

Global Financial Solutions Claims Review 2021

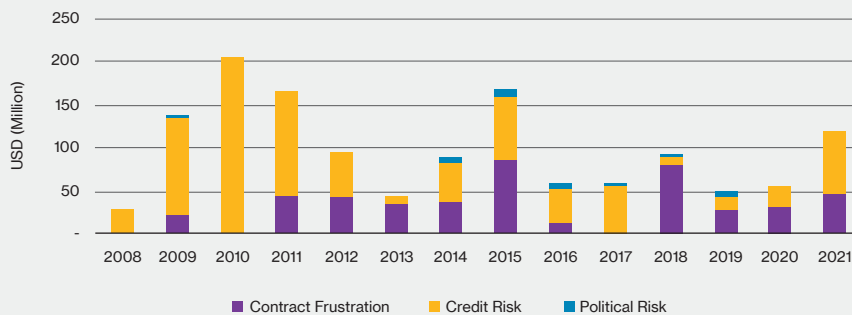
by Claire Simpson, Global Head of Claims, Financial Solutions

January 2022

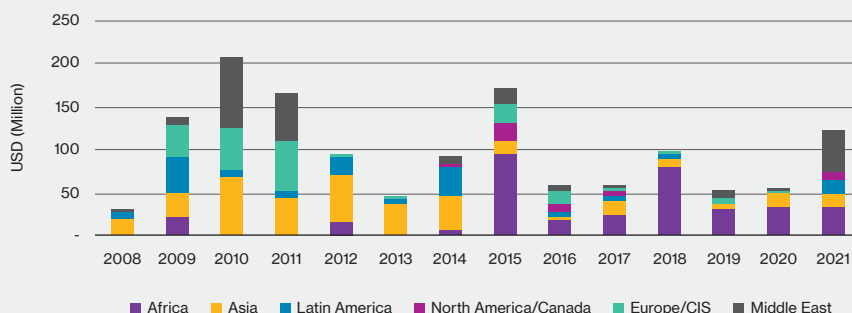
2021 was quite the year and I'll try to do it justice as while activity has been markedly up in the world of non-payment, Credit and Political Risk Insurance (CPRI) and political violence – trade credit still stands apart with less activity than had been anticipated. More on that to follow.

CPRI losses rose again, coming in at \$118.5m (2020 \$53.6m), taking 2021 to the 5th highest loss year in WTW history. That dramatic increase was driven by two main types of loss. Credit losses stemming from Asia and the Middle East have risen steeply – indeed credit losses have overtaken sovereign losses for the first time since 2017, with borrower fraud featuring more frequently. Sovereign pay-outs are also up though, not just in Africa but also in Latin America, once again reflecting the global nature of our portfolio and the continuing economic and political challenges our clients are facing.

WTW CPRI Claims since 2008 by Risk Code



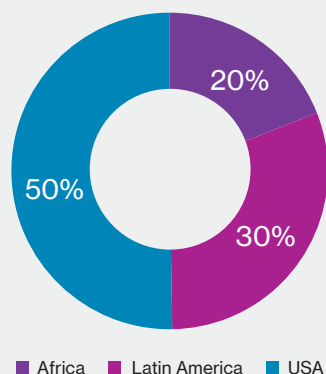
WTW CPRI Claims by region since 2008



52%

Africa continues to dominate the rolling 5-year average CPRI claims, totalling 52% of all losses but this year a large Middle Eastern credit loss dominated the WTW headlines.

WTW CPRI Terrorism and Political Violence Claims 2021



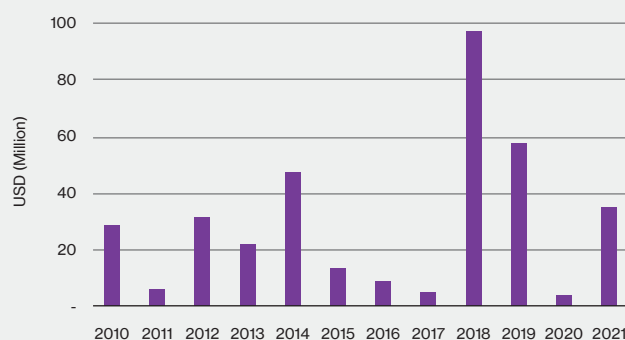
Looking to trade credit, losses have remained lower than pre-pandemic levels, though the reduction in 2021 insolvency numbers was less dramatic than that seen in 2020. This was due to the continuing levels of government interventions and temporary amendments to insolvency legislation that have insulated many companies from the worst consequences of lockdown.

Terrorism and political violence losses however have increased materially in 2021 to \$4.4m, up from \$0.3m in 2020. Activity in Africa and Latin America continued as expected. Starkly over half of the WTW loss activity came from the USA, highlighting that protest and pressure for social change is a global phenomenon and that security issues can happen anywhere and at any time.

Loss activity is not the only thing on the increase. Reassuringly we have seen a return to stronger CPRI recovery rates too after a 2020 slowdown, primarily through secondary market debt sales. In 2021 clients returned \$34m of paid claim monies to insurers, reflecting the enduring partnerships forged in our marketplace with some recoveries dating back as far as the 2005 year of account.

1. <https://atradiuscollections.com/global/reports/economic-research-insolvency-increases-expected-as-support-ends.html>
https://www.eulerhermes.com/en_BE/news/latest-news/insolvencies-will-rise-again-in-2022.html

WTW CPRI Claims recoveries Annual Breakdown, USD 347,5m recovered between 2010 and 2021



As we look to 2022 and what that might bring, I can only anticipate more loss activity. Emerging (hopefully) into a post-pandemic world, economic uncertainty will remain and without the overarching government support packages that have sustained us for so long it seems inevitable that non-payment loss activity will continue, growing too for trade credit insurers as insolvencies start to increase. Indeed, some of the main monoline insurers are forecasting a material uptick in insolvency rates of between 15-33% globally¹, though there will be regional variations. Fraud will also remain a concern as reducing trade levels will expose companies relying on constant growth.

Following the same logic, as insolvencies rise, we can expect the unemployment rate to follow suit with the resulting social dissatisfaction likely driving more outbursts of violence and protest. On the horizon 2022 also promises some significant elections globally including presidential elections in Angola, Philippines, Kenya and Brazil that could lead to increased tensions and challenges for lenders, exporters and investors caused by the disruption that often follows regime change.

One thing remains clear – that the losses will come at us from all sides – even the most unexpected and that clients must remain vigilant in their risk mitigation efforts.

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