

Non-life insurance

Credit insurance industry on the march

There is currently strong growth in the credit insurance industry. This growth is being driven mainly by small and medium-sized companies that are increasingly beginning to insure their credit risks.

Henrik Bromée

THE CREDIT INSURANCE INDUSTRY HAS HISTORICALLY been a relatively marginal branch of insurance in Sweden, although it has enjoyed a completely different status in many countries on the continent.

The Swedish Credit Insurance Association, KFF, which is celebrating its fourth birthday this year, works to spread knowledge about credit insurance. The association's members include insurance companies, insurance brokers and others with an interest in credit insurance in Sweden.

Henrik Bromée, Chairman of KFF and also Managing Director of Euler Hermes in Sweden, believes that the association performs an important task in terms of providing information and spreading knowledge about credit insurance. It acts as a safety net in particular for companies that are entering new markets and dealing with new customers with an uncertain payment history.

As Chairman of KFF, Bromée has three priorities for the year.

The first is greater cooperation with banks.

"There is a global trend for increased cooperation with banks. There has been movement towards one another in various ways on many other markets and we have now established a relationship with the Swedish Bankers' Association."

What can you actually help the banks with?

"We have a global picture of the risks, which the banks do not have to the same extent. If you are going to use invoice discounting or factoring, it is difficult for the banks to assess the risk. For example, if a bank customer trades with Poland or Italy, the banks do not know how to assess the risk, but we do. There is also an incentive in some cases for banks to obtain capital relief by moving risk to the insurance sector."

How interested are the banks in working with you?

"We are seeing strong interest from the banks in finding different ways to make use of credit insurance and our expertise in credit risks. Interest varies between different banks depending on size and geographical spread."

The second priority area is to increase cooperation with the Swedish Export Credits Guarantee Board, EKN.

"We are working to achieve closer cooperation between us as private stakeholders and the public sector within credit insurance. This cooperation is based on us industry players, Euler Hermes, Atradius and Coface, working with EKN to produce a quarterly report on the number of credit insurance customers for the industry as a whole."

The third priority area is to be more visible in the media.

"We have an interesting story to tell. Altogether, the private credit insurance sector insures transactions worth hundreds of billions of kronor every year, primarily for export companies, a sector that accounts for almost 50 per cent of Sweden's GNP. We are a core part of the national economy and through the quarterly industry report, for example, we are trying to achieve a greater profile in the mass media. Ultimately, we provide a benefit to society in the

form of increased exports, leading to jobs, tax revenues and welfare. As an industry, we deserve far more attention than we have historically been given.”

What is the level of awareness about credit insurance in Sweden?

“It is increasing slowly but surely and KFF plays an important role here. One of the most important strategic initiatives in the industry is to work with small and medium-sized companies. There are around a million companies in Sweden and at least 30,000 of them would benefit from having credit insurance in my opinion.”

What proportion of these companies have credit insurance?

“Far too few. There is enormous potential for growth in the industry.”

What other factors are driving the increase in demand?

“Risk awareness increases as bankruptcies rise in Sweden. Over the past two months, the number of bankruptcies increased by 17 per cent compared with the year before, according to statistics from UC.”

Studies have shown Sweden to be the country where people trust one another the most in the whole world, which is a good thing of course. Bromée says that Swedes have a tendency to act naïvely in international contexts.

“Payment patterns vary significantly between different countries and on many markets in Europe payment terms of 90 days are standard for sales between companies. Such long payment periods are a drain on liquidity, particularly for fast-growing companies, and this results in increasing demand for credit insurance, in combination with a range of financing solutions, in order to release working capital. Not to mention the risk of the counterparty suspending payments or entering into bankruptcy, something which is more common than many people think.”

Does the fact that people believe the best in one another affect the desire to take out credit insurance?

“Yes, Swedes trust one another a lot, but when it comes to doing business with other countries we can often be a little naïve. The situation is quite different in Denmark, for example. It is more difficult to obtain payment there, even from Danish companies, and it is also more common for small and medium-sized companies to take out credit insurance to ensure they are paid for their invoices. Credit insurance is also a far more flexible administrative tool than letters of credit or advance payments, for example, and being able to offer credit is an important competitive advantage for the selling company.”

Which countries buy the most credit insurance?

“It is mostly the countries of central and southern Europe that buy credit insurance, in particular Germany, France, the United Kingdom, Italy, Spain and the Benelux countries. These are countries that export a great deal and that are dependent on receiving payments from foreign customers.”

Overall, there is increasing interest in credit insurance in Sweden and it is primarily small and medium-sized companies that are driving this growth.

“The increased number of bankruptcies combined with financing-driven demand are generating growth for the market. We help companies to release capital by removing the risk of their invoices not being paid.”

How is the industry being affected by global instability, for example Brexit, the success of populist parties in the EU and Donald Trump’s election victory in the USA?

“We are seeing the uncertainty in the world reflected in increasing demand for financial security. The United Kingdom is Sweden’s fourth-largest trading partner, for example, and the pound has weakened considerably since the vote last year. This will of course have an impact on Swedish companies that export there. Credit insurance is there to support

companies in uncertain times so there should be an increase in demand for the industry's services."

How are the low interest rates affecting the credit insurance industry?

"The low interest rates mean that cheap financing is available but they can also keep companies afloat which would have had problems at more normal interest rate levels. If interest rates were to rise, this would increase the risk of bankruptcies. This situation would mean even greater demand for credit insurance."

Climate change and more extreme weather – are you affected by this at all?

"If our customers have problems as a result of climate change and extreme weather, then we have problems too. We only insure payment risks, however, so we are affected to the extent these arise as a consequence of climate change and extreme weather. It is easy to imagine a scenario where the political risk increases in the wake of climate change and in these circumstances we are of course affected just like everyone else."

Are prices rising or falling in credit insurance?

"We are seeing a general trend for rising prices. Bankruptcies are on the increase in Sweden and the price of credit insurance has been too low in recent years, so this is a healthy and necessary development."

Have customer requirements changed in recent years?

"Customers always expect faster and better service. Digital tools are making major inroads and the automation of simpler credit decisions will become increasingly common. I also believe we will see new ways of distributing and administering the product in the next few years, which will improve the customer experience."

Are you seeing new types of customers?

"Yes, primarily within the SME segment of small and medium-sized enterprises. However, we are also seeing increasing interest from industries that have not traditionally used credit insurance. The product of credit insurance has been developed and can be applied wherever sales are made on credit between companies, which means there is great potential for business development."

What is the competitive situation like within credit insurance?

"The competition is tough and there are no signs of it reducing in intensity. However, it is a healthy competition that is positive for the industry as a whole."

There are a number of players on the private market in Sweden, of which Euler Hermes, Atradius and Coface are the largest.

Are there any new entrants on the way?

"Yes, we are seeing more players on the market, both insurance brokers and insurance companies, as more people have opened their eyes to the potential that exists in Sweden. New products and new services are arriving at an ever-increasing rate."

What are the most important changes that will affect the credit insurance industry in the future?

"Globally, these relate to digitalisation, of course, cooperation with banks and various regulatory issues. From a Swedish perspective, in addition to these issues it is also about increasing knowledge of the service. KFF's main task is to spread awareness about this type of insurance."

Have you had any problems adapting to the Solvency II Directive?

"I can only speak for Euler Hermes, but I can confirm that we were the first out of all the players in the industry to have our internal model approved under Solvency II."

Is the industry cyclical and does it follow economic fluctuations?

"That is the case to a large extent. We have a period of comparatively low credit losses behind us, but there are many indications that the situation is about to change. The banks are reporting increased credit losses – albeit from a low level – and bankruptcies look to be on

the rise again. In retail, for example, three companies are going bankrupt in Sweden every day. From a Swedish perspective, we need to be aware that the growth of the past seven or eight years has been driven largely by consumption. If interest rates rise – and there are many indications that they will – and the disposable income of households is further reduced by the announced tax increases, things could go downhill rapidly in some sectors.”

What are the biggest challenges the industry is facing right now?

“Globally, we need to make best use of the new technology and handle the opportunities and threats that digitalisation brings. From a Swedish perspective, the biggest challenge is to increase awareness about this type of insurance. This is the top priority for the industry and I can see a great deal of potential. In my view, the credit insurance industry in Sweden has a bright future,” says Bromée.

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