A flexible association for a dynamic industry

ICISA's members represent around 95% of the global credit insurance industry. The association has recently implemented changes that make it a more efficient and transparent organisation.

Robert Nijhout

The International Credit Insurance & Surety Association (ICISA) represents the interests of insurance companies involved in underwriting credit insurance and/or surety business. ICISA has its origin in the first international conference on credit insurance, held in London in 1926. The association itself was founded in 1928 by the leading credit insurance companies of that time as the International Credit Insurance Association (ICIA), making it the first association for the sector. ICISA's leading role has remained and is illustrated by the fact that its members represent around 95% of the global credit insurance industry.

Surety bond insurers have been joining the association since the 1950s. Meanwhile several existing ICISA member companies expanded their product offering and now also offer surety bond cover.

Reinsurance companies started joining in 2000 and ICISA now counts five of the world's largest reinsurance companies among its members. Members of ICISA currently insure trade credit in excess of US$1tr.

In 2001 the name of the association was changed into ICISA to better reflect the business of its members. The president, the executive director and the treasurer manage the association. A management committee, formed by representatives elected by the members, advises the president. At their 63rd general meeting in June 2005, members of ICISA elected Mr François David, chairman of the Coface Group, as their president for the period 2005/2006.

The founding companies continue to be a member of ICISA, although the industry, its players and the association have changed considerably since then.

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Credit Insurance

Credit insurance insures manufacturers and traders against the risk that their buyer does not pay. It can also cover the risk that a buyer pays very late. A buyer will not pay after he has been declared bankrupt, insolvent, or a similar legal framework, depending on the country where the buyer is based. Similarly buyers sometimes opt for a bankruptcy protection arrangement, which allows them to delay payments for an extended period. Credit insurance policies can include a wider range of cover, depending on the circumstances. When a buyer does not pay, the credit insurance policy will pay out a percentage of the outstanding debt. This percentage usually ranges from 75% to 95% of the invoice amount, but may be higher or lower depending on the type of cover that was purchased.

Credit insurance can also cover the so-called political risk. This is the risk that a buyer cannot pay or that goods cannot be delivered due to circumstances outside of the supplier or buyer's control. These circumstances can include war, riots, and similar occurrences. There may also be a risk that money cannot be transferred from one country to another due to measures taken by the buyer's country. This is also considered a political risk. Failure to pay by a public buyer is always considered a political risk. Changes in a foreign government's policy may lead to cancellation of a contract. Political risk cover insures against this risk.

Credit insurance has emerged from its original relatively restricted role of protecting the capital at risk in accounts receivable. Today it acts as the spearhead of comprehensive credit and financial management in the acknowledged context that the credit decision is a vital part of the whole business decision.

One of the most noteworthy developments during the last decade is the consolidation in the credit insurance sector which has led to fewer players, and the emergence of three large groups, namely Atradius, Coface and Euler Hermes, which now dominate the industry.

Support from the credit insurer is often vital to the supplier and the buyer. In the absence of credit insurance many trade transactions are done on a pre-payment or a cash basis, or not at all. Credit insurance is often seen as a welcome security for financing banks. It is also an essential credit management tool and used to control risks, improve payment behaviour, obtain vital buyer information, and monitor exposures. In an ever-volatile world, many companies benefit from these tools.

Surety

Bonds and guarantees are normally required under the terms of a construction or engineering contract, or in accordance with mandatory legal requirements, to secure the obligations of the principal debtor (generally known as the principal).

A surety bond provides the security to protect the creditor against the default or insolvency of the principal up to the limit of the bond. For example, the failure of a contractor to complete a contract in accordance with its terms and specifications or the failure of an enterprise to pay taxes or customs duties to a government or department. They play a vital part in domestic and international trade and in particular protect taxpayers against the loss of public funds.

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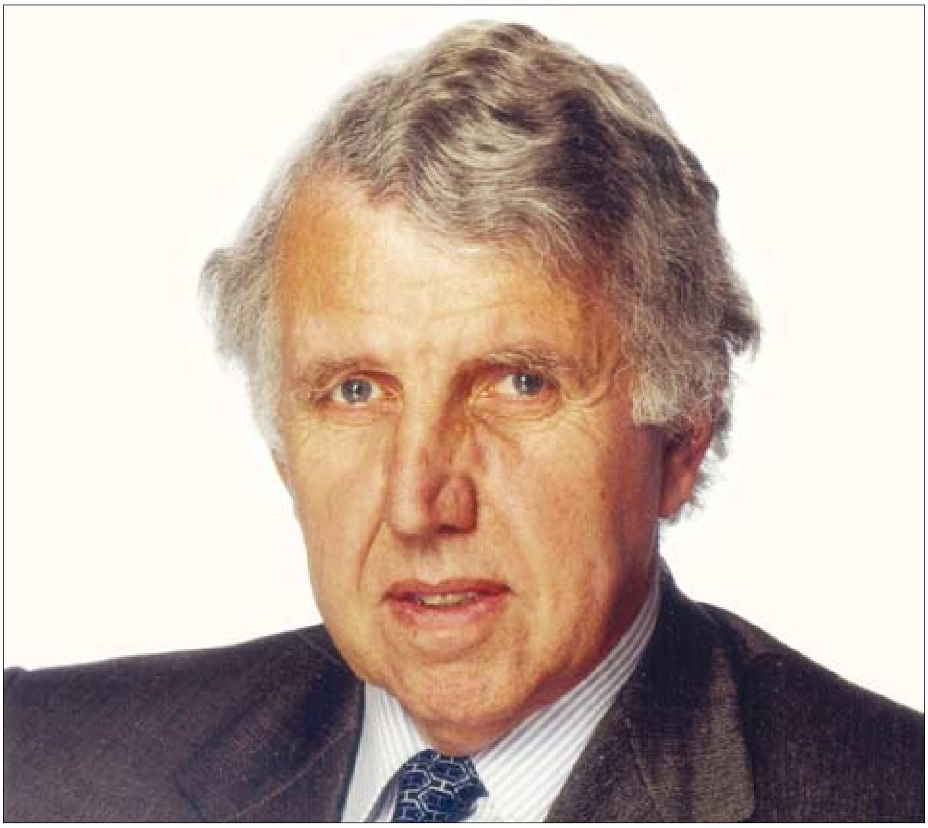
Although in many countries originally mainly banks issued bonds, the security provided by an insurer has proven equally acceptable. This has enabled many companies to set up separate lines of credit and bonds with surety insurance companies. In doing so, they protect their lines of credit with banks, which might otherwise be blocked when this working capital is needed.

Large insolvencies, as well as the need to protect tax payers' money in public projects, have increased the awareness and importance of surety bonds. The often very large amounts that need to be underwritten make ICISA members well positioned to meet these challenges.



Francois David: the 2005/2006 president of ICISA

Activities

ICISA's main activities are identified as follows:

- Meetings: These are for ICISA member companies only, but outside experts are usually invited to join in the discussions. A general meeting of members is held each June while specialised committee meetings are held in spring and in autumn. Ad hoc meetings on topics of current concern or interest are scheduled as and when needed.

- Lobby: Over the years the need to represent the interests of the sector towards regulators and legislative bodies has increased, namely in the areas of corporate governance, capital allocation, financial regulation and accounting rules. By creating awareness of the specificities of our industry, regulators and others can take our concerns and issues into account when formulating their proposals and regulations. In its lobbying activities, ICISA joins forces with other associations as and when appropriate. To maximise our lobbying efforts, co-operative relations are maintained with many international bodies, including the European Commission, the ICC, and the UN. ICISA is the counterpart for the industry at the Comité Européen des Assurances in Brussels, in particular with regard to the implementation of the Solvency II regulations. Dedicated ICISA staff now work at the CEA offices ensuring the best possible communication and awareness. ICISA further represents the sector at the International Accounting Standards Board.

- Public relations: The global credit insurance overview, which is updated from time to time, is one of several publications from ICISA. Where the press or others request information or positions from the industry, the association acts as its voice.

- Education: Educational workshops are organised each year with the aim of training staff of member companies as well as interested participants from other companies. Such workshops have been held on understanding bankruptcy procedures in the USA, underwriting large corporate (US) risks, claims handling and underwriting experience in Europe and North America and other relevant topics. A number of these seminars are scheduled for 2006 and beyond, and include in-house training of staff as well as more general informative seminars to interested parties in selected countries.

Industry collaboration

ICISA works closely with colleague organisations, in particular the Berne Union, the Pan-American Surety Association (PASA) and the Surety Association of America (SAA). Representatives from these organisations join in our meetings. However, this co-operation goes well beyond these meetings, and also involves collaboration on statistics, research and lobby activities. For example we are currently contributing to a joint industry project, which aims to objectively quantify the expected loss on any risk that is being underwritten by the sector.

ICISA has further established a co-operative relationship with the Federation of Business Information Services (FEBIS).

The International Surety Association (ISA) was founded by ICISA and a number of national surety associations such as the surety associations of Australia, Canada, Mexico and the USA, to enhance efficiency, facilitate communication and to address common concerns.

Issues addressed by ICISA

Some of the issues recently addressed by ICISA include:

- XBRL – the association has been instrumental in the Introduction to the sector and promotion of this new standard for the electronic transfer of financial data. Developed jointly with other leading financial services providers, this is now becoming the international standard, adopted by Microsoft and many others.

Wilfried Verstraete, CEO of Atradius, one of the biggest credit insurers

- Studies – thanks to the technical expertise of its committee members, studies on selected topics are undertaken and findings are published for the benefit of members. As a result papers are published regularly. Recent studies and papers include topics such as financial guarantees, short term political risk, single account cover, cross-border insolvencies, top-up cover, capital and portfolio management, self-insurance, pre-credit cover, intermediaries and insuring factor contracts.

For the immediate future, ICISA will focus on the most relevant issues that affect our sector. One of the main areas of focus continues to be the Solvency II proposals. A lack of a level playing field for surety products, in particular in the EU, is another area of ongoing concern and focus.

Committees

Committees have been established to aid in focusing on issues and concerns in a specialised manner. Experts from member companies participate in these committees.

ICISA's committees will continue their valuable work in analysing issues for the benefit of all members. For example, current studies focus on binding and non-cancellable credit limits, fronting, reverse credit insurance, co-insurance and facultative reinsurance. A working group is further looking into drafting a glossary of credit insurance terminology, with the aim to come to some level of standardisation for the benefit of clients, suppliers and others involved with the industry.

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In 2005, members of ICISA were asked to review how the association works and recommendations were made and implemented. This has resulted in a more efficient and transparent organisation, that has the flexibility to react and adapt when needed, while it continues to identify, highlight and address the many issues that affect the industry, its players and their customers. ❖

Robert Nijhout is the executive director of ICISA, Amsterdam, Netherlands. Tel: +31 20 625 4115. E-mail: secretariat@icisa.org. Website: www.icisa.org.