



 CREDENDO

CREDENDO STE  
ANNEX OF SOLVENCY &  
FINANCIAL CONDITION  
REPORT 2019 – IMPACT OF  
COVID-19 PANDEMIC

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### 1. Introduction

This document is considered to be a part of the Solvency and Financial Condition Report 2019 published on 7.4.2020.

As almost every other company, Credendo Short-Term EU Risks úvěrová pojišťovna, a.s. (Credendo STE) will be affected by the Covid-19 pandemic. Credendo STE has taken several measures to mitigate the negative impact of this crisis. The capital position of the company is very solid with a solvency ratio of 184% as of 31.12.2019. The business and continuity of Credendo STE should therefore not be endangered, and the company has more options to further mitigate the risks.

### 2. Macroeconomic impact

Since it was publicly revealed by China that a new virus, Covid-19, was affecting its population (around 20 January this year), contamination has rapidly spread to Europe first and to many other countries worldwide afterwards. As a result, many countries have announced containment measures (lockdown, travel restrictions, border closures, curfews, etc.). These measures, while effective in combatting the covid-19 pandemic, dramatically undermine economic growth and business conditions. Given the impact of these containment measures, the world economy is experiencing a sudden stop that is without precedent in peacetime. The IMF forecasts that the **world economy will contract by 3%** this year. This is the worst global economic performance and the first time that both advanced economies and emerging market economies are in recession since the Great Depression of 1930.<sup>1</sup>

Based on the *World Economic Outlook* prepared by the International Monetary Fund in April 2020, the real GDP projection for 2020 for our home markets is as follows: **-6,5% for the Czech Republic, -6,2% for Slovakia, -4,6% for Poland.**

### 3. Investments

Central banks have decreased interest rates to help the economies. These decreased yields will, to some extent, have a positive effect on Credendo STE's investment result in 2020 because a large amount of the assets are invested in government bonds. Investment income in future years will however be lower.

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<sup>1</sup> Source: <https://www.credendo.com/country-news/world-economy-hit-hard-sudden-and-unprecedented-shock>

## 4. Underwriting

In order to mitigate the negative impact of the economic recession, certain underwriting measures have been taken, such as stricter parameters applied in credit scoring, termination of unused credit limits, review of credit limits in selected sectors and countries, reclassification of country risk.

These measures result in a reduction of underwriting risks.

Credendo expects to incur an increasing number of losses on smaller exposures rather than on the larger ones. Large limits are granted predominantly on strong companies/groups with better ratings and a lower probability of default.

## 5. Sales

In the field of Sales mitigating measures have also been applied, with the aim to increase premium rates, to better control risks and to refrain from building up new exposure in sectors most affected by the Covid-19 pandemic. The Credi+ product is not offered anymore as it is considered to be a more risky one.

Credendo STE expects the Covid-19 pandemic to negatively impact its policyholders' business and hence turnover insured by the company. The impact on Credendo STE's premium income should be partially offset by stronger interest in the product by companies that are not yet credit insured, by existing policyholders' willingness to submit so far uninsured business for insurance as well as by an increase in premium rates.

## 6. Claims

The company is expecting a significant increase of claim notifications in 2020. Debtor insolvencies are likely to increase. The debt collection process could be more difficult due to distance working, while the payout ratio is expected to grow.

## 7. Conclusion

As Credendo STE expects to be affected by the Covid-19 pandemic in 2020 and 2021, the company is taking measures that mitigate the impact of the economic recession on its results.

While the impact of the Covid-19 pandemic on the 2020 results and the solvency and financial condition could be considerable, the current capital adequacy position of Credendo STE and its protection by an appropriate reinsurance structure should foster continued compliance with the Solvency and Minimum Capital Requirements.