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NEW DEVELOPMENT OPPORTUNITY FOR THE CREDIT INSURANCE INDUSTRY

INTERVIEW

Marc MEYER
SVP Subject Matter Expert
Credit Insurance
Tinubu

Credit Insurance (CI) has been a valuable component of doing business and conducting trade for decades. With the effects of the pandemic on world economies, the role of CI is even more essential, as Tinubu's Credit Insurance expert Marc Meyer explains.

CI protects the risks associated with trade that result in losses due to failed payments. Therefore, CI is one of the driving factors that contributes to flourishing trade and financial markets in developed economies.

Question #1: Could you provide an overview of the Credit Insurance Industry?

Marc Meyer: Credit Insurance is an effective risk management tool for the suppliers of goods and services and financial institutions to mitigate non-payment risks and insolvency or default of both domestic and export buyers.

CI enables those suppliers exploring new markets and expanding their businesses, which in turn results in significant increase in their sales and profitability. In addition to the suppliers, CI supports banks, other financial institutions, and factoring companies that provide financing to the suppliers, by way of discounting/purchase of bills.

Historically, CI was developed in Europe as a financial product to help in the recovery of trade following World War I. Today, Europe remains the headquarters of the three global CI leaders and where their core business is generated.

Question #2 - What are the main challenges of Credit Insurance today?

Marc Meyer: Today, the CI Industry's challenge is to develop Credit Insurance in other regions throughout the world.

There are still many parts of the globe where CI is not widely utilized, mainly for reasons related to existing cultural practices:

In the Americas:

- In the USA, historically companies pay cash. Commercial information has been available and credit management is well developed.
- And the major perceived trade risk, i.e. export, represents a small part of GDP, therefore any concern is limited to very few.
- In Latin America, historic and recurrent high inflation rates forbid interco credit and, therefore, have rendered CI non-relevant.

In Asia:

- CI competes against a widely used payment tool, the Letter of Credit (LOC). While CI is more flexible, and less expensive, the challenge remains to promote and develop CI as a better alternative.

With Credit Insurance coverage, companies can more easily access financing, through both banks and factoring companies.

In Africa (excluding South Africa):

- Access to commercial information, which is necessary for insurers to assess the risk, can be difficult and expensive for both domestic and regional trade. It has been one of the main factors that explain the scarce use of CI.

Question #3 - What are the solutions to helping develop the Credit Insurance Industry in these other regions?

Marc Meyer: As long as a CI market exists, in terms of size and is open by local regulation, two of the main historic barriers to enter this industry can be overcome today.

- Technology has been facilitating access to cheaper commercial information, which is necessary to undertaking the risk assessment of the CI policyholders' clients.
- Today, SaaS solutions provide improved and affordable full-service systems that can be made available to any world market and support both a start-up of CI activity or digitalization of existing stakeholders.

Question #4 - How can CI reach low-penetrated markets and regions?

Marc Meyer: The obvious "vector" to expand CI into low-penetrated markets is the small and medium-enterprise (SMEs) clientele who stand to benefit the most from this protection.

Actually, the professional associations, ICISA and Berne Union, and their members, have been researching the best ways and means to attract these enterprises which largely constitute their portfolio of clients.

Question #5 - What are the benefits of Credit Insurance to SMEs?

Marc Meyer: With secured trade payment and better access to information these companies can develop their business.

And most of all, with CI coverage, companies can more easily access financing, through both banks (working capital guaranteed by the policy) and factoring companies (discounting of insured receivables).

That's why Industry members and their representative bodies continue to think about the most effective ways to build awareness, so that markets that are behind in utilizing CI can appreciate the benefits. CI is viewed and promoted by the Industry today as one of the most efficient tools to support SMEs, which in turn strengthens national economies by securing domestic trade and boosting export.

Question #6 - What are your thoughts about CI as it relates to the economic effects due to the Covid-19 crisis?

Marc Meyer: The Covid crisis has had an effect on trade and global economies. Now is an important time for everyone in the CI industry to focus efforts at promoting how CI can help businesses in the future.

Indeed, the crisis has triggered significant developments worldwide:

- Companies are reconsidering their current supply chain and just-in-time business models, and
- Globalization may potentially lose confidence in both corporate and governmental circles in the G7.

The pandemic's resulting economic impact will be that some countries stand to suffer potentially major losses, while other countries and regions may become major beneficiaries. Near-shoring and reshoring (relocation regionally or locally) supply chains will be a forthcoming trend.

CI, therefore, could become a powerful tool in supporting both developed and developing countries as they recover from the Covid crisis. CI solutions can serve to strengthen trade for domestic and export businesses and help access to financing for the SMEs through secure supply chains and national economies.

Question #7 - Who is best prepared to promote CI's solutions??

Marc Meyer: The Covid crisis has triggered supplies of "magic money" which has been created as stimulus to support the urgent need of national economies.

The best way today for CI to expand into developing countries is through the Export Credit Agencies (ECAs). These ECAs are government agencies that support national exports. They write difficult and large long-term cross border risks on behalf of local companies and can demonstrate that the transaction in question meets national content or national interest criteria. The "underwriter" is the taxpayer, through the national Treasury.

In addition to the national ECAs, some Multilateral ECAs have been created in certain regions to maximize resources and increase potential market size so that businesses can become more profitable. These "Multilaterals" are jointly owned by multiple governments and their purpose is to support trade and investment within the member states.

Promotion of the CI product should be done in coming years through both ECAs and Multilateral ECAs for regional projects where the CI product is not well known or believed to be non-sustainable because of size of a country or the country's market. Both of these institutions have the benefit of available resources, as well as governmental and political supports, to be able to take the lead.

Question #8 - Which market segments should benefit from this policy?

Marc Meyer: Naturally, with available dedicated funds as an outcome of the Covid crisis, SMEs are in a good position to be helped going forward.

CI offers the opportunity for them to secure trade and to facilitate access to the most affordable and flexible funding for their businesses.

For SMEs, this can mean a different future for their businesses. With digitalization solutions that offer fast implementation, SMEs can obtain state of the art technologies at low costs and provided locally. As a result, local and regional economies will be strengthened.

Question #9 - What is Tinubu's role within the Industry?

Marc Meyer: At Tinubu, we have been providing our Credit Insurance Solution to both mature trade credit insurers (both private and ECAs), and to startup businesses for 20 years. We also provide consultant services and, when needed, support for commercial and risk underwriting services, and also training on the product's specificities and operation.

Lately, Tinubu has witnessed increased interest for this product and new projects coming from developing regions. We are motivated to participate in this current movement and are ready to support developments in every way possible.

Conclusion

There is great potential for CI to expand globally into new local and regional markets. While reaching low-penetrated regions is a challenging project for the entire Industry, current events have created a tremendous opportunity to work toward building awareness and making progress.

With a renewed understanding of the circumstances that exist in certain regions and the benefit of substantial Covid funds to devote to new measures, the industry has what it needs to take a big step forward.

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.

About the Author

Marc Meyer

SVP and Subject Matter Expert Insurance at Tinubu

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.

He holds a master's degree in Public & International Laws and Policies from the Poitiers University and a diploma in public service from Sciences Po Paris.

Contact Us

contact@tinubu.com

+33 (0)1 74 31 20 70 (EMEA)

+1 (213) 290-9628 (USA)

tinubu.com

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