TRADE CREDIT INSURANCE MARKET OVERVIEW

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INSIDE OR OUTSIDE THE RISK KALEIDOSCOPE IN 2015: THE SEARCH FOR GRANULARITY.

The Kaleidoscope has been shaken. The pieces are in flux. As we enter 2015 it is clear that we live in interesting times. Post financial crisis the global trade credit picture appears relatively tranquil yet there is an unmistakable sense that we are on the cusp of a new geo-political order as the tectonic plates of history shake the global village. Is the world globalising or is it in fact regionalising? Is our data private or not? Is the world more risky or less risky today?

As the World Economic Forum's recently released Global Risks 2015 report highlights, geopolitical conflicts are not only the most likely, but also one of the most interconnected risks for the year to come. This means that their impact would resonate across a multitude of areas, including trade and investment. New technologies, the cyber threat, the "war on terror", religious and secular cleavages, protectionism fears, and more stringent (and often unwelcome) regulation, are shaping a new narrative.

In such an environment, broad brush analysis of risk, particularly the picture-book world of insurance, which is framed by a surfeit of capacity that reigns in reward, is no longer sustainable. This white paper explores the global trade credit picture in 2015 and asks the question: what credit risks do business face today and do they truly understand their underlying exposures?

Competitive Market

The Trade Credit insurance market is currently characterised by a challenging premium income environment. Average premium rates are at the lower end of the scale compared to the kind of risks they represent. The downward trend in rates is driven mostly by very fierce competition, particularly in mature markets in Europe mostly where the competition is enormous, which has a consequent effect on premiums.

With capacity outpacing demand this inevitably leads to lower average premium rates. It is a comforting sign that post-financial crisis we see the claims environment stabilising and even decreasing in many markets. It appears that the claims picture has improved dramatically across the board with the exception of markets that were without claims or hardly had any claims e.g. emerging Asian markets such as China and others in the region.

This is coupled with a broadly stabilising global insolvency picture though at a more granular country and sector level the picture is not so transparent or positive.

Global Trade Concerns

Subdued global trade finance remains a concern – partly related to the post crisis regulation with which banks have had to comply. Basel II and Basel III regulatory regimes distracts the global banking sector, which has other priorities at the moment and this translates into a less fluid and less enthusiastic financing element across the whole trade finance product offering.

Meanwhile, potentially the biggest change this year that affects the credit insurance underwriting community – possibly the biggest change in decades – is the implementation of Solvency II. This is not solely a European exercise. A lot of jurisdictions have similar Solvency II compliant regimes - Australia, South Africa, Mexico, Canada are in the process of implementing or have implemented similar types of regime.

Low Oil Price

The low oil price and current geopolitical environment have implications for sovereign debt and the possibility of default for a number of countries, such as Russia, Iran and Venezuela.

Russia's economy is expected to shrink 4.5% this year if oil stays at $60 per barrel. The sinking price of oil has also caused the Rouble's value to collapse causing a rise in inflation, as imports become more expensive. On December 15, the country raised interest rates from 10.5 percent to 17 percent in an attempt to stop people from selling off Roubles.

Iran needs oil prices in excess of $100 per barrel to balance its budget, particularly since Western sanctions have made it much harder to export crude. If oil prices keep falling, the Iranian government may need to make up revenues elsewhere — perhaps by paring back domestic fuel subsidies.

In Venezuela there's mounting concern that the oil crash could cause this major oil producer, to default. The nation's economy — heavily dependent on oil revenue — is set to shrink some 3 percent this year and inflation is rampant.

Saudi Arabia, the world's second-largest crude producer is suffering financially from cheap oil. If oil stays at around $60 per barrel this year, the government will run a deficit equal to 14 percent of GDP. Despite the fact that Saudi Arabia is estimated to have a stockpile of foreign currency worth $740 billion, if low oil prices continue, the country may have to cut back on some social programs with implications for political tensions in the Kingdom.

Credit Risk Watch

According to an article in Bloomberg (6th January 2014) the cost of insuring Russian bonds against default rose to the highest level in almost six years. Speculation of a cut in the nation's credit rating to junk is imminent. The Rouble lost 1.9 percent to 62.0265 a dollar as Brent crude slid toward $50 a barrel for the first time in almost six years.

Standard & Poor's said December 2014 that it will probably lower Russia to non-investment grade within 90 days. Only Venezuela, Ukraine, Greece and Pakistan have more expensive credit-default swaps, according to data compiled by Bloomberg.

Soft Market Conditions? It's a Mixed Picture!

Trade credit insurance premiums are decreasing in many markets. This is not so much because trade sales are decreasing – the reality is they are expanding – but because average premium rates are tumbling. In other words, credit insurers are insuring more against less in many markets, particularly in continental Europe and also in the UK and the US.

Robert Nijhout, Executive Director at the International Credit Insurance and Surety Association (ICISA), comments: "Trade credit insurance clients are more informed and better educated, more demanding, expect greater transparency and demand forward looking statements from their insurers so that they can adjust their sales pattern or at least prepare for change.

"ICISA members represent 95% of global trade credit insurance market share with $8 billion in insurance premiums while claims represent about $4 billion of that total. The underlying exposures – or the outstanding risks at any time – we estimate to be around $3 trillion – approximately 15% of global trade.

"We see premium income rising as a result of increased insurance take-up but also due to higher premium rates in parts of Europe including Germany, Spain, the Nordic countries, Latin American countries such as Columbia, Mexico, Peru and Brazil, which despite its issues and problems is still highlighted as an area where credit insurers anticipate growth."

Soft Reinsurance Market - Prediction or 100 Percent Fact?

According to ICISA research, 65% of insurance members think that the market will soften in the next 12 months, while close to 100% of reinsurers also report that the market is going to be soft.

Why is this softness so persistent?

One reason is that there are more reinsurers than there used to be. Reinsurers wish to diversify – a trend that is driven by Solvency II or similar capital regimes in the country where they operate. There are also, of course, sound business reasons for entering the trade credit arena, which has shown some very good results and returns over the years. It's an attractive segment to divest into.

So if more risk is being taken on by reinsurers who are accepting lower rates while accepting more underlying exposure, is that sustainable?

Robert Nijhout says: "A large rebate is translated into ceding premiums with reinsurers so they are getting less. Part of it, of course, has to do with market share - and maintaining that - so nobody wants to concede, which plays a part in maintaining high capacity levels. Another element is that there are more players in the arena compared to two years ago."

Trade Credit Regional Overview: Europe, MENA, Asia, North America, Latin America, and Africa

The following is a granular analysis of regional trends and themes emerging in the trade credit arena in 2015. In particular, this white paper focuses on increasing Geopolitical pressures around the world, increasing Infrastructure investment (particularly in MENA and Asia), falling commodity and oil prices, Solvency II pressures and Eurozone stimulus.

Europe: Sovereign Debt Risks

Sovereign debt is a huge concern for Europe. If or when another crisis emerges, will credit insurers be able to step in and support their clients as they did in the last crisis? Sovereign debt is an area, which affects the euro economy and trade so that is something that is monitored by credit insurers, particularly those countries with high debt levels.

Meanwhile, the problem with the Solvency II regime is that it is a 'one size fits all approach'. Whether you are a multinational with 10,000 employees or a small insurance company with 50 employees you have to apply the same rules. These are hard enough for a large company which can employ a team of actuaries and other specialists but for a small company these rules are often unnecessary or far too complex to address directly.

Another challenge is that Solvency II results in shorter reporting times so where there may be a three month period to report matters this will be brought back over time to one month. This has enormous consequences on organisations which are already hard pressed for resources at this level and it adds to the costs. Despite such concerns, once Solvency II is implemented it will be a dynamic ongoing process – EIOPA has indicated an open door policy – that is expected to bring a comfort level on capital adequacy that satisfies the trade credit industry.

Firming Rates?

According to Robert Nijhout: "We see insurance rates firming in France, Belgium, Denmark, Netherlands, Italy, and Spain. These are exporting nations so I would expect that those kinds of premium rates would be also visible in sales prices. What works in the favour of these countries is a lower Euro and lower energy costs at the moment but we don't have any evidence that premium rates have an effect whether it's lower or positive on the sales perspective – that is not so much a concern."

The claims picture in Europe is much brighter than it was a year or two years ago. The majority of trade credit insurers see claims going down or stabilising - there are only a few countries where claims are on the rise: Germany interestingly enough, Switzerland, and the UK to a lesser extent.

Nijhout says: "Germany, Italy, and Spain in general are moving away from being a soft market. Where ICISA see a potential hardening up is in Nordic Europe, France, Belgium, and Italy. North Western Europe is the region where markets are firming up a little bit – perhaps by as much or as little, if you prefer, by 5% - 10%.

"Spain was hard to insure two or three years ago and those rates are coming down but they are coming down from a high level so you have to look at where you start from. If you look at average premium rates in Germany, they are too low for the underlying exposures - they should go up. It's a real mix."

Spain is doing much better than previously and that is reflected in an increase to the domestic sales book within Spain, which is very much an SME market. Where there is a domestic sales increase, that has very little to do with global macro-economic figures because it is very specifically a Spanish situation, which doesn't apply to France, for example, where the economic picture is far more stagnant at the moment.

Germany is an export-driven market –the largest euro economy and has a huge impact on overall statistics within Europe. The jury is still out on what impact the low Euro has on German exports but one can only guess that if this low Euro level is there for a period of time that it will have huge benefits for export sales and insurance premiums.

Insurance Market Outlook

The full-year 2014 results from continental European insurers, due in the next few weeks, are expected to show the region's top companies posting solid results, helped by low major loss activity. There are dark clouds on the horizon, however, with the spectre of deflation, the start of the European Central Bank's €1.1trn quantitative easing (QE) programme and fears of further potential uncertainty in the Eurozone following the Greek election causing major unease among insurers.

The recent QE announcement, in particular has been met with a muted reception by some in the insurance community. Allianz, for example, has described the central bank's action as unnecessary according to reports, "as the economic situation in the euro area is in any case improving and the outlook for 2015 is positive". The depreciating euro and the collapse in oil prices are helping the economy, and weakening the euro much further would entail "severe overshooting in currency markets", Allianz was reported to have said.

Latin America: Not So Simples!

Latin America presents significant opportunities and challenges in a highly competitive environment.

The region continues to demonstrate growth potential and attracted the attention of multinational and regional insurers in 2014, a trend that was particularly noticeable for companies looking at specific market niches. Generally, insurance penetration rates still remain low in many Latin American countries, however emerging risks include major regulatory and fiscal reform, the prospect of inflation, significant catastrophe exposures and volatility in currency exchange rates.

According to a 2014 EY Latin America Outlook Report: "Insurers that efficiently manage these complexities, focus intensely on the markets in which they compete and achieve positive changes in their operating environments are highly favoured to prosper.

"These factors may also drive consolidation in the market as larger insurers are potentially better placed to deliver the change required. An understanding of the external forces at play in the region can help shape strategic and operating priorities. These forces demand increased attention in 2014 and must be prioritized organizationally."

Robert Nijhout comments: "In Brazil and Chile in Latin America we've seen some worsening claims conditions though this has to be put into perspective because most of these emerging markets have a low penetration rate, which means that any large claim automatically has a detrimental, disproportionate effect on the overall statistics.

"In Latin America the sectors we see as higher risks are agrochemical, steel, construction, building materials, electronics, construction, which is surprising because before the World Cup in Brazil most commentators were predicting a boom; trade, however, like economics, is rarely easy to predict."

As the EY Latin America Outlook report asserts: "Since 2012, on average, insurance premiums have grown at a double-digit pace across the region, well above the rate of most other global regions. This pace will continue through 2014, compelled by strong regional growth in small business and the modernization of mature industries and infrastructure, which drive demand for insurance protection.

"In this heightened competitive environment, insurers can accelerate premium growth by targeting the rapidly growing market clusters within the region. While economic volatility and inefficiencies in Brazil's infrastructure, for example, have tempered recent enthusiasm to some degree, insurance premiums nonetheless continue to grow at a robust pace."

The "formalisation of Brazil's workforce, reportedly enabled by special laws and tax breaks for micro-enterprises known as "simples" also appears to be having a positive impact in the region. Mexico has mirrored this policy by seeking to build a framework that encourages small-and-medium-sized businesses (SMEs), achieving this through an expansion of the national loan guarantee program and by delivering a simplified regulatory structure. Colombia is also reportedly doing more to facilitate entrepreneurial growth and create opportunities for SMEs in the country.

Robert Nijhout comments: "One of our tasks is to engage much more closely with the banks not just to educate them and to inform them better about what we can do for them but also to understand better what concerns they have for our sector and how we can remedy those – a good example, is the SME sector.

"This is a vital sector not just for the economy but also for our members – if you look at their policyholders, 60 to 70 per cent and in some cases as much as 80 per cent of their policyholders are SMEs so it is a huge client segment for credit insurance companies who will be studying the changing environment for SMEs in Latin America with some interest.".

Asia: Creeping Protectionism?

According to a paper by McKinsey and Company: “Across the Asian region as a whole, we calculate that around $8 trillion will be committed to infrastructure projects over the next decade to remedy historical underinvestment and accommodate the explosion in demand”. The paper’s authors explain that most Asian infrastructure projects have been funded by governments or domestic banks with foreign investors for the most part being excluded.

Where foreign investors were allowed to participate they were often confronted with serious restrictions, which could include complex regulatory and legal regimes, an imbalance in the quality of the workforce, and on occasion, political interference.

The good news is that in the wake of the financial crisis, McKinsey says: “We have started to see signs that global private capital is increasingly welcome. The combined effects of increased stimulus spending and reduced tax receipts have increased deficits, with the result that restrictions on foreign investment are easing and a growing number of projects are being carried out under public–private partnerships (PPP). We estimate that over the next ten years fully $1 trillion of the $8 trillion of projected infrastructure projects will be open to private investors under PPPs.”

This clearly presents a huge opportunity for foreign investors, construction firms, banks, insurers and a wide range of sectors in the region and beyond. There are plainly a number of threats that will need to be mitigated by the international insurance markets, including Lloyd’s and other international insurance markets.

According to Mr Liu Xinlai, China I&G, writing for the ICISA Insider: “China is a rapidly developing economy. As a new market the surety business has huge potential, among which construction surety has even broader development space.” According to the national economy operation data released by China National Bureau of Statistics the total output value of construction of the whole nation in 2013 measured year-on-year growth of 16.1%.

Mr Liu Xinlai says: “Internationally and especially in countries where a market economy is developed and completed, the construction surety system is one of the most important systems in the construction sector, playing the role of corruption prevention and credit commitment…to promote construction surety in China requires strengthening the domestic surety companies’ cooperation, promoting legislation with the power and voice from the entire industry and exploring surety models that suit China’s present situation.”

The legal environment in Asia is also changing rapidly, which is leading to a rise in demand for D&O liability insurance. Company directors and executives across the region are becoming increasingly aware of their potential personal liability exposures. Asia’s relatively benign litigation culture is evolving as directors and officers are faced with mounting regulatory challenges.

According to Stella Tse, the financial and professional risks practice leader at Marsh, “A major liability trend in Asia is increasing employee-led litigation. Shifting social attitudes and evolving workplace laws across the region have contributed to more employees possessing a heightened awareness of their legal rights and a greater willingness to assert them.”

As investment in major infrastructure projects explodes in Asia, we can be sure that the legal profession will be viewing gaps in insurance coverage for risks such as Construction and Surety, Property, Financial Institutions, D&O and other types of Liability with some interest!

At the same time, shifting social attitudes and the rise of an emergent, wealthy middle class is empowering hundreds of millions of consumers across the Middle East, India, China and Far Asia - the vast majority of which are underinsured.

Robert Nijhout comments: “I have spoken to many credit insurance companies that underwrite risks in China. Although they report a low claims environment over the last couple of years they are starting to report more unpaid invoices – which can perhaps be attributed to a more mature market.”

“The Chinese export credit agency Sinosure has grown enormously over the last couple of years thanks to a specific Government policy of promoting exports and supporting that through an export credit programme.”

“To ease the burden of red tape and compliance China has exempted some companies below a certain turnover level from publishing accounts. This makes it very hard for Underwriters to assess a company if you know nothing about their financials.

“Malaysia, for example, also recently accepted a new law preventing information stored in Malaysia being physically taken out of the country. Such creeping protectionism requires all sorts of complicated additional structural changes. You might need to have a different underwriting unit in Malaysia and that is an additional cost that that has to be paid.”

MENA: Growing Thirst for Economic and Infrastructure Investment

As countries across the Middle East and North Africa (MENA) spend increasing amounts on their economic and social infrastructure, they are focused on improving competitiveness and attracting investment while seeking to mitigate growing social, economic and political risks and pressures in the region. Global economic stability remains fragile – while MENA demand and growth is robust - but all countries in the region are taking a hard look at how to deliver their investment programmes effectively, on time and at best value for money.

Global (re)insurance capital is abundant with (re) insurers looking to allocate financial resources as a way of spreading their risks (Solvency II) and achieving higher returns on equity. MENA, with its growing thirst for economic and infrastructure investment, is viewed as an attractive proposition though clearly not without major loss exposures, such as credit, political and infrastructure development risks.

Concerns abound about a looming capacity crunch for key capital and infrastructure projects in the Middle East, despite optimism about increased spending in the coming 12 months, according to a 2013 survey from PwC [Source 1: PWC]. PwC's second Middle East capital project and infrastructure survey found that 75 per cent of respondents expected an increase in project spending in the coming 12 months, with the UAE considered the top target for investing in capital projects and infrastructure, followed by Qatar and Saudi Arabia.

Such optimism is largely driven by events such as Dubai Expo 2020 and the Fifa World Cup 2022 in Qatar, together with increased spending on social infrastructure including housing, education and health care. However, the survey, which polled the views of 130 prominent project owners, developers, contractors, advisers and financiers, suggested that market capacity is failing to keep pace with demand, which has already negatively affected project delivery in the region.

Ninety-five per cent of the survey's respondents said that their projects were delayed, with 45 per cent reporting delays of more than six months.

The survey appears to be backed up by a more long-term report from the built asset consultancy firm EC Harris, which explains that the Middle East is set to experience unparalleled construction activity over the next decade: [Source: EC Harris]

According to the report, GCC governments have impressive national development plans to diversify their economies, while reducing their reliance on oil and gas reserves. In order to deliver these plans, a huge number of construction and infrastructure programmes will need to be undertaken in the coming decade.

Major risks include international contractors winning major programme contracts in the Middle East that may find it difficult to attract unskilled labour and skilled construction professionals on the scale required to successfully complete contracts on time.

Robert Nijhout says: "Dubai is emerging as a huge trade hub with a demand for trade credit. In the UAE there is an almost insatiable demand for information about credit insurance products. Not just Dubai: you also see it in Lebanon, as well as other countries in the region where there are little or no political or other types of conflict such as terrorism."

With several GCC countries looking to refinance debt in 2014, while continuing ambitious investment programmes, the ability to effectively procure and deliver construction programmes to time, quality and cost over the next few years will be paramount to managing country expenditure.

The impact of banking regulation, such as Basel, and its impact on credit is another challenge that need to be factored in the MENA region's overall risk register. According to the IMF [Source 5: IMF on Basel]: "Credit expansion in the MENA countries is highly dependent on macro-economic fundamentals and less dependent on micro-foundations and supply constraints in the financial system. Prudential measures should be established to hedge against risk and increase the resilience of the banking system in the face of macro and micro economic shocks.

"Credit expansion is a big ingredient in the transmission channel of economic policy. Absent prudential regulations, rapid growth of credit could exacerbate the adverse effects of negative shocks in the banking system and the spill-over effects on the economy."

North America: Resilient Economy Undermined by Cyber

The US economy is performing tremendously and that is reflected in very low claims levels and lower rates. However, as with most things that are related to trade, the picture becomes murkier the deeper we investigate the underlying risks and exposures. The U.S. trade gap widened late last year as exports fell to a five-month low, a sign of how a stronger dollar and slower growth overseas could weaken demand for American-made goods and weigh on the broader economy.

There are questions over how resilient the U.S. economy will be if the dollar continues to strengthen against foreign currencies while growth slumps in part of Europe and Asia. Many economists are worried that trade could hinder growth through the middle of this year because a stronger dollar makes U.S. goods more expensive overseas, which would negatively impact exports.

The combination of falling exports to the Eurozone, which shows few signs of escaping from its austerity imposed "hair-shirt" as well as the impact of the low oil price on the burgeoning fracking production market are, of course, a concern. The long term outlook remains healthy and credit insurers in this part of the world will hardly be losing too many nights sleep that businesses in this part of the world can't pay their bills.

That is not to say that there is nothing going on to disturb the equilibrium of the world's only remaining super power!

As the recent cyber-attack on Sony goes to show, even the mighty U.S. remains vulnerable to the threat of hackers. A hugely important very 21st Century risk centres around technology, as innovation is largely outpacing governments' abilities to regulate.

John Drzik president of global risk and specialties at Marsh & McLennan Companies commented recently: "What gets underappreciated in technology innovation is the rate at which these technologies are creating vulnerabilities. Take cyber as a now very visible example: there has been incredible innovation over the last decade, but the risk is very substantial. Cyber-attacks cost society around US$400bn a year – that's the GDP of Austria lost every year."

If an organisation the size of Sony can suffer such a breach, it is clear that the SME sector will be at least as vulnerable and it may be that the credit insurance community will need to investigate potential tools that can provide reassurance and solutions to businesses concerned about their cyber exposures.

Africa; Growth in Next Gen Power

Africa has emerged as a very interesting growth area for "Next Gen" power. Africa is home to the second largest population on earth of just over one billion people yet 500 million people lack access to reliable and clean energy. Aging and costly infrastructure accounts for much of the inefficiencies. In Sub-Saharan Africa, only 25% of the population has access to electricity compared to half in South Asia and more than 80 percent in Latin America, the Middle East and North Africa.

South Africa has always been well served by the credit insurance industry but until recently, there was low take-up of the product from other countries on the continent. The picture is changing now, particularly in Kenya and that whole region of central and eastern Africa but also in other parts of Africa as investment in these economies grows apace.

According to research by the insurance broker Marsh, 19% of its EMEA clients reported rate increases on renewal in Q2, up from 9% in Q1. These rate increases were particularly acute in Africa, where 92% of Marsh's clients reported rising rates on renewal in Q2.

Insolvency levels have increased across Africa. Companies are also encountering significant challenges in the Middle East, where they continue to feel competitive pressure. So, too, are some industries, including telecoms and IT.

The largest rate rises in trade credit insurance are being witnessed in Africa, where 92% of clients have experienced rate increases. This reflects their increasing level of insolvencies and defaults.

On the positive side, however, major infrastructure projects are underway in Kenya, which plans to quadruple its energy output in the next five years with an additional 5,000MW of power. According to the African Trade Insurance Agency, "Energy expansion is a linchpin in the government's Vision 2030 plan, which aims to propel Kenya into middle income status. A big part of the government's strategy is diversification away from the hydroelectric power, which accounts for a major source of the country's electricity.

"Kenya is investing in geothermal and wind energy to achieve President Kenyatta's pledge to make certain every Kenyan has access to electricity by 2020. The African Development Bank's 2013 wind study identified eight African countries having the greatest wind energy potential among the world's developing nations."

It has been reported that there are currently about 10.5 gigawatts of wind power projects in development across Africa. More investments in this area are projected with Ethiopia, Kenya, South Africa – and recently, Senegal – taking a lead in wind power generation.

South Africa is also reportedly establishing a home-grown wind power manufacturing base in Africa. The African Trade Insurance Agency says that South Africa was the fastest growing market in the G-20 with investments increasing from $30 million in 2011 to $5.5 billion in 2012 – of this, the solar sector attracted $4.3 billion while wind power attracted $1.1 billion.

As a result of this investment growth, South Africa now ranks as the ninth leading destination for clean energy investment – only behind Italy, the United Kingdom and India. With sizeable investment coming from the likes of China the potential for African growth is now becoming an established fact and trade credit insurers are keenly aware of these developments for trade credit.

Conclusion

Trade credit insurers take a keen interest in economic indicators but it is important to remember that they are not economists per se but credit risk underwriters. Therefore their view on trading countries is coloured very much from a perspective of how trade flows are affected, and how behaviour is affected.

Robert Nijhout comments: "To identify countries that are going to perform better than others one needs to look for a couple of indicators: the first is a stable and reliable currency, the second a working legal framework and the third is allowing trade flows to be sustained with as few trade barriers - or as few as possible in place. The more protection there is, the more difficult it is to trade and the more vulnerable an economy is to any shock wherever that comes from."

Trade Credit Insurance and Surety products are now an established part of an SME or multinationals anti-insolvency weaponry. More than $4 billion in trade credit claims were paid out last year, which goes to show the product's effectiveness which is underpinned by its strong predictive function, which many companies also find invaluable. As this report demonstrates, however, it is impossible to take a broad brush view of the global trade credit risk environment because old certainties are breaking down. Globalisation connects a multitude of risks yet in the longer term there is increasing distrust between different governments, and between governments and electorates, leading to demands to retract from regional and global integration. This is already an issue in the EU, but could also hinder attempts to build the Asean economic community.

Some commentators predict that the world might go from being a globalising to a regionalising economy, with adverse effects on continued global growth and a weakening of global governance institutions, the prospect of protectionism and other major geo-political risks and conflicts that could impact trade.

Russell Group has been speaking to a number of trade credit reinsurers in the last 18 months and it has become quite clear to us that with so many competitive forces at play, risk selection will become more important as will more investment in exposure management.

What affects trade credit insurance price movements? What affects the aggregates that reinsurers pick up for any one counterparty? There are no clear answers but what is clear – as we've already highlighted is that we can no longer paint a broad brush picture of regions – or trade zones - any longer. Each country and each vertical sector is a separate trading unit that can only be analysed at the most granular level.

The trade credit insurance sector is ready for an exposure management system and analytical solution that focuses on underlying data that scrutinises default and recovery rates, the availability of information for each counter party, Sovereign default exposures, cyber and political risks.

The Surety Bond Market

The Surety Bond Market continues to play an important role oiling the wheels of global infrastructure growth and development, writes Robert Nijhout.

According to Robert Nijhout: "Surety bonds are akin to bank guarantees and are a three-party agreement where the surety bond provider guarantees the performance of the third party. Where, for example, there is a major construction or infrastructure project, the risk is that the construction company that has been contracted to oversee the project enters bankruptcy half way through leaving the contractor high and dry.

"The beauty of the Surety Bond is that it not only guarantees the construction company will perform but also provides a grantee that if they stop performing, somebody else will step in to their place to finish the job for the contractor."

It is no surprise, therefore, that in the current volatile geo-political environment, Surety Bonds are being used in so many countries (see example in Asia: Creeping Protectionism). This is particularly the case when there is taxpayer's money involved for public works to guarantee that project finances are not squandered but that they are absolutely used as efficiently as possible.

Any kind of performance contract can be bonded on Surety Bonds so whether there is a pre-payment commitment, or a promise to pay taxes in the future or to construct something in a particular format, all Surety Bonds are highly flexible custom-made products.