Reinsurance programme for credit and surety insurers

1. Overall context

The credit insurance of trade receivables is an essential link in the trade of Belgian and European companies. Credit insurers are an essential link in providing working capital to companies, and banks require for their lending to companies that the trade receivables on the assets side of the balance sheet of the borrower are covered by a credit insurer. At the end of 2019, the total amount of outstanding credit limits of the main Belgian private trade credit insurers was €57.2 billion for policyholders domiciled in Belgium. This amount at risk concerns trade receivables from both Belgian buyers and buyers abroad.

Due to the economic disruption caused by the COVID-19 crisis, a lot of payment difficulties are however expected, for which the credit insurers will have to pay compensations. Therefore, the credit insurers would have to drastically reduce many outstanding credit limits and this would likely have an important negative impact on trade flows.

According to the Communication of the European Commission on the application of Articles 107 and 108 of the Treaty on the Functioning of the European Union to short-term export-credit insurance (OJ C 392, 19.12.2012, p. 1 - the "**2012 Communication**"), Member States are in principle not allowed to offer export-credit insurance for what the Commission defines as marketable risks. These risks are defined as commercial and political risks with a maximum risk period of less than two years on buyers in the European Union and some OECD countries (Australia, Canada, Iceland, Japan, New Zealand, Norway, Switzerland, the United Kingdom and the United States).

However, in view of the COVID-19 outbreak, the European Commission confirmed that the rapid contraction of private credit insurance capacity for exports in general meant that an insufficient availability of private insurance for those countries was to be expected in a very short term. As a result, the European Commission decided to consider all commercial and political risks associated with exports to the countries listed in the annex to the 2012 Communication as temporarily non-marketable from 27 March 2020 until 31 December 2020 (OJ C 101 I, 28.3.2020, p. 1). Credit insurance in these countries may therefore be temporarily offered by the Belgian State.

In this context, the Federal Government (represented by its Minister of Finance, its Minister of Economy and its Minister of Security and the Interior, in charge of External Trade) instructed Credendo ECA to offer, on behalf of and for account of the Belgian State, a new reinsurance programme (the "**Reinsurance Programme**"), which was set up in consultation with the participating credit insurers.

Following the notification of the Reinsurance Programme by the Belgian authorities, on 15 May 2020, the European Commission decided "not to raise objections to the Reinsurance Programme on the grounds that it is compatible with the internal market pursuant to Article 107(3)(b) TFEU and, as far as the reinsurance of temporarily-non marketable short-term export-credit risks is concerned, the Commission also concluded that the measure complies with the short-term export-credit Communication" (decision in case SA.57188 – Belgium COVID 19: Reinsurance of short-term credit and surety risks, p. 19).

The European Commission's decision may be consulted online in the Commission's State aid register, which is available at the following link: https://ec.europa.eu/competition/state_aid/register.

2. Applicable conditions of the Reinsurance Programme

2.1. Beneficiaries

> The direct beneficiaries are the participating credit and surety insurers, which must be legally authorized to operate in Belgium (either as an insurance company or through a subsidiary or a branch established in Belgium).

> The indirect beneficiaries of the Reinsurance Programme are the policyholders which are duly registered in the Belgian Crossroads Bank for Enterprises either (i) as a legal entity incorporated (corporate seat) in Belgium or (ii) as a branch registered in Belgium of a legal entity incorporated (corporate seat) in or outside Belgium.

2.2. Budget and duration

- The maximum budget of the Reinsurance Programme is €903.2 million, representing the maximum losses for the Belgian State under the Reinsurance Programme.

- The Reinsurance Programme will cover risks attaching to the period from 1 January 2020 until 31 December 2020, excluding losses occurring before 27 March 2020.

- By the end of September 2020, the European Commission will decide whether the temporary State aid will be extended beyond 31 December 2020 in accordance with the 2012 Communication as amended.

2.3. Risk

- The maximum risk per debtor for an insurer is €50 million. This amount can be exceeded by means of a special acceptance by Credendo ECA.

- The Reinsurance Programme will apply to risks located worldwide, with the exception of countries under sanctions.

2.4. Material scope

- The Reinsurance Programme applies to products of trade credit insurance and surety between companies (B2B).

- The Reinsurance Programme applies to trade receivables from both Belgian buyers (debtors) and buyers abroad and to suretyships in favour of both customers in Belgium and abroad.

2.5. Credit limits

- The aim is to not unnecessarily suspend or reduce the existing credit limits covered by the Reinsurance Programme: credit insurers undertake to keep the credit limits actually used in the 12 months prior to 1 March 2020 intact as far as possible until the end of 2020, using the following principles to determine the credit limits:

  - credit insurers will not carry out any mass actions or linear measures at portfolio level or at sector level. All debtors (buyers) will be assessed on a case-by-case basis.

  - credit insurers will make every effort to determine the credit limits on the basis of the most recent relevant information regarding the financial situation of the buyer and the country in which he operates, the information reports, the external ratings, the payment experience and the prospects. In doing so, the credit insurers undertake to reduce or withdraw their credit limits only if:

    - the deterioration of the buyer's solvency, where no government support is foreseeable, leads to a high risk of non-payment;
    - the insurers receive notifications of non-payments, where a non-payment is defined as failure to meet the due date within 30 days;
    - the policyholder has not, or has only partially, used the credit limit over the previous 12 months and the credit limit is limited to the portion used.
    - the political risk associated with the country in which the buyer is established is assessed as being so high that it may lead to non-payments; political risk in this respect includes, among other things, wars, foreign exchange scarcity, a government-imposed debt moratorium, etc.

2.6. Reporting mechanism

- A reporting mechanism, based on the credit insurers' compliance with the above principles for determining credit limits, is set up to monitor the commitment. This concerns, among other things, a monthly reporting on the evolution of the outstanding credit limits, at an appropriate aggregation level.

2.7. Quota share reinsurance

> The reinsurance mechanism is defined in relation to gross losses expressed as percentage of the annual gross premium volume (“the loss ratio”). It is drawn up around an estimated loss ratio of 0% to 1000% and works in three stages:

- In the first stage of the loss ratio from 0 to 100%, there is an equal distribution of losses between the participating insurers and Credendo ECA: each have a share in the losses of 50%.
- In the second stage of the loss ratio of 100 to 300%, the participating insurers participate with 20% and Credendo ECA with 80% in the losses for the tranche above 100%.
- In the third stage of the loss ratio of 300 to 1000%, the participating insurers participate with 10% and Credendo ECA with 90% in the losses.

> The percentage of premium that the participating insurers cede to Credendo ECA is equal to the percentage of total losses ceded according to the three aforementioned stages divided by the total losses.

> If the loss ratio is higher than 1000%, Credendo ECA does not cover any losses for the tranche above 1000%. All losses above a 1000% loss ratio remain fully with the participating insurers. The participating insurers do not cede any further premiums to Credendo ECA.

> In practice, part of the premiums and of the losses are ceded to the reinsurer (Credendo ECA), and the reinsurer pays a commission to the insurer to compensate the latter’s costs (personnel, administration and acquisition). The Reinsurance Programme provides for a fixed commission (paid to the credit insurers) of 35% of the premiums ceded to Credendo ECA to compensate the insurers’ costs.

> The Reinsurance Programme will kick in chronologically before any programme with private reinsurers.

2.8. Transfer of premiums and losses

> The Reinsurance Programme foresees that the premiums and losses will be transferred quarterly on a provisional basis at an assignment rate of 50%. The first settlement with an estimation of the loss ratio, which allows the determination of a more precise assignment percentage, will take place in the first quarter of 2021.

> The bilateral agreement will also provide for the possibility of a “cash call” for losses on a single debtor as from €10 million (at 100%), i.e. the insurer may in such a case request a payment from the reinsurer (Credendo ECA) before paying the indemnification to the policyholder.

2.9. Confidentiality

> In order to guarantee the confidentiality of the commercial data of the private insurers, Credendo ECA will rely on a third neutral party - an external expert (audit firm or reinsurance broker) - for the analysis and follow-up of the portfolio details and for the reporting mechanism as described above.

2.10. Participation

Any credit and surety insurer legally authorized to operate in Belgium and who wishes to participate in the Reinsurance Programme must comply with the commitment to keep its credit limits intact in accordance with the principles mentioned under Article 2.5.

Any credit and surety insurer interested to benefit from the Reinsurance Programme is invited to contact Credendo ECA before 30 June 2020 (Close of Business) at the latest at the following email address d.meessen@credendo.com.