C-SUITE SERIES

CREDIT SOLUTIONS

Driving growth through uncertain times

The hidden gemstones

FT MARKETING SERVICES

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Introduction

The only **certainty** is **uncertainty**

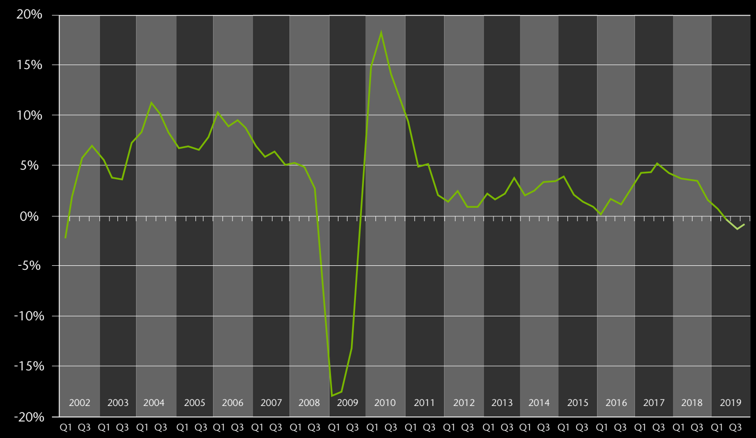
Uncertainty is the order of the day for business leaders internationally, and yet the pressure on executives to deliver top- and bottom-line growth is unrelenting.

The challenges they face are stark. Global economic growth is set to fall to its lowest level since the financial crisis of more than a decade ago;[1] international trade is falling sharply; corporate insolvencies are on the rise for the first time since the crisis;[2] and earnings are slumping.[3]

[1] 'Global Manufacturing Downturn, Rising Trade Barriers, World Economic Outlook', IMF, October 2019
[2] 'Global corporate insolvencies rise for the first time in 10 years', The Gazette, 2019
[3] 'Here's a list of warning signals that are flashing red', CNBC, Sept 2019

Figure 1. Global trade is at its weakest since the financial crisis, and earnings have nose-dived

Global trade displays weakest growth since the recession (yearly % change in volume)



Source: Coface Economic Publications, October 2019

S&P 500 earnings per share estimates, 2019

Source: Factset, from 'Here's a list of warning signals that are flashing red', CNBC, Sept 2019

The need to source business growth amidst a tightening economic climate demands new ways of thinking from C-level executives. Those company leaders prepared to take bold decisions about which business units to inject with capital – and which to pull back from – will secure an edge over their rivals. Those that become too cautious, or lack the insight needed to target their investments towards the best opportunities, risk falling behind.

Recent research supports this. Gartner has identified a minority of companies that have consistently performed better during periods of economic downturn because their executives are leaning on their finance teams, gathering better business intelligence, and making tough decisions about where to invest.[4]

Technological disruption is further exacerbating the challenge for the C-suite. Regardless of the economic environment, technology giants such as Amazon and tech-savvy start-ups with new business models continue to accelerate their growth by stealing incumbent companies' market share across industries – another reason why standing still is a dangerous gamble. Just ask Thomas Cook, Polaroid, or Toys 'R' Us.[5] The past two decades have provided the C-suite with cautionary tale after cautionary tale.

Societal risks are also having a deep impact on international trade dynamics. Terrorism and social unrest create additional unpredictability across geographies, while the need to adapt to climate change considerations and regulations will continue to transform the way in which companies operate going forward.

CEOs know what they have to do: exploit opportunities in new markets, new geographies and new customer segments, and push the boundaries with innovative products and services. Their CFOs, meanwhile, must arm them with the financial firepower they need to support and sustain this ambition – in spite of the strain on their balance sheets and the constraints on their cash flow. This is reflected in the 2019 Aon Global Risk Management Survey which ranked economic slowdown/slow recovery as the number one risk facing organisations.[6]

[4] 'Gartner Reveals How Top CFOs Use Uncertainty to Accelerate Competitive Advantages', Gartner, June 2019
[5] 'Ten companies that failed to innovate, resulting in business failure', Frances Goh, Collective Campus
[6] 'Managing Risk: How To Maximize Performance In Volatile Times, Aon, 2019

Step **forward,** insurance

During periods of economic uncertainty and slowing growth, it is even more critical that CFOs use the full range of tools at their disposal to free up cash for strategic investments.

Working alongside banks, insurers are playing a key role; enabling businesses to more effectively use the credit and capital markets to underpin their strategic ambitions – and enable sustainable growth. But many large businesses are not aware of what is possible.

"We think as few as two in 10 CFOs are making full use of credit solutions. The rest are missing out on crucial tools with which to pursue sustainable growth while optimising their cash flow and working capital."

Jason Disborough
CEO, Multinational Clients (International), Aon

This is a missed opportunity. As the C-suite battles to keep growth on track while facing down unprecedented uncertainty, credit insurance solutions can help them to achieve:

- Sales and growth expansion with increased certainty.
- Unrivalled sector, country and counterparty insights.
- Access to additional funding and accelerated cashflows.

This report investigates how these tools help businesses to drive growth in spite of global unpredictability. We talk to experts from a range of industries to find out what challenges they face, how businesses can adopt insurance products to stay ahead, and how the insurance industry is responding with new services and expertise.

Our **expert** interview panel

Matthias Beck
Manager of Group Risk & Insurance, Würth Group

Bruno Chabanon
Financial Director, Sucden

Xavier Durand
Chief Executive Officer, Coface

Gary Lowe
Managing Director & Head, Global Credit Insurance Group, Standard Chartered

Wayne Mills
Managing Director Trade and Working Capital, Lloyds Bank

Juan Carlos Orozco
Chief Financial Director, Celsa Group

Fabrizio Palenzona
Chairman, FAI Service

Johan Rafstedt
Chief Financial Officer, CellMark

Chen Lei
Chief Credit Officer, Lenovo Group

Andreas Tesch
Chief Market Officer, Atradius

Wilfried Verstraete
President and Chairman of the Management Board, Euler Hermes

Aon

Jason Disborough
Chief Executive Officer, Multinational Clients (International), Aon

Pieter van Ede
Head of Global Clients, Credit Solutions, Aon

Stuart Lawson
Chief Executive Officer, Credit Solutions, Aon

Mark Powell
Global Risk Analysis, Credit Solutions, Aon

Raj Shourie
Financial Institutions Advisory Lead, Credit Solutions, Aon

Chapter 1

Fortune favours the brave

The C-suite must grow their businesses sustainably in the face of challenges big, small, new and old. This means finding new ways to prove their worth.

In September 2019, the IMF/Stanford University World Uncertainty Index hit its highest point since it was launched more than two decades ago.[7] The imperative for businesses to confront volatility in order to pursue growth has never been greater – and no business is immune.

[7] 'New Index Tracks Trade Uncertainty Across the Globe', International Monetary Fund, Sept 2019

Leading companies recognise the opportunity to seize competitive advantage amid uncertainty. Among the world's largest companies, the top 10% are capturing 80% of positive economic profit,[8] and one characteristic these businesses share is their ability to focus on opportunity even when buffeted by economic headwinds.

For business leaders themselves, there can be a high price to pay for missing out on that competitive advantage. CEO tenures are plummeting: about 17.5% of the CEOs of the world's 2,500 largest public companies left office in 2018, according to one recent study.[9]

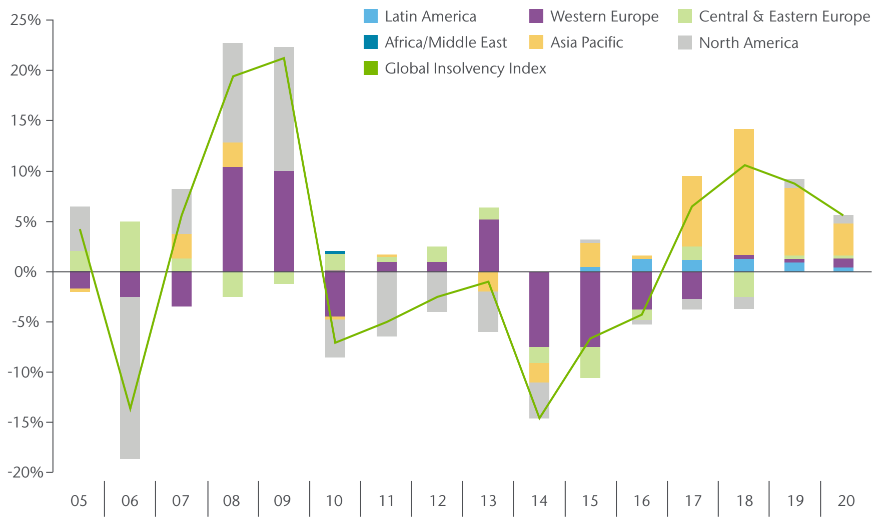
"Many of our multinational clients are listed public companies. Those that are, are judged by investors and shareholders; and the manner in which they manage their working capital is one of the key elements that could impact their share price."

Pieter van Ede
Head of Global Clients, Credit Solutions, Aon

To avoid a falling share price and a discredited top team, the C-suite must tackle the perfect storm of economic uncertainty and accelerating business model disruption head on. It must be mined for opportunity and competitive edge, rather than simply survived.

Figure 2. Insolvencies are on the rise

Euler Hermes & Allianz Insolvency Indices by region, four consecutive years of increase



Source: Global insolvency Outlook 2020, Euler Hermes and Allianz, January 2020

[8] 'What every CEO needs to know about "superstar" companies', McKinsey & Company, April 2019
[9] 'PwC study: CEO turnover at record high', Business Review, August 2019

Trade tariffs and tensions continue to bite across geographies.

Volatility **bites**

What is the nature of that perfect storm? Above all, growth is slowing. The IMF estimates that the global economy grew by just 3% during 2019 – the lowest rate of growth since the recession of 2009.[10] And while it is predicting slightly higher growth of 3.4% for the global economy in 2020, it expects no improvement at all for the growth rates of China, the US, the eurozone and Japan.

Other analysis is even more gloomy. UNCTAD, the UN's trade and development body, has warned that there is now a serious risk in 2020 of the slowdown turning into contraction[11]. The trade dispute between China and the US, which has seen the two countries put damaging tariffs on each other's exports, is one explanation for this pessimism. While an agreement has now been signed to pause the ongoing trade war, the IMF had previously forecast that the trade war would knock $455bn off global GDP in 2020.[12 13]

"We've seen the global economy slow down over the past two years creating a rise in tensions which, by nature, are difficult to predict. Developing systems, processes and data capabilities that are agile is the key to navigating such a volatile world."

Xavier Durand
CEO, Coface

For businesses seeking to grow through international trade, the unpredictability of the China/US clash has been difficult.

"When you wake up in the morning, you never know exactly what happened during the night in terms of threats of new sanctions, increased customs tariffs, and an increase in trade barriers – some of them totally unexpected… trade is based on trust, and the enemy of developing trade is uncertainty."

Wilfried Verstraete
President and Chairman of the Management Board, Euler Hermes

Johan Rafstedt, CFO of global supply chain services company CellMark, agrees. "Expanding into new markets is now more challenging, both for the customer and our suppliers," he says. "This absolutely affects our bottom line."

In Europe, Brexit continues to bite both in the UK and across the European Union, with the focus now on shaping the trade agreement since the UK's departure from the EU on 31 January 2020. "We have already begun to see the effects of Brexit," points out Andreas Tesch, Chief Market Officer at insurer Atradius.

"We expect a further increase in defaults in the corporate space simply due to companies being overly dependent on exports into British companies, which will come at higher tariffs or at least will be subject to more complex administration and, therefore, slower processes."

[10] 'Global Manufacturing Downturn, Rising Trade Barriers', World Economic Outlook, October 2019
[11] 'Global recession a serious danger in 2020, says UN', The Guardian, Sept 2019
[12] 'US and China sign deal to pause trade war', Financial Times, January 2020
[13] 'US-China trade war to cost $455bn in lost output, says IMF', the Guardian, June 2019

Customers pile on the **pressure**

Changing purchasing behaviour and increasing consumer expectations are also adding to uncertainty and corporate vulnerability. Digital transformation and new entrants are disrupting consumer-facing markets, and many incumbent businesses simply cannot keep up.

Industries that are feeling the heat include media, construction, retail, leisure and transport, and the September 2019 collapse of travel company Thomas Cook is just one high-profile example of failure. “Thomas Cook went bankrupt not only because of its high debt levels, but also because its business model was effectively out of date,” explains Stuart Lawson, CEO of Aon’s Credit Solutions business.

Banks retreat from **risk**

Facing this kind of turbulence, CEOs might once have turned to their banks to help them address working capital challenges. But in the fall-out from the financial crisis, banks have moved to de-risk their own balance sheets. Many are unable to advance sufficient credit to corporate customers because of tougher capital requirements; others are deliberately moving away from higher-risk segments of the market.

“Banking regulation is getting stricter every day, which means that companies must look for new sources of finance.”

Juan Carlos Orozco
Chief Financial Director of
multinational steel company, Celsa Group

Orozco points to a new source of support. “Insurance companies will play a stronger role in providing alternative sources of financing,” he predicts. “As they are able to assume the risk of a transaction.”

Chapter 2

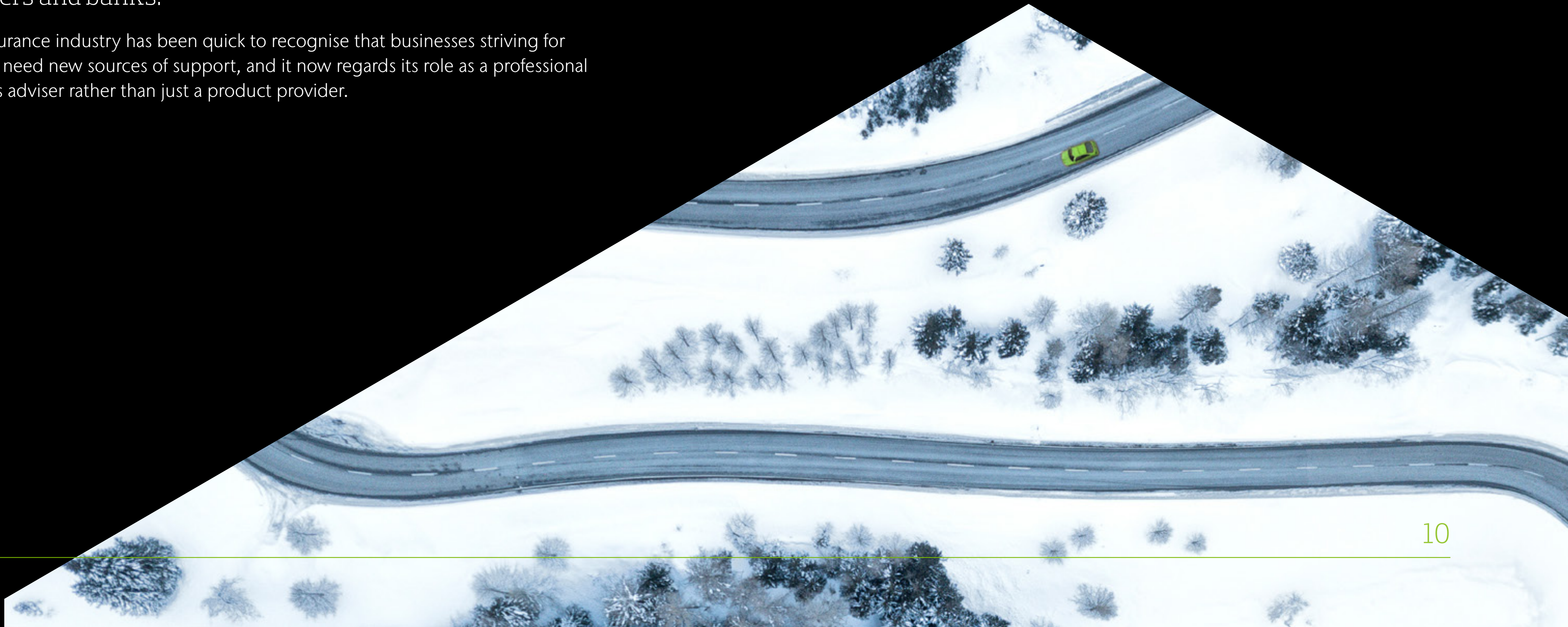
Step forward, insurance

Insurance solutions, support and business intelligence can help to provide the C-suite with the tools and the courage to innovate and seek new sources of growth. This will lead to a new collaborative relationship between businesses, insurers and banks.

The insurance industry has been quick to recognise that businesses striving for growth need new sources of support, and it now regards its role as a professional services adviser rather than just a product provider.

"Credit insurance is a sales enabler. If you are not sure about the credibility of your customer, your insurance limit gives you the safety you need to go ahead with the sale."

Matthias Beck
Manager of Group Risk & Insurance, Würth Group



Banks turn to **credit insurance**

Credit insurance is an important tool at the C-suite's disposal. Businesses looking to improve working capital have long depended on receivables finance, securing funding from banks using the collateral of their unpaid invoices. While this is still an option for some businesses with blue-chip customers, capital constraints and reduced appetite for risk mean that banks are less willing to extend credit. This is where credit insurance comes in.

Credit insurance providers are seizing the initiative. By insuring the credit risks posed by their clients' yet-to-be-settled invoices and payment obligations, they make it easier for banks to lend against this asset. Banks that use insurance can put less capital aside against the finance extended, which increases their lending capacity.

"In very simple terms, credit insurance allows us to do more business with our clients. We can make a larger loan that we might otherwise feel uncomfortable with, because we have a tool to manage our risk exposure."

Gary Lowe
Head of Global Credit Insurance, Standard Chartered Bank

The upsurge in credit insurance has created opportunities for banks.

Many banks have embraced this idea, with the use of credit insurance increasing throughout the Asian banking market as well as in other jurisdictions.

"It increases price competition," says Lowe, referring to the growing adoption of insurance in the credit sector. "We can bring risk-takers into a portfolio of loans, who have a differentiated risk appetite and therefore differentiated pricing expectations compared with traditional credit investors."

Raj Shourie, Financial Institutions Advisory Lead at Aon adds: "Based on recognised market intelligence[14], we estimate that the notional amount of credit insurance covering outstanding bank exposures is continuously growing and is in excess of $300bn".

The upsurge in credit insurance has created opportunities. "Banks are continually reviewing their capital structures, both as a matter of regulation and for reasons of prudence," says Wayne Mills, Managing Director of Trade and Working Capital at Lloyds Bank. "We have needed to find new ways to generate liquidity for our clients in a capital-efficient way, thus the relevance of risk distribution techniques such as credit insurance is increasing."

[14] ITFA insurance committee survey

A new era of **collaboration**

In simple terms, credit insurance facilitates funding that is both more efficient for the corporate business in need of finance and economically attractive for the lender. One consequence of this evolving partnership is that the overall credit insurance market is growing rapidly. In 2018, the value of exposure covered by credit insurance exceeded €3tn for the first time.[15]

Credit insurance can help banks to continue to lend despite the increasing cost of capital, but corporates should also proactively seek a strategy that supports their business and growth objectives.

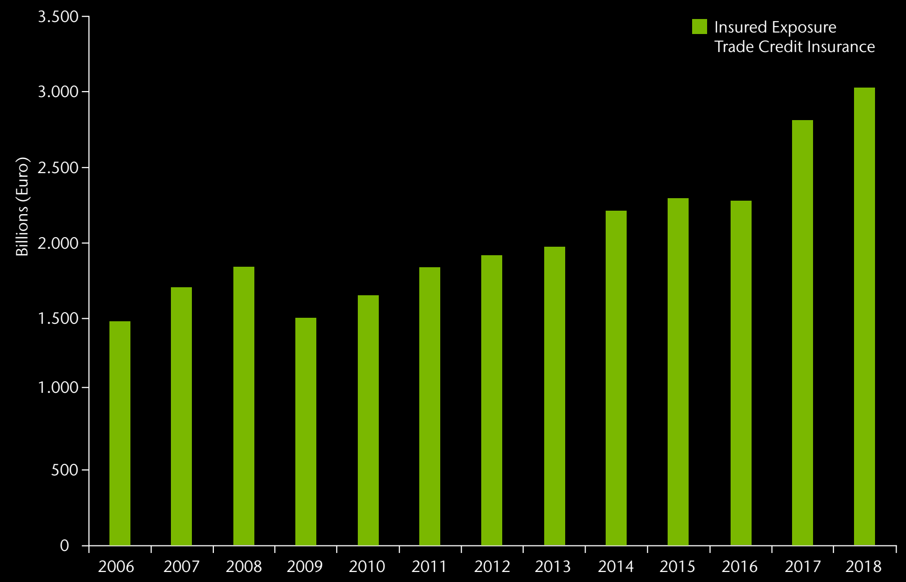
For businesses, taking co-ownership with banking partners opens a door to finance that might have been closed without credit insurance, securing the working capital finance they need to pursue growth from a position of strength.

Bruno Chabanon, Financial Director of Sucden, explains how the commodities firm has taken out additional credit insurance so that it can do more business with its best clients: "It allows our traders to ensure their clients can do the business they want to do."

This level of collaboration requires insurers to play a more strategic role, with contract agreements that suit the needs of both their corporate clients and their banking partners. And there is widespread enthusiasm for even closer collaboration. "We expect a growing spirit of partnership from insurance partners in regards to the management of commercial risk," explains Fabrizio Palenzona, Chairman of FAI Service, a leading logistics and transportation service provider. "We will see new analytical models developed in partnership with the insurance industry, and this will consequently improve the ability to properly value the commercial risk of different services. We will use this information to develop innovative services cost-effectively."

At Würth Group, meanwhile, Matthias Beck sees scope for corporates making greater use of insurance captives. "To a point, you could take credit risk through your captive, approaching the credit insurance market only in areas where you really need extra capacity," he suggests. "In addition, the involvement of a captive might be a useful alternative for programs and credit insurance policies with many partial credit limit decisions or limit refusals of the credit insurer. As the credit insurer remains responsible for setting the credit limits, the acceptance/coverage ratio will increase, as the insurer shares the risk with the captive equally."

Figure 3. Trade credit insurance climbs higher
Trade Credit Insurance – Insured Exposure ICISA Members (excluding reinsurance members)



Source: ICISA Statistics

[15] ICISA Press Release, 18 June 2019

Chapter 3

Innovation fuels business **value**

Innovative applications of credit insurance underpin improved working capital, stronger balance sheets, and more efficient cash conversion. Insurers also offer a new source of potentially transformative data, helping businesses to open up fresh avenues of growth.

See around corners

Due to the extensive volume of trades covered by credit insurance, insurers represent a powerful source of data and insights. These can support business decision-making and help businesses to 'see around corners' – identifying where their exposures are concentrated or where new opportunities lie.

One leading funder has done just that, using credit insurance risk data to prompt a move into lending to advertising and media clients to balance its exposure to construction and retail. A leading logistics multinational, meanwhile, decided to develop a significant new trading relationship only after credit insurance data on the customer suggested it was an acceptable risk.

Optimise working capital

Securitisation in the receivables finance sector is a well-established practice, with lenders packaging up loans via funding vehicles that issue tradable asset-backed securities. It improves liquidity and capital availability in the funding marketplace, which makes it easier for businesses to secure the finance they need to optimise cashflows.

As we have seen, credit insurance is now enhancing the quality of the receivable assets that banks use as collateral – not only mitigating the risk of non-payment, but also leveraging the strong credit rating of the insurer that provides the cover.

"We recently undertook a complex securitisation project with many moving parts", recalls Chen Lei, Chief Credit Officer at Chinese multinational technology company Lenovo. "Our annual turnover is $51 billion a year, with account receivables at the $12 billion level.

> **"We don't want our capital trapped in our balance sheet and must make the most out of our working capital."**

Chen Lei
Chief Credit Officer, Lenovo

Our securitisation project helped us to achieve this goal, and by improving efficiencies internally, we have been able to build long-lasting relationships with both our suppliers and customers."

The arbitrage between banking and insurance regulation means that credit insurance could significantly expand the securitisation marketplace – and therefore improve liquidity and access to new sources of capital.

Replace collateral and **free up** the balance sheet

Receivables finance is one example of credit insurance enabling businesses to unlock value tied up in their balance sheet, with the insurance allowing them to access this source of funding efficiently. Surety facilities are another option.

With sureties, insurers guarantee the successful contractual performance of the client to a third party. Historically, sureties have been used in relation to construction contracts; however, as companies look to create balance-sheet efficiencies, the cost of financial securities such as bank guarantees and Letters of Credit has been challenged across the board. With insurers having re-designed their insurance and surety wordings to mirror the bank's security, CFOs and treasury teams are able to structure more cost-effective off-balance sheet solutions.

For instance, organisations involved in energy trading are typically required to post credit cover to a clearing house which traditionally requires expensive Letter of Credit facilities to be put in place. Surety facilities can be structured to replace these Letters of Credit, thus reducing security costs and freeing up significant amounts of working capital.

Insurers have recognised this, and are rapidly expanding the applications of surety bonds in areas ranging from pension deficit security to decommissioning guarantees. The common thread is that these solutions enable businesses to take on new obligations to customers as they grow – without constraining their balance sheets.

Boost the cash conversion cycle

As companies seek to improve working capital, they are also turning to insurance to develop differentiated accounts payable solutions. And to strengthen their relationships with key suppliers, companies may decide to help increase the level of credit limit capacity provided by insurers on their organisation.

> **"By using the insurance market as an accounts payable solution, companies are able to create additional financing opportunities for suppliers without increasing their own debt levels or using up existing banking lines."**

Mark Powell
Head of Global Credit Risk Analysis, Aon

The common thread is that these solutions enable businesses to take on new obligations to customers as they grow – without constraining their balance sheets.

Chapter 4

Keeping up with **credit risk evolution**

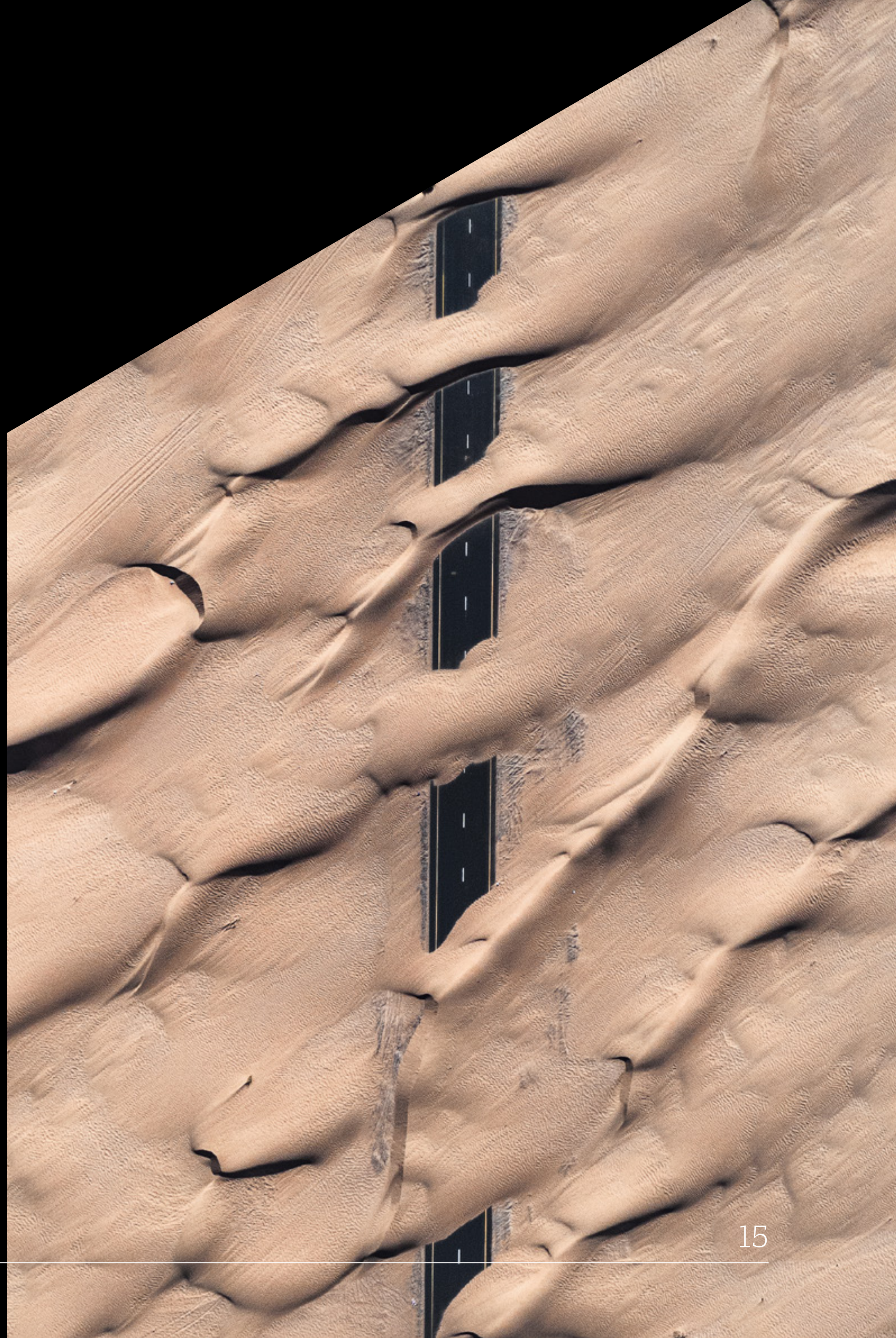
Volatility and emerging technologies are keeping the C-suite on its toes; every day, new credit risks and solutions emerge and old risks transform.

The direction of travel is clear; innovation in credit insurance is offering businesses new ways to mitigate more and more risks as they pursue growth.

"Innovation in the credit space is inevitable, and traditional risk analysis is no longer providing the level of predictability that it did in the past," warns Atradius's Andreas Tesch.

"If companies fail to look for such innovation, they will probably put their own survival at risk."

Andreas Tesch
Chief Market Officer, Atradius



AI tools **shed light** on risk

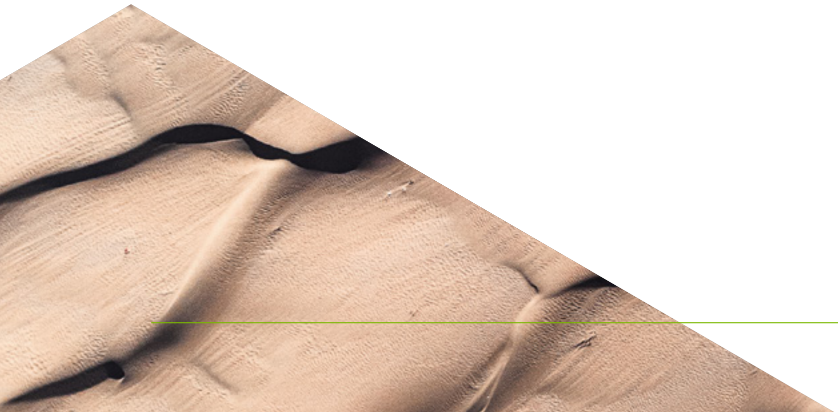
The C-suite has to understand the credit risk posed by key customers and market segments, and this is where insurers can lighten the load.

Many companies are starting to seek out new sources of data to feed into artificial intelligence (AI)-powered tools that will give them intelligence on the risk of default. These tools could become a lifeline for CEOs and their boards as they weigh up the risk and rewards of competing growth priorities. And credit insurance intelligence will be a vital component, helping companies to make informed decisions in real time.

Atradius, for example, is using web-crawling technology to assess the creditworthiness of companies.

"We use machine learning technology to identify key words, such as 'breach of governance'."

"We can then create a link between the frequency of such words and the creditworthiness of a company, based on financial analysis." explains Tesch.



M&A gets a **helping hand**

Credit solutions are also increasingly important in that crucial component of companies' growth strategies: mergers and acquisitions.

When a company makes a formal bid to buy another business for cash – in full or in part – its financial advisers must provide a cash confirmation statement certifying that it has the funds to make good on its offer.

Traditionally, bidders have used the likes of bridge credit agreements to facilitate these statements. However, surety bonds issued by insurers offer various advantages: they are often issued on financially superior terms, they preserve the bidder's liquidity, and they give it more flexibility on capital markets timing.

Surprising **new uses** of credit insurance

Credit insurance is now playing an important role in some unexpected markets – football, for instance.

As transfer values continue to rise, buying clubs are keen to pay transfer fees over several years, while selling clubs often demand payment immediately to fund the cost of replacements or sustain its financial structure. Various funders, including specialist sports financiers can help bridge the funding gap, but these will often require some form of non-payment risk solution to meet both their credit constraints and the cost of capital thresholds.

The credit insurance and surety markets are well placed to provide that credit security, enabling the funding to be approved and the transfer to be completed. This financing method is becoming more and more widely used by football clubs and funders, and is now being used to drive other significant revenue flows, including future broadcasting earnings.

Conclusion

Credit Insurance provides a **lifeline for growth**

Faced with demanding expectations on financial performance, and buffeted by unprecedented volatility, the C-suite needs to take a more holistic view of credit insurance and how it can help their businesses to plot a new course for maximum growth and profitability.

1. Gain a competitive advantage

Moving beyond traditional uses of credit solutions can be a growth enabler, unlocking vital working capital, maximising balance-sheet efficiency, supporting new business wins, and assisting in M&A. Companies that do not explore these options risk being left behind.

"If a competitor can take advantage of a new solution in the credit risk market before you do, you are allowing them to gain an advantage over you."

warns Celsa Group's Juan Carlos Orozco. "You need to make sure you get there first."

2. Pick the right team

Business leaders need to appoint the banks, insurers and advisers that have evolved from being product providers to being trusted business partners. These partners will work with the C-suite to unlock value and realise growth opportunities.

3. Become equipped with the right insight

Businesses can take advantage of advisory expertise and knowledge to unearth the insights that will help them identify and get ahead of risks. And innovation in the insurance sector promises further advances – particularly in areas such as data analytics, which the C-suite can use to access the predictive insights that can give businesses some certainty in a volatile world.

Contacts

Stuart Lawson
Chief Executive Officer, EMEA
Credit Solutions
Aon
+44 (0)20 7086 0351

Pieter van Ede
Head of Global Clients
Credit Solutions
Aon
+1 303 782 3345

Oliver Henderson
Chief Broking Officer
Credit Solutions
Aon
+44 (0)118 929 5115

Remco Beuvens
Chief Development Officer, EMEA
Credit Solutions
Aon
+49 40 3605 3090

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