

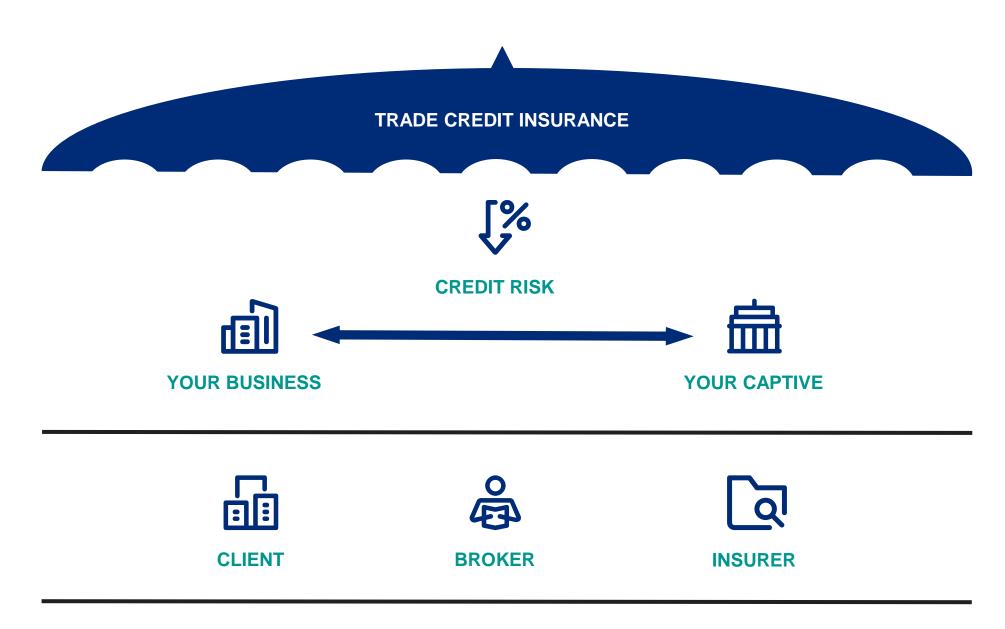
## **Marsh Specialty**

## How to Improve Trade Credit Capacity Through Captives

June 8, 2021



## Trade credit insurance overview



## **Speakers**



David Arick
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# 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.



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

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



### **Tightened underwriting standards**

Led to growing interest in captives.



## **Increasing trade credit claims (TCI)**

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



#### **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.\*



## **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

#### Supply and demand gap

A gap currently exists between the supply and demand for trade credit.





## Greater amount of risk retention

Besides raising premium rates, trade credit insurers are requiring greater amounts of risk retention.



#### Limits

During the pandemic, private sector insurers reduced their credit exposure by cutting or canceling limits.

Governments back-stopped their credit insurers in various countries.



## Price increases

Of an average 15% to 50% or more. In some industries, policies were not renewed.



# Captive Solutions

## **Marsh Captive Solutions**

#### Number of captives worldwide – YE 2020



Source: Business Insurance, 2021 Captive Managers & Domiciles, Rankings + Directory: 6 \*2019 is restated. (1994 to present), Source: Insurance Information Institute (1991-1993)



## **Captive Benchmarking for Trade Credit**

Marsh managed trade credit captives

19%

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

How are Marsh managed captives structuring coverage?

59%

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

32%

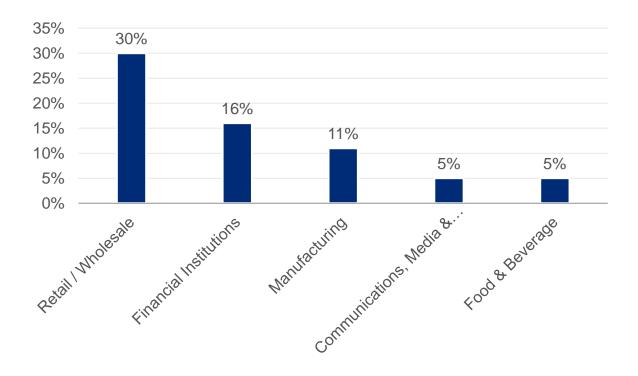
Ceded some or all of the risk to reinsurers. 51%

Reinsure trade credit coverage from a fronting insurer.

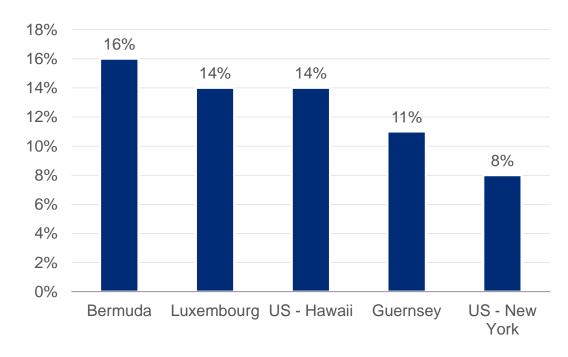
## **Captive Benchmarking for Trade Credit**

#### **Trade credit captives**

**Top 5 industries for captives insuring trade credit** 

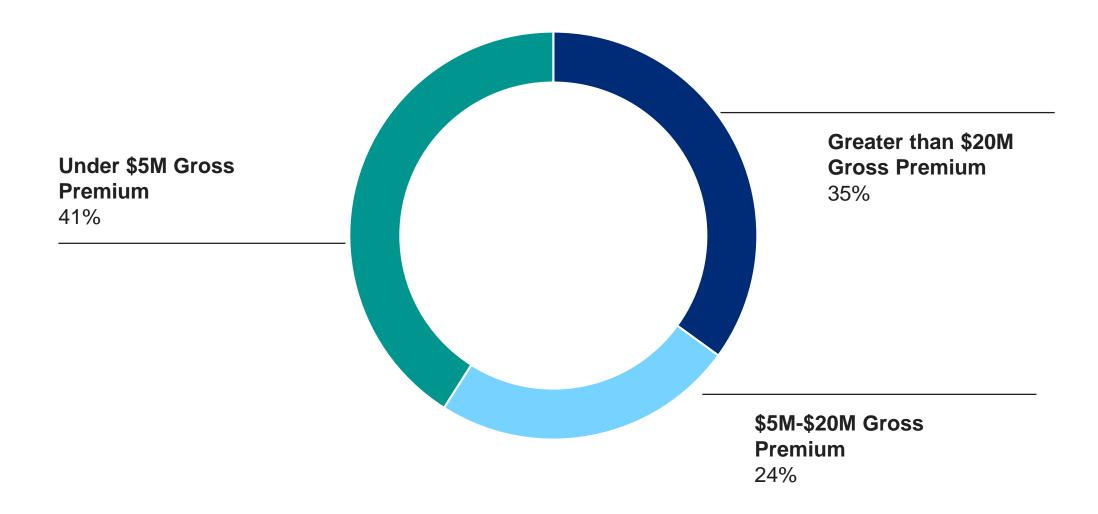


#### **Top 5 domiciles for trade credit captives**

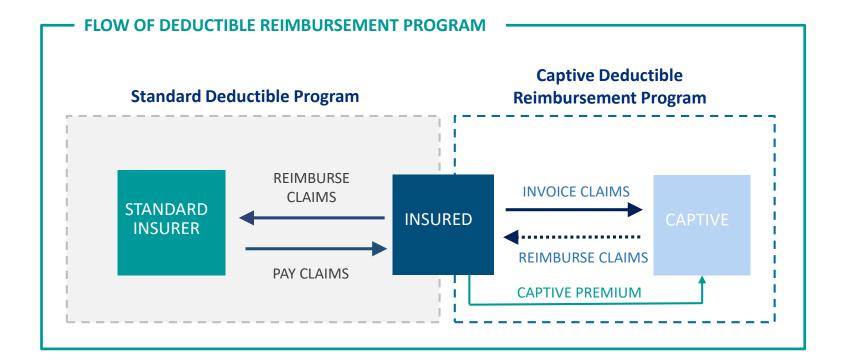


## **Captive Benchmarking for Trade Credit**

**Trade credit captives by captive size** 



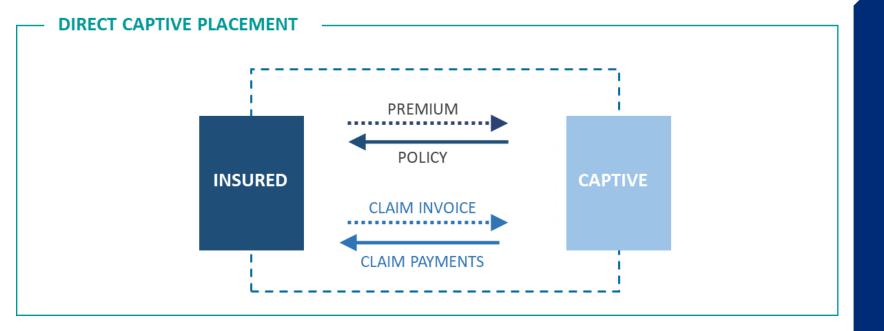
#### **Deductible Reimbursement**



# Benefits of Captive Deductible Reimbursement Structure

- 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

#### **Direct Structure**

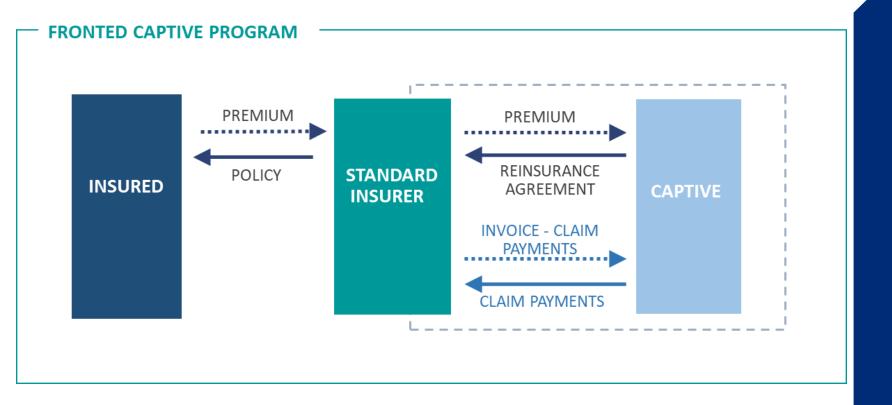


## **Benefits of Captive Direct Structure**

- 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



#### **Fronted Structure**



## 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



#### **Fronted Reinsurance**

**No Captive - Deductible Policy Captive - Reinsurance Allows for a No Deductible Policy** (A) Reinsurance Premium (1) Premium (1) Premium (B) Reinsurance (2) Policy (2) Policy Agreement Client Client **Captive** Insurer Insurer **Entities Entities** (3) Losses (3) Losses (C) Indemnification **Up to Deductible** (4) Reimbursed (4) Reimbursed **Losses Above Losses With No** a Deductible X **Deductible** 

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



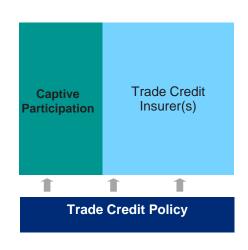




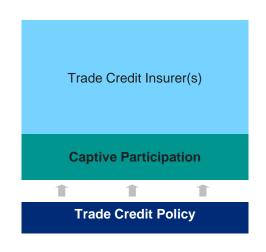




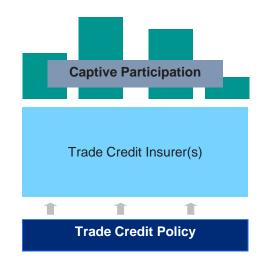
#### How can you use a captive to achieve these objectives?



**Proportional** 



Excess of Loss (XOL)



Top-up

## **Underwriting Considerations: Trade Credit Insurance In Your Captive**

Insured

Macroeconomics

Country Risk

Industry Sectors

Buyer Credit Quality

## **The Trade Credit Underwriting Process**

**Policy Management Credit Management Historical View Largest Country & Policy Structuring Credit Risks**  Loss history Ratings of largest Credit manual in place? Key provisions around Aging reports buyer risks cease shipment, credit Experience levels Frequency vs. severity · Increased credit limits procedures Sector concentrations • Trends in sales, terms Authority levels Claims Deductible retentions Country of payment, Sales vs. Risk repayment history concentrations Coinsurance Management conflicts how resolved?

# Questions?

## **Speakers**

#### Reach out to our team for questions



**David Arick** Assistant Treasurer, Global Risk Management International Paper



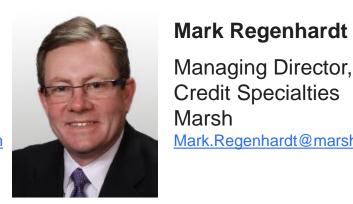
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