Catalana Occidente - Head of Commercial Underwriting & Product Management - Oceania at Allianz Trade

Interview conducted on February 24, 2023

Topics

Trade Credit Insurance, Risk Assessment, Underwriting Process, Global Risk Spread, Country Selection, Data-driven Pricing, Overdues Management, Equity Coverage

Summary

The Tegus Client speaks with the Head of Commercial Underwriting & Product Management - Oceania at Allianz Trade to gain an understanding of trade credit insurance. The expert explains their experience in different geographies and their current responsibilities overseeing commercial underwriting and risk underwriting for exports and domestic trade within Oceania. They discuss the different pricing options and the assessment process for major risks, taking into account past history, current projections, and the trend of the client. The expert also explains how credit insurers manage risk, including assessing the risk on a buyer and seller, monitoring overdues, and taking timely action to manage them. They emphasize the importance of data in pricing risks and explain that underwriting requires both risk and commercial data on the country. The expert also notes that credit insurance is profitable due to the spread of risk globally and the selection of countries being in the hands of the underwriters.

Expert Details

Head of Commercial Underwriting & Product Management - Oceania at Allianz Trade.

Head of Commercial Underwriting & Product Management - Oceania at Allianz Trade.

The expert specializes in Trade Credit Insurance, Trade Finance, Trade Receivable Securitization, Asset Based Lending, Credit Risk Management, Political Risk Insurance, Project Finance & Construction Risks, Structured Trade Finance; Transactional Cover, Multinational / World programs, Excess of Loss (XOL), Commercial Underwriting, Risk Underwriting- Domestic & International, Reinsurance, and Product Development & Management. The expert has strong technical, legal, product & documentary knowledge of trade credit and trade finance.

The expert has a proven ability in strategic planning & management with responsibility to optimize market opportunities. The expert has delivered accelerated revenues, profitable growth & managed successful businesses in multiple geographies. The expert has a particular focus on international business, risk management, commercial & risk underwriting, creating innovative solutions for corporates, banks and multinationals with complex financial, organizational and business structures.

Q: Can you speak to how credit insurers can protect themselves during a harsh recession? Please elaborate
A: Suffice to say that I have over 30 years of experience in the field of credit insurance and in particular risk management and underwriting.

Tegus Client

Hi, thank you so much for taking the time. So at the moment, we're trying to just get a very initial understanding of trade credit insurance, something we haven't really spent time on historically. So maybe it would be great if you could give me a brief introduction on yourself. I've read your short CV that you're at Allianz Trade, I think at the moment. Maybe if you could describe, briefly where you're based, what countries you cover and what responsibilities you have as Head of Commercial Underwriting?

Head of Commercial Underwriting & Product Management - Oceania at Allianz Trade
I'm based in Australia, I've got multiple experience in different geographies, both in Asia and in Europe and Americas as well. Currently, I oversee the commercial underwriting and part of risk underwriting for exports as well as for domestic trade within Oceania, meaning Australia, New Zealand and, of course, exports to various countries.

So it's risk underwriting as well because Australia is, of course, a large exporter as well risk underwriting to multiple destinations, and when I say multiple destinations, I mean continent, especially to the European belt as well as to the Asian belt in particular.

Tegus Client
Yes. That's very helpful. And when you say underwriting, let's say, if you could be basic, what does it involve and for like, let's say, a company comes to you to look for trade credit insurance, how much of that is, let's say, some computer model making a decision and how much is in your discretion to underwrite the business or to pick a price?

Head of Commercial Underwriting & Product Management - Oceania at Allianz Trade
Yes. So we do have what you call the automated kind of risk underwriting for very small limits. But those cases which come to me are well above that because I head the underwriting operations for this side of the continent. So it's actual underwriting taking into account the risk assessment. Of course, we use the same platforms, we still have the discipline there to get the pricing tools in place.

There is the sales base pricing, et cetera. But at the end of it, the actual underwriting, the small cases, to be honest, they are not referred to me at all. So we are talking about medium to large cases as well as medium-term trade as well, just not short term, but we're talking about maybe 365 days plus as well.

Tegus Client
Yes. Okay. And for this type of product, is it like an annual pricing cycle?

Head of Commercial Underwriting & Product Management - Oceania at Allianz Trade
We have different options. The annual pricing is the most common because the commitment from the clients sometimes it's lacking for, let us say, more than one-year deal. But there are already advantages in one year, for instance, and we could even do one plus one plus one, so it could even be a three-year deal. When I say one plus one, what I mean is after that 1st year, there's always a review.

They're committed to the number of years, two years or three years. That's the case maybe but things don't go very well with the claims history, then we have a chance to review the operations and perhaps requote or apply a penalty for the claims but having also paid out.

Tegus Client
Yes. And when you try to price the product, I guess, at the beginning of the year, you don't really know yet if a company is selling to very good creditors or very weak companies. So how do you price for that when you don't really know yet what type of business you have exposure to?

Head of Commercial Underwriting & Product Management - Oceania at Allianz Trade
Yes. So effectively, there's no blind cover in the medium and long-term kind of segment. So what generally happens is we take into account, of course, the past history because we are talking about relatively well-established companies. We don't do or provide cover generally for start-ups. For instance, the client has to have some past experience, one or two years at least.

So there is an established list of buyers already, and they also provide the likely buyers or the likely creditors who are going to come on board in the next 12 months. I mean that's already indicated. It could always come back and say, ''Sorry, these are not the right ones''. But that gives us a relatively fair idea as to what kind of risks we are looking at.

So before we go on risk, in fact, we would tend to assess each of those major risks, at least, let us say, of the 100 buyers, the top 25 at least is well assist if we are comfortable then we proceed. Otherwise, we could even be offering them selective cover instead of covering the entire set of creditors. We may perhaps just concentrate on some of them where they are comfortable and give a price perhaps which matches their appetite as well.

So it's generally the expectation that we go on the whole of turnover business, but if we are not able to support, then it's really unfair on the clients to be asking for a premium on the entire turnover when we are not able to support all the limits. So the past history, the current projections, these are the fundamentals.

And then we also take into account the trend of that particular client, and we do it, what you call an entire KYC on the clients. Their own records are checked, and these things are really big in this current scenario where there's a lot of volatility, and especially in some of the exporting countries in particular. So that's something which we would look into.

So there is an element of undeclared buyers coming on board, but you could say that, that's expected in this kind of business, but we have a choice. We are not, again, covering all of them blindly. We have a choice whether to say yes or no in the course of the policy period.

Tegus Client

Right. So maybe if you can follow up on this. So let's say, I'm a business that bought insurance from you for one year. And now three months later, I make a big sale to another company that I've never sold to and that turns out to be very risky. How do you protect yourself against that scenario? And do I have to report every sale to you, for example, during the policy period?

Head of Commercial Underwriting & Product Management - Oceania at Allianz Trade

See, at the time when we take the risk on board, first of all, there are different kind of product lines within the broad category of trade credit insurance. So there could be a whole of turnover where we expect the entire turnover to be declared. We have the key accounts. For instance, you had just the top 10 or 15 that you may, as a client would like to cover.

Then there's also the single risk, for instance, you just want to cover one risk, which is the riskiest of lot. So there are different categories. So it all depends on which category the client falls into. So in this situation, I'm assuming that you are a client, for instance, then you want to cover your entire business, and you have these large wires, which comes up, which could be on the riskier side.

So what happens is every buyer, we give a set of kind of a discretion to the client. We don't want them coming to us for every small limit. So there is always a discretion of, let us say, $20,000, $30,000. So the client can trade up to that without even referring to us, provided subject to various conditions. Now if the client exceeds that limit, then and only then, they approach us for actual risk underwriting.

So when we receive a case, which is beyond the discretion of the client, we would have to assess that buyer, and it's very much possible that particular buyer, so there is no turnover declaration per buyer, but every buyer has to come to us about discretion.

Tegus Client

Say that again. Every buyer has to?

Head of Commercial Underwriting & Product Management - Oceania at Allianz Trade

Every buyer has to be reported to us, or either brought to our attention. I mean we have a system. So it just inputs into the system, and we get alerted, ''Okay, there is a new case, which has come up''. So every buyer above the discretion needs to go through that process of underwriting.

So if a buyer is above the discretion given to the client, I mean, if it's above that, then they come to us with the details of the client, country, et cetera. And I mean, we are talking about very large global organization here. So we would assess the buyer risk.

And if we find that the risk is perhaps we don't have that kind of aptitude or appetite for that risk, what would be done in that event is either we reduce the indemnity for the client, when I say indemnity, instead of covering the entire 90%, we may offer them just 80% of cover or we could price higher.

Or in a real real-life scenario where the client says, okay, you can take, let us say, $10 million of risk, I would like to place the balance $10 million in another market, or in the London market, for example. So we could also have that scenario in place where we would be the primary underwriter and above that someone else takes the risk or there is a sharing of risk, indication of risk as well.

Tegus Client

Yes. And when you say every buyer has to be reported to us, how does that work from like IT perspective? Are you like linked up to the SAP system or something or?

Head of Commercial Underwriting & Product Management - Oceania at Allianz Trade

Yes. Generally, I mean, not in SAP, it's not just our organization, but all the large credit insurers would have a system which links real-time exposure all over the world, which is very important because we are all subject to reinsurance, and at any point in time, the reinsurance capacity should not go over the cap.

So what happens is, is the real system where a person in London could see the current exposure as also someone in Middle East or someone in Asia, they all can see the same system at the same time. And if anyone exceeds on a group level, then there is an alert, okay, you have exceeded, let us say, $100 million of exposure on a buyer, which is capped at $100 million.

So on every buyer, there's a limit up to which one can underwrite within the capacity provided. But if it's beyond that, then of course, it requires the next step to be somebody has to go and take a higher capacity for that buyer, not the limit itself.

So if let us say $200 million is allocated for a buyer, what happens in the system is, if you're a client, you have access to the system and you input the basic details in the system. You identify the millions of buyers on that system, so it's not difficult to identify. If it's not identifiable, then, of course, it still allows you to send it as a buyer, which is not identified. And the limit amount is there. And once it's input by the client, it's all on the system.

And there is allocation within the underwriters, so the underwriters every morning would get the number of limit applications, which have been input by various clients across the world actually because we have not just insured here, we have joint insured as well who may be overseas. So the underwriters get to see all the applications which come through the system, the first thing in the morning.

Tegus Client

Yes. And maybe we can then go to some of the bigger picture on risk management. So just looking at it from the outside, obviously, the notional exposures are very, very high compared to, let's say, the equity in the entities. So if this were a bank, it would be super levered, right? It would look like one of those banks before the financial crisis with like a few hundred times leverage. So maybe if you can help me understand like why is this okay for credit insurance?

What protects you in case of, let's say, a severe recession like obviously, you were tested in the financial crisis and during COVID, and you were okay. Why is that? How can you manage these huge exposures relative to your equity? And historically, you're okay after all.

Head of Commercial Underwriting & Product Management - Oceania at Allianz Trade

Yes. See, when we look at a risk on, let us say, a creditor, equally important is actually the seller. So if the seller is powerful enough, let's say, five clients with us, all of them of different categories, one medium-sized one, one is a very powerful one. Other one is well-connected and so forth. So if this seller, when we assess the risk on a buyer, we don't just assess the buyer independent of the seller. So the creditor is important, of course, from the sales point of view.

But some of the clients are so well-placed. For instance, they have their own network in so many countries, so they are in a better position, for instance, to recover money. Whereas a client who is very local, who is quite new to trade, may still want to say, trade with a very large buyer. But that's where we find five sellers selling to the same buyer, one may get paid, one may not get paid, one gets prioritized, the other doesn't.

So that's where we have to take a very good look at who is the client. So the client is really strong enough. They had their own means to collect as well. Maybe they have debt recovery agents in those countries. They have their tie-ups with them. There are various ways in which they will collect better, so the client is equally important. And of course, then it's a question of the probability of the buyer defaulting to so many clients in the same time.

So historically, in trade presentation, we would know that how it is operating. We really do not wait for, let's say, all the creditors, for instance, for the buyer. I mean, everyone doesn't collapse at the same time, number one. Secondly, after the overdues are reported, there is a signal within the system, which kind of alerts us, I wouldn't say prevents us, but alerts us not to take up further exposure.

So if there is an indication from one client, okay, there is an overdue on this account, then not that we come off cover for all of them. But the fresh exposures, we kind of monitor better or more closely, we also monitor how the other payments are coming through. So immediately, there is an alert. I mean the system alerts us as well once there is an overdue reported.

So assuming that a certain invoice drawn on 30 days becomes overdue. Let us say, it remains overdue for 60 days or 90 days, that's where we wouldn't be continuing the exposure on others without putting some restrictions or checking with them or preventing the system from giving the automated limits on the smaller limits as well. So that's where the controls have to be in places that we have to take timely action. Otherwise, if we wait for the entity to collapse completely, then of course, we will have a large claim on hand.

So that's where the management of overdues is the most critical part before the actual claim payment. So if you are able to manage if there is an intervention at the right time. If you're able to get a recovery team to start talking to the buyers or if you are able to have an arrangement with the buyers directly such that our clients get paid. I mean these are avenues which would be looked at if there is a serious issue with a buyer.

So it's managing the entire overdues and the actual flow of transactions is very critical in that's something which is, again, system-driven to a very large extent because we are talking about millions of buyers globally, which are covered, and from various countries, the concentration could be on, let us say, 10 buyers or 15 buyers, clients exporting from different countries in Europe or Americas or Asia.

So that's where we would have to monitor very, very closely how the exposures are being paid off by the buyer. The slightest alerts, then we have to definitely take action and ensure that the overdues are managed well before the actual collapse of a buyer happen.

Tegus Client

Yes. Do you get a signal every 30 days of overdue? So you get a signal after 30 days and then you get another notification after 60 days, another after 90 days?

Head of Commercial Underwriting & Product Management - Oceania at Allianz Trade

Well, it's like this. It depends on the policy points, and some clients do have for 30 days. Some clients do have 45 days. And we also have clients whose actual notification period is allowed by us for a longer period. Let us say, 90 days. So if a client has a notification period of 90 days, we don't get to see any adverse unless the client chooses to inform us it just something serious happening. Otherwise, no notification needs to be made within the time frame for that particular policy.

So it's not actually standard, it differs from client to client because some of the large corporation, for instance, Japanese companies. They would definitely need much longer time for the reporting of collections. So it's not always 30 or 60 or 90. But once the client is alerted of an overdue, and they come to know if there's a reporting time, which could be 15, 30 or 45 days depending on the policy, but they have to immediately then report on the system that there is an overdue.

So we allow them time to manage the overdue themselves. That is why we gave that 30 days or 45 days. But if it goes beyond that, then of course, we have to intervene with our own collection team and proceed to recover before the actual payment of claim.

Tegus Client

Yes. Do you normally have 100% of the receivable? Or I think in some countries, maybe you only cover 80% and then actually, you have a chance to recoup 100%? Is this common?

Head of Commercial Underwriting & Product Management - Oceania at Allianz Trade

Well, globally, I can say that as a standard, credit insurance is not amenable to 100% cover. No one would cover 100%. I mean that's one of the things with credit insurance is that you do not cover 100% because there is a profit margin involved in every transaction. So the profit could be 10%, 15%. So if you were to cover 100%, you're also making profit out of insurance, if there is a claim. So this is a very, very theoretical thing that's behind this indemnity level.

So 90% is kind of standard globally for all the top credit insurers world over, 90% what it is. But again, when we underwrite risk, it's like this, we go with our own grading of the various countries. So let us say, some countries are classified as top grade. Some countries are middle and so forth, and then the African countries, some of them are really at the lower rung of the grading. So there are five to six grades, you can say, generally for credit insurers all over the world.

So within that, what we would do is the top countries, let us say, all the developed countries may fall under the first grade where they would also stand at 90%. Whereas when you go down to, let us say, grade seven where you have a lot of countries, which are really developing or even underdeveloped countries, the percentage indemnity could fall to 70%, 80%, and sometimes 90% as well, but we generally don't go below 60%, generally. In some extreme cases, I have come across even 50% with underwriters but not below that.

So it's depending on the country risk. The country risk is what governs not the client, the creditor risk. It's a country risk, which determines generally the percentage of cover, percentage of claims that get paid. So we call it the indemnity level, but that's what determines. So the risk appetite is always on the country rather than on the individual creditors.

Tegus Client

Okay. And in case of a bankruptcy, are you ranked higher than the banks, for example, which maybe lend to the company? Or is trade credit ranked higher than bank debt, for example, and bonds? Or are you in the same pool of creditors when you try to recover your money?

Head of Commercial Underwriting & Product Management - Oceania at Allianz Trade

Yes. It also depends on how the receivables are registered depends on the country as well. So in some countries, the local regulations are very, very fair, and the insurers and banks are treated on par. Whereas in some other countries, the banks have an upper hand and then comes the other insurers and other creditors. So it depends on the country, yes, it's a regulatory and legislative aspect as well involved there.

Tegus Client

Right. So you don't have preference normally, you're normally either on the same level or maybe even you have a small disadvantage to the banks, you think?

Head of Commercial Underwriting & Product Management - Oceania at Allianz Trade

Yes. In some countries, that's the reality, there is a disadvantage to insurers. But again, as I said, in most of the developed countries, that's not the case.

Tegus Client

Yes. Okay. Okay. And so obviously, so you have a few advantages. You can be very quick in adjusting your exposure once you have like an overdue reported. For example, let's say, your indemnity level is maybe only 90%. Maybe use a bit of reinsurance.

And let's say, you have $100 billion of notional exposure. The equity behind that is probably is meaningfully less, or it's less than $1 billion. So I don't know, is there any way to almost make sense of that on a high level rather than obviously referring to a level like why is less than $1 billion enough to cover $100 billion? So I understand you can't be quick in all these things.

But I don't know if you just ask me, I'd probably say, maybe you need, let's say, $5 billion of equity to cover $100 billion, but that's not the case. I don't know if you have in your mind some mental model that explains why such a small amount of equity is enough?

Head of Commercial Underwriting & Product Management - Oceania at Allianz Trade

See, on an average, 3x to 4x of the equity is something that our junior underwriters, for instance, who look at smaller limits, would take into account while underwriting. So if the equity is $10 million, they may go up to $40 million for instance, or $50 million. And above that, they would start looking at the case a little bit more closely.

And the whole probability of credit insurance not falling over the line essentially because it's the way we sell them that, unless it's a country risk, see what happens if it's a country risk, all the buyers in that country and all that trade to that country would end up getting claims paid on account of those exports taking place.

But otherwise, there is a great amount of spread of risk within the clients as well. So the same buyer, but then the clients are different, and some of them do manage to get the amount purely because they have better restructuring arrangements, and I mean, historically, this a reality that the equity just cannot treat as in case of a bank.

The probability of claims rising, and all the companies falling down at the same time purely because of one creditor going bankrupt, that really doesn't happen at all because unlike a bank, see, they already lend the money. So it's not that they have exposed by actual financing barriers. When it comes to insurance, we will not lend the money. It's an insurance cover, which we can control. We can always say, ''No, sorry, we cannot cover from tomorrow, the risk''.

Whereas for a bank, they've already exposed. They have already lend out the money. So they have got a bigger stake, that's the reality of it as well. They have a bigger stake. But then that's where the banks also approach credit insurers for obtaining cover, if not for the whole amount, whatever partial amount at least. We are talking about 50-60 syndication kind of an arrangement.

So banks are also applying for credit insurance essentially purely because they've exposed. They actually lend the money out, and that's where they have a higher stake, to be honest. I mean that's the reality of it, whereas insurance is really an unforeseen circumstance, which comes up, and the money is not yet out. That's where the banks have to be very careful with the equity to the lending ratios, whereas in insurance, it is much more liberal.

Tegus Client

Yes. I can understand obviously you can cut off new business, for example, to a certain buyer? Once, for example, it triggers some alerts. But obviously, you still have the current amount outstanding, right? So the current amount might still become a problem?

Head of Commercial Underwriting & Product Management - Oceania at Allianz Trade

The current amount is outstanding, yes, but what happens is when we have, let us say, 100 clients, for instance, selling to one creditor. And then the very first signal that is received by one entity that there is a problem, that's where we alert all the others as well. In fact, all the 99 are alerted that there is a problem, and that's what triggers them also to be cautious with that particular buyer.

So if that advantage is, the spread of risk is one of the real theories behind credit insurance as well. The spread of risk has to be there. If the spread isn't there amongst the clients, and of course, the creditors, it becomes a very concentrated form of risk, and that's where credit insurers do not like concentrated risk. They do not want to enter the concentrated single creditor risk or single seller risk, for instance. What they want is a whole bunch of clients covered, so that there's ample spread of risk and then you manage the risk as well.

And there is benefit in having so many clients with that spread of risk, so that the single risk scenario of one client and one buyer is totally avoided. And of course, those cases, the premiums are extremely high. It's all calculated in a different way. The more spread, the premium comes down. The less spread the premium goes up. So that's how it's managed because most of the claims, which actually arise are on concentrated risk and key buyer risk, not on the whole of turnover policies.

I mean the whole of turnover policies is traditionally for all top insurers in the world that's what gives them their bread and butter. And then you are able to take this concentrated risk because you have got the revenue budget, let us say, 60% to 70% of the portfolio should be whole of turnover, let us say.

And 30% could be key buyers or consolidated risk. That's where one can balance the negative effects in case one of the creditors fall, with just one seller. So any credit insurer would ideally want a whole of turnover business and they would ensure that the portfolio is adding a majority of the portfolio should be a whole of turnover.

Tegus Client
Yes. And obviously, data must be incredibly important to price these risks, and do you have your own data sources? On how far do you use like third-party providers for your risk management, for your pricing?

Head of Commercial Underwriting & Product Management - Oceania at Allianz Trade
I am representing one of the top credit insurance companies in the world. So it's just impossible to have one's own data. So real-time, we have got links to a lot of data agencies rather who provide us information. So in different countries, of course, we use different agencies because they have got local expertise and local database. Apart from that, we are linked to the government portals as well.

So when I say government, I'm talking about the public information that's available with the government, including the filings, the returns and so forth. So it's just not one database of external source that we use. There are so many of them, which are simultaneously working alongside our system.

So it's virtually safe, I require a data on a certain buyer. I just have to prompt the system, and it actually goes and collects the data from my outsourced agency, or the agency that's actually holding the data. It draws from there, puts it into the format that I wanted, and that's how it appears on our system. So there is no manual intervention of actually going and saying that, ''Okay, I want this data on this particular entity, and this is the data that I want''.

It's made available to us online, but the system itself prompts, okay? This is a particular creditor, which is coming, and this is the information that's available. It's, let us say, dated information, two years old. So it was the latest, so we go and pick up that information from the external agency. So that's how far advanced the information database because that's the whole crux of underwriting the really required up-to-date information.

And of course, the clients also provide us a lot of information. If we ask the client, okay, I'm not able to get the latest financials. Can you get it from your creditor? They will arrange for it. So that's where the more well-established client, they are able to get the data, what they want from the creditors much more easily than, let us say, the small-time clients or the first-time clients. So that is the most critical aspect of underwriting, both for risk and commercial data on the country.

Countries as well, we have huge research departments and most of the research reports are published as well for external consumption, but I mean that's where the top credit insurers that you would know are the profitable.

Tegus Client
Yes. Why do you think that is credit insurance seems to be quite a profitable business? Whereas other parts of insurance take like, I don't know, depends on the country, yes, other parts of insurance can be quite tough to make good returns. Why do you think that is in credit insurance? What is it so hard? What keeps the

competition away?

Head of Commercial Underwriting & Product Management - Oceania at Allianz Trade
Yes. See, one key aspect, as I said, the spread of risk concept, it actually extends to countries as well. So those insurers who are focused domestically, of course, if the risk is not spread country-wide, you see, and I'm just speaking about, of course, the shock of Russia's invasion Ukraine is, of course, an exception. But when we speak about countries, we look at the spread of risk, we would never have, let us say, grade four countries, a whole lot of grade four countries in our book. Because the country risk is also managed.

So for every country, we have a cap. So that's where the stake has to be their country. You take property, for instance. It's focused domestically on that particular country where the insurer is operating. Whereas credit insurance and trade credit insurance are talking about cross-border trade, and that's where we get a better spread of risk, and we are able to control or attract business that we would want.

We wouldn't want all the D or grade seven countries to come into a fold. We would like to support, but that's not going to be our focus, or that's where we'll prevent the concentration in all the countries where we have restrictions because at the end of it, insurers have restriction because reinsurers have restrictions. So if the reinsurers don't want to give support for countries which are in the developing side or underdeveloped world, then there is no capacity. So at the end of it, reinsurance and insurance actually go hand in hand.

And some of the large credit insurers, including where I'm employed, we are one of the biggest reinsurers as well. So we have our own global reinsurance treaty with a lot of other insurers. So that's part of the business, which is in a way not segregated, whether some of the insurers are independent insurers, and they go to the reinsurance market. So very large insurers, they also run both insurance as well as reinsurance. So credit insurance is profitable in my personal view because I've been in this field for more than 30 years.

And I personally feel it's a spread of risk globally and the selection of countries is in the hands of the underwriters. So if a client comes to me with 15 or 20 countries, and I'm happy with the creditors for instance, in a certain country, but I'm not happy with the country risk. So then that's where you select the countries depending on your appetite, and there is a huge spread of risk.

And some of the countries is really the trend and the insolvency laws, and they're so strict and transparent as well that it's not difficult to manage those kind of credit risk, whereas when you get into countries where they have the socialist system, and it takes a long time for legal outcomes to really result in an insolvency then that's where we would be hesitant to take high exposures.

So if you're able to manage your country risk and then set those parameters, those are the parameters which are set right on top, it starts with the country. You have the caps for the countries and then comes the actual creditor risk at the next level. So we're not talking about just pure domestic risk for credit insurance.

So because it's a global risk spread over various countries, though, there is a volatility for geopolitical risk environment, et cetera. But that's where if it's managed well, it is always a profitable side of business for very many insurers those who have multiple lines of business.

Tegus Client
Yes. Okay. And so I understand, obviously, it is a global business, especially given the cross-border trade. At the same time, I think, for example, one of the Big Three is Atradius, and I think they have like over 50% market share in Spain. They're owned by a Spanish company. Do you have a sense of why that is? How can the market share be so high in a certain country? Or why are these kind of local champions all around the world where one of the big ones is just dominant in a certain country?

Head of Commercial Underwriting & Product Management - Oceania at Allianz Trade
See, it's like this, if you see the background of credit insurance, there were no private insurance at all. I'm talking about decades back. It was all owned by the government. So credit insurance traditionally was always because it was owned by the government.

So essentially, to support exports, the government would actually, I wouldn't use the word subsidize, but essentially they were discounting and providing insurance to their exporters, and all these entities, whether it's Trade Indemnity of London. Every country has an ECA, what you call export credit agency.

Over a period of time with this extreme case of subsidization and discounting of rates and taking on risks, just in the interest of promoting exports, many of them started incurring losses. And that's where they started privatizing. Now actually, there's a classic example, for instance, acquired the export credit agency in Australia because they privatized it, they sold it because they really couldn't run it at this subsidized rate.

So the ECAs, wherever the ECAs have been purchased, the private insurers. The ECA always used to control the major portion of market. So if an ECA sold in Spain to Atradius, which is the most likely scenario, then they would have had high 50% because there was nobody else insuring in Spain at that point in time. That's the reality. Even Trade Indemnity, for instance, was sold to Euler. And Euler of course, belongs to Allianz and so forth.

So COFACE in France, because COFACE used to be the export credit agency at some point until they got privatized. So there was no private insurers in that sense of the word. So it was government-controlled and that's government entity. So 60% to 70% of it in that particular country would have been controlled, but still there are ECAs in some countries. They are still doing well. So if the ECA has been sold off to a private insurer, you will find that, that particular country, that private insurer has 50%, 60% of stake.

Because that's what happened in Germany as well, for instance, Hermes in Germany, and Euler in France. They merged, and Hermes was actually the ECA of Germany who had or made the more than 50% of share because there was no other private insurers operating there, so just Hermes. But then when they got privatized, obviously, Euler Hermes had over, let us say, 30%, 40% share in Germany because it was already held by the ECA Euler Hermes previously.

Tegus Client

Yes. That's very helpful. Well, I think you've answered all my questions. So thank you so much for all your help. It was extremely helpful in getting a better understanding. Have a great rest of your day.
