EMEA TRADE CREDIT MARKET UPDATE

JUNE 2014

THE ECONOMIC OUTLOOK IS IMPROVING, BUT INSOLVENCY LEVELS ARE EXPECTED TO INCREASE IN SOME COUNTRIES

The general economy across the Europe, Middle East, and Africa (EMEA) region is growing as business confidence improves. The pace of growth is fastest in Western Europe, with Eastern Europe following behind. Countries in the Middle East can be split into two distinct groups: the more challenging markets, including those involved in the original Arab Spring, in which growth is currently stagnant; and the more stable and active markets, like Dubai and Saudi Arabia, which are experiencing a more rapid recovery.

The projected insolvency trend compiled by underwriters suggests an overall 8% reduction in insolvency levels during 2014, relative to 2013 (see FIGURE 1). The outlook for Ireland and Portugal is particularly promising, especially when we consider the impact of the global recession. Despite the upturn in the economy across Europe, the insolvency outlook remains concerning for Finland, the Czech Republic, and Morocco.

Relative to other countries, Russia's performance is the most difficult to predict. To date there have been no large losses in 2014. As the difficult situation in Ukraine continues, this could impact future losses.

Despite these positive economic indicators, this is a time for companies to place even greater scrutiny on their customers. History suggests the period where the economy starts to grow as it emerges from recession is the most opportune time for some businesses to overtrade—searching for increasing sales just when cash flow becomes more restrictive. Taking into consideration current trading patterns, the total number of insolvencies in 2014 is expected to exceed the pre-global financial crisis average.

FIGURE 1 | PROJECTED INSOLVENCY TREND RELATIVE TO 2013

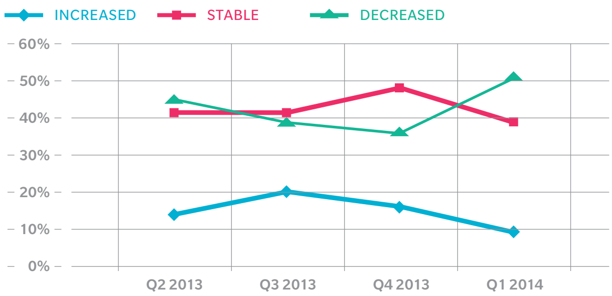
Source: Euler-Hermes

	% GDP WORLD**	2013 CHANGE	2014 FORECAST
GLOBAL INSOLVENCY INDEX*	83.1	-3%	-8%
WESTERN EUROPE INDEX*	22.8	4%	-12%
GERMANY	4.8	-8%	-6%
FRANCE	3.6	3%	-1%
UNITED KINDGOM	3.4	-15%	-7%
ITALY	2.8	12%	3%
SPAIN	1.8	12%	-23%
NETHERLANDS	1.1	10%	-15%
SWITZERLAND	0.9	1%	2%
SWEDEN	0.7	3%	-8%
NORWAY	0.7	20%	3%
BELGIUM	0.7	11%	3%
AUSTRIA	0.5	-10%	3%
DENMARK	0.4	-8%	-11%
FINLAND	0.3	7%	5%
GREECE	0.3	10%	3%
PORTUGAL	0.3	-10%	-12%
IRELAND	0.3	-19%	-13%
LUXEMBOURG	0.1	0%	-3%
CENTRAL & EASTERN EUROPE INDEX*	5.6	2%	-2%
RUSSIA	2.8	-22%	2%
TURKEY	1.1	8%	-2%
POLAND	0.7	-2%	-10%
CZECH REPUBLIC	0.3	57%	9%
ROMANIA	0.2	1%	0%
HUNGARY	0.2	-40%	0%
SLOVAKIA	0.1	25%	2%
LITHUANIA	0.1	8%	-4%
LATVIA	0.0	-7%	-2%
ESTONIA	0.0	-7%	2%
AFRICA & MIDDLE EAST INDEX*	0.7	-4%	-2%
SOUTH AFRICA	0.5	-13%	-14%
MOROCCO	0.1	8%	10%

(*) INDEX 100: 2000 (INDEX IS BASED ON A SCORING SYSTEM UP TO 100, USING THE YEAR 2000 AS ITS BASE LINE.)
(**) GDP 2012 WEIGHTING AT CURRENT EXCHANGE RATES

RATE DECREASES FOR THE RIGHT RISKS

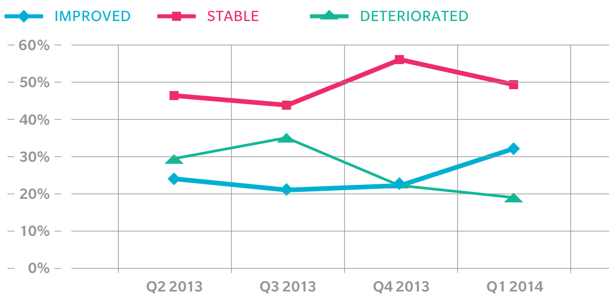
FIGURE 2 | **PREMIUM RATES**
Source: Marsh



Premium rates remain soft in those areas where business is strong—insurers are keen on good-quality, well managed risks. Where they have been exposed to large numbers of claims, insurers are more likely to consider increasing rates. Most insurers talk about 2014 in terms of consistency and stability; however, more than 50% of clients of Marsh's Trade Credit Practice have in fact experienced rate reductions on renewal in the first quarter of this year (see FIGURE 2).

COVER AVAILABILITY IS GENERALLY IMPROVING

FIGURE 3 | **COVER ABILITY**
Source: Marsh

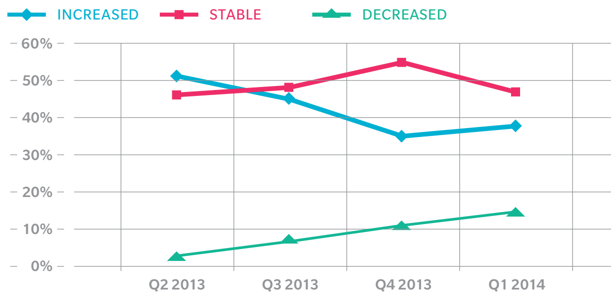


Cover levels, in general, are improving (see FIGURE 3) but this performance differs considerably across the EMEA region. In Western Europe, cover levels are increasing in the majority of countries; there are still some trade sectors where cover is more restrictive, including paper/pulp, construction, and electronics. There is a more cautious approach to cover levels in Eastern Europe.

Some countries prove the exception to this trend. In Turkey, for example, there is a large number of underwriters and a fierce negotiating culture—here, more competitive cover levels can be found. Dubai is very much the same in this sense. High levels of cover and very competitive premium rates can therefore be expected in these markets. South Africa is one country where insurers are becoming more cautious, following recent increasing insolvencies.

CLAIMS ARE SET TO INCREASE

FIGURE 4 | **CLAIMS FREQUENCY**
Source: Marsh



Some markets are already experiencing a growing number of claims (see FIGURE 4)—for example, Poland, Italy, and Spain. We expect this trend to continue as businesses stretch themselves during the ongoing economic recovery, and to peak within the next 12 to 18 months.

At the same time, underwriters continue to be squeezed for higher levels of cover. This can produce a margin gap, where underwriters are writing greater levels of cover for less premiums, echoing the initial build up to the financial crisis in 2008. We expect more losses for 2014, which can dictate potentially harder rates and higher premiums in 2015, and beyond.