

CREDIT INSURANCE & TRADE FINANCE SITUATION & PROSPECTS FOR AFRICA

Arnaud Dornel

Lead Financial Sector Specialist

Africa Region

The World Bank

June 2014



AGENDA

- I. Role of Credit Insurance in Global Trade Finance
- II. Credit Insurance & Trade Finance in Africa



I. Role of Credit Insurance in Global Trade Finance



Definitions

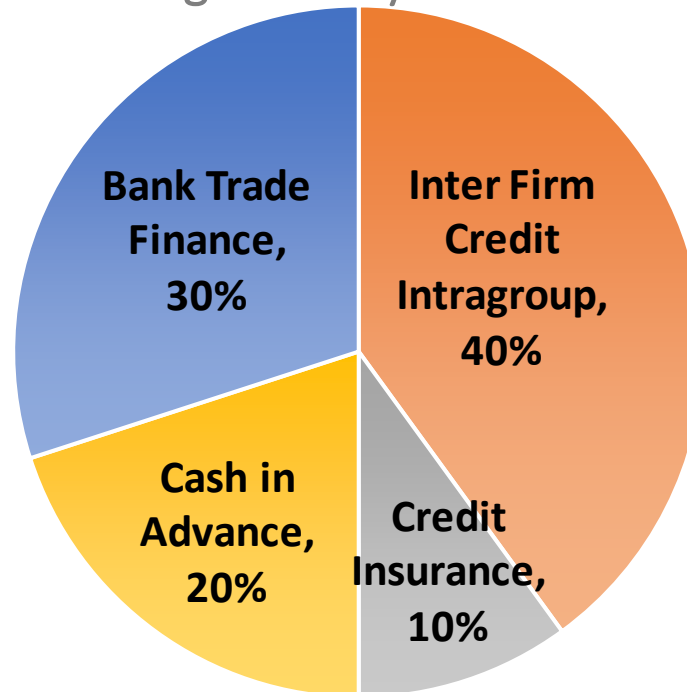
- **Trade Finance:** arrangements between buyers and sellers of goods or services that facilitate payments under commercial contracts, and:
 - i) Secure payment or other performance obligations under the contracts, and or
 - ii) Shorten for sellers or lengthen for buyers the payment/credit period.
- **Credit Insurance** is a risk management product which protects vendors against losses arising from failure of their obligors to honor payment obligations under the underlying commercial contracts, either due to insolvency of the obligors (“commercial risk”) or due to political risk (e.g. inconvertibility / non-transfer). By extension, credit insurance can also protect the banks financing the buyers or the suppliers (buyer/supplier credit)
- **Trade finance and credit insurance** can be domestic (buyer/seller in the same country) or international (buyer/seller in different countries)



Financing of International Trade

- As an indication, international trade is conducted 40% via corporate trade credit (inter-firm or intra-group), 30% bank trade finance, 10% trade credit insurance, and 20% cash in advance – with some overlaps
- Sub-Saharan Africa outside South Africa accounts for 1.5% of global trade volume, 0.8% of global trade finance services and 2.8% of global credit insurance exposure

Arrangement by market share



Global Credit Insurance –Key Players

Big Three

- Atradius, Coface, and Euler Hermes.
- Mostly short-term, whole-turnover covers

National Agency

- Sinasure, K-sure, Nexi, UK Export Finance, USExim, ECICSA

Multilaterals

- **Regional agencies:** African Trade Insurance Agency (ATI), Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC, based in Jeddah), Arab Investment & Export Credit Guarantee Corporation (Dhaman, based in Kuwait)

Private Insurance Market

- Lloyd's, ACE, AIG, Axis, Sovereign, Zurich, etc.
- Tailored products ranging from short-term trade to project finance. African risks account for 10-20% of their portfolio.

Reinsurers

- Hannover Re, Munich Re, Swiss Re, Lloyd's syndicates, etc.
- Reinsure underwriters either deal by deal, or on a portfolio basis.

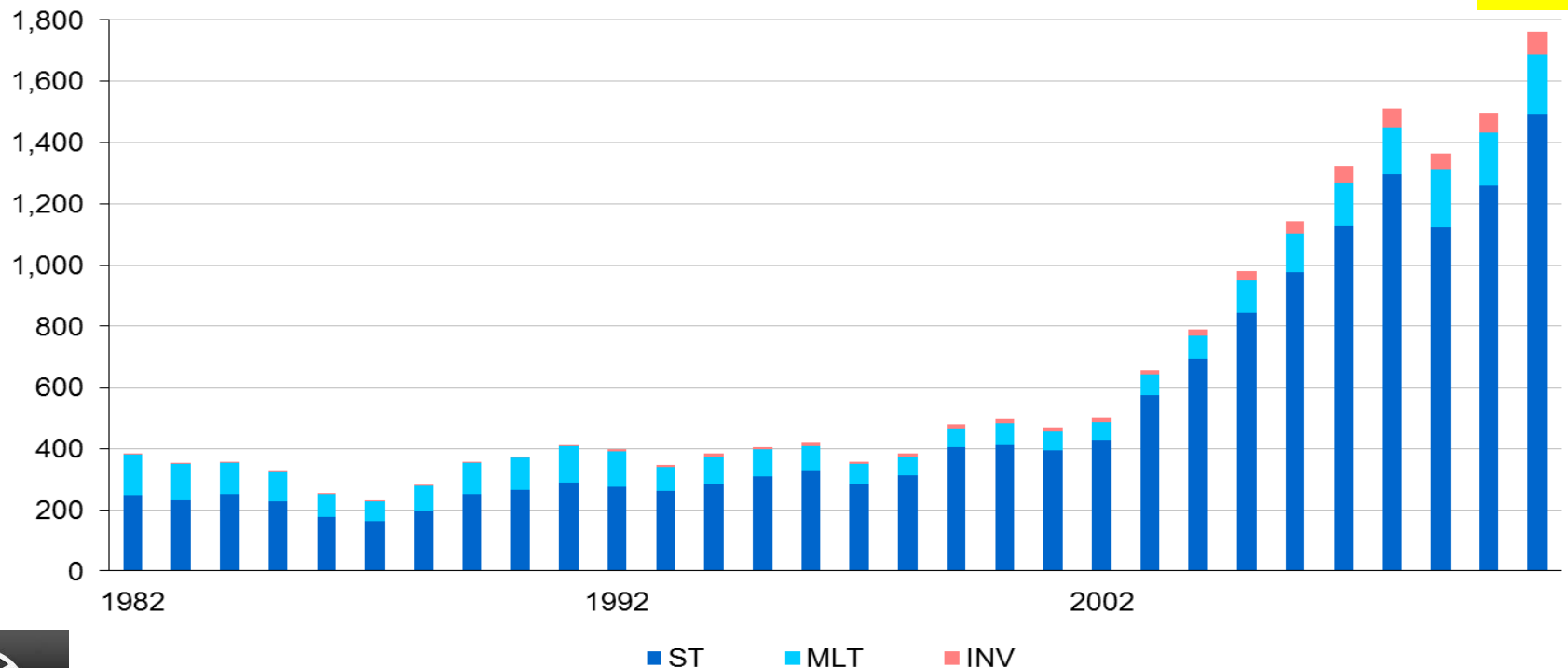


Global Credit Insurance Industry – Historical Performance

- Volumes increased sharply in the last decade
- Short-term: high frequency claims (loss ratio ~ 50%), low severity, low recoveries
- Medium long term: low frequency claims, high severity, high recoveries

Total New Production - Berne Union Members

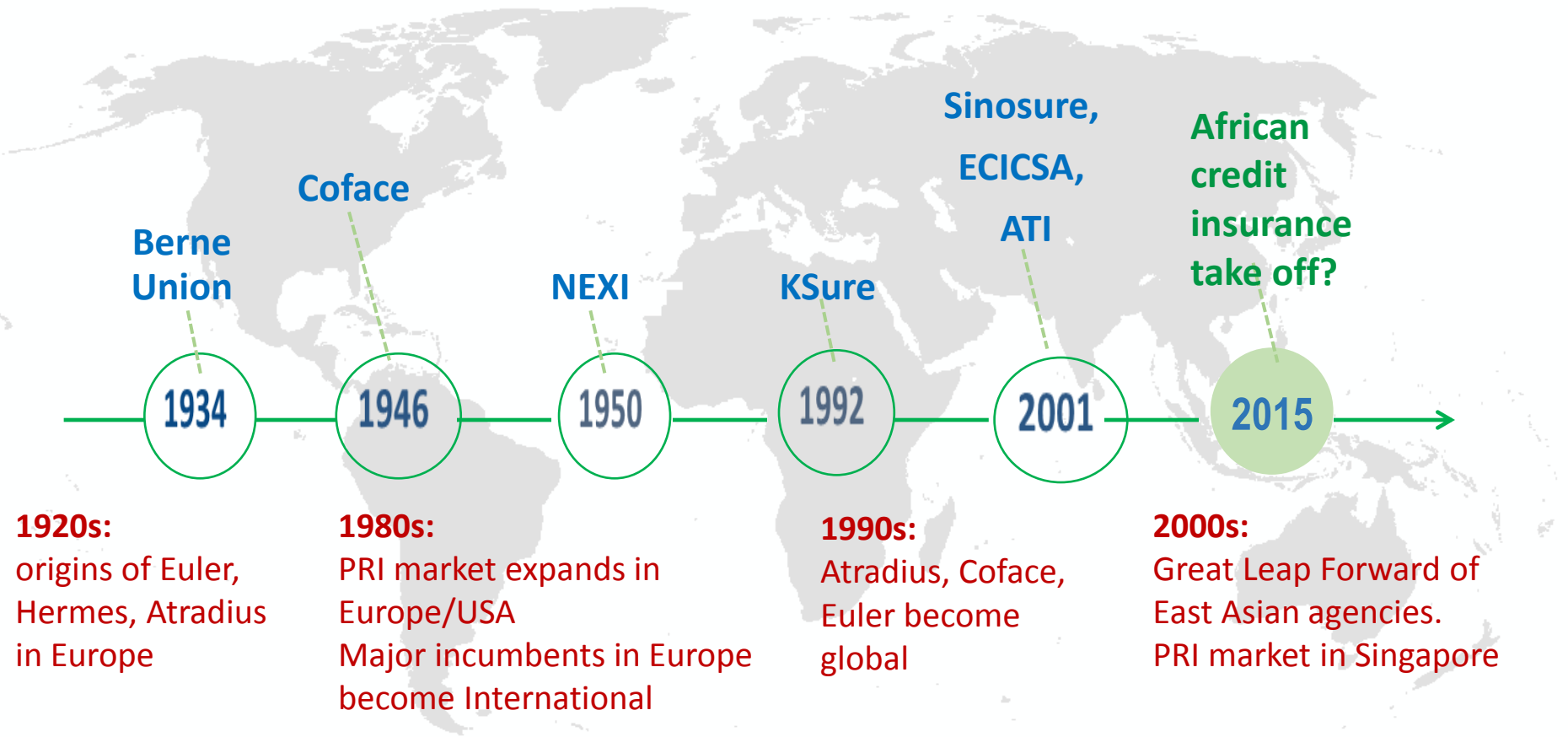
(in USD billion)



Source: Berne Union



Global Credit Insurance Industry - History



Global Geography of Credit Insurance

A mature industry in Europe. Still relatively under-represented in Asia and the Americas, and major growth potential in Africa

	Global Trade		ST Insurance Limits	
	Import GUSD	%	GUSD	%
Africa	561	3%	31	4%
Americas	4,931	25%	115	15%
Asia	7,109	37%	161	21%
Europe	6,555	34%	454	59%
Oceania	319	2%	8	1%
Total (GUSD)	19,475	100%	769	100%

Source: Berne Union 2009, United Nations 2012 International Trade Statistics Year Book Volume II



II. Credit Insurance & Trade Finance in Africa



Credit Insurance in Sub-Saharan Africa (2012)

GUSD Countries	Credit Insurance Limits			Estimated Annual Trade Flow			Import Value	Estimated Insurance's Market Share
	ST	MLT	Total	ST	MLT	Total		
South Africa	7.3	10.6	17.9	11.0	2.7	13.6	127.2	11%
Angola	0.8	7.0	7.8	1.2	1.7	2.9	23.7	12%
Nigeria	1.5	1.4	2.9	2.2	0.4	2.6	51.0	5%
Ghana	0.8	3.3	4.1	1.2	0.8	2.1	17.8	12%
Kenya	1.2	0.7	1.9	1.8	0.2	2.0	16.3	12%
Ethiopia	0.3	4.5	4.8	0.5	1.1	1.6	11.9	13%
Others	6.5	17.6	24.1	9.7	4.4	14.1	151.5	9%
Total	18.4	45.1	63.5	27.6	11.3	38.9	399.4	10%

Source: Berne Union, WTO

Note: Estimated Annual flow is calculated as 1.5xST limits and 25% of MLE exposure



Credit Insurance: Sub-Regional Market Shares

GUSD	Import Limits, ST Insurance	% of SSA	Import Exposure, MLT Insurance	% of SSA	Total	Estimated Share of Imports
ECOWAS	4.2	23%	7.0	16%	11.3	8%
UEMOA	1.6	8%	1.6	3%	3.1	9%
ECCAS	2.5	14%	11.7	26%	14.0	13%
EAC	2.0	11%	1.6	4%	3.6	9%
South Africa	7.3	40%	10.6	24%	17.9	11%
SSA	18.4	100%	45.1	100%	63.5	10%

Source: JEDH

Credit Insurance in Sub-Saharan Africa

In 2012, Sub-Saharan Africa accounted for 2.2% of global merchandize trade

- 1.9% of global ST underwriting limits
- 5.1% of global MLT underwriting exposure (2X penetration)
- 10-15% of the global transactional insurance market (5X penetration)

A growing business: ST limits account for 10% of African imports, and doubled from 5.7 GUSD in 2006 to 11.1 GUSD in 2012 (*excl.* South Africa)

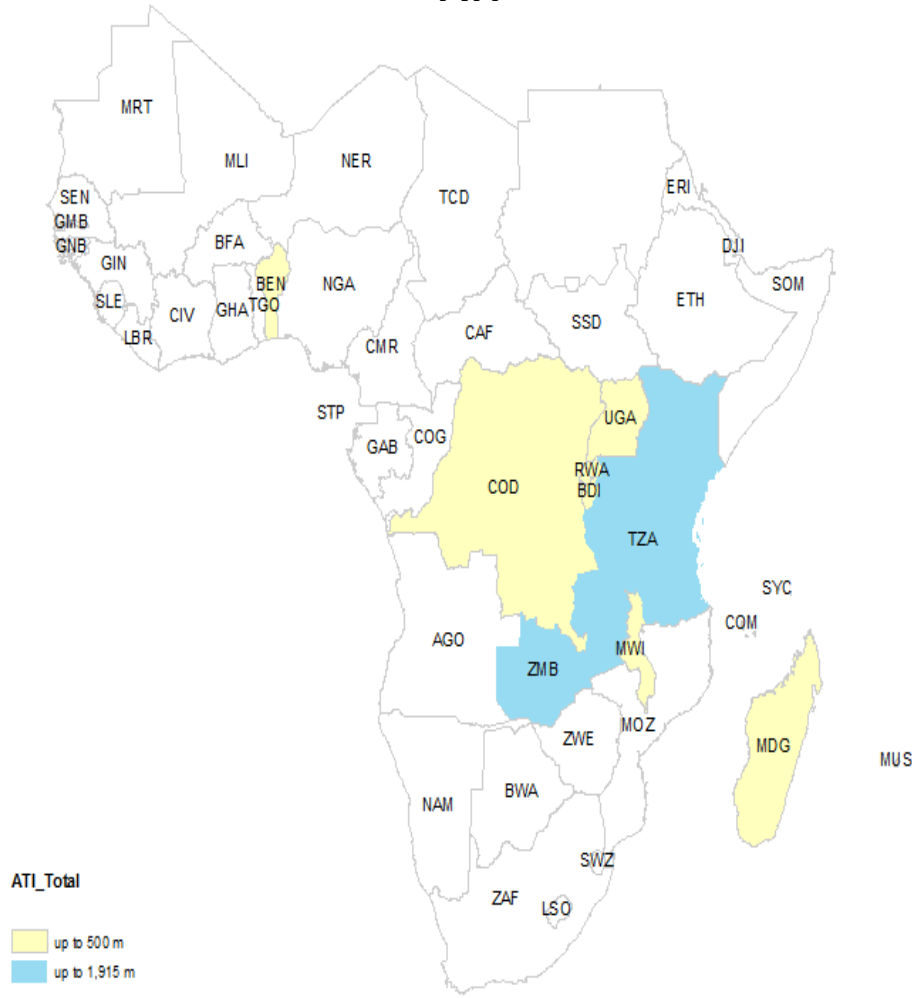
Incomplete coverage in Africa: Major importers and commodity exporters are well served. Other importers, exporters and domestic trade are not served by international credit insurers.

Twin Challenges: (i) attract international underwriters into Africa (ii) develop regional credit insurance capacity within Africa

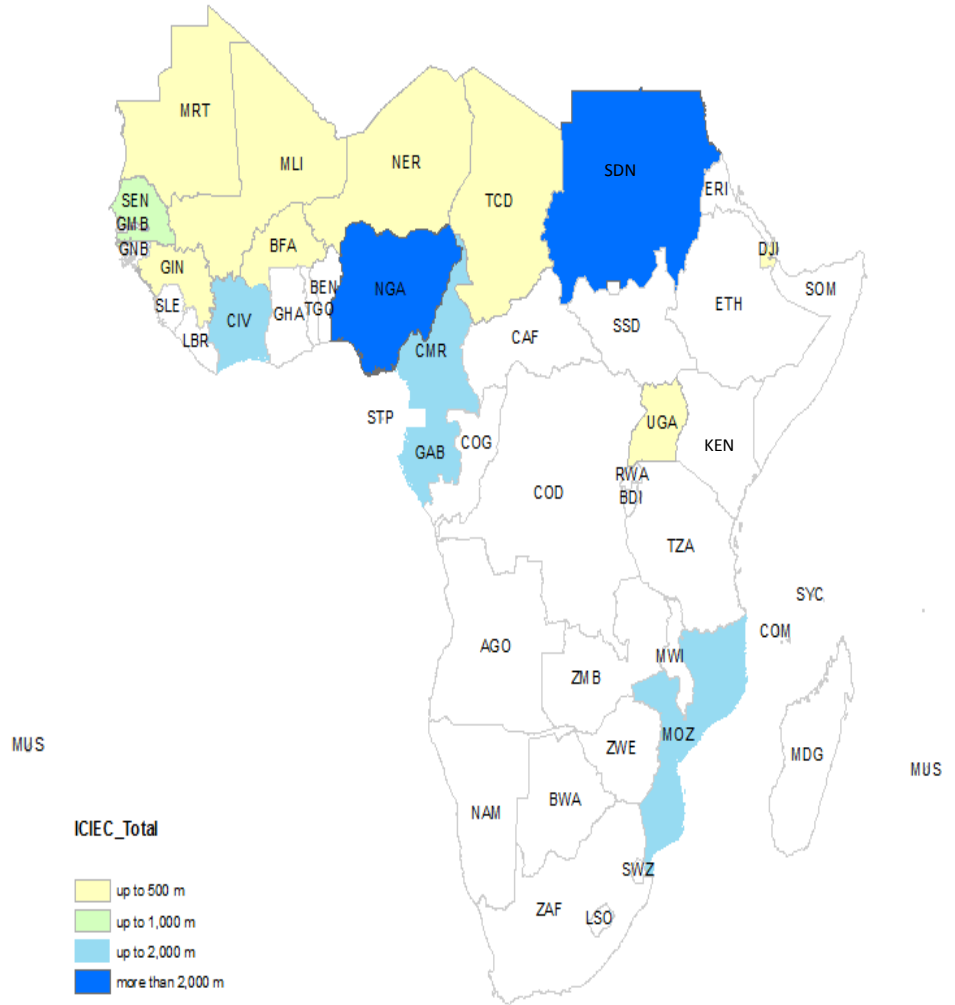


ATI – ICIEC – Country Membership

ATI



ICIEC



THANK YOU

