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Paris, a significant market for private medium term export credit insurance

Expert analysis and views from France ARNAUD, founder and head of the independent broker SOL MONDO.

Insuring investments against international risk, the protection of export contracts and the financing of raw material together form a “political risk” insurance market. Insurance companies now also deal with credit risk on private buyers over medium term durations (up to 7 years). Claims paid in 2009 (Ukraine, Kazakhstan, Bahrain, Brazil, Venezuela, Ghana ...) have not undermined market capacity, which has actually increased in 2010.

1 - Private supply

-For companies, the products on offer include insurance for foreign investments (against seizure, political upheaval and terrorism) over periods of up to 15 years, insurance against financial risks on export contracts over the medium term (up to 15 years when the buyer is the public sector) and insurance against manufacturing risks, credit risks and the protection of bonds.

-For banks, the insurance products on offer are decided on a case by case basis or are part of a framework agreement which determines in advance the conditions by which risk is shared. They guarantee loans to buyers over the medium term (5-15 years depending on the country), letters of credit (the premium being calculated as a percentage of the commission charged by the bank), the financing of raw materials and many other forms of tailored finance.

2 – The size and capacity of the market

The market is made up of 12 companies and 20 syndicates at Lloyds.
Capacity has increased every year since 2008, and even since the beginning of 2010 (for example Axis, CV Starr, Aspen, HCC, QBE): the total market capacity available in 2010 per insured risk has increased by 70% compared to 2007.

In terms of insurance for investments, the available market capacity for one off transactions to cover risk is over one billion euros (of which one third is over 15 years and half over 10 years).

The market capacity available to cover financial risks associated with public sector contracts has also risen to one billion euros, of which 345 million is over 15 years.

For private sector contracts, the market capacity available to cover financial risks is more than 500 million euros, of which two thirds is over 7 years.

For a transaction (contract or investment), the market can cover risk up to one billion euros.

3 - The emergence of the Paris market

The market has historically been based in London, centred around Lloyd's. There was only one insurer in Paris - Unistrat, set up in 1987 by several French insurance companies as part of Paris pool**,** and then gradually acquired by Coface.

Over the last ten years, French exporters and banks have regularly looked to London to transfer some of their risk in export financing and major projects (bank loans or letters of credit), to the point that they now make up around a third of the London market.

The vitality of the French market in using this specialized private insurer has encouraged some market players to open underwriting offices in Paris, especially since French insurance companies have not entered this space: for example, Atradius in 2005, Zurich in 2006 and several specialized syndicates of Lloyds of London (Beazley, Hiscox, Kiln). These facilities have remained quiet in that the market operates through specialized brokers who are brought in directly when needed.

There are now 6 of these insurers in Paris, compared to only Unistrat in 2003 – this shows that the dynamism of this market is still underestimated. The Paris market alone can today mobilize one third of the total capacity of the market on investments (300 million euros), one third of the capacity of the market on contracts (300 million euros), and 40% of capacity of the global market on private risk (at over 200 million euros per risk).

The Paris market represents one third of the underwriting capacity of the global market

4 - A near perfect coverage

The geographical coverage of the private market is almost perfect: no country is ever completely blocked from the market because the underwriting expertise of these companies allows them to operate even in unstable countries, or countries which have proved to be "bad payers". In effect, the insurance companies first of all evaluate the investor or exporter, and then choose whether they want to do business with them.

Through this approach, the private market has always been able to cover risks which are not acceptable to public insurers (buyer credit in Romania in 2000, investments in the Ivory Coast even in the crisis of 1999-2000, in 2009, to countries more or less closed to public insurers: Madagascar , Ecuador, Pakistan ... DRC, Ecuador, Nicaragua, Guinea-Bissau, Zimbabwe ...)

The market works for exporters of all nationalities. Its development is hampered to a degree in some countries where discriminatory taxation is applied only to the private market, in comparison to untaxed public insurance – for example in Switzerland, Germany and Italy.

5 - The role of the State

The role of the State is well defined by both European regulations and the OECD framework intended to ensure fair competition and that state aid does not cause distortions in the market.

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The principle of subsidiarity means that the State only intervenes where the private market fails.

This is especially important when the fiscal position means any state intervention requires careful consideration. In this context, it is important to ensure that State interventions are well judged and only considered where the private market cannot provide a solution – applying the principle of subsidiarity means making sure the State does not take on risk which could actually be carried by the market.

Different countries have different approaches to putting the principle of subsidiarity into practice. In the United States, the OPIC questionnaire explicitly refers to this principle, and requires the insured to prove that the private market has been unable to meet his needs.

The Netherlands do not pay brokers for their work on transactions insured by the State, which guarantees they will do their utmost to find solutions in the private market before resorting to the State. This approach could be proposed to the Berne Union and put in practice in all member countries.

Using brokers as a mechanism to guarantee subsidiarity could be proposed to all public insurers in the Berne Union.

Maintaining the role of public insurers is important: they have a role to play!

In Practice, the State should for example be seized for more that 15 years contract or when the amount of the risk is over the market capacities
Furthermore, the minimum premiums charged by the private market make these products inaccessible for small to medium enterprises. This is where public insurers, without the requirements of profitability, has a role to play.
The return for taxpayers from this kind of use of public insurance products is that the State can impose conditions to its assistance, **most importantly to protect industry and therefore jobs.**
Changes in national policies on credit insurance may therefore arise from knowledge of the products available on the market, so that assistance from public insurers can be better tailored to the needs of business.

Conclusion
The various emergency measures taken by different European governments following the banking crisis in August 2008 have resulted to a "slash prices " of public products, essentially from a desire to protect banks by allowing them to transfer risk to the State, rather than private insurers. In most cases, the elasticity of the private market has helped to protect their business, but it seems that the European Union, conscious of the existence of the private market and the threat to this market from excessive state activity, wishes to scale back as quickly as possible (by the end of 2010 at the latest) this exceptional level of state intervention.

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