Insurers report rise in short-term claims

Short-term claims paid by export credit insurers increased to higher-than-expected levels in 2012, according to the Berne Union.

Claims paid by the association's members in short-term business rose by 58%, from US$1.3bn in 2011 to US$2.1bn in 2012. This is below 2009's US$2.4bn, but still reflects the continuing volatility in which insurers operate, especially in the eurozone.

Fabrice Morel, Berne Union deputy secretary general, tells **GTR**: "There was a particular increase in European destinations. Credit insurers had expected it because of the eurozone crisis, but the number of claims turned out to be more than what they expected."

He adds that not all Berne Union members were impacted in the same way: "While a few insurers suffered more than others most insurers witnessed a moderate increase or even a decrease in claims paid. Those who experienced much higher claims can be found across the whole spectrum of the Berne Union membership: large and small, private market insurers and state-backed export credit agencies (ECAs)."

The highest volumes of short-term claims were found in Italy (US$235mn), the US (US$172mn), the UK (US$134mn), Germany (US$133mn) and Spain (US$114mn) – countries in which Berne Union members have the highest exposures. Overall (short, medium and long-term) claims paid by insurers reached US$4.7bn.

The association points out that the short-term loss ratio for insurers, taking into account claims paid in relation to premium income, will be higher in 2012 than in 2011, not only because of higher claims, but also due to strong competition pushing premiums down.

Berne Union members covered US$1.7tn of exports in 2012, up 1.4% from 2011. US$1.5tn of that was in the form of short-term export credit insurance, while medium and long-term cover amounted to US$180bn – a drop of 5.5%.

Claims paid by ECAs under medium to long-term transactions reached US$2.6bn, with Iran, Libya, Korea, Ukraine and Russia at the top of the list.

"It is difficult to draw general conclusions from the list of top claims countries, as the background to the various claims situations is specific and differs significantly from country to country. MLT claims can occur for political reasons, when a situation affects a whole country – this is the case for Iran, where obligors experience difficulties to transfer payments abroad – or for commercial reasons, when a large debtor defaults, and this may impact several insurers at the same time.

"Given the political and economic uncertainties in the global environment, coupled with an enormous demand from emerging markets for capital goods fuelled by projects in the infrastructure, energy, and natural resources sectors, the support of ECAs appears to be more than ever crucial for helping banks and exporters to trade internationally," adds Morel.

Falcon outlines new financial landscape

The financial landscape has experienced a fundamental shift in funding power from banks to non-bank financial institutions, according to experts at Falcon Group's trade and corporate finance forum.

Held in March at the Madinat Jumeirah, Dubai, the forum was attended by economists, financiers and corporates who said this 'new financial landscape' is both permanent and beneficial.

Pre-crisis, global banks were the dominant corporate lender in the financial landscape. However, the financial crisis, liquidity constraints, and regulatory proposals forcing banks to keep more capital on their balance sheets, have all impacted their capacity to lend to corporates – particularly with respect to those requiring trade finance or operating within emerging markets.

"We have moved from feast to famine in terms of credit availability from global banks," said David Smith, economics editor of the *Sunday Times*. "It will be some time before western banks fund growth in emerging markets again."


Falcon's annual trade and corporate finance forum

And as Mike Moore, former director general of the World Trade Organisation (WTO), highlighted, it is the emerging markets that have the most need for corporate funding. "By 2025 four out of the top five global economies will be in Asia – China, India, Japan and Indonesia," he said, stressing that this ought to be a time for optimism for emerging market corporates – provided they can access the vital injections of capital they require for expansion. "A machine doesn't run without oil," said Philip Jan Kok, portfolio manager at Galena Asset Management – a specialist trade finance fund and wholly-owned subsidiary of Trafigura Group. "And this need [for liquidity] is being met by the rise of alternative financiers. Corporates do not want to have to depend only on banks."

Suri Penubolu, director of marketing and business development at Microsol, a global solar cell manufacturer listed speed and flexibility as two of the reasons he uses alternative finance.

"Not only is global bank funding becoming increasingly hard for corporates to access, it is also fairly generic. Their off-the-shelf solutions do not work as they cannot keep pace with our ever-developing business and fast-changing requirements," he said.

The forum concluded with a lively panel debate – moderated by *Al Jazeera* English anchor, Shiulie Ghosh.

Joining the panel was Falcon Group chairman, Kamel Alzarka. "The financial crisis made the value of alternative financiers clear, but the need or desire for their offerings will last, even if global banks return to their former stability," explained Alzarka – suggesting the permanence of the shift in the financial landscape.