

Q2.22
MAY 2022

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

Underwriters are tightening risk appetite in response to emerging claims, inflationary pressures and geopolitical tensions, while elevated commodity prices and investment in new projects keep demand strong

Presented below is an analysis of the results of our fifth quarterly Berne Union Business Confidence Index survey, conducted in April/May 2022.

Global trade prospects for the first quarter of 2022 changed radically in late February with the Russian invasion of Ukraine. This has a knock-on impact on the outlook for export credit insurance and is reflected by a significant shift in the overall sentiment and expectations reported by Berne Union members for this report.

Simmering fears around supply chain shortages and widespread inflation have only been further exacerbated by the sparking of geopolitical tensions, and the impact on both trade and credit risk are already evident: 'New Export Business'¹ fell in both March and April 2022 while 'Input Prices'¹ rose from an already high baseline to almost record levels. In some countries, we are beginning to see an upward trend in both corporate bankruptcies and bond defaults.

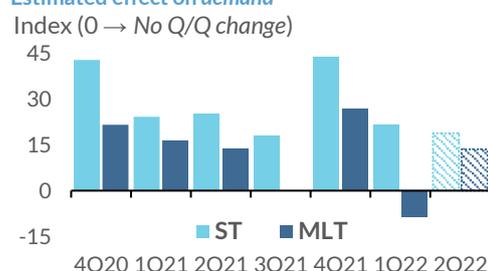
These factors have both immediate and long-term consequences for credit and political risk as well as affecting the demand for insurance. While insurers are expecting to pay higher claims in the coming period, these are well provisioned and there is no indication of an unmanageable level.

Export credit insurers are anticipating an increase in demand for both ST and MLT risks in 2Q 2022 after demand for MLT risks saw a slight fall in the first quarter of 2022. Rises in demand for ST risks are primarily driven by higher commodity prices as well as higher risk perception by exporters due to the current geopolitical tensions and inflation. MLT demand is also partly driven by higher risk perception as well as demand in Europe and Africa, for instance related to the energy transition.

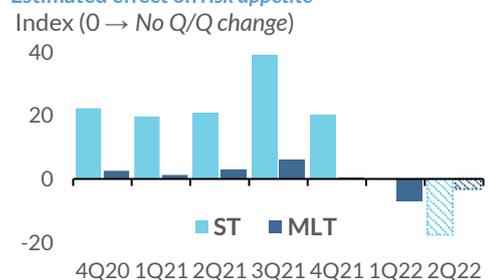
Underwriters are tightening their risk appetite with declines now reported in both the first and second quarter of 2022, markedly for private insurers. The lower risk appetite is mainly driven by the war as several providers have limited or gone off cover for Belarus, Ukraine, and Russia. Private insurers indicate expectations of reduced primary market activity as well as tighter reinsurance capacity.

Emerging claims situations were quick to see an uptick in 1Q 2022, mostly related to exposure in Belarus, Ukraine, and Russia, but most underwriters stated that it was a limited rise for now. Expectations are that claims paid will indeed rise in 2Q 2022 with the war being the main driver of the increase, however both rising prices and the phase-out of support schemes are also highlighted as key drivers.

Estimated effect on demand



Estimated effect on risk appetite



Estimated effect on emerging claims and expected claims paid (dotted)



Note: Dotted bars show predicted future values, while solid show an appraisal of the current situation, each quarter

¹ J.P. Morgan Global Composite PMI April 2022

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

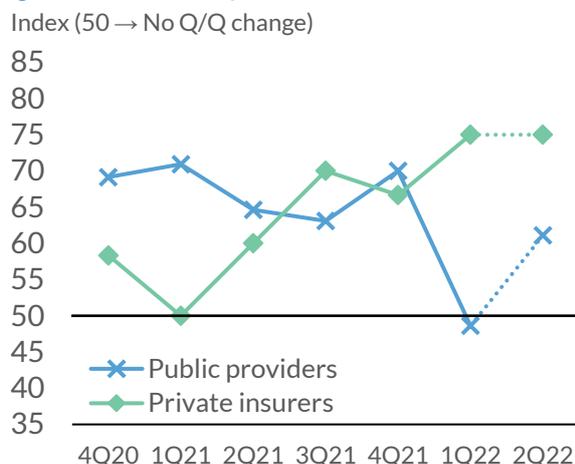
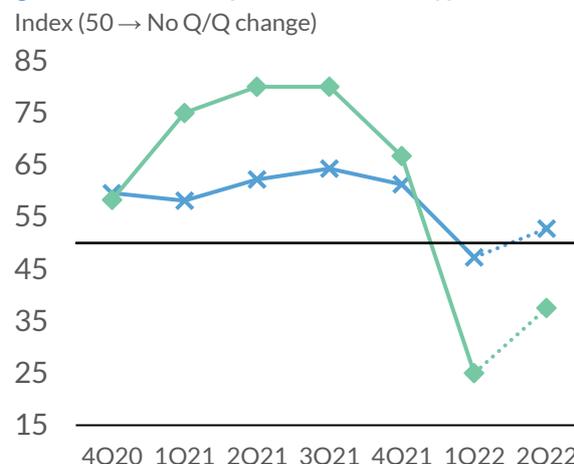


Figure 2: Current and expected future of risk appetite



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.

Demand for ST credit continues to grow, albeit at a slower rate for public providers since the start of the year

Private and public insurers saw a converse trend in 1Q 2022 with private insurers seeing a further uptick in demand whereas public providers saw an unchanged or slight fall in demand. While part of this is driven by seasonal patterns, it was particularly European ECAs who saw a decrease in ST demand. Private insurers mainly highlighted commodity prices as the cause of higher demand.

Public providers are expecting a modest rise in demand in 2Q 2022, however not to the same degree as throughout 2021. Private insurers expect a continuation of the trend seen in 1Q 2022, despite acknowledging the potential damage to global trade caused by the war and the Covid-related lockdowns in China.

ST risk appetite plummeted in 1Q 2022 but appears to be stabilising somewhat in 2Q 2022

While demand saw a substantial rise for private insurers in 1Q 2022, the opposite can be said about their risk appetite which has retrenched in line with deterioration of the risk environment and in particular as a consequence of the war in Ukraine. Public providers reported a less pronounced decrease in risk appetite and this was mainly driven by Europeans ECAs changing cover policies in Belarus, Ukraine, and Russia. Most highlighted that risk appetite for other countries or regions was unchanged.

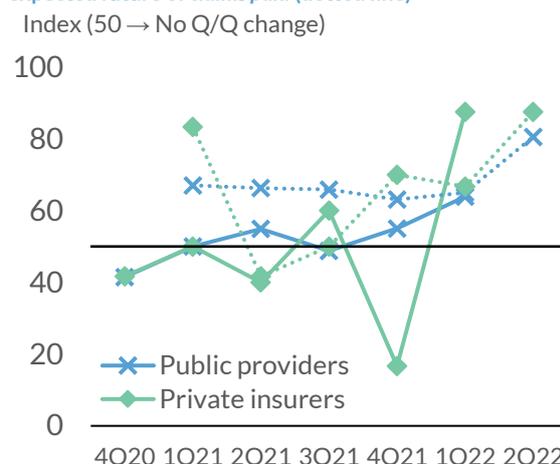
Risk appetite of public providers is expected to rise in 2Q 2022 partly driven by the need for higher cover to accommodate higher limits in an increasing risk environment but also driven by ECAs now shifting risk appetite from Eastern Europe/CIS to other regions. European ECAs continue to expect a fall in risk appetite. Private insurers are anticipating a less pronounced fall in risk appetite than in 1Q 2022 but is still expecting it to decrease further.

Emerging claims rose across the board in 1Q 2022 along with a rise in expected claims paid in 2Q 2022, mainly due to claims related to the war in Ukraine

Both private and public insurers indicated an uptick in emerging claims in 1Q 2022 with private insurers seeing the largest relative increase while public providers have reported a slowly building level of emerging claims through 2021. The emerging claims mainly related to Belarus, Ukraine, and Russia and the consensus view is that the levels continue remain manageable.

Similarly, both types of insurers expect a rise in claims paid in the second quarter of 2022. Again, insurers are expecting rises in Belarus, Ukraine, and Russia but also more general increases caused by the phase-out of government support schemes, rising inflation and interest rates driving more insolvencies.

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

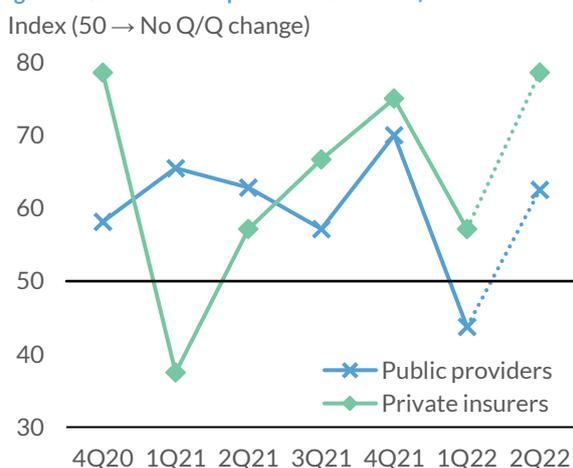
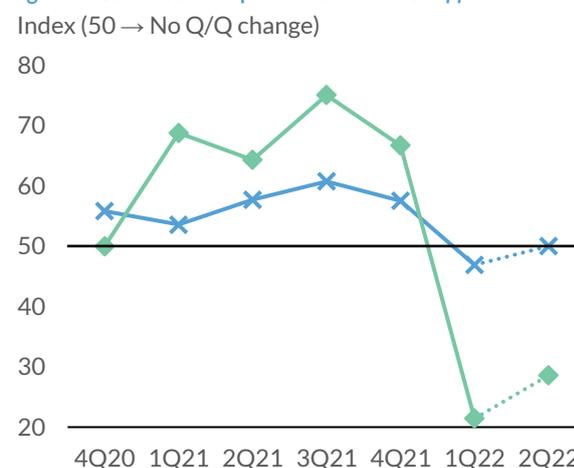


Figure 5: Current and expected future of risk appetite



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.

Falling MLT demand in 1Q22 followed by an expected partial recovery in 2Q

For public providers, MLT demand saw a fall in the first quarter of 2022. European ECAs were once again the main driver of this fall. Some highlight declining demand from SMEs as a particular driver of this, but the Russia/Ukraine war remains the main factor behind this drop. While private insurers still reported some growth in MLT demand in 1Q 2022 this was at a lower level than the preceding two quarters.

Both private and public insurers anticipate demand for MLT to increase in 2Q 2022. They highlight underlying economic trends and higher risk perception as a cause of increasing demand as well as more activity in Europe and Africa. Conversely, shortages of components – exacerbated by the war and lockdowns in China – are noted by some insurers as factors that could dampen demand.

Falling risk appetite in 1Q22 for insurers whereas a falling or unchanged level is anticipated for 2Q22

While both private and public insurers reported a drop in MLT risk appetite in 1Q 2022, this was by a considerably larger margin for private underwriters, similarly to the picture for ST risk. This is not only caused by the direct consequences of the Russia/Ukraine war but also second and third order effects.

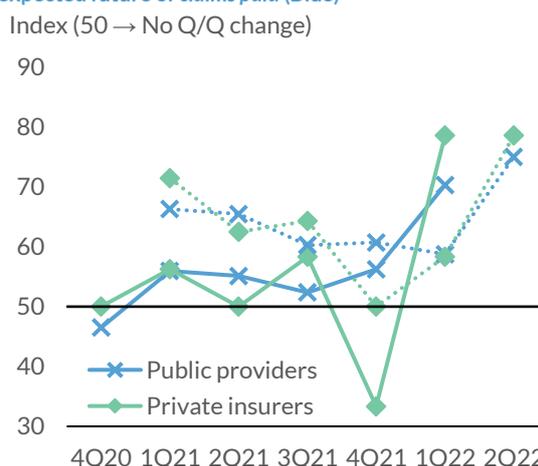
Looking at the second quarter of 2022, public providers are anticipating an unchanged risk appetite with some once again noting moving capacity from Eastern Europe to other regions. Retrenching risk appetite continues to be more prevalent among Europeans ECAs than their peers. Private insurers’ risk appetite is expected to continue falling in 2Q 2022 with some contemplating a larger review of their risk appetite and several noting a fall in cover for Eastern Europe. Lastly, the response of the reinsurance market will also influence insurers’ risk appetite.

The first quarter of 2022 concluded with more insurers indicating rising emerging claims with expectations for 2Q 2022 also pointing towards higher claims paid

Private and public insurers saw a significant uptick in emerging claims in 1Q 2022 with these primarily relating to Belarus, Ukraine, and Russia. However, these are mostly involving relatively minor transactions thus far. Rising emerging claims are indicated by insurers in all regions.

Regarding prospects for claims paid in the second quarter of 2022, both private and public insurers are anticipating a further rise. While these are likewise also expected mainly in Belarus, Ukraine and Russia, some may also emerge from second order effects of the war in other countries, such as the effects of rising commodity and food prices, higher interest rates or supply chain shortages.

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.

Methodology

The Berne Union's *Business Confidence Index* was launched in 2021, with the objective to provide a continuous indicator of the overall perception of demand, risk appetite and claims in the export credit insurance industry.

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. – jsteenber@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.



International Union of Credit and Investment Insurers

www.berneunion.org
bu-sec@berneunion.org

1st Floor Thanet House
231 - 232 The Strand
London WC2R 1DA
United Kingdom

+44 (0) 207 841 1110

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www.berneunion.org