

Q2.21
MAY 2021

Export Credit Business Confidence Trends Index

Tracking perceived demand, risk appetite and claims in the export credit insurance industry, based on quarterly surveys of Berne Union Members

Results from the first quarter of 2021 continue the trend established at the end of 2020, with increasing demand and low emerging claims. While risk appetite remains high, insurers continue preparing for rising claims in the coming months

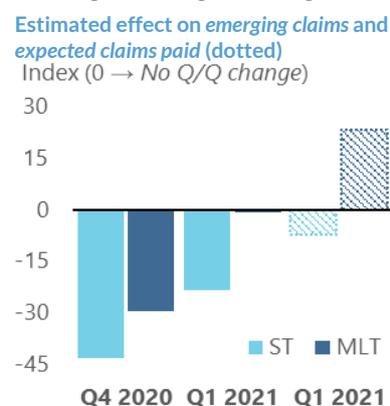
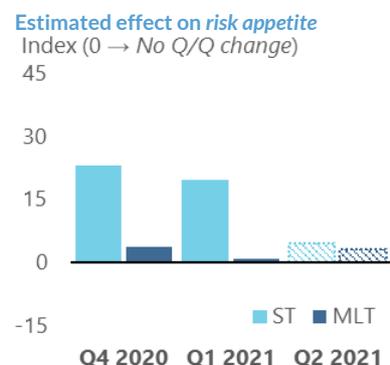
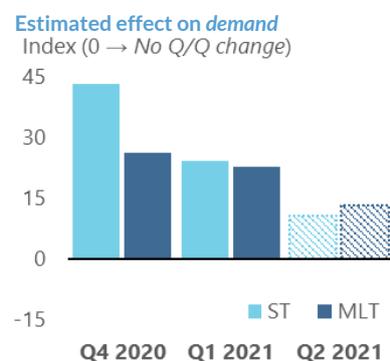
Presented below is an analysis of the results of our second quarterly Berne Union Business Confidence Index survey, conducted in April 2021.

The export credit and investment insurance industry experienced an overall positive start to 2021 with reports from the first quarter showing rising demand and a subdued level of emerging claims, accompanied by an increase in the risk appetite of insurers. However, underwriters remain cautious and acutely aware of the potential risks presented by the current environment; notably, high debt and the inevitable phase-out of government support schemes. This explains why the industry continues to anticipate an increase in claims payments already in Q2 2021 and likely also a larger increase in the latter half of 2021.

Survey results indicate that demand for cover is increasing across business lines with short-term (ST) cover showing less widespread growth than in the last quarter of 2020. Public providers of export credit insurance saw more demand in the first quarter of 2021 across both ST and MLT business lines, while private insurers noted a lower volume of demand for MLT. Some decrease is expected, in line with normal seasonal trends, but insurers generally note higher demand for cover as the global economy begins to escape the grasp of COVID-19.

The risk appetite of both private and public insurers continues to grow in 2021 with private insurers noting a particularly sharp uptick in appetite for new short-term business in the first quarter of the year. The growing risk appetite of public insurers continues to reflect their widened mandate in response to COVID-19 which in many cases has now been expanded to mid or end-2021. While private insurers have sought to reduce their exposure towards those sectors and countries most heavily affected by COVID-19 during the previous year, their appetite is now growing for suitable risks in all areas.

The picture regarding claims is more polarised, and while estimated *emerging claims* continue falling for ST business, they are unchanged for MLT in Q1 2021. Insurers are expecting to see falling ST *claims paid* in the second quarter of 2021, but a rising level of MLT claims paid. The fundamental concerns are the same across providers and business lines: uneven economic recovery across countries, increased indebtedness of both corporate and sovereign borrowers and the gradual phasing-out of government support – all of which will ultimately contribute to increasing levels of default and insolvency.



Note: Dotted bars are expected values.

Short-term commercial and political risk

The figures below present Berne Union Members' perception of the current and future business situation for short-term commercial and/or political risk. Members were asked regarding their perception of demand, level of claims and overall risk appetite.

Figure 1: Current and expected future level of demand

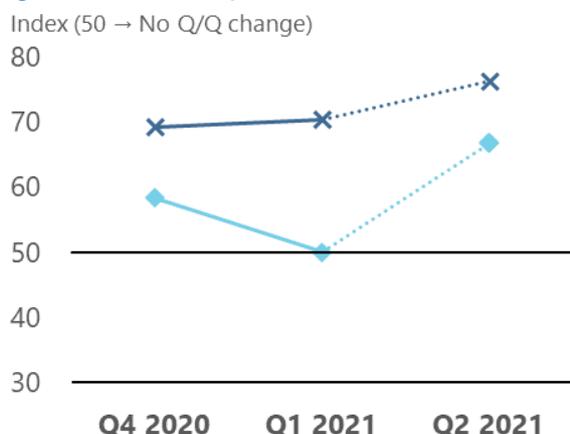
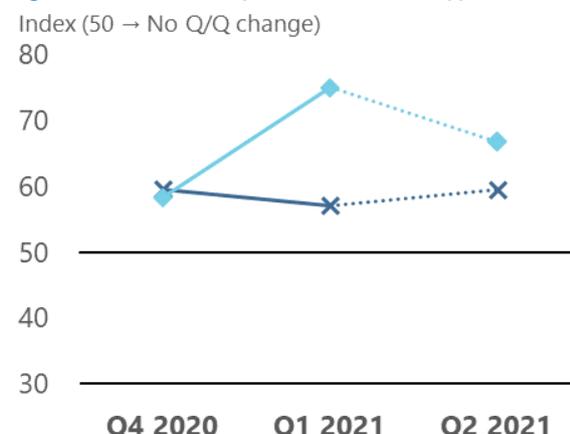


Figure 2: Current and expected future of risk appetite



Note: Full line is current levels, dotted line is expected levels. 'x' represents Public providers (ECAs and multilaterals), '◆' represents Private insurers. A score above 50 indicates a higher/increasing level compared to the previous quarter, while a score below 50 indicates a lower/deteriorating level compared to the previous quarter.

Public providers saw demand for ST cover grow in Q1 2021, while private insurers saw no change. This is expected to pick up for both in Q2 2021

Public providers saw an increase in demand in Q1 2021 compared to Q4 2020 – similar to their expectation in January 2021 – with several public insurers mentioned the number of applications for export credit rising. Private insurers meanwhile experienced an unchanged demand. Private insurers are dominant in the ST business, providing around 70 % of annual cover. Insurers in Asia-Pacific, a region less affected by COVID-19, on average indicate higher increases in demand than their counterparts in other regions.

Both private and public insurers expect demand to increase in Q2 2021, perhaps even to a higher degree than in the two preceding quarters. This is based on expectations of a gradual normalisation of the global economy, driven by improving conditions for production, trade and investment. Some ECAs note that demand stems from sectors and/or countries that private insurers are still hesitant to cover.

Risk appetite for ST business increased at the start of 2021 among both private and public insurers and in Q2, they expect this to expand further again

The risk appetite of export credit insurers rose in Q1 2021 compared to Q4 2020. Private insurers in particular had a higher risk appetite despite expecting an unchanged risk appetite in the first quarter of 2021 according to the survey of January 2021. Private insurers note their caution in the current environment but also mention being less restrictive outside of specific sectors and countries. Public providers generally continue to see slight increases in their risk appetite as most of their widened mandates have been extended to mid or end-2021.

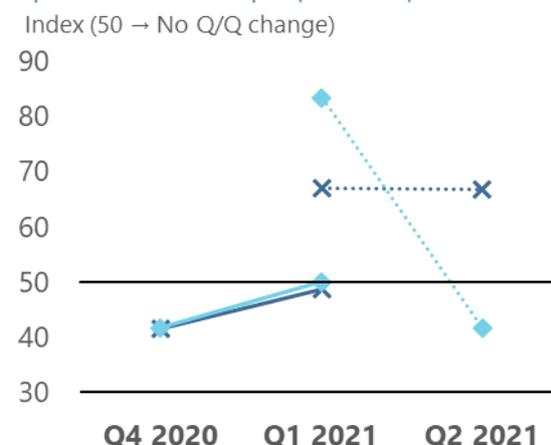
Both private and public insurers again indicate growing risk appetite through the second quarter of 2021, and once again private insurers continue to show the strongest increase. Despite an increasing risk appetite, export credit insurers continue to have a vigilant approach to underwriting as the economic consequences of COVID-19 are still playing out.

Levels of emerging ST claims were roughly unchanged in Q1 2021 compared to the end of last year. Public providers expect actualised claims paid to increase in Q2 2021 while private insurers expect a fall

Overall, emerging claims were unchanged or slightly decreasing in Q1 2021 compared to the previous quarter, the exception being insurers based in MENA who are predominantly seeing increases. While respondents overall painted a similar picture, reports from ECAs show greater divergence with some noting an increasing number of deferrals and prolongations while others reported a normalised level of claims and overdues in Q1 2021.

Following expectations of an increase across both providers in the first quarter in 2021, claims paid are only expected to continue increasing for public providers going into Q2 2021 whilst private insurers now are expecting lower claims paid in Q2 2021. Most export credit insurers continue to emphasise that a rise in claims paid is expected in the latter half of 2021 as government support schemes are phased-out.

Figure 3: Current level of emerging claims (full line) and expected future of claims paid (dotted line)



Note: '♦' represents Private insurers and 'x' represents public providers (ECAs and multilaterals). A score above 50 indicates a higher/increasing level, while a score below 50 indicates a lower/deteriorating level.

Medium and long-term commercial and political risk

The figures below present Berne Union Members' perception of the current and future business situation for Medium to long-term (MLT) commercial and/or political risk. Members were asked regarding their perception of demand, level of claims and overall risk appetite.

Figure 4: Current and expected future level of demand

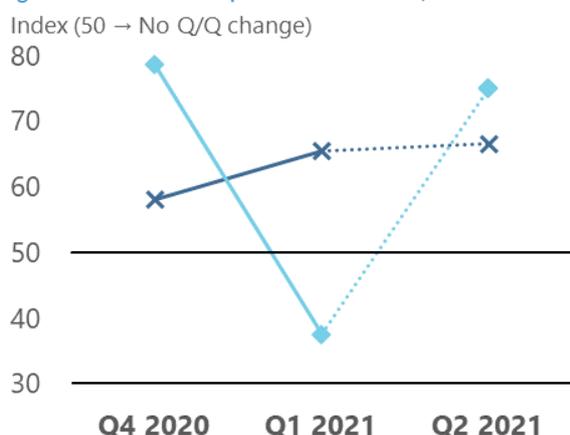
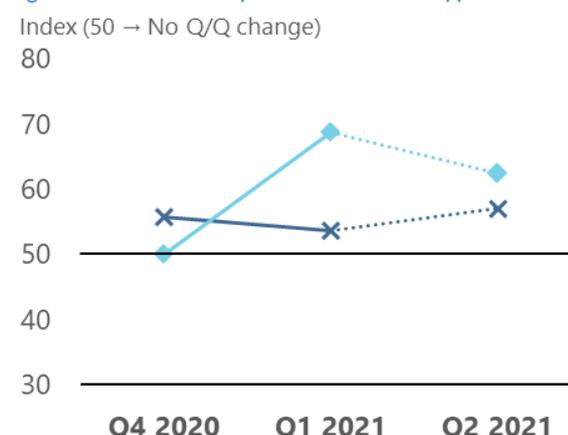


Figure 5: Current and expected future of risk appetite



Note: Full line is current levels, dotted line is expected levels. 'x' represents Public providers (ECAs and multilaterals), '♦' represents Private insurers. A score above 50 indicates a higher/increasing level compared to the previous quarter, while a score below 50 indicates a lower/deteriorating level compared to the previous quarter.

ECAs continue to see growing demand for MLT business, with private insurers noting a return in Q2 2021

Public providers, especially those based in the Americas, noted increasing demand for MLT cover in the first quarter of 2021 (compared to Q4 2020). Some ECAs ascribed this to a gradual return of larger ticket transactions, including a number of previously postponed projects.

Meanwhile, contrary to expectations in January 2021, private insurers actually experienced a drop in demand in Q1 2021. This may be due to natural seasonal

fluctuation as some private insurers noted that Q1 generally is a less busy time of the year.

Both private and public insurers anticipate increasing demand in Q2 2021 thanks to prospects of a broad economic recovery, albeit an uneven one, which should result in higher volumes of exports and, importantly, higher investment activity. Some ECAs note that they expect increasing demand from travel-related sectors as optimism returns.

Export credit insurers' risk appetite for MLT business increased in Q1 2021 and is expected to remain strong through Q2 2021

From Q4 2020 to Q1 2021, export credit insurers' risk appetite for MLT business continued to increase. As with short-term business, this increase is stronger for the attitude of private insurers. Generally, insurers are becoming more optimistic in their outlook to sectors which have been challenged by COVID-19 as conditions improve.

Export credit insurers indicate that their risk appetite is expected to increase further in Q2 2021. Private insurers continue to cautiously increase their risk appetite as vaccinations are rolled out and lockdown measures eased. Insurers mention that they continue to assess buyers' financial strength more carefully in a post-pandemic framework.

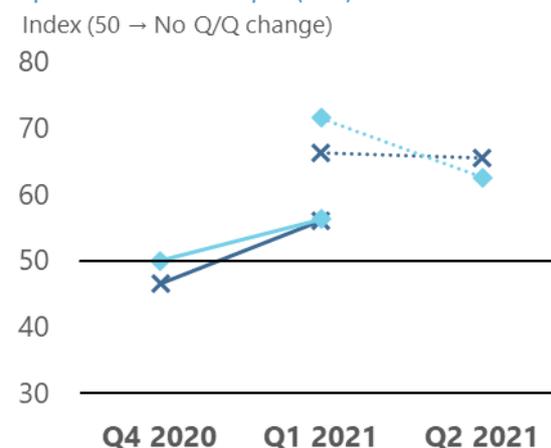
Reports of emerging MLT claims increased slightly in Q1 2021 and expectations are that claims paid continue to grow during Q2 2021 and beyond

While export credit insurers saw an unchanged or minor decline in emerging claims in Q4 2020 compared to the previous quarter, emerging claims increased slightly in Q1 2021 for both public and private insurers. Some insurers mention an increase in demand for extensions to payment terms as well as more rescheduling requests on existing policies. While this indicates that some borrowers remain under pressure, the flexibility of insurers and lenders is helping to limit the number of these situations which will ultimately progress to claims.

Insurers have *more or less* expected claims paid to increase for the past year, and this continues to be true for Q2 2021. Public insurers in Asia-Pacific are more pronounced in expecting claims paid to rise. Generally, unsustainable sovereign debt levels are a concern for many, as is the questionable profitability of businesses following the phase-out of government support schemes, which may be providing artificial support.

The hope is that much of this can be managed through rescheduling during pre-claim periods, either bilaterally or through the Debt Service Sustainability Initiative (DSSI) or the Common Framework.

Figure 6: Current level of emerging claims (Green) and expected future of claims paid (Blue)



Note: '♦' represents Private insurers and 'x' represents public providers (ECAs and multilaterals). A score above 50 indicates a higher/increasing level, while a score below 50 indicates a lower/deteriorating level.

From 2021, the Berne Union has launched a new continuous *Business Confidence Index* to provide an indicator of the overall perception of demand, risk appetite and claims in the export credit insurance industry.

Methodology

The Index is based on quarterly snapshots of our Members' assessment of their current and imminent business situation with respect to these factors. In line with industry norms, we distinguish between short-term (ST) and medium to long-term (MLT) commercial and/or political risk.

Estimated effects figures are weighted by respondents' commitments and are therefore a closer approximation of the quantitative change experienced by the export credit and investment insurance industry. The y-axis must not be confused with quarter over quarter (Q/Q) percentage change. The index is between -50 and 50, where a score of 50 means that all members indicated an increase and -50 means that all members indicated a decrease.

Business perception figures are unweighted and meant to represent Members' sentiment of current and future business situation of the industry, rather than quantitative effects. The index should be interpreted in the following way: If all members indicated an increase, it would be 100 and if all members indicated a decrease, it would be 0. A score of 50 means an unchanged level. For example, if a score was 61 in one period and 73 in the following period, this means that both periods saw an increase, but the increase was stronger in the second period.

For more information on the report, measures and analysis, please contact Jonathan Steenberg at the Berne Union Secretariat. – jsteenberg@berneunion.org

* Note: 'emerging claims' indicates pre-claim situations upon which the underwriter anticipates a high probability of paying claims at a later date – e.g. due to notifications of possible problems with a buyer.

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