

## Has there ever been a better time to buy credit insurance than today?

**With economic uncertainty looming large in most corporate minds, the good news for risk managers is that credit insurance capacity is on the rise. Neil Ross of Chartis discusses the key issues**

For close to 100 years credit insurance protection has played an important role in developing and supporting the growth of world trade, but until fairly recently its contribution was not fully understood or widely recognised. It was the banking crisis in 2008 which thrust credit insurance onto centre stage with both the media and politicians for all the wrong reasons including the sudden withdrawal of

buyer limit coverage by many credit insurers. The speed that market liquidity contracted caught many underwriters by surprise and the dramatic increase in insurance claims combined with predictions of a global depression left underwriters feeling they were standing on a precipice with no sight of the bottom. Credit insurance, like oxygen, has often been taken for granted and only when withdrawn,

is its role recognised in supporting supplier credit; protecting working capital and keeping trade alive.

Looking back, whilst 2008 and 2009 were bad underwriting years for credit insurers, the real damage was to the credit insurance brand. Those companies which had previously outsourced credit management and customer vetting to insurers were suddenly forced to make their own credit decisions on customers as a



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result of cover being cancelled. Whilst many companies moved to excess of loss credit insurers (such as Chartis) who provide greater limit certainty through non-cancellable credit limits, far too many chose not to renew their policy despite continuing economic uncertainty. In a climate when credit insurance should have been in great demand, the market was at best stagnating.

However, this has prompted changes and over the last 12 months the credit insurance industry has witnessed some really positive developments. The barrage of criticisms during the height of the crisis and poor policy retention has provided a sufficient kick to make the credit insurance industry to take note and listen. Many underwriters have responded by introducing significant changes to their offering designed to rebuild confidence in the product and help repair market reputation of insurers. The crisis highlighted the different underwriting approach taken by the excess of loss insurers, specifically their ability to provide non-cancellable credit limits which is now seen by many as being gold standard product in the market. Whilst non cancellable cover is not readily available outside excess of Loss structures, traditional insurers have introduced more meaningful notice periods for limit cancellations to take effect.

Underwriters are also being more specific about the triggers that would lead to a credit limit being withdrawn rather than the historically perceived indiscriminate withdrawal across trade sectors, regions or countries. Underwriters now better understand the need for communication, both with their policyholders and with the end buyer. The crisis made many buyers fully aware of the link between



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supplier credit and disclosure of information with insurers.

As companies emerged bruised and a little shaken from the 2008/09 credit crisis, the words 'credit risk' have yet again taken on a greater significance as world leaders wrestle with sovereign debt crisis which threatens to trigger a second banking crisis and plunge the developed countries back into recession. If markets continue to slow down and banks are forced to deleverage reducing market liquidity, the probability of increased corporate failure will rise alarmingly. It seems increasingly unlikely that cash strapped governments will now be able to step forward with sustainable rescue plans. Politicians continue to dance around the problems without tackling the real

issues; one step forward, two steps backwards and a hasty step to the side. So yet again companies all the way up to CEOs are becoming acutely aware of the credit risks they run from supplier credit if their counter-parties collapse.

So the "elephant in the room" (question) is "how will credit insurers react a second time around"? Strong underwriting results in 2010 and 2011 have certainly increased insurers risk appetite with capacity and coverage in most cases returning to pre-crisis levels. Insurers have worked hard to get more up to date risk information and to better understand the need for improved communication. However, the notice periods on limit cancellations introduced by many insurers have yet to be tested with market loss ratios continuing for now to remain at acceptable levels. However, risk data used by underwriters is rarely up to date, so if the economic deterioration accelerates tipping UK and Europe into recession, many interested parties will be closely watching to see how underwriters react and more specifically how the new triggers or notice period for buyer limit cancellations will work and be communicated in stressed risk environment.

There continues to be strong interest for excess of loss insurance which is widely recognised for providing greater autonomy and credit limit certainty to the policyholder and importantly established a track record of maintaining cover through last crisis. It is therefore not surprising that it is this market segment that has seen the entrance of new underwriting capacity which has helped build its market share. More and more companies which previously outsourced credit management are now seeking to gain back greater control over their trade

receivables and are investing in developing necessary credit skills and systems.

Excess of loss insurers are also helping to expand market penetration through better alignment of credit insurance with trade finance. Banks across Europe are needing to deleverage and derisk and credit insurance can play an important role supporting trade finance through new Basel II/III compliant offerings.

Looking at the events in the news as I write the sovereign debt crisis shows little sign of being resolved quickly, a major financial institution is close to failure, concerns remain over whether banks are sufficiently capitalised and economic data indicates many countries are heading towards a double dip recession.

## Companies have rarely faced a risk environment where there is so much economic and political uncertainty and where companies are being forced to react more quickly to new threats and opportunities

Companies have rarely faced a risk environment where there is so much economic and political uncertainty and where companies are being forced to react more quickly to new threats and opportunities. It suggests it could be argued that there is unlikely to be a better time to buy credit insurance than today. Leaving it for the next few months may be too late. Underwriters are still pursuing new business, but common sense suggests this level of appetite is likely to change if the global

economic outlook continues to deteriorate and claims start to rise. Credit insurance will again move back into the spotlight if and when corporate failures start to increase, however in such an environment the recent product improvements insurers have implemented and their commitment to better communication should provide better support to their clients.

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