



Breaking Down Borders – Trade Credit Insurance

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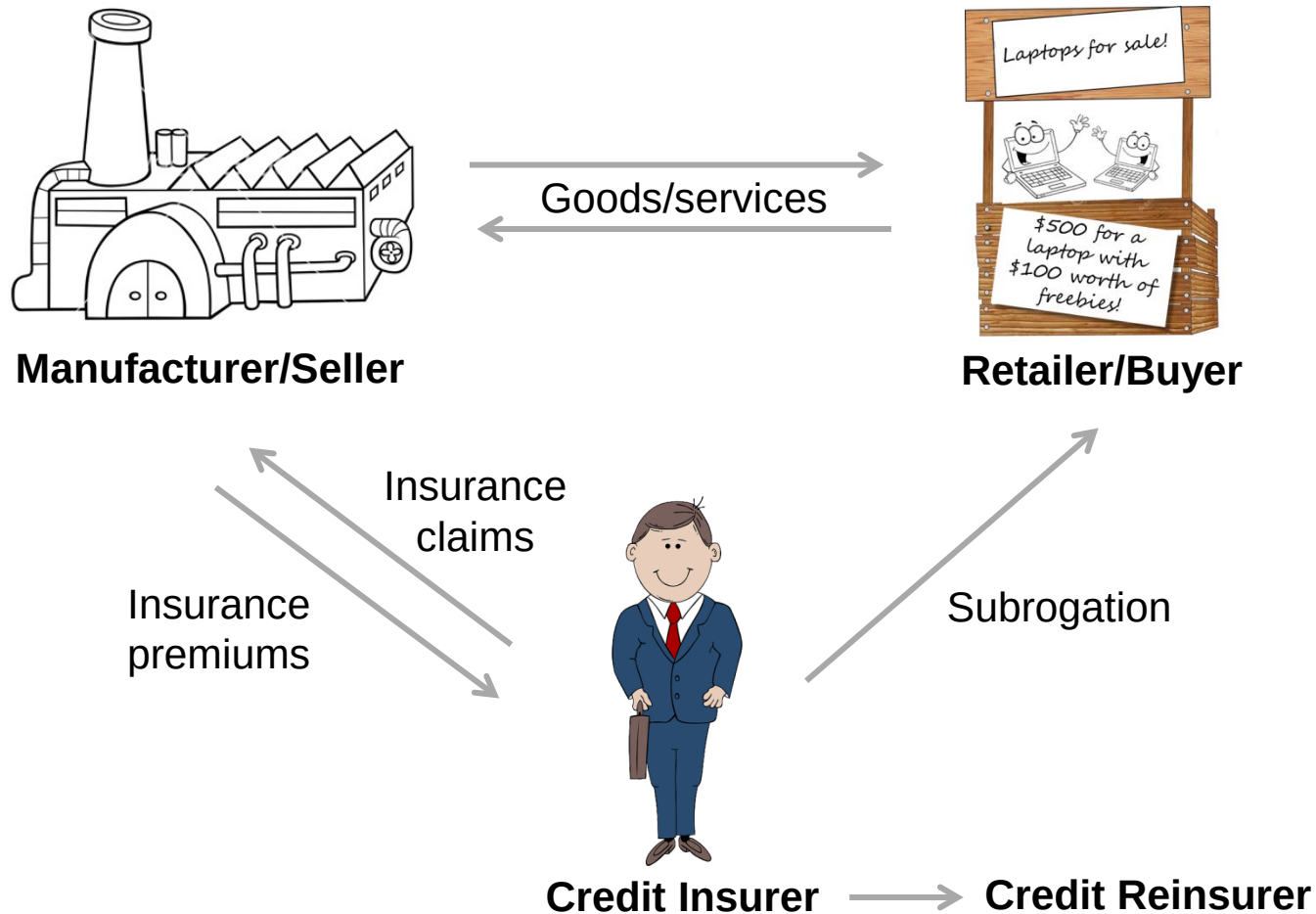
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Prepared by Aon Benfield

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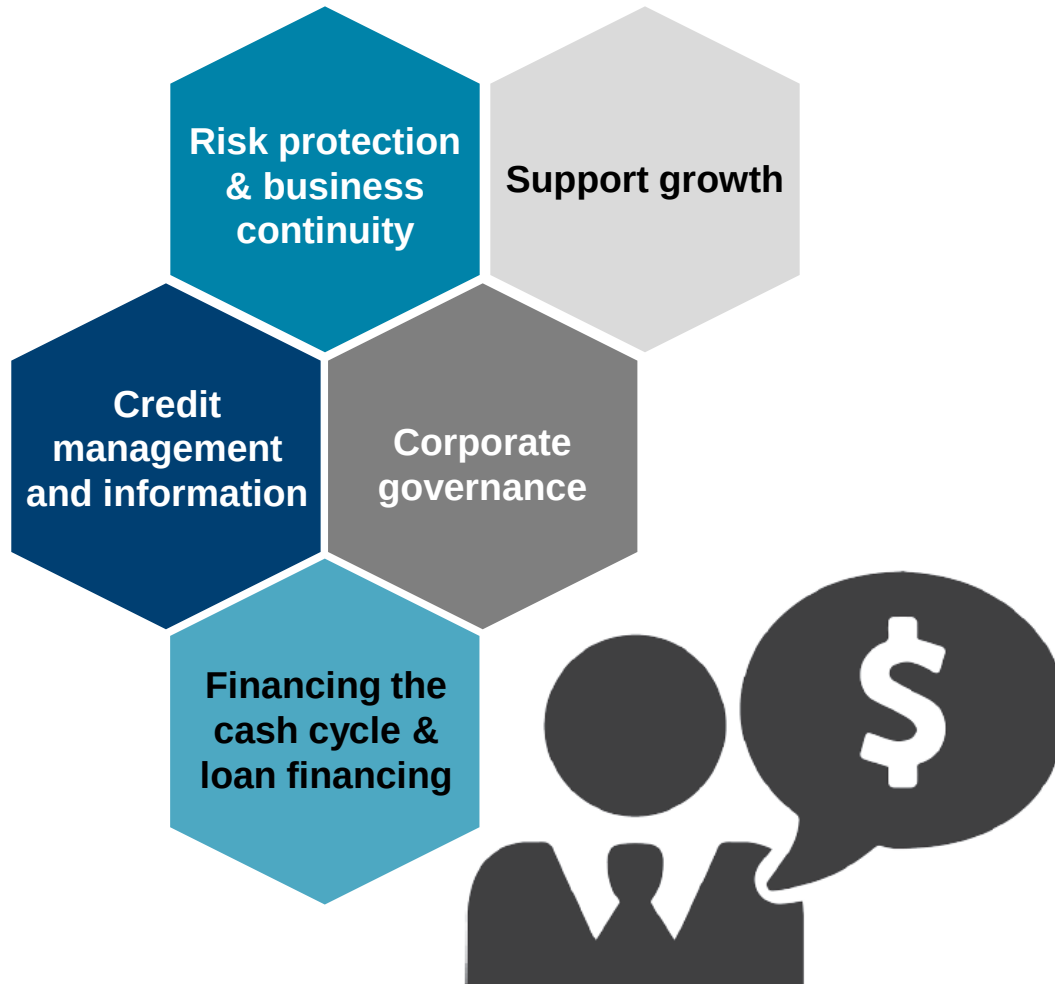
How does it work?

Protection against the risk of non-payment by the buyer due to commercial (buyer insolvency and extended late payment) and political risks

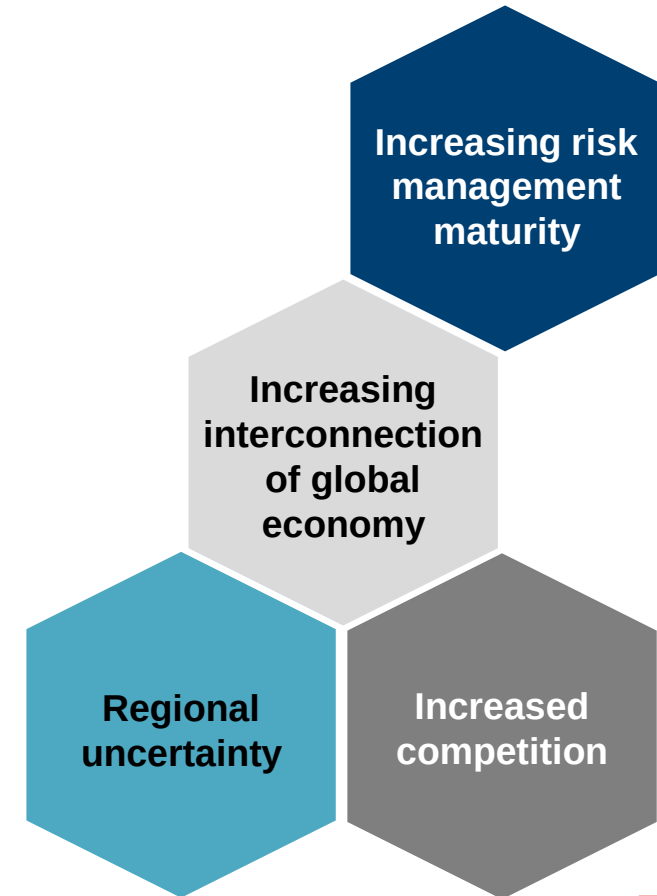


Trade credit insurance as a risk and financing tool

Uses of trade credit insurance



Driving forces for trade credit insurance purchase



Features of the policy

Contract types

- Whole turnover policies
- Named-buyer policies
- Single-buyer policies
- Excess of loss policies

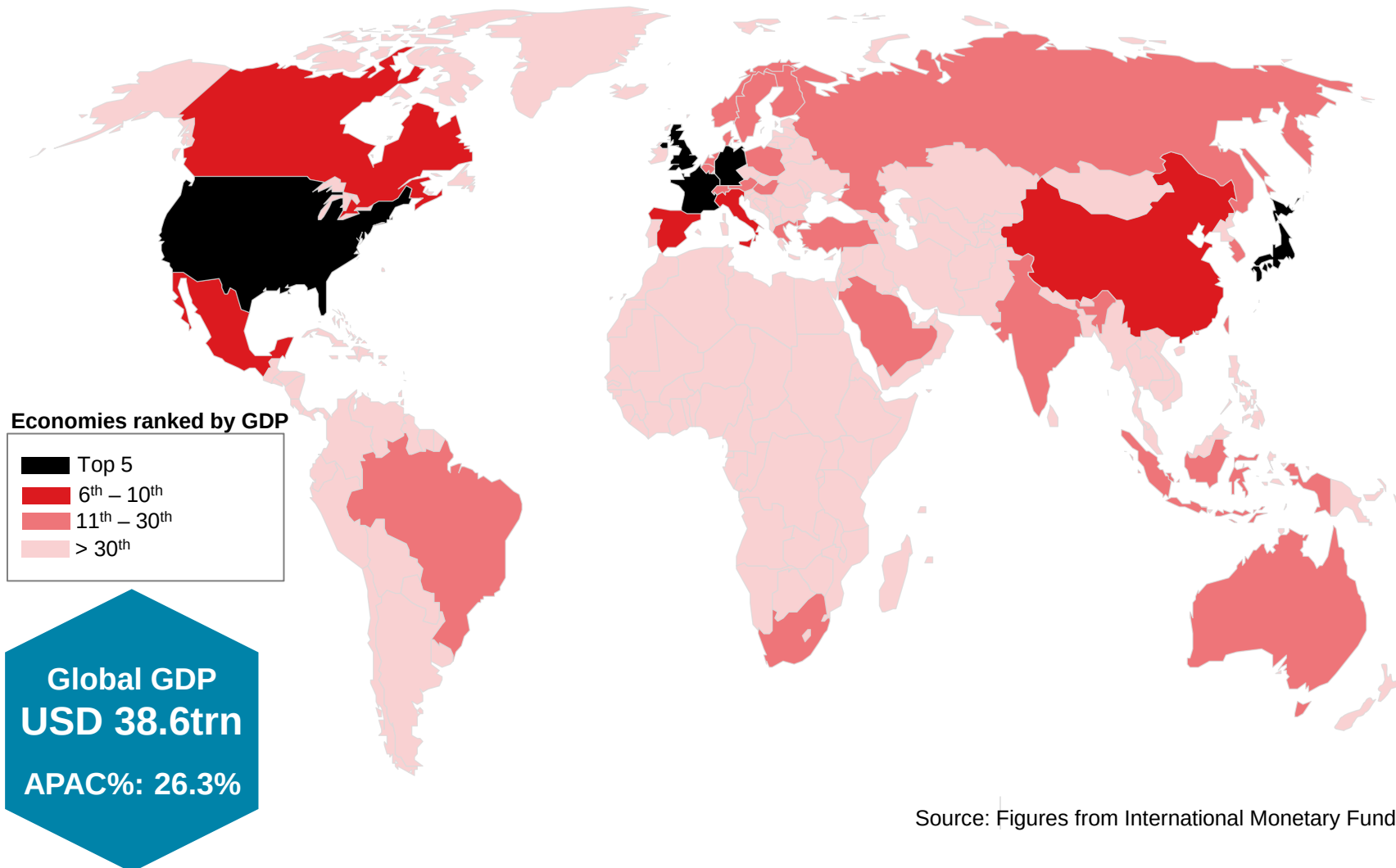
Contract covers

- Short term tenor of 60-180 days
- Available for both domestic and export trade

Underwriting

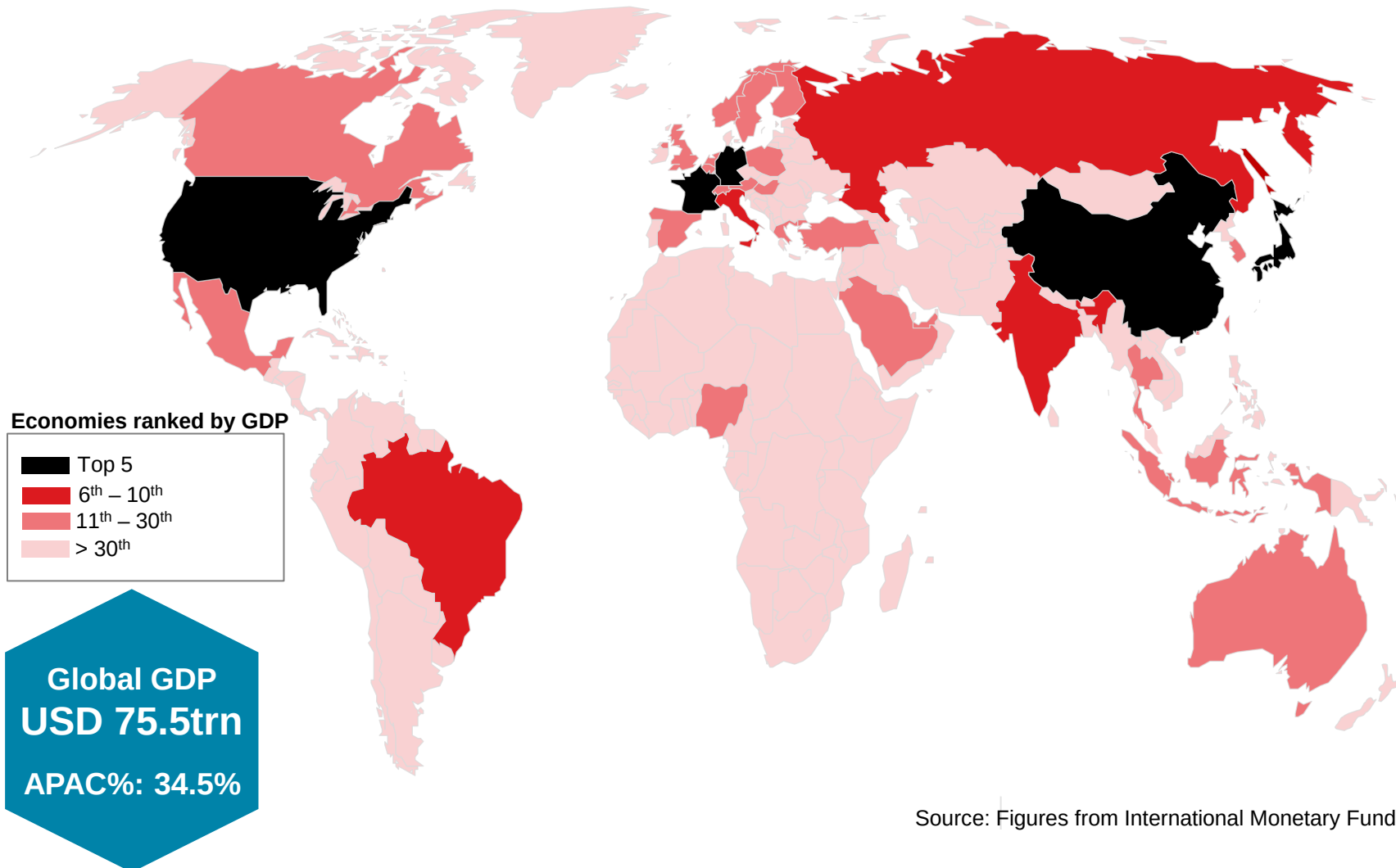
- Generally insures a portfolio of transactions at a certain limit
- Premium subjected to the quality of buyers, sales, loss history
- Insurer needs the ability to assess individual buyer and country risks
- Dynamic limit management

Global economies ranked by GDP in 2003



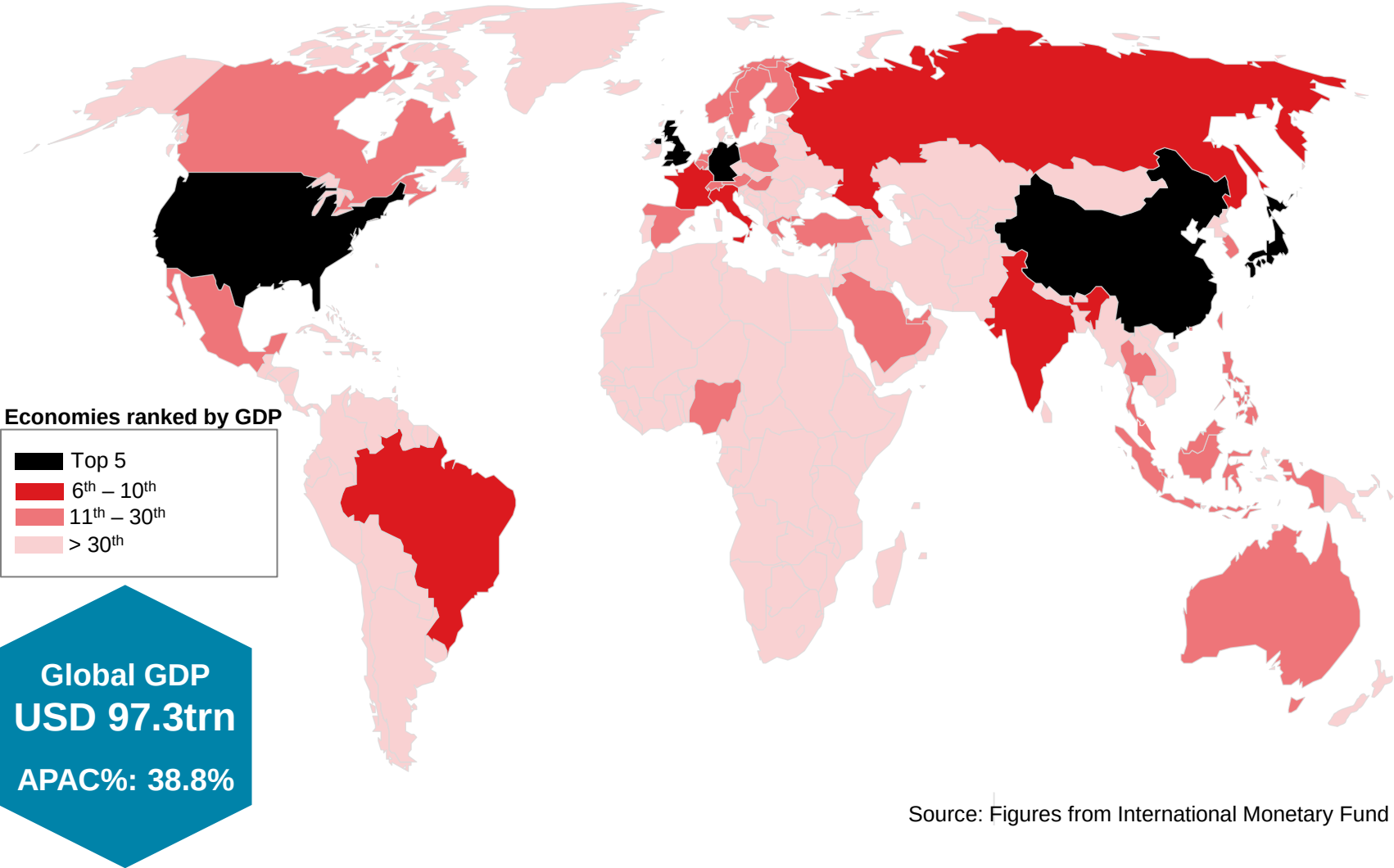
Source: Figures from International Monetary Fund database

Focus has shifted to APAC in 2013



Source: Figures from International Monetary Fund database

APAC continues to be a driving force; 38.8% global share expected in 2020



Source: Figures from International Monetary Fund database

APAC has increasing dominance in import and export trade volume

	Total trade volume (USD bn)		Contribution of world trade (%)	
	2003	2013	2003	2013
World	15,076	36,710		
North America	2,887	5,614	19%	15%
South & Central America	418	1,509	3%	4%
Europe	6,848	13,244	45%	36%
APAC	3,734	11,633	25%	32%
Rest of World	1,189	4,709	8%	13%

Source: World Trade Organisation

APAC share of global GDP expected to rise to 40% in 2025

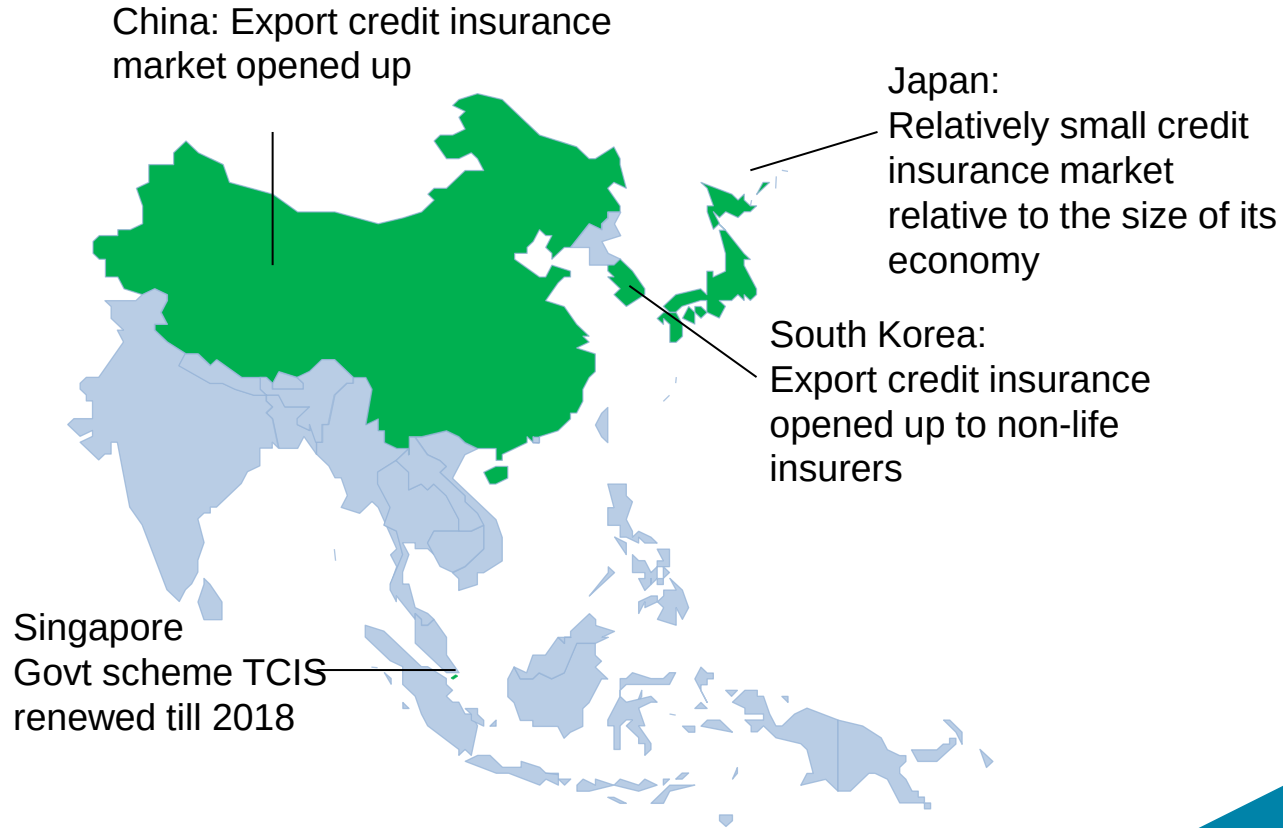
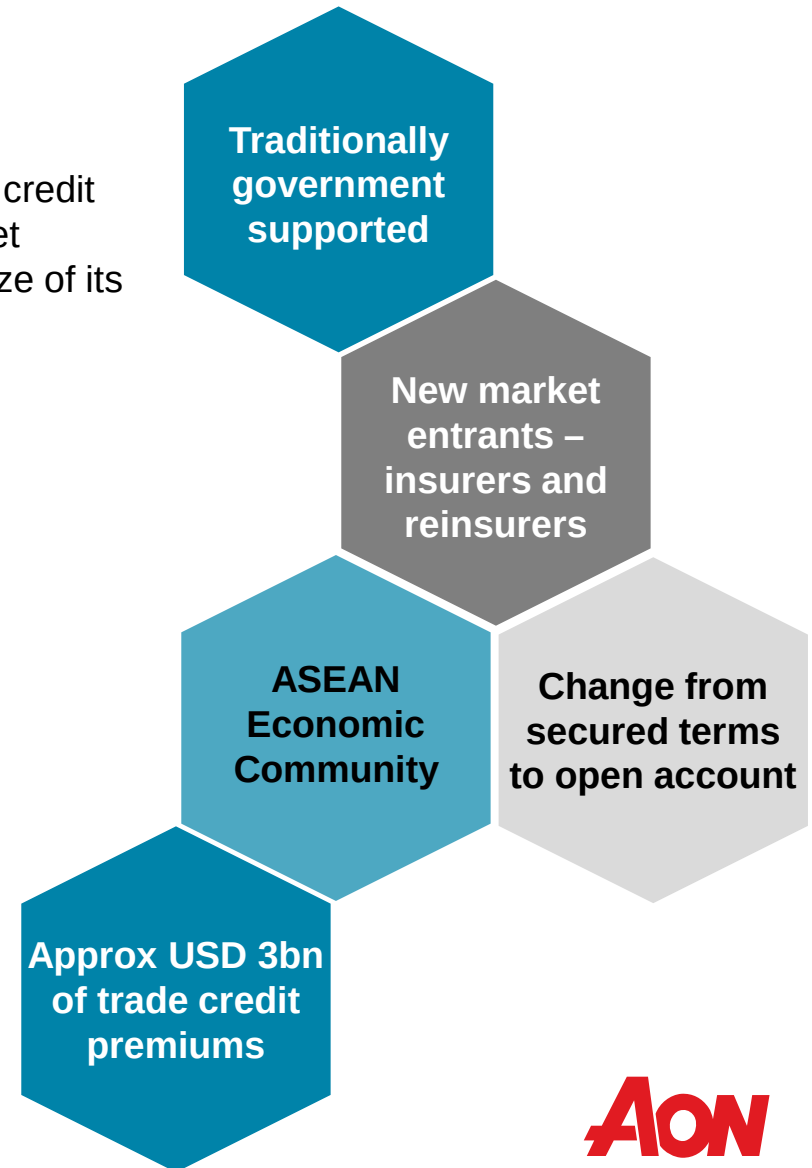
Rapid growth in Asia, potentially fuelled by AEC

Globalisation

Growing maturity of economy and risk awareness

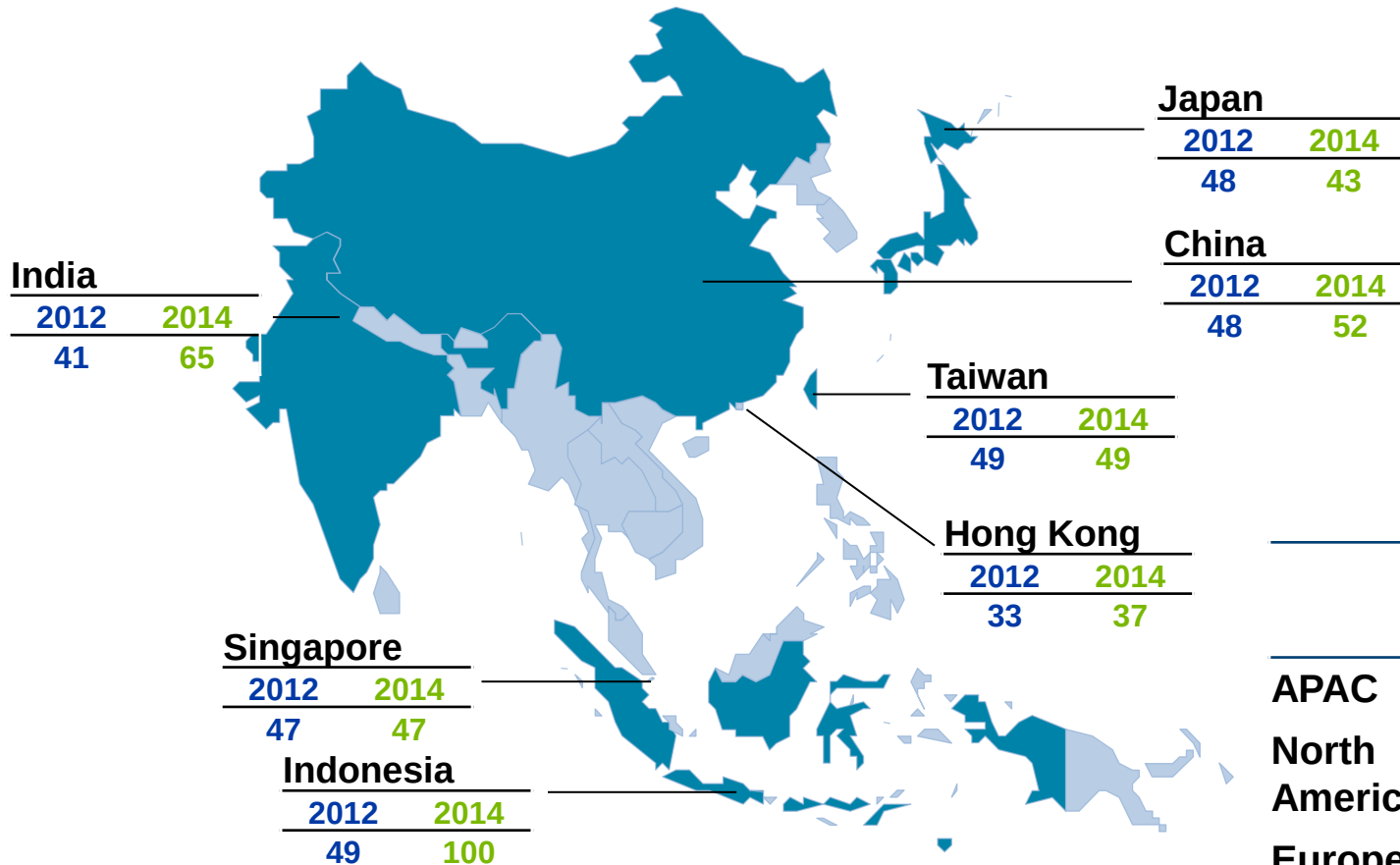
Production transfers from China to other developing Asian markets

Asian trade credit markets are slowly opening up to private insurers



On average, Asian companies are taking longer to settle payments

Average Days Sales Outstanding (DSO) recorded

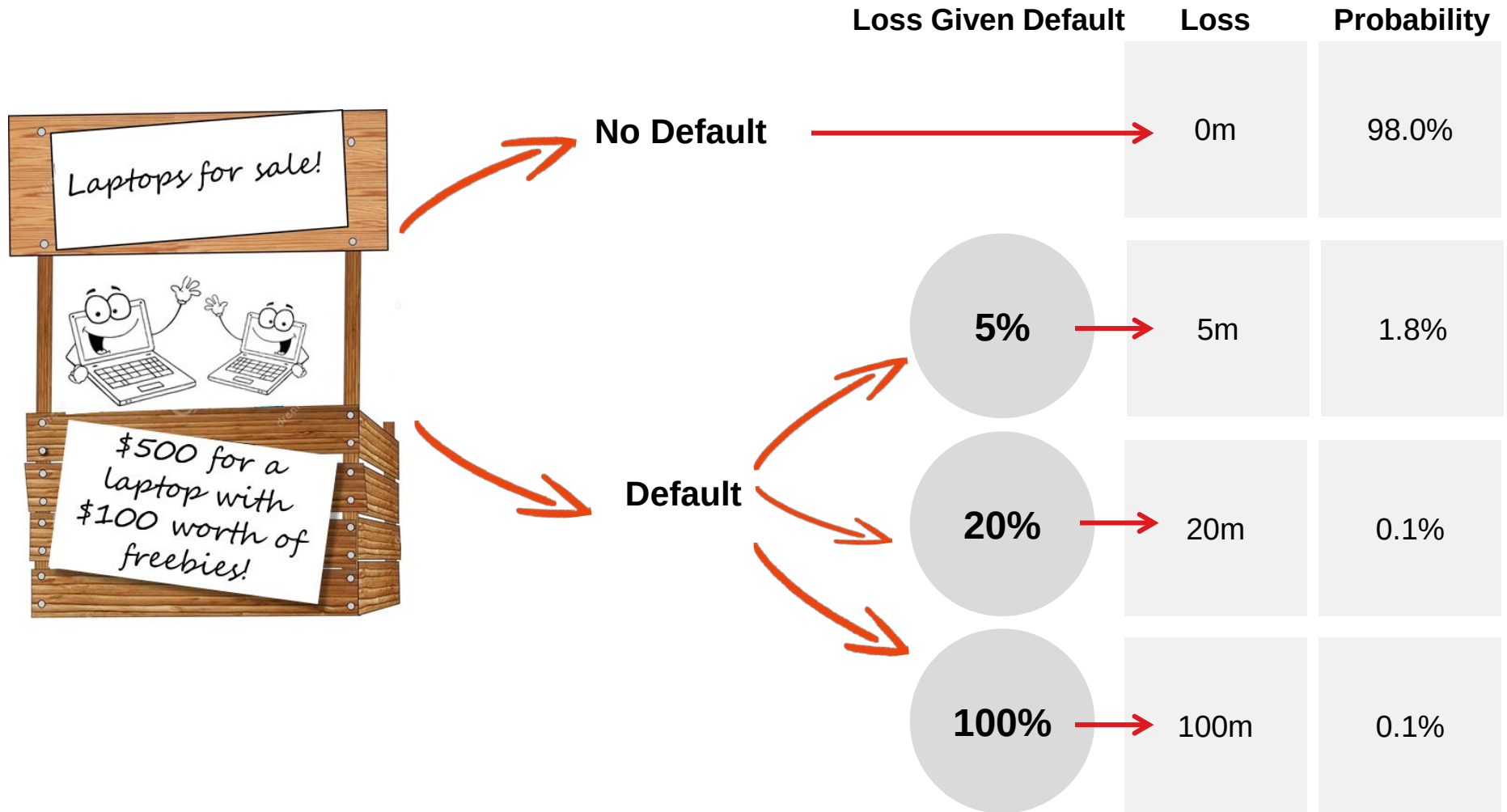


Global Comparison

	2012	2014	2014 average payment terms
APAC	44	54	34
North America	43	48	28
Europe	49	50	31

Source: Atradius Payment Practices Barometer 2012 & 2014

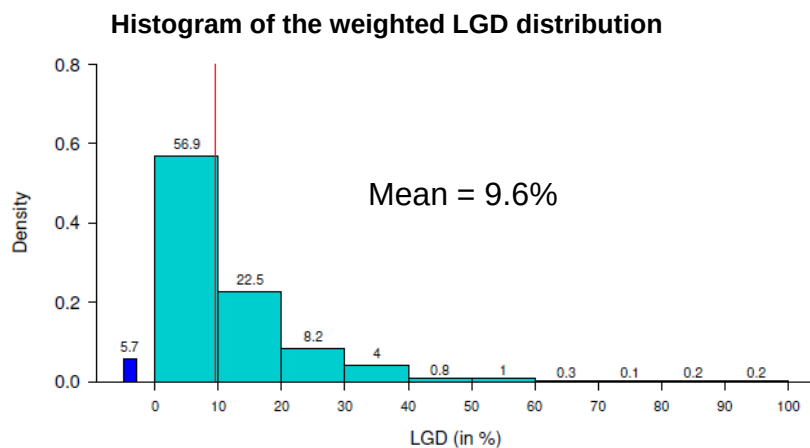
Modelling a single debtor



Other considerations when modelling a portfolio

Default Probability & Loss Given Defaults

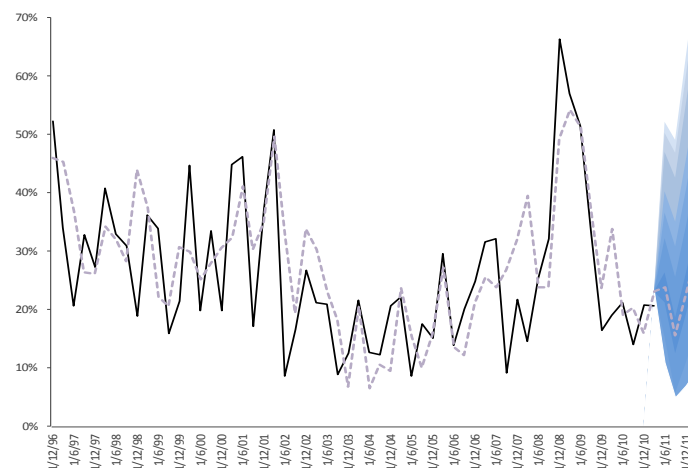
- Varies over time and are highly specific to companies, sectors and countries
- Most PD scales are related to internally assessed ratings
- Larger companies will have their own studies to understand LGD reaching different thresholds
- ETH studies have industry-wide LGD based on data submitted from individual companies



Source: ETH

State of Economy

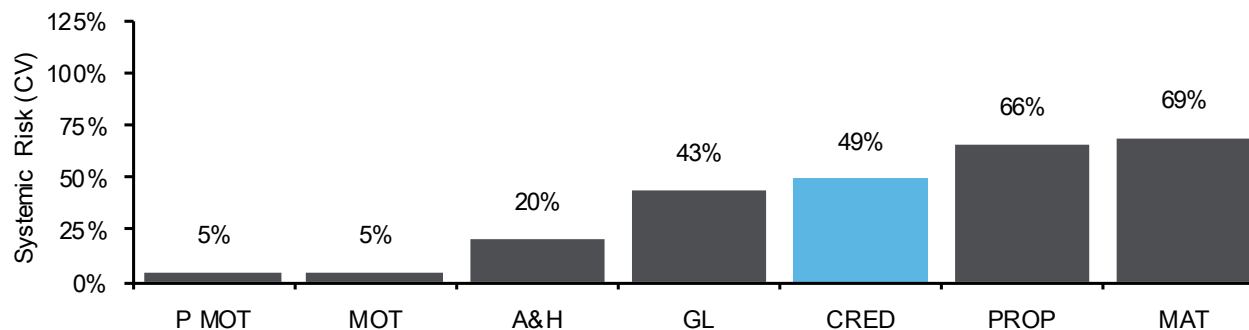
- Trade credit insurance losses are correlated with the state of economy
- Economic variables may be used to test for correlation for the gross losses over time eg
 - Real GDP growth
 - Consumer and Business Confidence levels
 - Credit spreads
 - Bloomberg's Index of US Financial Market Conditions ("BBFCI")



Black = Actual, Dotted = Fitted

Is trade credit risk correlated with other classes of business?

Systemic Risk

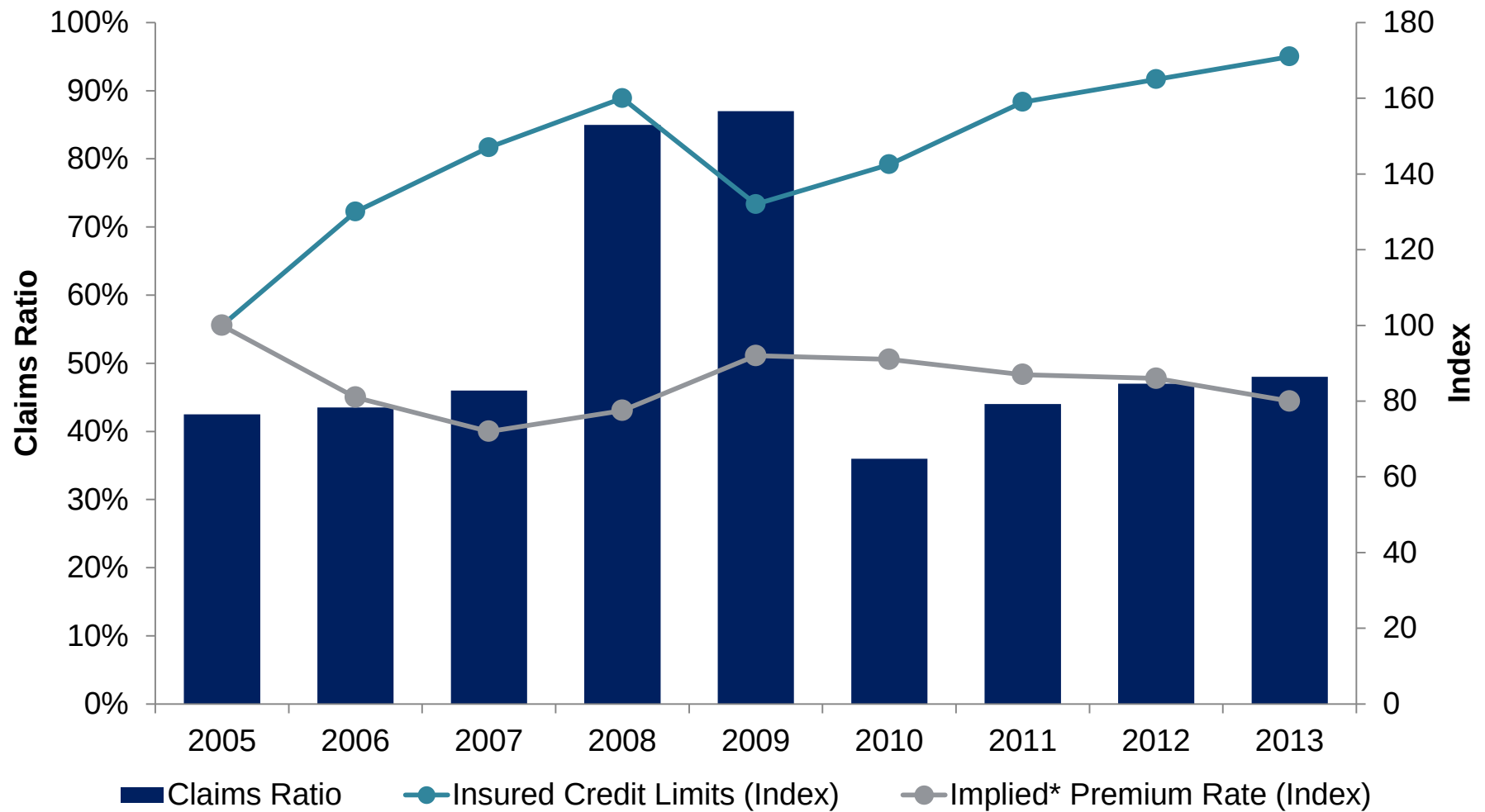


Loss Ratio Correlation Matrix

	A&H	CRED	GL	MAT	MOT	PROP
A&H	100.0%	13.4%	25.7%	-1.7%	30.8%	-3.1%
CRED	13.4%	100.0%	20.0%	-11.6%	10.5%	6.4%
GL	25.7%	20.0%	100.0%	-15.8%	0.8%	1.3%
MAT	-1.7%	-11.6%	-15.8%	100.0%	-1.3%	3.3%
MOT	30.8%	10.5%	0.8%	-1.3%	100.0%	9.5%
PROP	-3.1%	6.4%	1.3%	3.3%	9.5%	100.0%

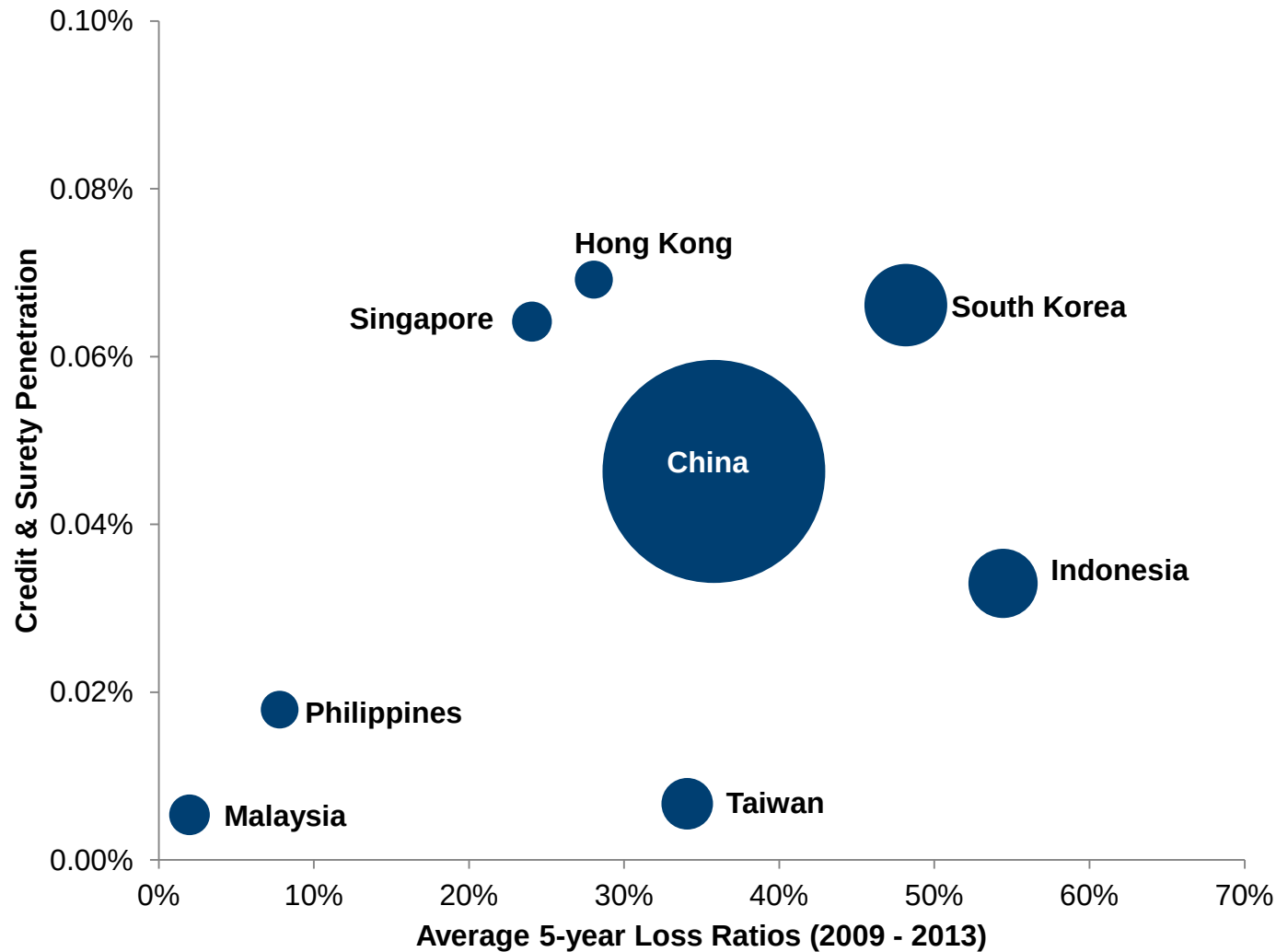
Source: Aon Benfield Insurance Risk Study, 2014

Moving on: global credit market had a quick rebound to pre-crisis levels



Sources: International Credit Insurance & Surety Association, Swiss Re

Are there bright sparks in the Asian market?



Global (2013)
USD 10.6bn
Asia 28%

Sources: Axco, International Monetary Fund and publicly available insurance premiums data

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