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THE NEED AND FEASIBILITY OF RETHINKING THE PUBLIC VERSUS PRIVATE MODEL.

MARKET ANALYSIS THOUGHT

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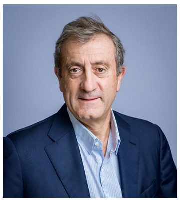

This is a teaching moment for many in the trade industry as we reflect on recent events. In normal times, both domestic and foreign trade experience ups and downs. Therefore it is always advisable for small to medium enterprises (SMEs) to have credit insurance for them to grow their business safely. For trade credit insurers (TCIs), who provide support to businesses and make a strong contribution to trade, the risks that are transferred to them fluctuate as well.

The financial crisis in 2008 had a huge disruption on the trade sector and today Covid-19 is having an even more drastic impact. We have seen a worldwide response to try to manage the crisis caused to the trade industry. It is reasonable at this point to consider changes that may come from the involvement of governments and the long-ranging implications, which may include rethinking new models for the future of the trade credit insurance industry.

Early lessons from Covid-19 and the worldwide crisis management

What happens when Trade and the trade credit industry go through a crisis like Covid-19?

Trade credit insurers are the providers of risk coverage that is adjusted as a normal part of credit monitoring. Generally, this is positive. Yet, when there is a global economic crisis, it is inevitable that unique risks are presented to credit insurers as assessing risk becomes a fast-moving target. When the company needs credit from the supplier, there is a strain on capacity which creates a pro-cyclical effect on the company. Additionally, the company is squeezed when credit insurers withdraw their cover which reduces the credit risk protection for the company and for its suppliers, and also squeezes the company using factoring or other financial arrangements. The more the company becomes at risk, the more fragile its economic stability becomes, all of which accelerates the initial crisis.

There is also the further impact when delays and timing on the part of credit insurers interrupts the upturn in the economy. The company is at an even greater disadvantage. In effect, once the initial disruption in the normal credit insurer business model occurs, other changes occur.

Government support

All of this disruption occurred in the global financial crisis of 2008 and in the current Covid crisis. As a result of the instability, governments provided to companies massive emergency support schemes that allowed for cash facility, subsidized employment costs and delayed tax payments.

Due to Covid, this past spring, trade credit insurers were afraid they would be unable to pay huge losses to businesses. Fearing the worst, major private insurers took the urgent initiative to ask for government support. Out of their concern for the pro-cyclical effect of short-term credit insurance and to reduce a worsening impact of a possible delayed rebound from the Covid crisis, governments answered their concerns.

Governments stepped in to cover the anticipated credit insurer losses and implemented massive reinsurance schemes, with insurers agreeing to the government's request for the premium to go to them. In some cases, it was anticipated that the claims could be ten times greater than the premium.

It was very difficult for governments to estimate what the actual losses would be or to what extent their massive support schemes would contain company insolvencies. In most countries where such programs were implemented, the expectation was for massive, potentially never experienced before, levels of claims. In effect, trade credit insurers had transferred their losses to the government.

Effect of Government support

There is no question that government support to the trade credit industry was and is very important. Government actions allowed insurers to continue to provide coverage and for businesses to stay alive.

Now that some months have passed, we are learning that the level of claims and anticipated credit insurance losses are drastically lower than expected. In other words, the insurers might not have needed the assistance, or needed as much. In turn, those government schemes turned out to be financially very profitable for governments, while largely under-utilized by businesses.

The point here is that it was difficult to assess the real impact of the Covid-induced economic crisis on businesses. We must also consider the effect of some government's sizable actions which serve to benefit individuals and corporations for the long term, through tax rebates and delays, social subsidies, financial, treasury support, loans and guarantees.

Questions to consider for the future

It is prudent to expect that governments and credit insurers will reflect on how recent events might reshape the future. For example, how do these events change the business model of credit insurers and will governments continue to provide assistance.

Globalization is here to stay, and trade is becoming more and more volatile. Companies have to rethink how they control supply chain. While some countries have done mass digitalization of businesses, there are those still evolving countries that have more challenging structures to work within. Economic situations could become so uncertain that there is a need to implement a sustainable model for governments to take on a more permanent role. This is a complicated picture, yet one that presents many options.

The current global crisis and the response provided, as well as what we are now learning will necessarily mean that some governments will consider different options for the respective roles of the private and public sectors in short-term credit insurance and the framework in which they operate. The mission of trade credit insurance has always been essentially as a private market. Any involvement of the public sector would involve big change.

Governments may expect that helping trade credit insurance is a new normal. Trade credit insurers may believe there is a need for governments to provide capacity when the private sector is unable. These ideas change the existing model and may force the industry to address the parameters as to how far the public sector can go.

Governments could decide to play a role in implementing regulations that force private insurers to strengthen their solvency ratios to better support their mission on their own. This would mean credit insurers would then theoretically eliminate government support in times of crisis, because they would be better prepared to respond. The governments could set limits on cover withdrawals and credit during crisis. This raises concern for the prevailing credit insurance business models, pricing structure, value proposition, and the compatibility of any future changes.

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A new role for the ECAs?

Another possibility is to reconsider the future role of Export Credit Agencies (ECAs). Traditionally, ECAs have a limited role, yet it could be expanded. Governments might promote ECAs as having a direct role for temporary periods during times of crisis, with terms and conditions to be locally defined. Or, that role can extend beyond the case of a global crises to support other scenarios, such as when trade sectors undergo a major restructuring.

If such a new role was assigned to ECAs, would they be capable to fill it? Several ECAs have gone or are already going through digital transformation to be more flexible, more reactive, more cost effective, and to provide a high standard of customer experience, sometimes doing better than most privates. Yet, others are way behind.

Finally, we can raise the question of the feasibility of a hybrid solution where the public and private sectors would team to provide a joint sustainable and efficient solution for the mutual interests of companies. Indeed, notably in markets where the private sector is well-developed, often with very few dominant players, several significant obstacles appear, such as conflicting agendas and issues relating to transparency, operating mode, and local business practices.

Conclusion

Serving as an independent partner of both ECAs and private insurers around the world, I offer these views to promote a discussion between the trade industry and its constituents. It is in times of crisis, such as the one we are presently still enduring, that we can often learn the most valuable information to help plan for the future.

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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Jérôme founded Tinubu, in 2000 with Olivier Placca.

His capability to embrace new technologies and the insurance world resulted in the successful digital transformation of many credit insurance and surety bond companies, outperforming the market and taking shares from the competition.

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