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Credit insurance in support of international trade  
Observations throughout the crisis

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Berne Union

Supporting trade and investment since 1934



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# Foreword

As economic conditions weakened since the beginning of the global financial crisis in mid-2008, exporters looked to export credit insurance to mitigate the increasing risks of selling their products overseas.

This article provides an analysis of export credit insurance and related developments as the crisis unfolded, filling a void, as a comprehensive account of export credit insurance data had not been published previously.

Through this unprecedented crisis, the credit insurance industry proved resilient. The value of insured short-term exports held up well against the collapse of world trade. For medium and long-term exports, the demand for insurance coverage and the resulting insured transactions reached all-time highs.

Export credit insurers were faced with the difficult task of evaluating risks in the rapidly deteriorating economic environment. At the same time, there were increasing numbers of buyer defaults, resulting in significantly higher claims paid.

The analysis of the market trends revealed the ability of Berne Union member companies to operate under these challenging economic conditions. Fabrice Morel based his observation on data provided by Berne Union members on a regular basis. We would like to thank the members of the Berne Union, as this work would not have been possible without their contributions.

Much attention has been focused on maintaining trade flows during the global financial crisis, with trade finance being identified by the G20 as an important element to revive the global economy. Whereas trade is crucial to economic development, it is recognised that credit insurance is crucial to the support of trade transactions.

As we move through the global financial crisis, Berne Union members will continue to play an important role in supporting exporters and sustaining international trade.

London, October 2010

**Kimberly Wiehl**  
Secretary General

**Lennart Skarp**  
Deputy Secretary General

## Credit insurance and how it works

Credit insurance facilitates trade, allowing suppliers to sell goods and services without having to worry about not being paid by their customers. In simple terms, a credit insurer promises to indemnify a seller if a buyer fails to pay for the goods or services he has purchased. In return for accepting to bear this default risk, the credit insurer charges the supplier a premium.

While credit insurance works for both domestic and international trade, international trade is by definition subject to a wider range of risks. In addition to risks related to the buyer and its creditworthiness – the commercial risk, also called credit risk – international trade transactions are subject to political risks where an overseas buyer willing and able to pay might be prevented from doing so due to a political act.

Export credit insurance allows exporters and trade banks to safely extend credit to buyers abroad, thus enabling trade transactions which would not happen otherwise. It is customary to define short term export credit insurance (ST) as insurance for trade transactions with repayment terms of one year or less, while medium and long term export credit insurance (MLT) covers trade transactions of more than one year (typically three to five years and occasionally up to 15 years). ST business is usually insured on a whole turnover basis where the credit insurer insures the exporter's entire portfolio of trade receivables, the "whole turnover". MLT business is usually insured on a transactional basis, covering sales of capital goods and services with repayment terms over several years.

# Credit insurance in support of international trade – observations throughout the crisis

## 1. Introduction

For decades, export credit insurers, public and private, have worked in the background oiling the wheels of international trade, largely unnoticed by the wider public or, indeed, by a large part of the community of exporters worldwide. This changed in mid to late 2008 when, in a deteriorating global economic environment, the crucial importance of trade finance and credit insurance to support international trade flows became apparent. Recognising that international trade was a means of overcoming, or at least alleviating, the negative impact of the crisis, governments took initiatives in line with the call of the G20 summit in London in April 2009 to support trade finance and trade flows via their official export credit agencies (ECAs). The following article describes recent trends observed in export credit insurance, especially in the time period from 2008 to mid-2010.

The statistical background is provided by the Berne Union (BU), the International Union of Credit & Investment Insurers, which counts the major private credit insurers as well as most ECAs worldwide among its members. The BU collects data from its members on a quarterly basis. BU statistics show export sales that are credit insured. As such, they provide an indication of underlying trade flows. Altogether, BU members cover more than 10% of international trade, usually the more risky transactions where exporters and banks decide to take insurance in order to trade safely.

Berne Union members cover more than 10% of international trade.



## 2. Short Term export credit insurance

### 2.1 Credit limits

Credit limits represent the amounts an insurer has committed to insure. These are credit limits on buyers, set by the insurer, which are influenced by various factors.

On the demand side, exporters request credit limits to protect their trade flows: To whom do exporters want to sell and in what countries? For which destination countries are they asking insurance cover for? In this respect, BU statistics are a proxy for international trade movements. The largest commitments by BU members in short-term export credit insurance (ST), covering sales with credit periods of one year or less, are in destinations like the US and countries in Western Europe. This is where most of the trade happens. These are the countries where most goods are exported to.

On the supply side, credit limits set by the insurers reflect how much cover credit insurers are willing to provide. Constraints are the insurers' risk appetite and their capacity to offer the required coverage. Are the buyers creditworthy? What about political risk? Does an insurer have enough capital to support further risky business?

Credit insurers use their market intelligence regarding the financial situation of buyers and the economic and political situation in countries to "underwrite risks" which means to set credit limits and to accept or reject covering sales to particular buyers. An additional piece of information is the actual payment behaviour of a buyer: Did a certain

buyer always pay on time in the past? This may point to a particularly diligent company which will strive to continue paying on time even if its financial situation is stretched. Or is a specific buyer usually late in paying for goods delivered? This may point to a buyer who will not necessarily strive to perform during hard times according to its obligations.

A deteriorating economic environment which puts more and more companies in difficulty prompts credit insurers to review the risks in their portfolio and to carefully scrutinise any new risk they are asked to cover. A credit insurer may reduce or cancel limits on buyers. In this case, any future sales to those buyers would not be insured and would be made at the exporter's own risk. Limit reductions or cancellations only apply to future sales. Shipments that have been made under an insurance policy prior to reduction or cancellation of a limit remain protected.

### 2.2 Covered exports

In ST business, covered exports represent the turnover or the value of shipments made while being covered under a credit insurance policy. Covered exports are not identical with credit limits as described previously. Once an insurance policy and the respective credit limits are in place, actual exports may not take place due to reasons that are independent from the credit insurance. Or, on the contrary, covered exports to a buyer during a year may be higher than the credit limit set. Indeed, once a shipment is delivered and paid for on time, the credit limit is freed up to support further shipments.

While covered exports give a retrospective view of the trade flows that have actually been insured during a time period, credit limits give an indication of the insurer's commitment to insure at a given point in time.

Berne Union members facilitated short term cross-border trade worth USD 1.1 trillion in 2009.



## 3. Short Term export credit insurance during the crisis

### 3.1 Covered exports during the crisis

After several years of sustained growth, short term exports covered by BU members declined by 13%, from USD 1.3 trillion in 2008 to USD 1.1 trillion in 2009. During the same time period, global trade seems to have contracted by around 23% in absolute terms according to the United Nations Statistics Division.

Demand for ST export credit insurance experienced opposing influences starting from mid-2008 and during a large part of 2009. On one hand, global trade was generally reducing, as was the amount of international sales for which exporters could potentially seek insurance cover. On the other hand, the global crisis that followed the financial turmoil was showing its effects on the real economy and companies around the world were defaulting on their obligations. Quite rapidly, exporters recognised the benefits of export credit insurance.

The worsening risk environment prompted those exporters who were willing to continue trading to turn to credit insurance in order to manage their receivables risks. Some took the decision to seek insurance for their entire receivables portfolio where in the past they may have only insured a part of their

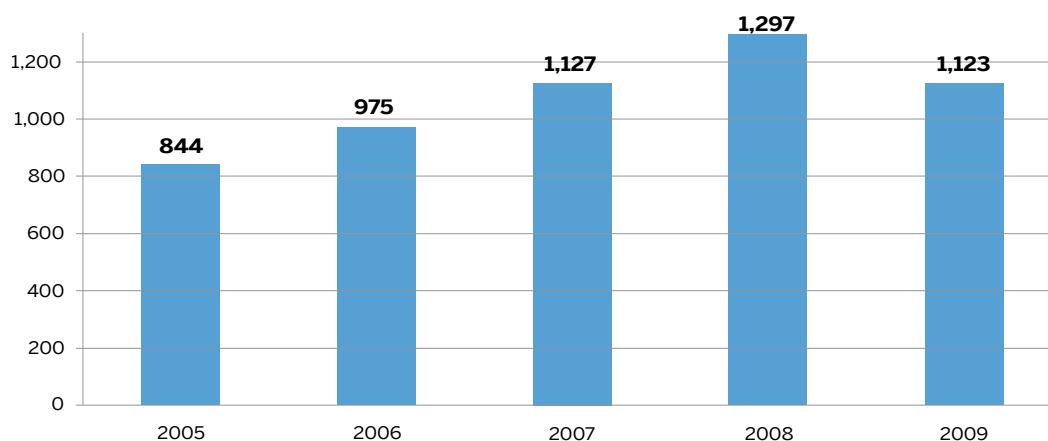
ST exports covered by Berne Union members declined, but much less than world trade.



risks. Other exporters who had never used credit insurance before now found the product was vital to protect their cash flows and to keep their business operations afloat.

Export credit insurers responded cautiously to the demand as they were feeling the impact of the crisis on a daily basis, with insured exporters filing more and more claims as a result of buyer defaults. Despite the challenging risk environment, the reduction of insured ST exports in 2009 was only around half the reduction in world trade in percentage terms. In the end, the total value of cross-border trade supported by BU members in 2009 was the same as in 2007.

ST exports covered during the year in billion USD



### 3.2 Credit limits during the crisis

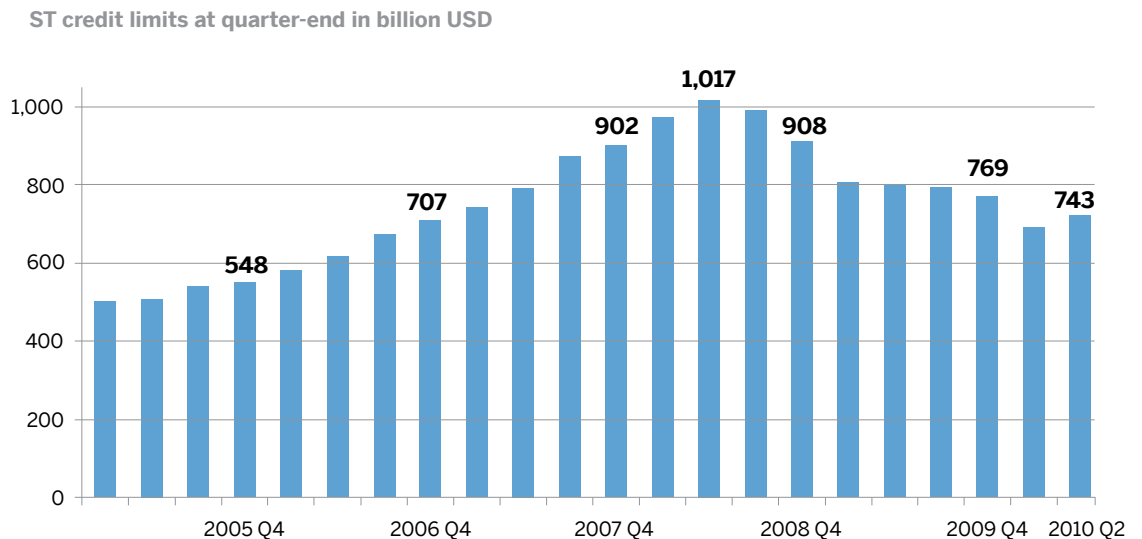
Since 2005, BU members had continuously expanded their ST insurance, very much in line with the growth of world trade. The peak in aggregate limits was reached in mid-2008 with a total amount of slightly more than USD 1 trillion for all BU members together.

During the three quarters following the mid-2008 peak, overall limits reduced quickly for two reasons: 1) lower underlying trade volumes due to reduced international economic activity; and 2) a more cautious risk assessment by private market insurers which account for the majority of the ST business of the BU. When the crisis started to bite and claims notifications began to rise dramatically, several private insurers cut back limits. Understandably from their point of view, as buyer defaults had

started to accumulate and insurers were hit by a wave of claims to pay. However, this raised criticism in the exporters' community, and many claimed they could not sell without being covered by credit insurance. Private credit insurers countered the criticism arguing that the risk environment had substantially changed from a previously benign economic environment to a challenging one, that they were adapting to the new circumstances and that they were acting in the best interest of exporters by preventing them from entering into transactions with unsound buyers.

Since the second quarter of 2009, export credit limits seem to have stabilised although further, smaller reductions were recorded at the end of the last quarter of 2009 and the first quarter 2010. At the end of the second quarter of 2010, aggregate limits stood at USD 743 billion, a level last seen in early 2007.

ST credit limits extended by Berne Union members stabilised in 2010.



### 3.3 Private and public insurers

How did various players behave in the crisis and what role did they play? The Berne Union includes private market insurers, whose role it is to operate commercially and to make a profit for their shareholders, as well as public insurers, the official ECAs who are backed by their governments and whose mandate it is to support national interests. According to the WTO, ECAs are required to be self-sustaining and therefore have to break even in the long term.

From the peak in mid-2008 through the first quarter of 2009, all credit insurers felt the impact of the slowdown in world trade. With a few exceptions among ECAs, both public and private insurers recorded a drop in credit limits extended during that time.

From the second quarter of 2009, while private market players as a group continued to reduce their credit limits, the ECAs increased theirs. This was a result of initiatives taken by governments in line with the call of the G20, which asked their ECAs to fill a perceived gap in export credit insurance supply. As seen in BU statistics, the ECAs' share in global ST business increased in 2009 and 2010 compared to previous years.

The movement in market shares from private insurers to ECAs was primarily due to a reduction in the volume of cover offered by private market players. To a smaller extent, it was also the result of real volume growth by some ECAs, particularly from East Asia and North America.

The crisis affected all regions of the world simultaneously.



Much discussion has taken place around the fact that the EU Commission temporarily allowed ECAs from EU countries to be active in the so-called ST marketable risk business, which is defined as coverage of ST exports to OECD countries including those in the EU. Due to EU regulations, this was an area that EU ECAs had exited and left to the private market years ago. During the crisis, EU ECAs helped and continue to help thousands of European exporters, particularly SMEs, by providing them with needed ST credit insurance. The activity of EU ECAs in this field increased significantly; by around 50% as a group and more for some individual agencies. But their share of the ST business remains small, less than 2% of the overall volume, which is in line with their mandate to complement private market capacity in difficult times.

Share of ST credit limits private – public

	2006 - 2008	2009	2010
Private insurers	85%	79%	72%
ECAs	15%	21%	28%

### 3.4 Credit limits per destination regions

Credit limits are the result of interplay between demand from exporters and supply considerations by insurers. Variations in credit limits on destination countries and regions give an indication regarding underlying trade flows (demand) and risk perception by the insurers (decision to supply cover).

The Berne Union tracks aggregate credit limits granted by its members per five destination regions: Africa, the Americas, Asia, Europe and Oceania. The largest ST trade region is Europe with around 60% of the total trade amounts covered by BU members, followed by Asia and the Americas, with Africa and Oceania being much smaller. Since 2005, the shares of the five regions have stayed relatively stable, with a slight indication of decline in the European share and a slight increase for Asia.

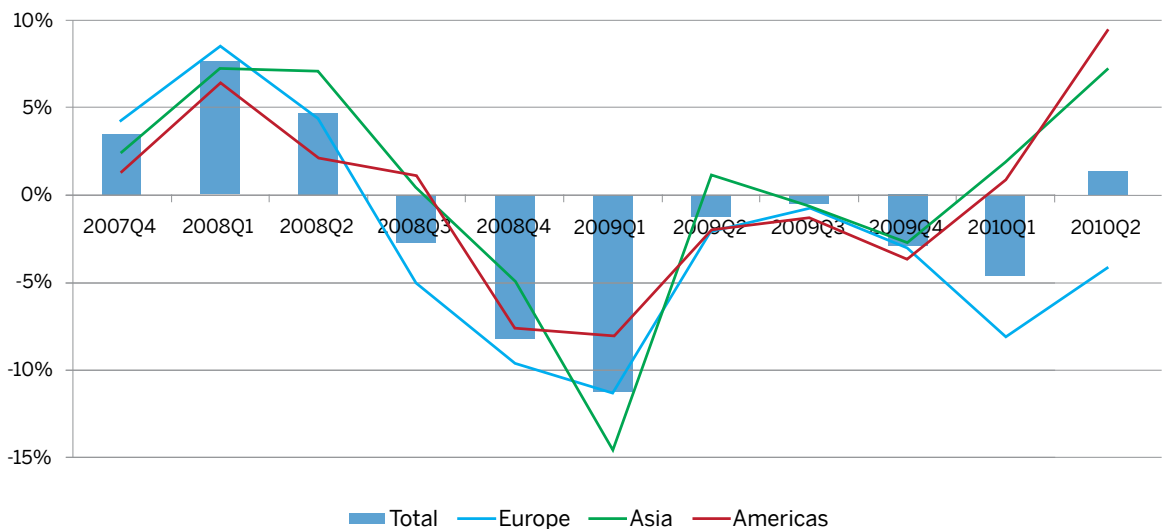
Most of the limits within the Europe region are for risks located in Western European countries which account for more than 70% of the European exposure. The biggest Asian destination country is China with approximately 20% of the total credit limits for that region. Slightly more than 50% of the credit limits to the Americas is for cover on buyers in the US.

In analysing the quarterly evolution of credit limits during the crisis for the largest regions – the Americas, Asia, and Europe – the first observation

is that credit limits evolved in a very similar fashion for all regions of the world until the end of 2009. The trend shows a growth in limits until mid-2008 and then a sharp downturn until the first quarter of 2009, followed by a relative stabilisation until the end of the year. This is in line with the fact that no de-coupling between regions of the world was observed in the early phases of the crisis. Although the initial banking crisis began in the US and extended to Europe soon after, the economic crisis that followed became widespread more or less simultaneously all over the globe. Consequently, variations of credit limits for different destination regions moved in line during the years 2008 and 2009.

The second observation is that the parallel movement did not continue in 2010. While credit limits on Asia and the Americas started to increase again, minimally during the first quarter of 2010 and significantly by 8-10% during the second quarter, credit limits for exports to Europe continued to decrease. Although this decrease slowed down in the second quarter of 2010, the figure is still negative. This suggests a looser connection between the big economies during the recovery, with Europe being less dynamic than Asia and the Americas. Whether this interpretation is substantiated or not will be revealed by BU statistics over the year 2010 and beyond.

ST credit limits at quarter-end, evolution on Europe, the Americas and Asia in percent



## Share of ST credit limits per destination region

	2005	2006	2007	2008	2009
Africa	3%	3%	3%	3%	4%
Americas	15%	15%	14%	15%	15%
Asia	18%	18%	19%	21%	21%
Europe	63%	63%	62%	59%	59%
Oceania	1%	1%	1%	1%	1%
Total credit limits (USD bn)	548	707	902	908	769

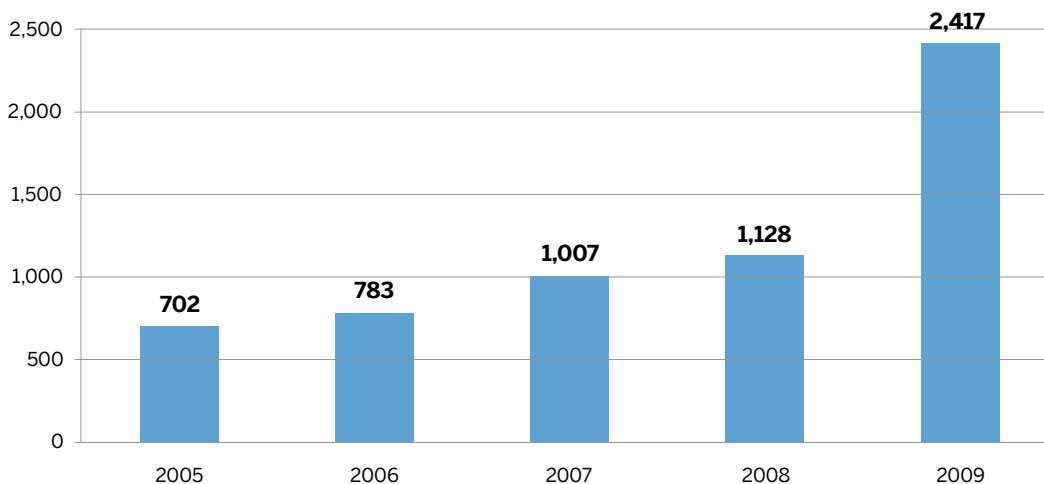
## 3.5 ST claims paid during the crisis

If a buyer fails to pay for the goods he has purchased, and the sale was covered by credit insurance, the exporter will apply for indemnification for his loss under the insurance policy. The ability to make a valid claim and to be indemnified for a loss suffered is the fundamental reason why exporters buy export credit insurance.

ST claims paid by BU members to insured exporters more than doubled from USD 1.1 billion in 2008 to USD 2.4 billion in 2009. Many claims were generated in late 2008 and were paid by insurers in 2009. This explains why the level of claims paid shown in BU statistics for the year 2008 is still low.

The jump in claims paid in 2009 pushed the loss ratio – claims paid in relation to premium income, a measure used by credit insurers to quantify the quality of the underwriting result – to 88%. While this was a level where insurers overall made an operational loss, it did not reach the insurers' worst case expectations at the beginning of the crisis. It is important to note that the years immediately preceding the crisis had been particularly beneficial for ST export credit insurers, with low loss ratios of 35% to 40% for BU members as a whole. Overall, credit insurers coped with the extremely quick deterioration of the situation and the heavy

## ST claims paid in million USD



volume of claims submitted in actual numbers and resulting value. Insurers paid out claims promptly and supported their insured clients in the worst moments of the crisis.

The level of claims paid declined in the first two quarters of 2010. BU members also recorded a drop in obligor defaults and fewer notifications of buyer problems in general. These are signs that the peak in claims was reached in 2009 and that 2010 should be a better year for credit insurers. It remains to be seen at what level claims will stabilise, and whether the situation will return to the particularly benign claims levels of the immediate pre-crisis years.

### 3.6 ST claims paid per country

The global nature of the crisis was evident from the BU's claims statistics. Buyer defaults, for which insurers had to pay claims, occurred and increased in every region and every country of the world.

The US and Western European countries were among those with the highest volumes of claims. For defaults that occurred in the US, Italy, the UK, Spain and Germany, BU members paid a total of nearly USD 800 million in ST claims in 2009, up from around USD 500 million the previous year.

Claims paid on these five countries alone represented 32% of the total amount of ST claims paid globally by BU members in 2009. As mentioned

previously, these countries are among the main destination countries for ST exports covered by BU members. They therefore account for a similar share of global insurance commitments of around 31% of all ST credit limits extended by BU members.

Credit insurers also suffered in emerging markets where the total volume of claims in 2009 was of a similar magnitude as in industrialised countries, but with a much more dramatic increase compared to the previous year. For defaults that occurred in Russia, Ukraine, Turkey, Brazil and Mexico for example, BU members paid a total of USD 550 million to insured exporters in 2009, up from around USD 100 million in 2008.

ST claims paid on these five emerging countries represented 23% of the total amount paid globally by BU members in 2009. But insurance commitments on these markets were much smaller, with only around 6% of total ST credit limits extended by BU members globally. This is different to industrialised countries where the share of claims and credit limits was similar, around one third of the totals. It was expected that claims would be paid out because of defaults in emerging countries. But the speed and size of the increase in claims might not have been anticipated.

Year-on-year, claims on the five industrialised countries mentioned above (US, Italy, the UK, Spain and Germany) increased by 60%. On the five listed emerging countries (Russia, Ukraine, Turkey, Brazil and Mexico) they increased by 435%.

ST claims paid per destination country in million USD

	2008	2009
United States	183.8	294.0
Italy	107.6	152.1
United Kingdom	88.1	125.5
Spain	52.2	116.8
Germany	57.9	95.8

ST claims paid per destination country in million USD – emerging markets

	2008	2009
Russia	22.5	188.2
Ukraine	2.9	128.0
Turkey	32.4	94.9
Brazil	26.8	91.3
Mexico	18.5	48.7

### 3.7 ST outlook

The past two years have been unusually testing for ST credit insurers, both private and public. However, despite unprecedented claims levels, no insurer defaulted and the industry paid out claims promptly to insured exporters. Overall, the industry proved resilient.

Against the backdrop of a seriously deteriorated risk environment, private market insurers reduced credit limits. This was understandable from their perspective, as they were impacted by large amounts of claims to pay. Exporters argued that insurers made a difficult situation worse for many companies as they would not provide insurance to them, making it difficult to sell their goods abroad. Insurers countered that they prevented exporters from trading unsafely, ultimately saving them from potential negative consequences. Without doubt, the measures taken helped to limit the losses of private market insurers, ensuring that they are still operating today and that they are in a position to further insure trade.

To continue to support ST trade, ECAs had to respond to multiple challenges. At a time when they were paying out claims as well, they were able to quickly implement measures, as asked by their governments and the G20, to supplement private market capacity. These measures helped to alleviate the impact of limit reductions by private players.

The level of claims paid reduced in the first two quarters of 2010, and BU members also noticed a drop in obligor defaults and resulting claims notifications. Insurers now report cautious optimism that claims are levelling off and that confidence is returning to the market, which would be in line with early signs of a global recovery. However, insurers are aware of the volatile risk environment and continue to monitor their portfolios of risks closely.



## 4. Medium and long term export credit insurance

Most medium and long term export credit insurance (MLT) worldwide, covering sales with credit periods of one year or more, is provided by official ECAs with the backing of their governments. BU statistics show MLT cover offered by ECAs. The following analysis does not include cover provided by private market insurers.

The situation in the medium and long term area is quite different from the short term business. While in ST different types of players reacted differently to the challenges posed by the global economic environment, the behaviour of BU members regarding MLT export credit insurance was generally consistent. This has to do with the fact that, in the MLT field, BU members are all public insurers, ECAs who have similar mandates to support national exports and national interests.

After the Lehman shock in September 2008, bank financing almost dried up for a few months into early 2009. Activity then picked up again during the year, particularly in sectors such as aircraft financing, telecom and satellite financing, infrastructure and the oil and gas sector. During this period, ECAs were instrumental in keeping trade flows going. Indeed, in many cases, ECA insurance coverage had become a condition of lending without which banks could not finance MLT transactions.

ECAs held a steady course during the crisis.



Two parameters should be looked at in order to analyse the amount of insurance provided by ECAs in the MLT field: 1) new exports covered during a year; and 2) the total stock of export credits under cover at the end of a year. As MLT transactions are repaid over a number of years and stay on the books of insurers as "insured exposure" for a significant time period, both figures are important measures and give slightly different indications of recent and historic business activity.

Cover by Berne Union members helped unlock bank liquidity for MLT transactions.



## 5. Medium and long term export credit insurance during the crisis

### 5.1 MLT new exports covered during the crisis

New exports covered show the volume of transactions for which an insurance contract has been signed during the year. While an insurance policy comes into effect during a particular year, it is the result of work that has been performed before signature. In that respect, “new business” more often than not reflects the work of a time period that is much longer than the current year. This is particularly the case when a credit insurer underwrites large, complex projects which can take years to come to fruition.

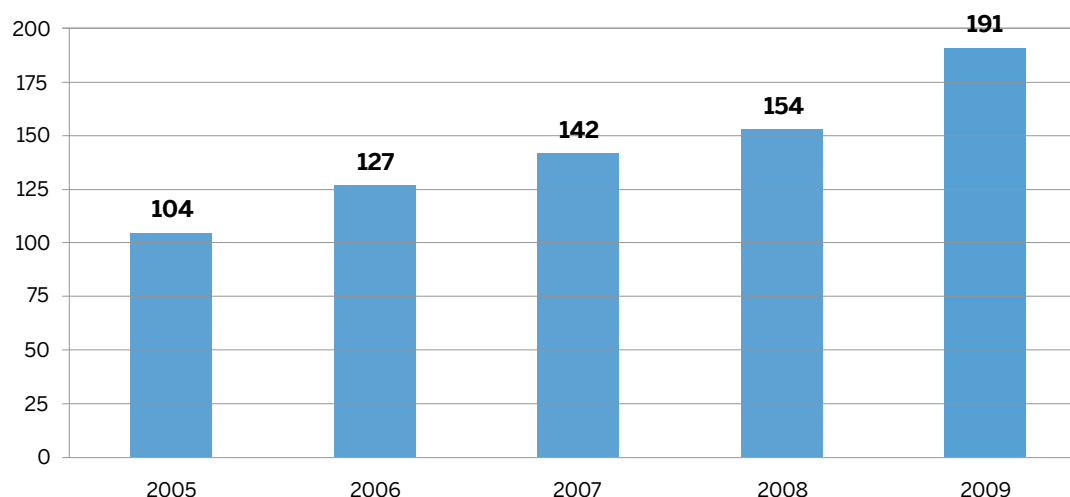
MLT exports insured by BU member ECAs had a healthy growth in recent years, despite a seemingly benign risk environment. But when the crisis started in 2008, it gave exporters and banks an extra reminder of the volatility of the global economic environment. Banks, whose business is primarily to provide financing, and who might have taken some risk in the benign pre-crisis years, were not prepared to do so in the higher risk environment. While insurance is not a source of liquidity in itself, it enhances the credit worthiness of the

buyer. ECAs had a crucial role in this respect as they carry the full faith and credit of their respective governments; a security that was sought after, especially during the crisis. ECA cover was therefore able to ensure that bank liquidity continued to be available for MLT lending.

Consequently, ECAs, particularly those in developed countries, saw a huge increase in demand for their MLT cover in 2009. After a first quarter with relatively low business levels, new MLT exports covered increased steadily in each quarter to reach a full year total of USD 191 billion, the highest level ever recorded. The 2009 growth rate was 25%, almost double the compound annual growth rate of 13.7% from 2005 to 2008.

The largest destination countries for new MLT exports covered in 2009 were the US, Brazil, Russia, the United Arab Emirates, Canada, Indonesia and India. New exports covered to these countries totalled USD 87 billion or close to half of the total global amount.

MLT new exports covered during the year in billion USD



## 5.2 MLT cover per destination regions

Total exports under cover show the amount that credit insurers are exposed to under the insurance policies that are currently in force. For each policy, this would be the amount of credit covered at the beginning of the insured transaction, less any repayments made. In other words, it is the maximum amount Berne Union member ECAs all together would have to pay to insured exporters in the unlikely event that all buyers under all current transactions would default on their obligations at the same time. Of course, such a situation would not happen in reality, but it shows the financial exposure that ECAs incur due to these transactions.

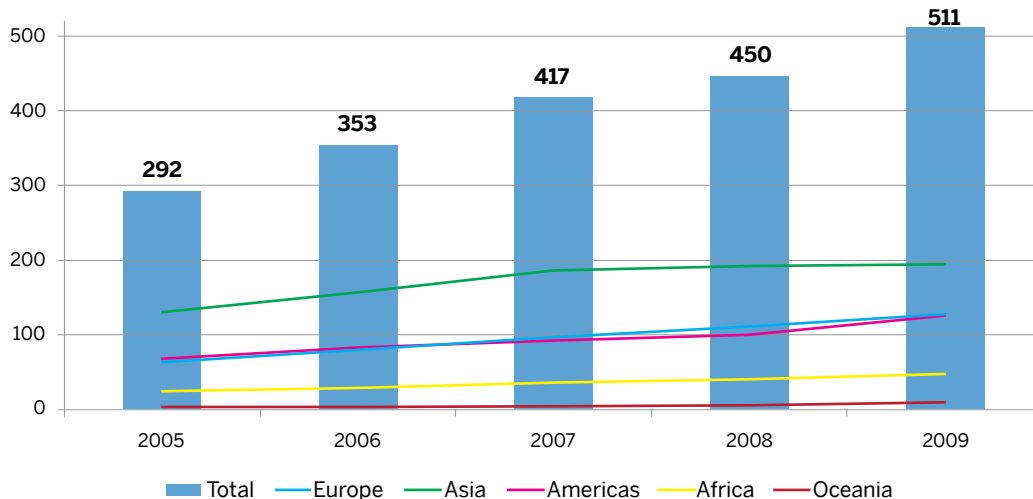
The graph below shows the total amount of MLT export credits under cover by member ECAs at the end of a given year. This exposure includes deals that have been underwritten during the year as well as transactions where insurance cover started in previous years and where repayments are still due.

The total MLT exposure on the books of ECAs at the end of 2009 stood at USD 511 billion, 14% higher than in 2008. This was a record as well, as for the new exports covered.

MLT transactions under cover by Berne Union members reached a record level of USD 511 billion in 2009.



MLT exports under cover at year-end in billion USD



Growth in insured MLT exports has been continuous and sustained since 2005. It was similar in all regions, with the exception of the biggest destination region, Asia, to which covered MLT exports remained stable since 2007. Consequently, the Asian share has somewhat declined in terms of percentage compared to the other regions.

With the exception of the US, the largest exposure country in MLT insurance, the big exposure countries in this field are all to be found in emerging markets: Russia, Brazil, Indonesia, India, China, the United Arab Emirates, Turkey, Saudi Arabia and Mexico. This is a contrast to ST which is dominated by industrialised destination countries in Western Europe and the US.

Both new business covered during the year by BU ECAs and the total amounts under cover at year-end reached an all time high in 2009. This was also the case for insurance offers – transactions where the export contract is not yet concluded. MLT offers increased even more than the two other indicators, by 32% to USD 168 billion.

With the exception of the US, the big exposure countries in this field are to be found in emerging markets.



The MLT story is therefore very much a success story “from peak to peak” and is a testimony to ECAs’ ability to support banks and exporters through the crisis and to prevent a potential drastic reduction of medium and long-term trade transactions.

**Share of MLT exports under cover per destination region**

	2005	2006	2007	2008	2009
Africa	9%	8%	9%	9%	9%
Americas	23%	24%	22%	22%	25%
Asia	45%	45%	45%	43%	38%
Europe	22%	23%	23%	25%	25%
Oceania	1%	1%	1%	1%	2%
Total exports under cover (USD bn)	292	353	417	450	511

### 5.3 MLT claims paid during the crisis

Claims paid by BU member ECAs to customers in 2009 nearly tripled compared to the previous year to reach USD 3.1 billion. At 66%, the loss ratio was high compared to both 2008 and 2007 when it had been 29% and 35% respectively. However, the 2009 level was not exceptional as similar levels had been recorded in 2006 and 2005. Historically, even much higher loss ratios had prevailed for more than a decade from the early 80s to the mid-90s.

Two thirds of the MLT claims paid by BU members in 2009, amounting to USD 2 billion, had their origin in commercial buyer defaults. The remaining third, slightly more than USD 1 billion, was due to defaults for political reasons. The country with the largest amount of commercial defaults was the US, followed by Canada, Mexico, Brazil, Russia and Kazakhstan. For claims paid due to political risks, the largest countries were the UAE, Serbia, Iraq, Angola, Sudan and Argentina.

MLT export credit insurance is dominated by relatively few large, sometimes very large, transactions which is why it is called a “lumpy” business. Compared to ST business, it does not have the same broad spread among thousands of smaller

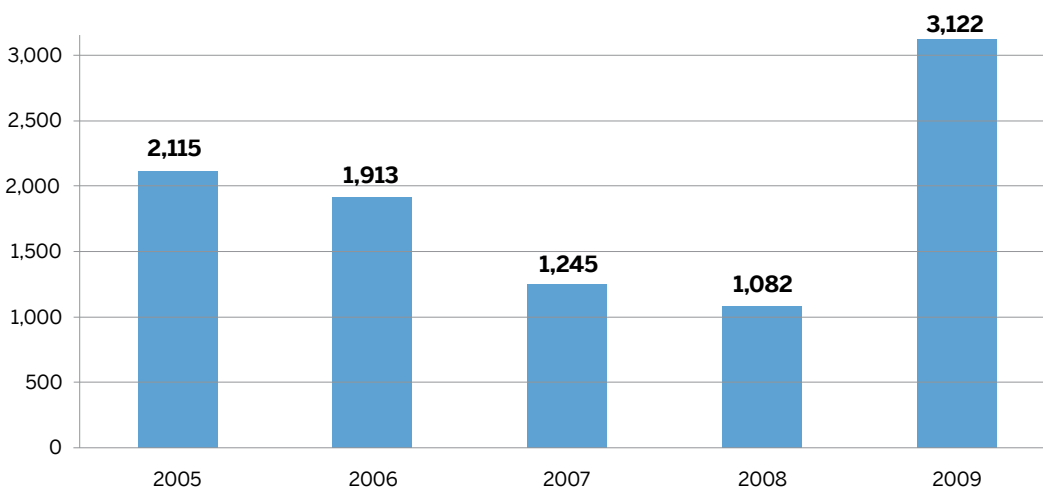
risks in many countries. In MLT business a single large claim can have a noticeable impact on the loss ratio of the whole industry.

Even if a loss ratio of 66% is not unusual in MLT, several claims paid in 2009 were the result of the global financial crisis. The crisis put private buyers in a position where they were unable to pay their creditors (the commercial defaults) or prompted governments to take the decision not to honour their obligations or to interfere with private transactions (the political risk defaults).

Berne Union members paid out USD 3.1 billion in MLT claims to insured exporters in 2009.



MLT claims paid in million USD



## 5.4 MLT outlook

Throughout the crisis, the support of ECAs to exporters and banks proved crucial in helping attract the necessary financing for MLT export transactions and therefore sustain international trade.

The question can be asked whether the 2009 losses indicate the beginning of a period of generally increased defaults due to the deteriorated financial and economic conditions worldwide. It is too early to tell whether this is the case, as it will depend on the speed of global recovery and future economic conditions for private companies and governments.

ECAs are used to dealing with risk and are familiar with the challenges of the global economic environment. They have therefore been able to run their business on a steady course since the start of the crisis in late 2008. The biggest challenge was a particularly high demand resulting in a busy operational activity which stretched their resources. With the support of their governments, ECAs took initiatives to pursue and expand their mandates to support national exports and national interests. ECAs also paid out claims at a high, but not exceptionally high, level and they have been commended by exporters and the banking community for the role they played during the crisis.

From a historical perspective, ECAs have usually recovered the largest part of the claims they have paid in the past. Recoveries might take a long time, but in the long run the business of ECAs has been self-sustaining. With a satisfactory financial situation and with their governments behind them, ECAs can take a long-term view of the business which allows them to operate successfully in the MLT field.

## 6. Credit insurance in support of international trade – conclusions

The challenges posed during the crisis by a deteriorated economic environment and the resulting risks have highlighted the importance of risk management, which has become a priority for companies and financial institutions all over the world.

As the global crisis moves on and signs of economic recovery are seen in some regions of the world, the indications for the credit insurance industry are positive.

The value of credit insurance as a risk mitigation tool in cross-border trade has gained in global recognition which has led to increased demand for the product. Higher risk awareness and higher product awareness will bring opportunities for existing credit insurers, public and private, and for new market entrants.

The solidity of the credit insurance industry has been demonstrated in light of an unprecedented global situation. Credit insurers met their obligations and paid out claims at a high level in MLT and at a level previously not experienced in ST.

While credit insurance is not a source of liquidity in itself, it helped to unlock bank financing during the crisis and was able to ensure that liquidity was available for ST and MLT finance.

Berne Union members proved resilient in front of the global crisis.



The crisis also showed that there is a role to play for both private and public credit insurers, and that ECAs are a vital part of the industry, complementing the private market as they demonstrate the ability to offer risk capacity during difficult times.

This is a time where regulatory changes in the financial industry, especially concerning capital requirements, are being discussed and considered by various governments and regulatory bodies. As these could affect trade and export finance, export credit insurers are carefully watching the developments.

With the lessons from the crisis, the credit insurance industry is well equipped to support international trade in the future. As they have done since 1934, Berne Union members, public and private credit insurers, will continue to offer risk capacity to facilitate trade transactions worldwide.

## Berne Union Value Statement

We are committed to operate in a professional manner that is financially responsible, respectful of the environment and which demonstrates high ethical values - all in the best interest of the long-term success of our industry.

### The Berne Union

The International Union of Credit & Investment Insurers was founded in Berne in 1934.

Known as "The Berne Union", it is the international trade association for credit and investment insurers promoting stability and cooperation in cross-border trade.

Its membership includes the major private credit insurers and most national export credit agencies worldwide.

Berne Union members support international trade and foreign direct investment by providing risk mitigation products to exporters, investors and banks.

The Berne Union facilitates professional exchange among its members and with external stakeholders. It promotes the adoption of best practice and sound principles in export credit and investment insurance.

In 2010, the Berne Union had 49 members and 33 members in the Berne Union Prague Club, a group of credit and investment insurers in emerging and transition markets.

Information about the Berne Union can be found at [www.berneunion.org.uk](http://www.berneunion.org.uk).

## Berne Union Guiding Principles

1. We conduct our business in a manner that contributes to the stability and expansion of global trade and investment on a sound basis that is in accordance with applicable laws and relevant international agreements.
2. We carefully review and manage the risks we undertake.
3. We promote export credit and investment insurance terms that reflect sound business practices.
4. We aim to generate adequate revenues to sustain long-term operations reflective of the risks we undertake.
5. We manage claims and recoveries in a professional manner, while at all times recognising the insureds' and obligors' rights.
6. We are sensitive about environmental issues and take such issues into account in the conduct of our business.
7. We support international efforts to combat corruption and money laundering.
8. We promote best practices through exchange of information on our activities, policies and procedures, and through the development of relevant agreements and standards, where these are deemed necessary to govern the provision of export credit and investment insurance.
9. We are committed to furthering transparency amongst members and in the reporting of our overall business activities, reflective of international practices and respectful of the confidentiality of third party information.
10. We encourage cooperation and partnering with commercial, bilateral, multilateral, and other organisations involved in export trade and investment business.

## About the author

Fabrice Morel joined the Berne Union Secretariat in 2007, having worked for Allianz Group in Munich and Paris, and for the Multilateral Investment Guarantee Agency (MIGA) in Washington DC. He is a graduate in Business Administration as well as in Economics from the University of Cologne and also studied at Bocconi University in Milan. He holds a Masters in International Management from the Community of European Management Schools (CEMS). Fabrice Morel's professional interests are global trade and investment, and how credit and political risk insurance can support these.

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