

**Q4.21**  
**NOV 2021**

## Export Credit Business Confidence Trends Index

Tracking perceived demand, risk appetite and claims in the export credit insurance industry, based on quarterly surveys of Berne Union Members

2021 looks set to end on a high, with a predicted upsurge in demand for cover matched by continued strong risk appetite among underwriters. A moderate anticipated rise in claims may meanwhile presage a smooth normalisation beyond the low COVID-baseline

Presented below is an analysis of the results of our fourth quarterly Berne Union Business Confidence Index survey, conducted in October/November 2021.

While global merchandise trade remains above pre-pandemic levels, the uninterrupted growth seen since mid-2020 seems to have abated under pressure from supply chain complications and the re-intensification of COVID-19 levels in some larger economies. Input prices are rising for companies, resulting in increasing inflation.

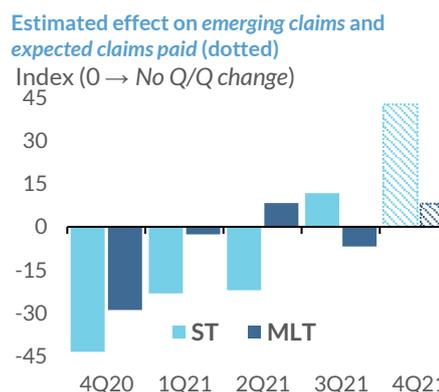
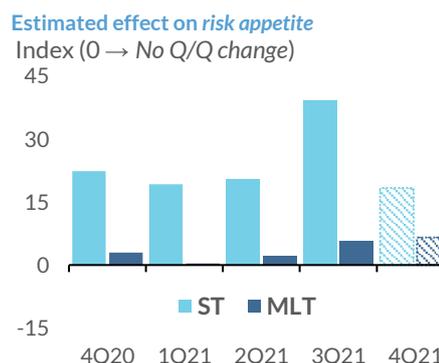
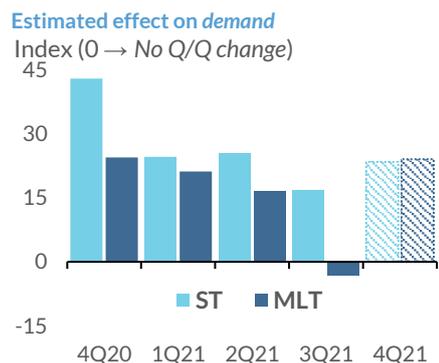
Notwithstanding these headwinds for trade, short-term (ST) export credit insurance business continues to see strong growth in demand, and this is expected to be sustained through the end of the year, buoyed in part by rising commodity prices.

While Medium/long-term (MLT) business seems to have dipped in the third quarter, respondents predict a significant upsurge in demand for this business line during 4Q. This view is partly driven by an increased interest in sustainable projects and social infrastructure as well as the seasonal tendency towards increased activity at the end of the year. Even so, a resurging MLT deal flow is also supported by indications of a recovery in levels of foreign direct investment.<sup>1</sup>

Despite continued economic uncertainty, insurers' risk appetite has been broadly increasing during the second half of 2021. Underwriters appear quite bullish with respect to ST business, with a notable spike in appetite during 3Q 2021 and while still rising, the growth appears relatively more subdued for the final quarter. Risk appetite for MLT business has also increased in 3Q 2021 and, notably, to a higher degree than seen in the past two quarters. This trend is expected to continue in 4Q 2021, meaning that risk appetite for MLT business by year end is expected to reach its highest point in at least the previous 12 months.

Insurers noted a slight uptick in emerging claims for ST business in 3Q 2021. While MLT business saw a corresponding fall, despite continued challenges in the aircraft sector. 4Q is predicted to see higher claims paid across both business lines, and in the case of ST business at least there are some indications of a more widespread increase. However, taken in the context of record low ST claims paid during the pandemic, this could perhaps be a sign of a smooth normalisation rather than the start of an avalanche.

Nonetheless, underwriters remain cautious about the potential impact of the phase-out of government support schemes, especially while COVID continues to actively and unpredictably afflict the risk environment.



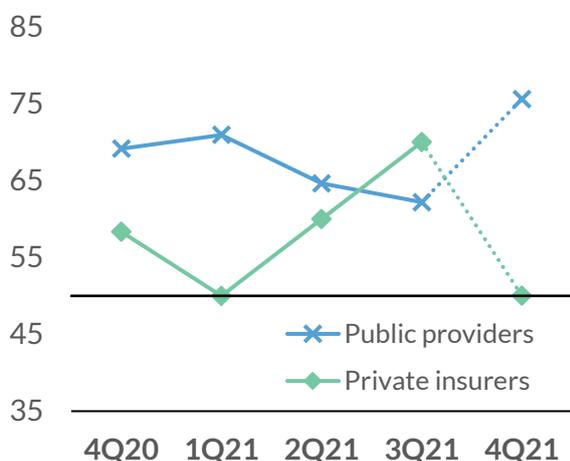
Note: Dotted bars show predicted future values, while solid show an appraisal of the current situation, each quarter

### Short-term commercial and political risk

The figures below present Berne Union Members' perception of the current and future business situation for short-term commercial and/or political risk. Members were asked regarding their perception of demand, level of claims and overall risk appetite.

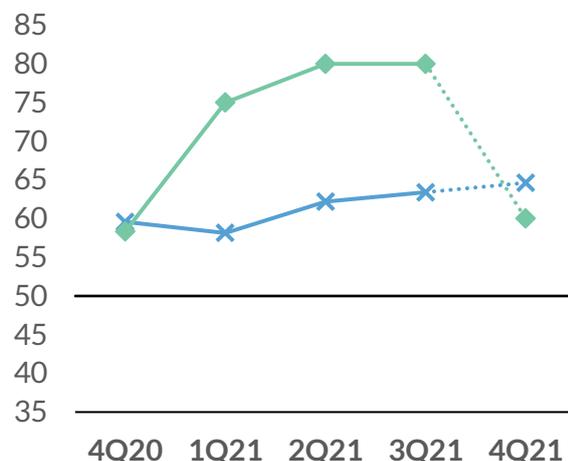
**Figure 1: Current and expected future level of demand**

Index (50 → No Q/Q change)



**Figure 2: Current and expected future of risk appetite**

Index (50 → No Q/Q change)



Note: Full line is current levels, dotted line is expected levels. 'x' represents Public providers (ECAs and multilaterals), '♦' represents Private insurers. A score above 50 indicates a higher/increasing level compared to the previous quarter, while a score below 50 indicates a lower/deteriorating level compared to the previous quarter.

**The third quarter of 2021 saw rising demand for both private and public insurers. However, private and public insurers disagree on demand in 4Q**

Demand for short-term insurance rose on a quarterly basis for both private and public insurers in 3Q 2021. Despite expecting an unchanged level in the previous survey, private insurers saw an increase, mainly driven by higher commodity prices. Public providers also saw an increased level of demand with only ECAs in Asia & Pacific seeing a fall. Some ECAs noted that the increasing supply chain disruption resulted in a lower-than-expected level of demand.

For the last quarter of the year, public providers are expecting a sustained rise in demand whereas private insurers are anticipating an unchanged level. Private insurers have expressed slightly more volatility in changes in demand throughout 2021 while public providers have seen (or are expecting) continued rising demand throughout 2021. This has, however, been to a differing degree with expectations for 4Q changing a previous downward going trend. Rising demand is driven by the continued economic recovery and strong commodity prices which have also contributed to a competitive market.

**The second half of 2021 is defined by rising risk appetite among both private and public insurers, with higher risk appetite in 3Q and an expected continuation of this in 4Q**

Optimism continued to be high in 3Q 2021 as both private and public insurers saw their risk appetite increase. Interestingly, public providers based in Europe and North America had an unchanged risk appetite while the risk appetite of public providers in MENA were more commonly rising.

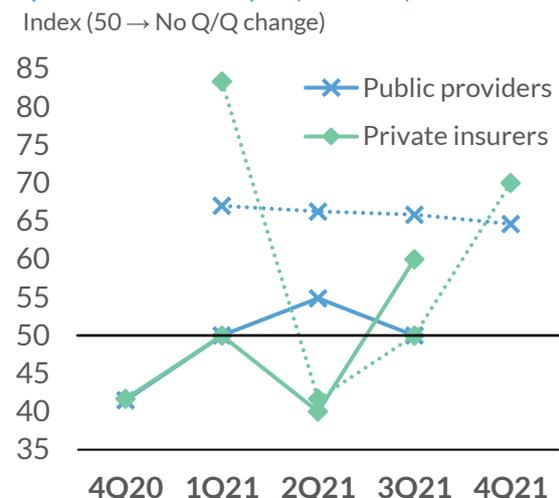
All insurers anticipate a continued higher risk appetite in 4Q 2021, but the trend is slightly diverging as private insurers saw the highest degree of rising risk appetite in 2Q and 3Q 2021 whereas public providers have seen their risk appetite gradually increasing more throughout the year. The sustained rising risk appetite is mainly driven by the continued economic recovery.

**Private and public insurers are seeing diverging patterns in emerging claims in 3Q 2021 but agree on anticipating higher claims paid in last quarter of 2021**

Insurers experienced different changes in emerging claims in the third quarter of 2021 with private insurers indicating a rise in emerging claims following a fall in 2Q 2021. It should be emphasised that these are still below pre-pandemic levels. Public providers saw an unchanged level of emerging claims in 3Q 2021 after seeing an increase in the previous quarter. Claims notifications are generally observed to be returning closer to normal levels.

There is greater consensus on expected claims paid in the last quarter of 2021 with both private and public insurers anticipating an increase here. As with demand, private insurers' have been relatively capricious with respect to claims, while Public providers have continuously anticipated higher claims paid through 2021, albeit at a slightly more circumspect level. But with emerging claims now supporting the expectation of future claims payments, it seems likely that in the final quarter these will finally return to volumes closer to pre-pandemic levels, with the underlying expectation that we will begin to see an increase in insolvencies as the gradual phase-out of government support schemes proceeds.

Figure 3: Current level of emerging claims (full line) and expected future of claims paid (dotted line)



Note: '◆' represents Private insurers and 'x' represents public providers (ECAs and multilaterals). A score above 50 indicates a higher/increasing level, while a score below 50 indicates a lower/deteriorating level.

**Medium and long-term commercial and political risk**

The figures below present Berne Union Members' perception of the current and future business situation for Medium to long-term (MLT) commercial and/or political risk. Members were asked regarding their perception of demand, level of claims and overall risk appetite.

Figure 4: Current and expected future level of demand

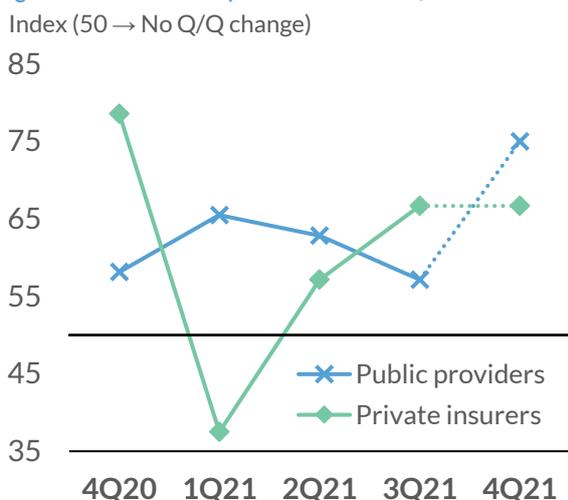
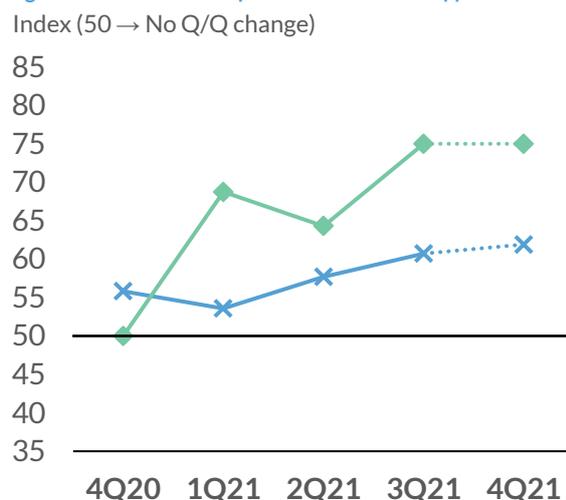


Figure 5: Current and expected future of risk appetite



Note: Full line is current levels, dotted line is expected levels. 'x' represents Public providers (ECAs and multilaterals), '◆' represents Private insurers. A score above 50 indicates a higher/increasing level compared to the previous quarter, while a score below 50 indicates a lower/deteriorating level compared to the previous quarter.

**Demand for MTL insurance rose in 3Q 2021 for both private and public insurers with a further uptick expected in 4Q 2021**

In the third quarter of 2021, both private and public insurers saw demand for MTL insurance rise. Private insurers noted that they continued to see a gradual increase in demand in 3Q 2021. At the same time, public providers saw an increasing demand and noted that bigger transactions and large projects were seeing an uptick. Public providers in MENA, in particular, experienced a rise in demand while ECAs in East Asia & Pacific saw an unchanged level.

Both private and public insurers are anticipating a significant uptick in demand in 4Q 2021. This is partly due to seasonal patterns, with the last quarter of a year often seeing more activity, but there are also indications of a return in foreign direct investment which would support a real-terms increase in the MTL pipeline. The expected uptick was broad-based with public providers in all regions indicating rising demand driven by larger ticket transactions, especially in projects related to sustainability according to several ECAs.

**Higher risk appetite is expected in both quarters of the latter half of 2021 with 4Q seeing the largest uptick for all insurers**

Private and public insurers reported an elevation of their risk appetite in 3Q 2021 with private insurers emphasising that they continue to exercise caution in their risk selection as markets open up. The uptick in public providers' risk appetite was mainly driven by ECAs in MENA and Asia & Pacific, as a sizable number of institutions reported an unchanged level of risk appetite overall.

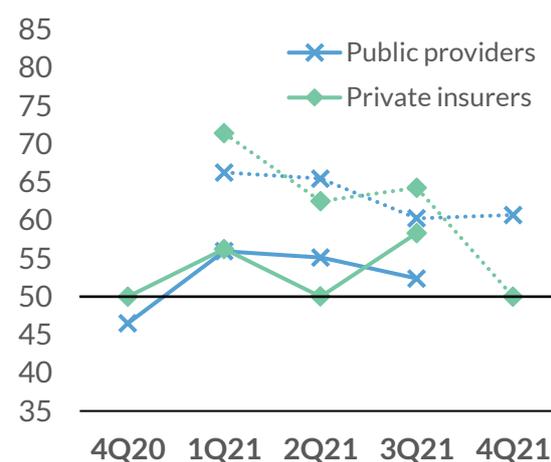
The last quarter of 2021 is characterised by optimism with both private and public insurers seeing their risk appetites increase further. With the current recovery, private insurers are expecting their risk appetite to continue its steady reopening. Public providers' expanded risk appetite is mainly driven by generally good signals from a broad scope of sectors, including those that were particularly hard hit by COVID-19 such as aircrafts and cruise ships.

**Emerging claims were increasing in 3Q 2021 for both private and public insurers while they disagree on the expected level of claims paid in the fourth quarter of 2021**

Contra the situation with ST business, for MTL, both private and public insurers experienced an untick in emerging claims in the third quarter of 2021 with private insurers previously seeing an unchanged level in 2Q 2021. Public providers saw a slight rise in emerging claims, albeit lower than the past two quarters. Some mentioned that the volume of claims requests was still small but getting closer to normal levels, except from the aircraft industry which is still going through a challenging period. Noticeably, ECAs in East Asia & Pacific were, as a whole, seeing lower levels.

There is no consensus on claims paid in the fourth quarter of 2021 as private insurers are expecting an unchanged level, mentioning a stable development of claims paid. Meanwhile, public providers across most regions continue to anticipate rising claims paid, though emphasising that it will be a slight increase.

Figure 6: Current level of emerging claims (Green) and expected future of claims paid (Blue)  
Index (50 → No Q/Q change)



Note: '♦' represents Private insurers and 'x' represents public providers (ECAs and multilaterals). A score above 50 indicates a higher/increasing level, while a score below 50 indicates a lower/deteriorating level.

## Methodology

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The Berne Union's *Business Confidence Index* was launched in 2021, with the objective to provide a continuous indicator of the overall perception of demand, risk appetite and claims in the export credit insurance industry.

The Index is based on quarterly snapshots of our Members' assessment of their current and imminent business situation with respect to these factors. In line with industry norms, we distinguish between short-term (ST) and medium to long-term (MLT) commercial and/or political risk.

*Estimated effects* figures are weighted by respondents' commitments and are therefore a closer approximation of the quantitative change experienced by the export credit and investment insurance industry. The y-axis must not be confused with quarter over quarter (Q/Q) percentage change. The index is between -50 and 50, where a score of 50 means that all members indicated an increase and -50 means that all members indicated a decrease.

*Business perception* figures are unweighted and meant to represent Members' sentiment of current and future business situation of the industry, rather than quantitative effects. The index should be interpreted in the following way: If all members indicated an increase, it would be 100 and if all members indicated a decrease, it would be 0. A score of 50 means an unchanged level. For example, if a score was 61 in one period and 73 in the following period, this means that both periods saw an increase, but the increase was stronger in the second period.

For more information on the report, measures and analysis, please contact Jonathan Steenberg at the Berne Union Secretariat. – [jsteenberg@berneunion.org](mailto:jsteenberg@berneunion.org)

<sup>\*</sup> Note: 'emerging claims' indicates pre-claim situations upon which the underwriter anticipates a high probability of paying claims at a later date – e.g. due to notifications of possible problems with a buyer.

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<sup>i</sup> <https://www.fdiintelligence.com/article/80403>

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