

Q3.21
SEPT 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

The latest BCI research confirms a steady improvement in both demand and risk appetite during the first half of 2021, while emerging claims have remained low. For the first time this year, paid claims are expected to fall in the coming quarter.

Presented below is an analysis of the results of our third quarterly Berne Union Business Confidence Index survey, conducted in July/August 2021.

With global merchandise trade continuing to grow beyond its pre-pandemic levels and global foreign direct investments finally showing signs of recovery, it is no surprise that demand for export credit insurance increased in the second quarter of 2021. Despite a diverging trend in emerging claims – continuing to fall for short-term (ST), while rising for medium/long-term (MLT) business – insurers are increasing their risk appetite in line with positive economic forecasts and a healthy pipeline of projects in development. Growth in the third quarter may be more subdued as expected levels of demand attenuate. Claims paid for both ST and MLT business lines are expected to be lower in 3Q 2021 than the previous quarter – for the first time in the year.

Insurers continued to observe an increase in demand in 2Q 2021, albeit at a marginally declining rate compared to the two preceding quarters. Growth in demand for ST business continues to outpace that of MLT. Looking forward, ST demand is expected to taper off somewhat in the third quarter of 2021 while MLT demand will continue to increase at a similar degree as in 2Q. This would be the first quarter with higher increases in MLT demand compared to ST demand.

Insurers’ risk appetite for MLT business is showing measured growth with the second quarter marginally higher than 1Q. This trend is expected to continue in the third quarter of 2021. ST Risk appetite remains strong with reports for 2Q and 3Q showing subsequently higher increases than in the first quarter of 2021. Insurers continue to be prudent in their risk selection due to uneven recovery and vulnerabilities in some countries and sectors.

Claims paid in 3Q 2021 are relatively even between the two business types and expected to fall for both ST and MLT. Emerging claims are meanwhile displaying a more divided trend in the second quarter of 2021 with an expected increase in MLT emerging claims for the first time, contrasting with a continued decrease for ST – although to a slightly smaller degree than in the preceding quarter.

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.

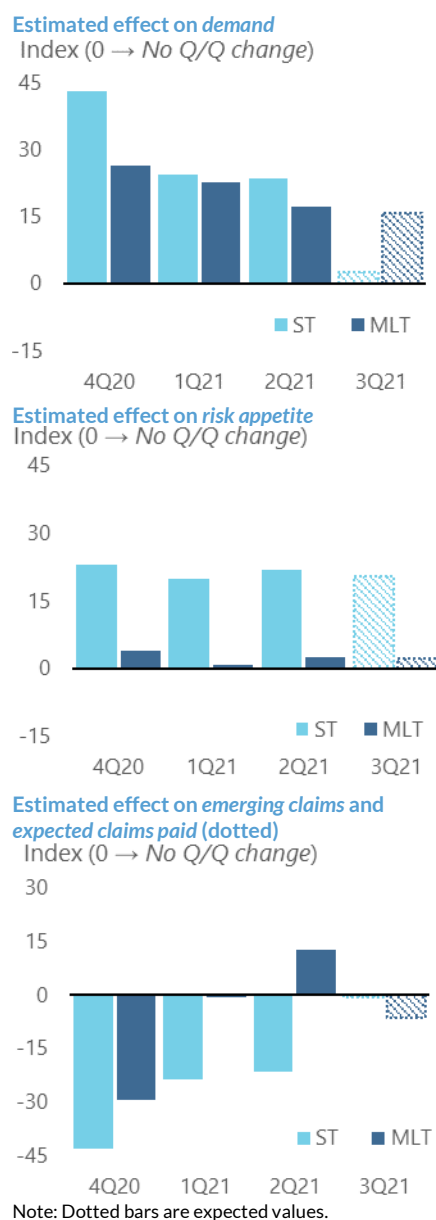


Figure 1: Current and expected future level of demand

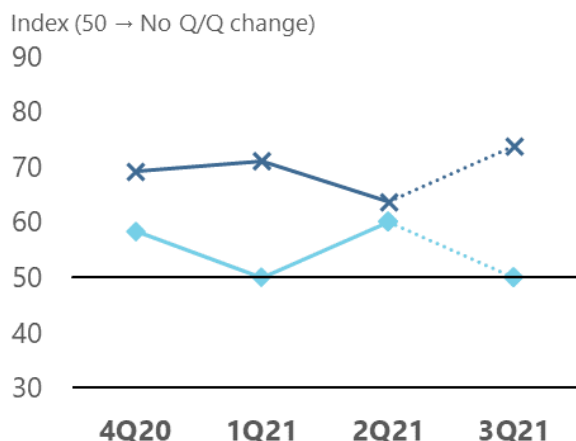
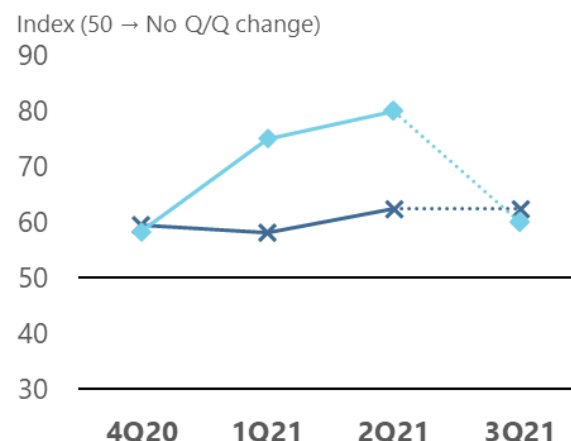


Figure 2: Current and expected future of risk appetite



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.

Increasing demand for insurance in 2Q 2021 with divergent opinions on 3Q

All insurers saw demand increase in the second quarter of 2021. Private insurers saw a rise in demand following an unchanged level in 1Q 2021. For public providers the increase was less pronounced than the previous quarter, despite expectations of the opposite – a further increase in 2Q – based on the previous survey.

Private insurers are less optimistic about the third quarter as they expect an unchanged level of demand for ST business. This is in line with New Export Business (J.P. Morgan Global Composite PMI) which peaked in April-May 2021 and has been decreasing slightly since, though still indicating growth. Public providers continue to expect growth in demand to an even higher degree than they are currently seeing, particularly evident for public providers based in MEA (Middle East & Africa).

Risk appetites remain increasing for both public and private insurers in 2Q 2021 and expected to continue in 3Q

Private insurers continue a trend of increasing risk appetite in the second quarter of 2021. Similarly, public providers saw an uptick in risk appetite – especially European ECAs – with risk appetites being higher than in the first quarter of the year.

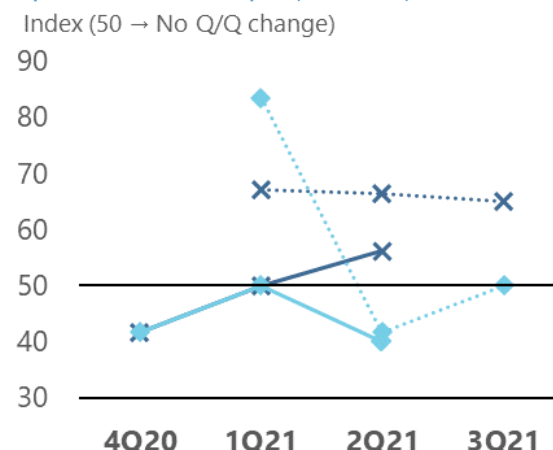
Looking at the third quarter of 2021, private insurers still expect higher risk appetites, however more muted than the first half of the year. Public insurers equally expect their risk appetites to continue to rise in 3Q 2021, but unlike private insurers to an even higher extent than in the first and second quarter. It is understood that the slower global recovery is causing some insurers to be more cautious about increasing their risk appetite.

Following an unchanged level of emerging claims in 1Q it now is diverging between public and private insurers. Equally, there is no consensus on the volume of claims paid expected in the third quarter

Public providers and private insurers saw different trends in the level of emerging claims in 2Q 2021 as public providers – especially those based in Europe – noticed a higher level of emerging claims. Some public providers cited smaller rises in pre-claim situations, such as payment delays. Meanwhile, private insurers saw a fall in emerging claims in 2Q 2021, similar to the last quarter of 2020.

Expectations for the volume of claims paid in the next quarter is similarly divergent, as public providers continue to expect higher claims paid in the coming quarter – 3Q 2021 – while private insurers now expect an unchanged level following an anticipated fall in the second quarter of 2021.

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

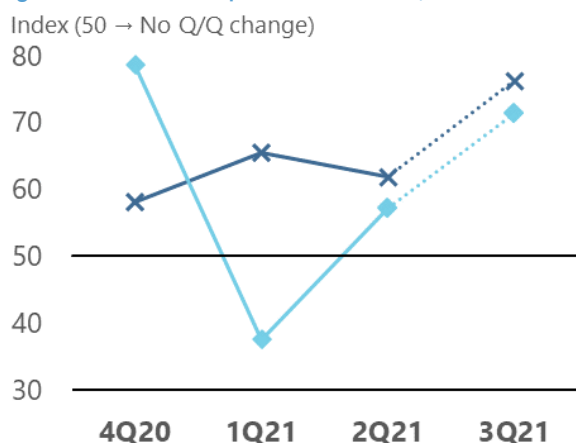
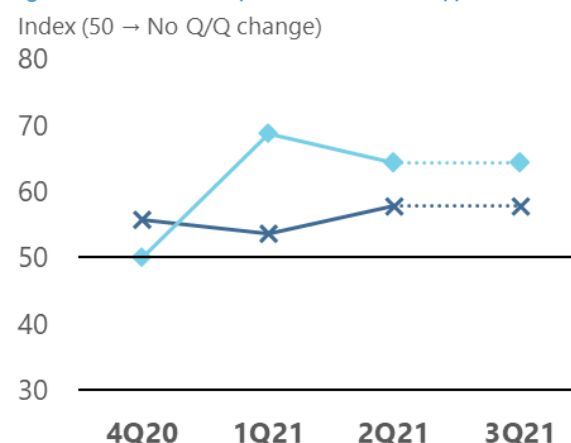


Figure 5: Current and expected future of risk appetite



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.

2Q 2021 saw MLT demand increase with the third quarter expected to see even higher demand

Both public and private insurers saw an increase in MLT demand in the second quarter of 2021. Public providers are seeing a slightly lower rate of growth than the previous quarter while private insurers are seeing a significant improvement compared to 1Q 2021 where they indicated a fall in level of demand. Insurers observed a slow and steady uptake in demand and some mention seeing the quality of applications improve. Lastly, a lot of new demand is still related to COVID-related products for some public insurers.

The third quarter of 2021 is looking to be a good one as both public and private insurers expect to see increasing MLT business to a higher degree than any other quarter in 2021. Insurers are expecting a further surge in projects in the coming months due to the promising growth projections in several countries and industries.

The second and likely the third quarters of 2021 are seeing insurers' risk appetites rising gradually

Risk appetite continued to rise in 2Q 2021 with private insurers indicating marginally more caution than the previous quarter whilst public providers saw their confidence rise higher than the first quarter of the year. Insurers are seeing their risk appetite gradually improve as the global recovery is underway, however they continue with a cautious approach, mindful of the continued course of the pandemic and the potential negative consequences of, e.g., new virus variants on the post-lockdown recovery.

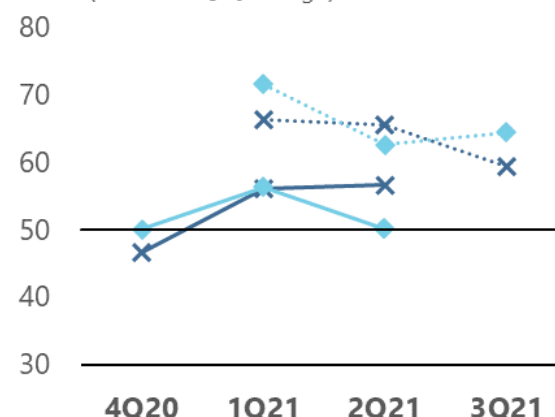
This trend of continuous increasing risk appetite for both public and private insurers is expected to persist in the third quarter – at roughly the same degree as in 2Q 2021. An exception is public providers based in Europe who expect their risk appetite to remain unchanged.

A somewhat mixed picture of emerging claims for public and private insurers in 2Q 2021. MLT Claims paid in the third quarter are expected to be higher for all insurers

Public providers continue to see an upturn in emerging claims in the second quarter of 2021, similar to the first quarter. Public providers based in Asia-Pacific are in particular indicating more emerging claims. Meanwhile, private insurers saw an unchanged level of emerging claims in 2Q 2021 following indicating a rise in the first quarter. Many insurers are still emphasising that the overall level of claims is low with some noting minor rises in pre-claims situations.

Insurers continue to expect more claims paid in 3Q 2021, however to different degrees as public providers are less pessimistic – fewer expect more claims paid in the third quarter than in 2Q 2021 with European ECAs now anticipating an unchanged level of claims paid. Slightly more private insurers predict more claims paid in 3Q 2021 than did in the second quarter. It is interesting to note that – compared to previous quarters – fewer insurers have emphasised a fear of a bulk of claims paid arriving in the forthcoming months.

Figure 6: Current level of emerging claims (Green) and expected future of claims paid (Blue)
Index (50 → No Q/Q change)



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.*

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