2017 by the UAE Federal Government. Within six months of adopting a turnkey software platform, ECI had issued its first credit insurance policy and was fully operational in less than 12 months.

Technology can also optimize the timing and responsiveness of a new business by matching the type of products offered more closely with customers' needs and creating the capability to respond quickly to market changes and associated risk levels.

Offering credit insurance means managing, processing, analyzing, and monitoring a significant amount of information. As the business grows, the insurer will have to handle more and more policies, buyers, and data. This can be managed only with a solid and reliable system that offers the ability to automate most of the process.

Using technology as the base structure for functional processes, an organization can have more robust governance and control over every aspect of its operation with real-time data and accurate information. This is paramount to maintaining confidence among stakeholders that the risks underwritten are under control and that the reporting is trustworthy.

Lessons for established players

With newcomers eying a share of the pie and introducing new solutions, now is the time for existing providers to respond.

One option is to acquire new players, to try and protect market share or expand the portfolio. While the acquisition is an option, it does not guarantee success in the long term, especially if it is the only response to competition. The emergence of new players will likely force established players to improve their offerings, which should benefit the entire market.

While they may have the advantage of experience, knowledge, and existing market share, the key to success is an ability to adopt a mindset of continuous improvement and look at their own business through the lens of risk assessment and mitigation.

As customer expectations continue to increase, innovation will be critical in protecting and safeguarding the future business. There is currently a window of opportunity for existing players to play a leading role in developing new solutions and reinventing service-level expectations.

For established credit insurers, any disruption within the market should not be seen as a threat. It should be seen as an opportunity to reaffirm their commitment to providing best-practice solutions to customers through innovation and to demonstrate the strong value proposition of credit insurance overall.

Competition can be healthy when it helps to improve performance. When winning is not the sole or primary objective, those who choose to participate can learn more about themselves and how they will perform in challenging conditions.

While not usually permitted during 'normal' times due to restrictive OECD and EU competition rules, many established ECAs (acting as government program arms) offered short-term credit insurance for the first time during the Covid-19 pandemic to ensure local businesses were supported. Key to their ability to quickly adapt to provide this support was keeping up to date with the needs and expectations of customers and partners such as banks, applying technology that can optimize responsiveness, agility, and security.

The ultimate winner

The customer benefits of innovation and competition are simple yet powerful. They can now enjoy greater efficiency, explore new sources of guarantees, and experience better pricing and risk control from the cover that is more closely aligned with their needs.

About the Authors

Benjamin LE FORESTIER
Regional Sales Manager for Europe
at Tinubu

Benjamin is Tinubu's Regional Sales Manager for Europe since September 2022, leading the business development among credit insurers across that region.

He started his career as a Corporate Risk Analyst at GE Money Bank, before joining Tinubu as a Risk Analyst in 2006, and being promoted to Risk Manager 3 years later. In 2011, he became Head of Corporate Loans Acceptance for Volkswagen Financial Services, where he set up and managed a team of 10 people. In 2014, he moved back to Tinubu, to Asia this time, to assume a Managing Director position in Singapore, where he built and led the regional credit risk team and developed the Tinubu local network. More recently, from 2018 to 2022, he focused on Tinubu's client management and business development in Asia Pacific. Benjamin holds a master's degree in Corporate Finance from the ESG Paris Business School.

Marc Meyer
SVP, Subject Matter Expert Insurance
at Tinubu

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

He started his career in 1989 as a credit analyst at NatWest. In 1993, he joined Euler as a senior Risk Underwriter. He then participated in and led projects which resulted in the acquisition and opening of 14 subsidiaries in 13 countries (Europe, South America, and Asia) and took part in the merger with Hermes. He holds a master's degree in Public & International Laws and Policies from Poitiers University and a diploma in public service from Sciences Po Paris.

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.

Contact Us

contact@tinubu.com
+33 (0)1 74 31 20 70 (EMEA)
+1 (213) 290-9628 (USA)
tinubu.com

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