



## Marsh Specialty

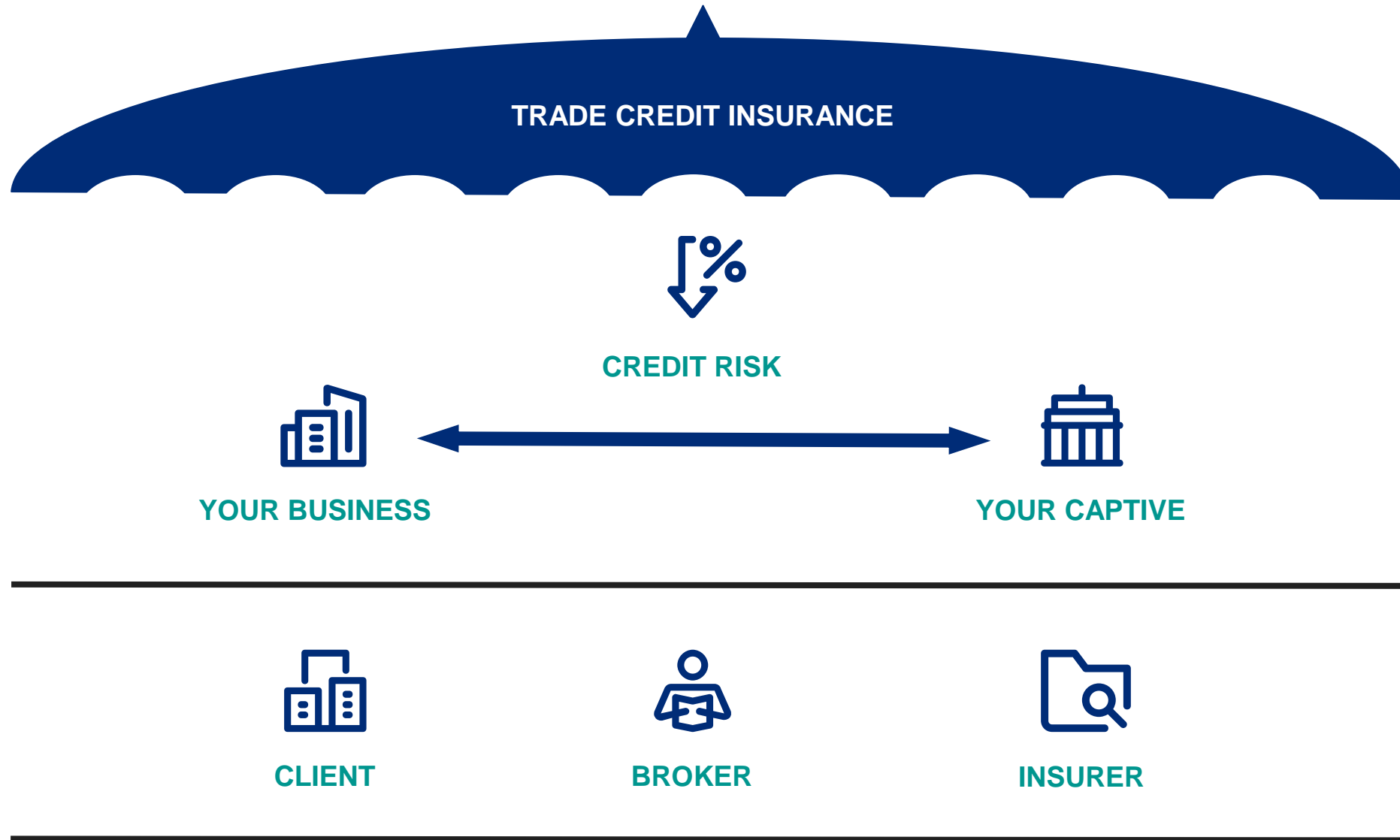
# How to Improve Trade Credit Capacity Through Captives

June 8, 2021

A business of Marsh McLennan



# Trade credit insurance overview



# Speakers



**David Arick**

Assistant Treasurer,  
Global Risk Management  
International Paper



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Head of Portfolio Trade Credit  
Liberty Mutual



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Head of Credit  
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Marsh



**Domenico Pettinari**

Vice President, Captive  
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Marsh



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Managing Director,  
Credit Specialties  
Marsh

# Market Conditions

# Market Environment

## Increasing interest in captive insurance



### COVID-19 repercussions

Supply and demand across industries – particularly retail – was affected. Industries highly impacted by COVID-19 are difficult to insure or capacity is very tight.



### Tightened underwriting standards

Led to growing interest in captives.



### Default rates have fallen

Default expectations have generally fallen for most industries after COVID peaks. Largest contributors to defaults in 2020 were: oil & gas, business services, and retail. **54%** of global defaults were attributed to US Corporates, compared to 18% for Europe.\*



### Low credit specialties (CS) claims activity, but losses continue

Less than anticipated. Estimated CS COVID losses/reserves to date: < US\$1B



### Increasing trade credit claims (TCI)

Leading TCI insurers report ~50% of their portfolios are covered by government relief programs.



### Growing interest in TCI

Appetite for TCI grew, even during the height of the pandemic. Interest continues to grow.

# Market Environment

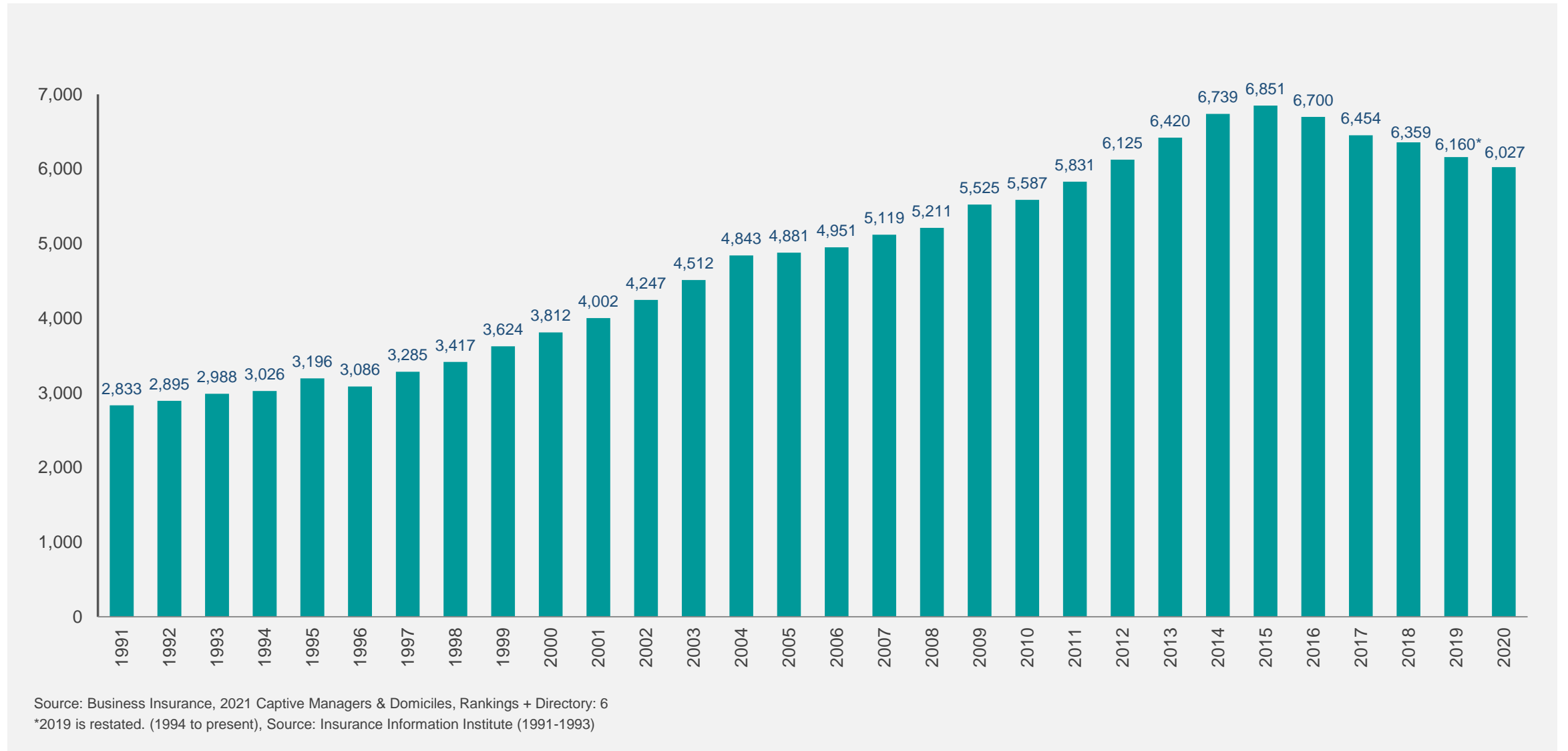
## Increased opportunity to participate in captives for trade credit insurance programs



# Captive Solutions

# Marsh Captive Solutions

Number of captives worldwide – YE 2020





# Captive Benchmarking for Trade Credit

Marsh managed trade credit captives

**19%**

Increase in number of captives writing trade credit from 2016 to 2020

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How are Marsh managed captives structuring coverage?

**59%**

Of captives are writing trade credit insurance on a direct basis.

**32%**

Ceded some or all of the risk to reinsurers.

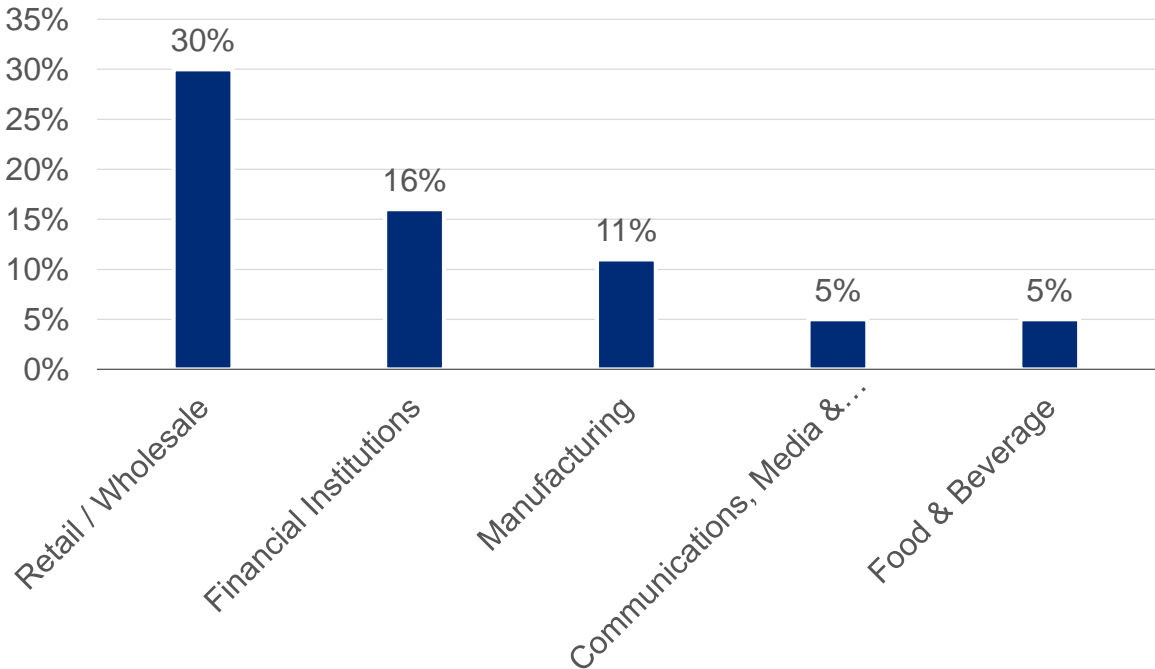
**51%**

Reinsure trade credit coverage from a fronting insurer.

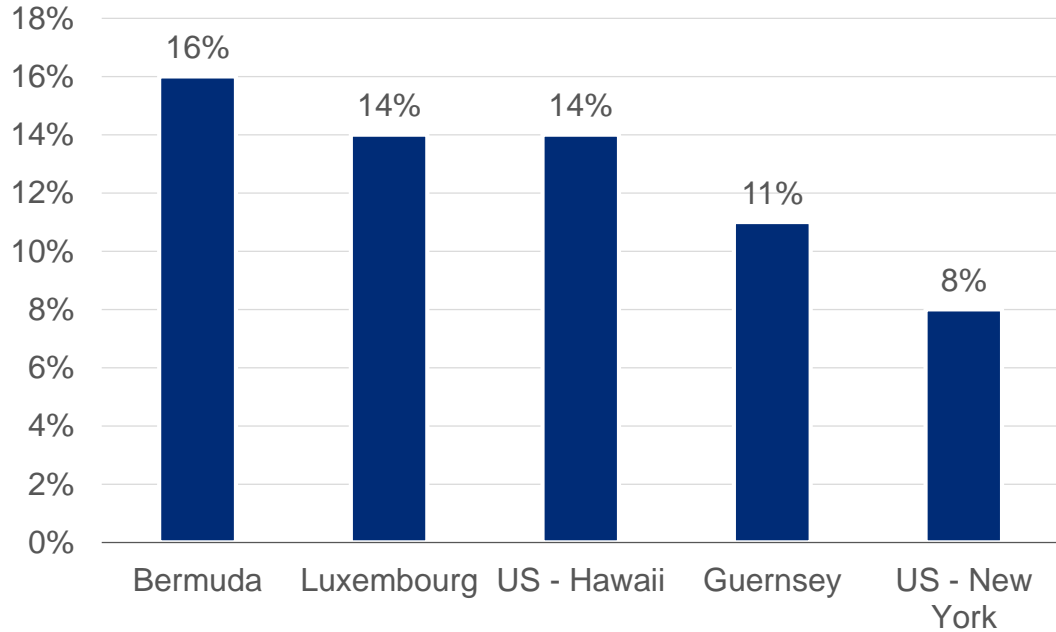
# Captive Benchmarking for Trade Credit

## Trade credit captives

### Top 5 industries for captives insuring trade credit

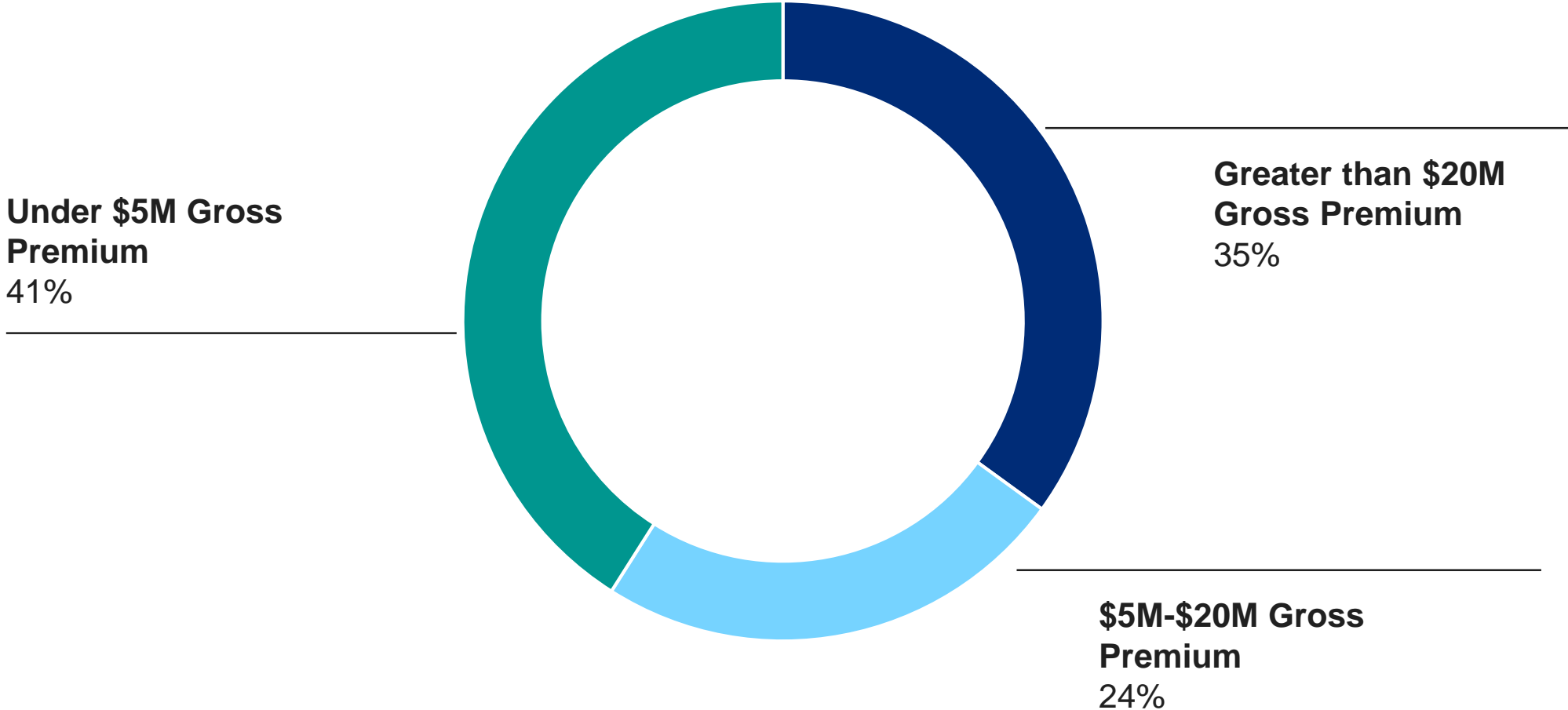


### Top 5 domiciles for trade credit captives



# Captive Benchmarking for Trade Credit

Trade credit captives by captive size

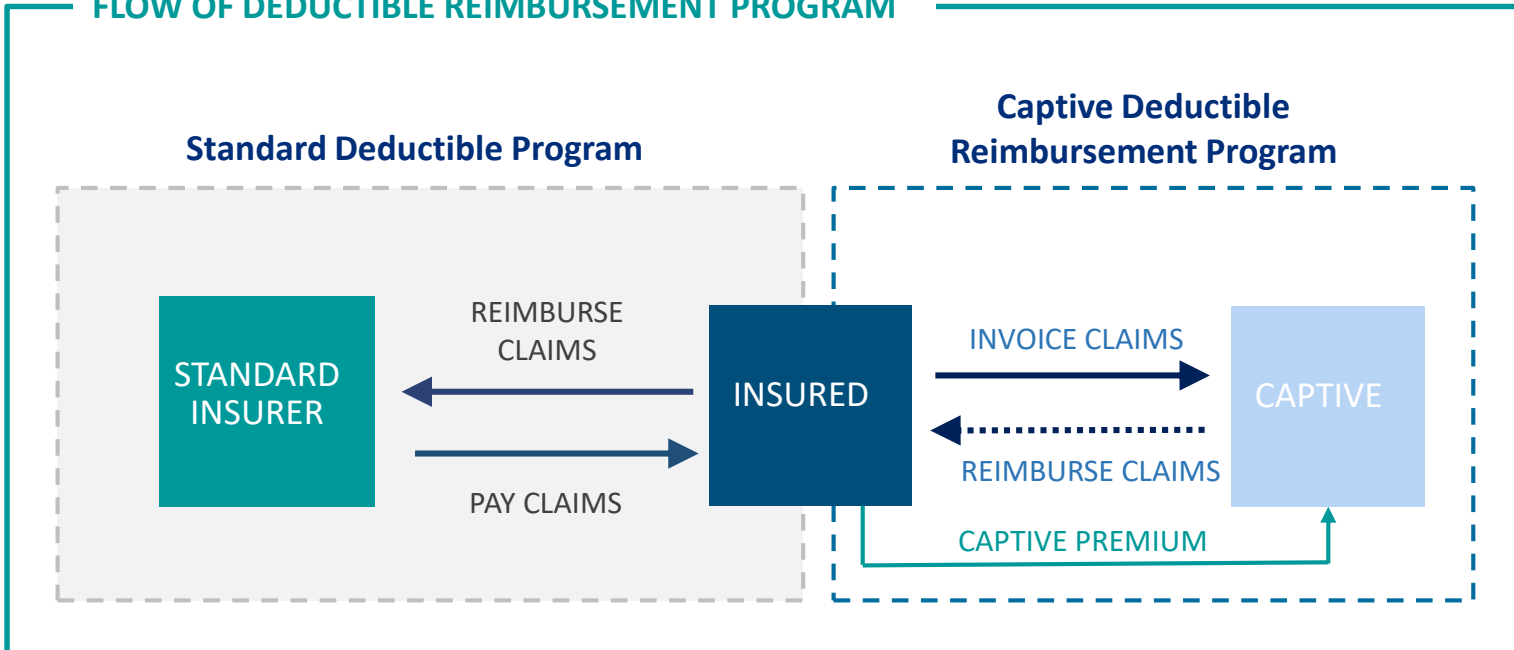


# Potential Structures

## Deductible Reimbursement

## Benefits of Captive Deductible Reimbursement Structure

### FLOW OF DEDUCTIBLE REIMBURSEMENT PROGRAM

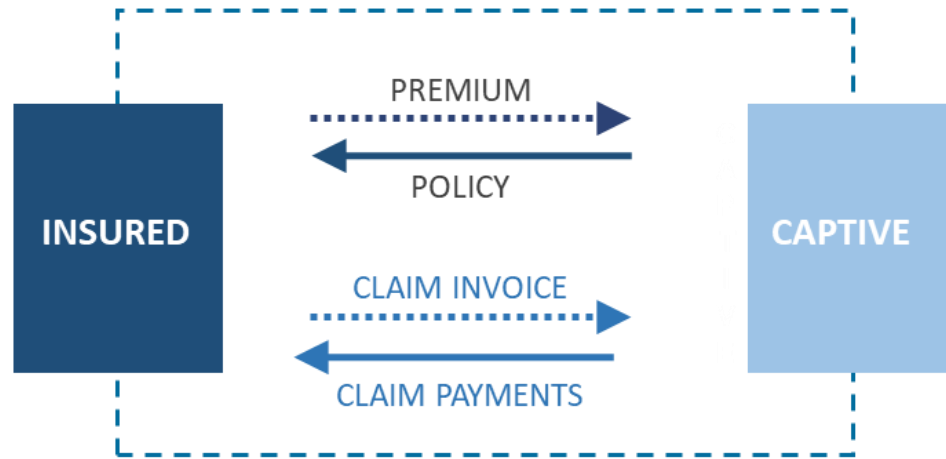


- ❖ Evidence coverage from rated, admitted carriers
- ❖ Lower frictional costs
- ❖ Current relationships remain undisturbed
- ❖ Not necessary to disclose captive participation
- ❖ Able to cap the captive's risk equal to standard deductible program max. retention

# Potential Structures

## Direct Structure

### DIRECT CAPTIVE PLACEMENT



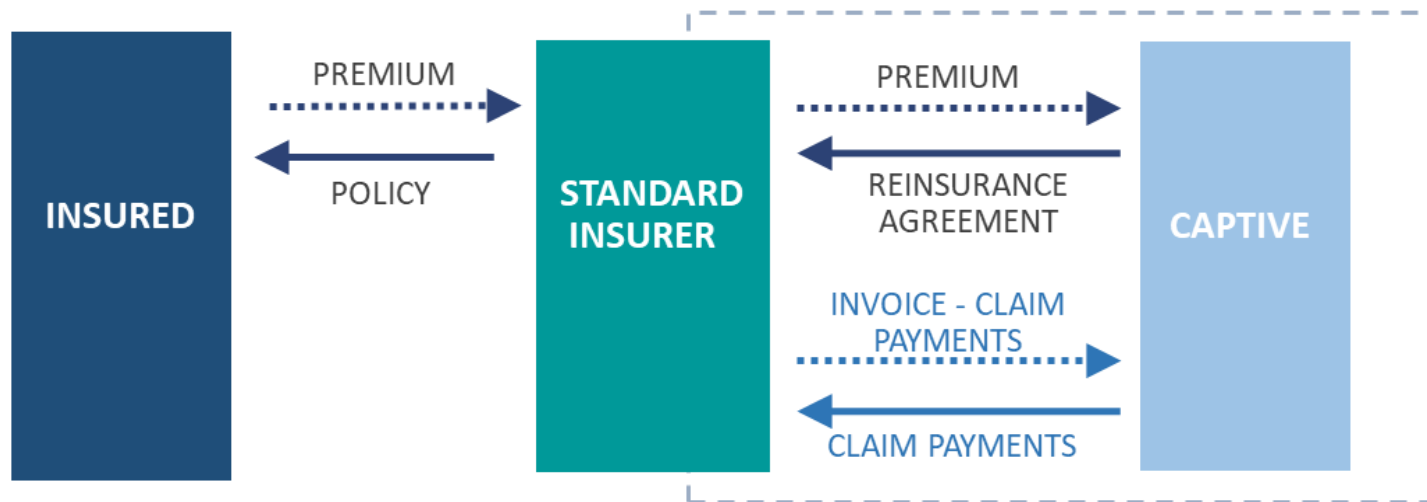
## Benefits of Captive Direct Structure

- ❖ No applicable fronting fees
- ❖ Ability to define terms and conditions to make sure there are no coverage gaps
- ❖ Captive may obtain an AM Best rating if required

# Potential Structures

## Fronted Structure

### FRONTED CAPTIVE PROGRAM



## Benefits of the Fronted Captive Structure

- ❖ Meet contractual obligations
- ❖ Comply with local regulations
- ❖ Underwriting, claims handling provided by front

# Considerations for Adding Trade Credit to an Existing Captive

## A corporate perspective



What is the business need or objective?



Options for structure



Risk participation and appetite of the parent, business units, and the captive



Experience of the insurer with captives



Domicile of trade credit policy vs. domicile of captive

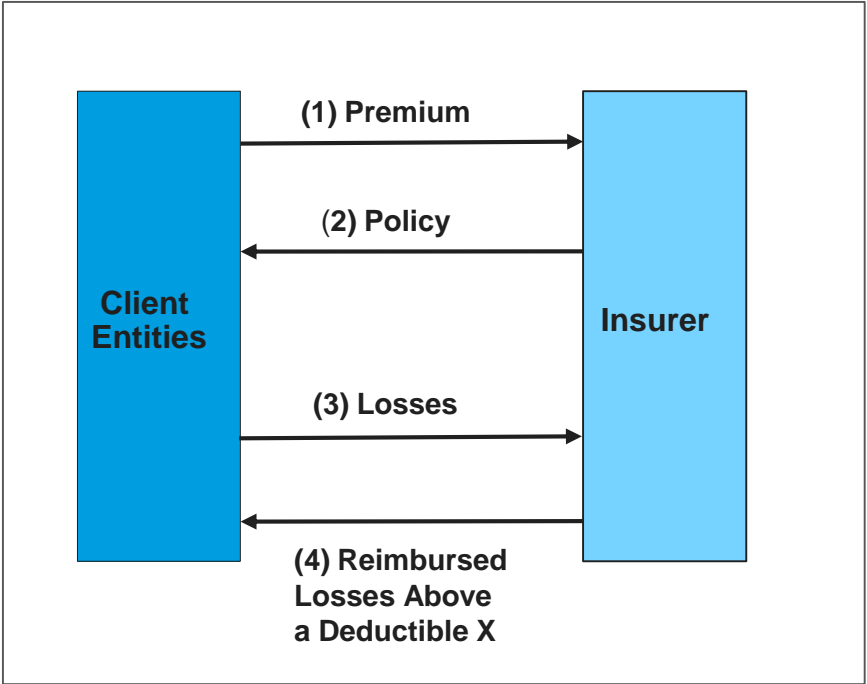


Tools to establish pricing

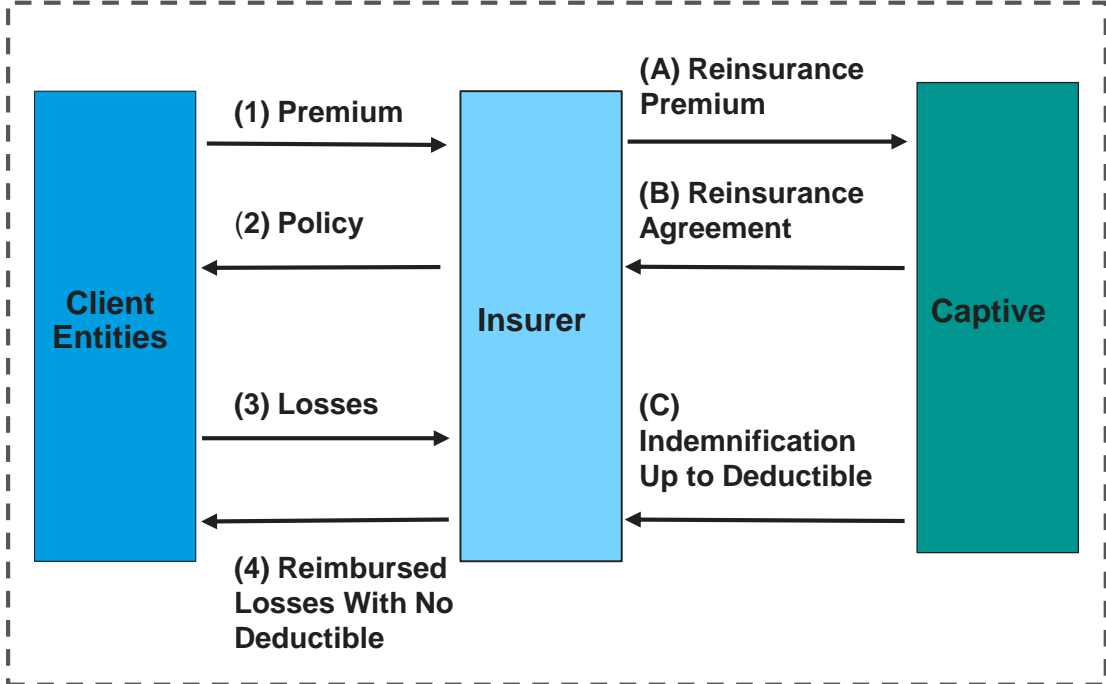
# Potential Structures

## Fronted Reinsurance

No Captive - Deductible Policy



Captive - Reinsurance Allows for a No Deductible Policy



With Low Or No Losses Client Builds Equity via Reinsurance Premium Ceded to Captive



# What are the Insured's and Captive's Objectives?

Retain Premium?

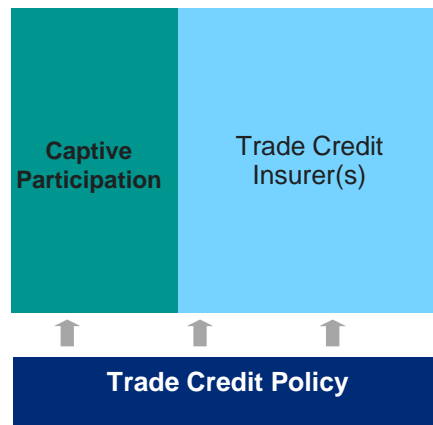
More Coverage?

Increase Sales?

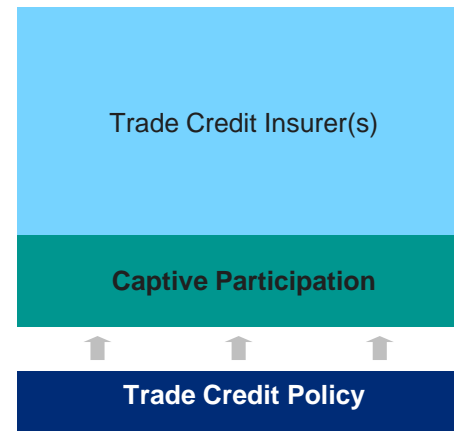
Stable operating model?

Diversify captive risk?

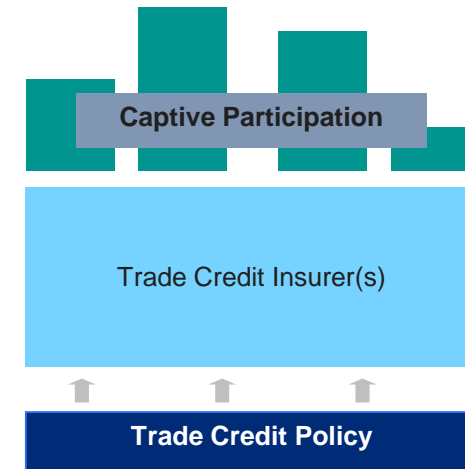
How can you use a captive to achieve these objectives?



Proportional



Excess of Loss (XOL)



Top-up

# Underwriting Considerations: Trade Credit Insurance In Your Captive

Insured

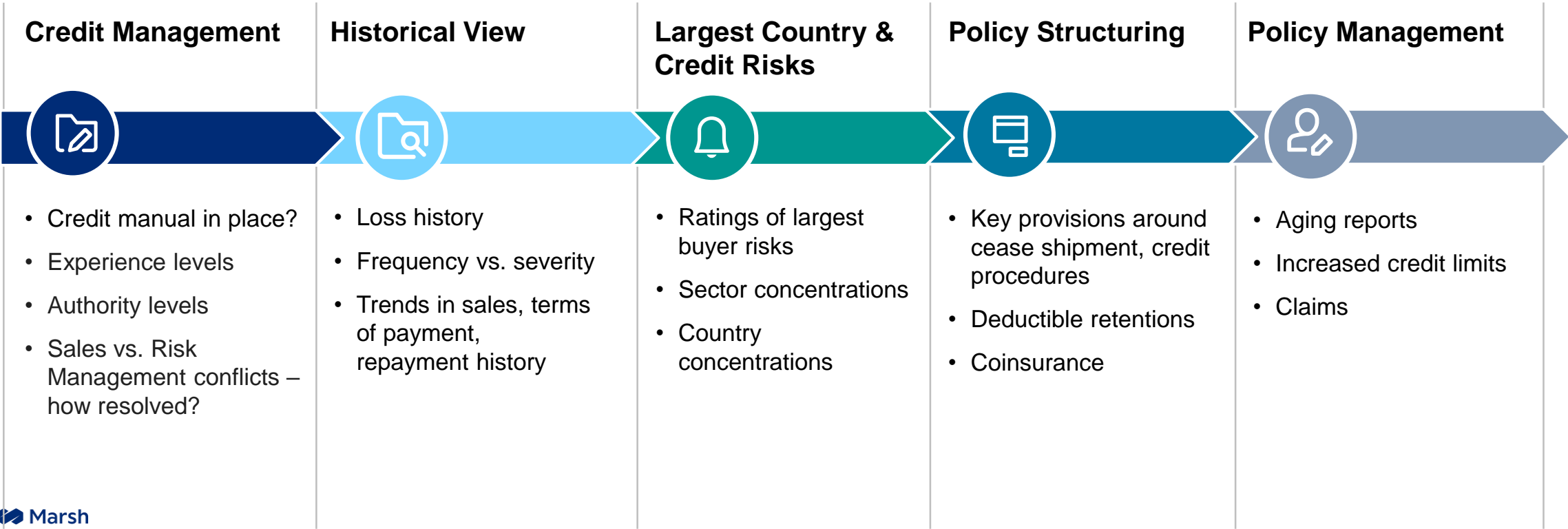
Macro-economics

Country Risk

Industry Sectors

Buyer Credit Quality

## The Trade Credit Underwriting Process



# Questions?

# Speakers

Reach out to our team for questions



**David Arick**

Assistant Treasurer,  
Global Risk Management  
International Paper



**Paul Kunzer**

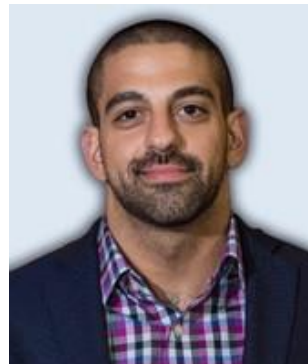
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