

Trade Credit: International Trade in the Post-Pandemic Economy?



In the first of Four Key Issues impacting trade credit risk over the next year, we look at the volatile international export environment and how companies support sales to key export markets and extend their reach far beyond their own borders.

COVID-19 REMAINS PROBLEMATIC FOR INTERNATIONAL TRADE

In a recent report, the largest of the multinational specialist trade credit insurance firms noted the uneven path of recovery across different economies and nations with differing wealth profiles.¹

The used-to-be growth-darlings India and Brazil are two of many countries that are in distress with a broadening gap with wealthier nations. While trading with these markets can be lucrative, the risk of trading with these countries has been magnified by their poor response to COVID-19 and the slowness of their effort to vaccinate their citizens. Simultaneously, the more contagious Delta variant is leading to an increase in infections. Although developed countries with high vaccination rates begin to open, the efforts to reopen and return to normal trade in India and Brazil will be delayed. Any reopening may lead to increased infections and a return to more restriction, delaying any economic recovery.

At the same time 18 months of large government deficits have strained the government's borrowing capacity making continued subsidies to support businesses uncertain. Marginal companies will be challenged to continue, and government debt catastrophes not seen since the 2008/2009 financial meltdown may be the next global problem. At best the increased government spending will crowd out private sector spending and investment leading to lower long-term GDP growth. At worst, the Managing Director of the International Monetary Fund (IMF), warned "that an emerging market debt crisis could unfold as the global economy begins recovering and interest rates rise, which could cause a capital outflow from developing economies."²

As countries react to their realities, there is the potential for a foreign government to stand between the contract you have with your buyer and your ability to receive funds as the foreign government takes measures to avert a foreign currency crises or take retaliatory measures.

Such risks are called political risks, and for short-term trade (payments within 12 months of due date) these risks include cancellation of import/export licenses, currency inconvertibility and transfer, and in the extreme, war. Where there are sales to a state-owned buyer, payment risk is heightened as funds may not be available or the public debtor may not be willing to pay out on obligations.

The impact of country risk is potentially catastrophic as it threatens payments and contracts with all your customers in that country — not just one.



MAINTAIN ESSENTIAL EXPORT SALES AND EXPAND SAFELY IN NEW TERRITORIES – A CASE STUDY

In the past few years, an NFP customer and international commodities trader has had to make critical business decisions. Their key market, China, became riskier as several customers with close government ties threatened default and attempted to renegotiate prices after they took control of the goods.

Fortunately, their export credit insurer operates as a supportive partner, working with the exporter and providing assurance to the seller's bank as a loss-payee that the bank would fully recover the funded working capital either through a claim or their cost-effective legal efforts to pursue payment. With a solid credit insurer-partner, our customer was able to pivot away from their dependence on customers in China and concentrate on identifying buyers in other markets with the confidence of customer payment.

HOW NFP CAN HELP

Maintaining export sales and expanding to new export markets is an essential route to profitability and scale for many companies. Trade credit insurance covers over \$1.6 trillion of global exposures³ and typically has a payout ratio of over 45% of annual premium.

According to World Trade Organization statistics, 13% of world annual cross-border trade in goods and services is insured against non-payment. Since the start of the global financial crisis in 2008, insurers have paid out more than USD 48 billion in claims.⁴

NFP's trade credit specialty practice is well established with a client base in many industries. We work closely with you to quantify risks and deploy best-in-class risk management tools supporting stable and profitable growth consistent with your strategies.

We listen to your needs and help identify opportunities to transfer risk that will lead to a higher return on investment – especially when optimizing borrowing and working capital availability to help you grow.

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Sources

¹ Manfred Stamer and Selin Ozyurt. "Emerging Markets Debt Relief: Kicking the Can Down the Road," Eulerhermes.com, 2021.

² Chris Giles. "Prepare for Emerging Markets Debt Crisis, Warns IMF Head," Financial Times, March 31, 2021.

³ Berne Union, "2020 AGM - Insurers prepare for claims increases in 2021," Archive of Press Releases, Berneunion.org, 2020.

⁴ Berne Union - About the Berne Union.