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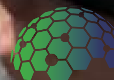
Impact of COVID-19 on the Export Credit and Investment Insurance Market

ICIEC Boosts COVID-19 Mitigation Support with Nearly US$500m of Cover and Other Facilities to Date

ICIEC COVID-19 Guarantee Facility–A Private Sector Recovery Support Model for Other MDBs?

"At ICIEC our full suite of solutions will always remain available to exporters, importers and financial institutions in our member countries to ensure that supply chains are intact, and the health and livelihoods of citizens are protected"

Oussama Kaissi, CEO of ICIEC



مجموعة البنك الإسلامي للتنمية
Islamic Development Bank Group

CEO's Brief

Welcome to this inaugural issue of Impact Insurance, the thought leadership magazine of The Islamic Corporation for the Insurance of Investments and Export Credit (ICIEC), the standalone export credit and investment insurance Corporation of the Islamic Development Bank (IsDB) Group.

Ever since the World Health Organisation (WHO) declared the COVID-19 outbreak a pandemic in March 2020, humanity has experienced a 'once-in-a-century' event in which a wily pathogen continues to wreak havoc on an unsuspecting and unprepared world with second and third waves of infections thanks to a beauty parade of virus mutations and variants.

The emergence of a motley of vaccines in record time is testimony to mankind's ingenuity and resilience. It has also exposed human hubris with the emergence of vaccine nationalism, inequality and uneven accessibility. While vaccines are vital to contain the pandemic, it is no panacea or cure for COVID-19.

At best vaccinating 60% of the 7.8 billion global population to achieve a semblance of herd immunity will take anything up to three years, given the doubt over the efficacy of the vaccines against the new variants and the sheer roll out logistics especially in developing countries and the difficulties manufacturers are having in meeting the sheer demand for the vaccines.

The disruption caused by the pandemic in economies, public finances, supply chains, travel, tourism, cross-border trade, healthcare systems, commerce, industry and SMEs is unprecedented since the Great Depression in the 1930s. It spiralled most of the world into recession with unparalleled contractions in GDP growth. The 57 member countries of the OIC are no exception.

The International Monetary Fund (IMF) projects a 5.5% rebound of global GDP in 2021 after an estimated contraction by 3.5% in 2020 – reflecting expectations of a vaccine-powered strengthening of economic activity and additional policy support in a few large economies. The COVID-19 has impacted FDI flows, expected to decrease by a further 5% to 10% in 2021 after a decrease by up to 40% in 2020. World trade shows signs of recovering back from the COVID-19 induced slump, however, the sustainability is still uncertain. The WTO forecasts a 7.2% rise in the volume of world merchandise trade for 2021 followed by a 9.2% decline for 2020.

The International Monetary Fund (IMF) projects a 5.5% rebound of global GDP in 2021 after an estimated contraction by 3.5% in 2020 – reflecting expectations of a vaccine-powered strengthening of economic activity and additional policy support in a few large economies. The COVID-19 has impacted FDI flows, expected to decrease by a further 5% to 10% in 2021 after a decrease by up to 40% in 2020

The human cost of the pandemic is devastating. By 16 February 2021, according to WHO, Globally 108,822,960 people had been infected by COVID-19 resulting in 2,403,641 lives lost. The talk today is all about economic recovery and building back better. The challenges are huge. With the slowdown in demand, economic activity and international trade, countless jobs are at risk, threatening the livelihoods of millions of people across the globe.

With these challenges comes manifold risks – old and new ones. Innovative solutions are beckoning – some imposed out of necessity and survival thanks to lockdowns and social distancing requirements. Remote working and digitisation are the clarion call of the day. Only time will tell whether these are a passing phase or whether the nature of doing business has been transformed irreversibly.

Restoring international trade and investment to its pre-COVID levels is essential. Here the export credit and investment insurance industry assume an even greater importance. They cover a cornucopia of commercial risks, arbitrary asset expropriation by governments and risks associated with catastrophes and natural disasters, climate-related events and terrorism.

The ecosystem covering these risks at best is underdeveloped. The reality remains that most of the total global cross-border trade and FDI flows remain uninsured. Emerging countries are worst affected by the economic fallout of COVID-19, which has exacerbated disparities giving developed economies yet another advantage.

In launching Impact Insurance, we have a simple objective – to foster a healthy collaborative discourse amongst the various ECA and PRI community and wider stakeholders about the post-COVID-19 economic recovery, the various trends in the industry, out of the box ideas on sector and societal activism and regulatory oversight in an honest, courteous and transparent way.

At ICIEC our full suite of solutions will always remain available to exporters, importers and financial institutions in our member countries to ensure that supply chains are intact, and the health and livelihoods of citizens are protected!

Out of adversity comes new opportunities, cooperation, resilience and sharing of ideas!

Oussama Kaissi
CEO of ICIEC

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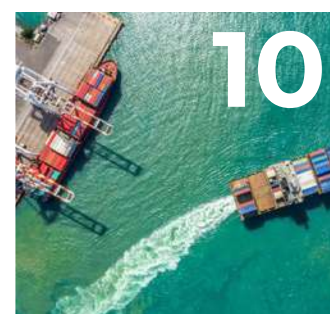

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Editorial Comment

If 2020 was defined by the onset and disruption caused by the coronavirus pandemic and our initial response to it, then 2021 will surely be defined by our ability to contain if not eradicate the pathogen and its ongoing health, economic and social impact on the global community

We have seen vaccine development and roll out in record time. Governments and multilateral agencies have risen to the occasion with extraordinary emergency relief packages and COVID-19 mitigation facilities including by the Islamic Development Bank (IsDB) Group and its insurance arm, ICIEC.

The reality is that there remains much uncertainty regarding the logistics of global vaccination roll out and the ability of countries to recover from the real economy impact of the virus especially in public indebtedness, a sharp decline in trade and FDI flows, more business insolvencies, increased joblessness and a motley of other considerations.

Government and multilateral do not have bottomless pits of resources. The private sector has also borne the brunt of business losses and supply chain disruptions.

Both the health and economic consequences of COVID-19 raises serious questions about the perspicacity of our global leaders and their fateful lack of a virus preparedness strategy given that we have experienced a series of other pandemics notably Ebola, HIV, Lassa Fever, Marburg etc. Bill and Malinda Gates were the notable exceptions warning about the potential debilities of a potential coronavirus pandemic way back in 2015. In February, we saw a resurgence of Ebola in West Africa (including an IsDB member country) just as we though it had been eradicated.

In launching **Impact Insurance**, ICIEC seeks to create a platform for the exchange of ideas and dialogue covering the narrow issues relating to its core mandate of export credit and investment insurance to uplift member countries' economies and in the process contribute to the general wellbeing of their citizens. It is also a platform to consider the wider issues of the macroeconomy and the new trends unleashed by our pandemic experience including digitisation, regulatory gaps, FinTech, AI, remote working and so on.

This first issue is just a start and inevitably there will be teething issues. Our aim is to consolidate the content and design as we develop and mature. The input of various industry stakeholders and interested parties is vital and we welcome any feedback.

Impressive Mix

We have an impressive and varied mix of articles, comment and interviews which aims to elevates the reader directly to many of the core issues trending and affecting the export credit and investment insurance industry.

In this issue, topics covered include the *Impact of COVID-19 on the Export Credit and Investment Insurance Market and ICIEC COVID-19 Mitigation Support.*

We consider the challenge of *Rebuilding Back Better – Global Economic and (Re) insurance Market Prospects in 2021/22.*

There is an analysis of the *IsDB/ICIEC COVID-19 Guarantee Facility – A Private Sector Recovery Support Model for Other MDBs?* This is complemented by a Gust Comment from Sunil Kaushal, Regional CEO, Africa & the Middle East, Standard Chartered Bank on Paving the Road to *COVID-19 Related Recovery with Unique Financing Options*.

There is a timely contribution on the business impact of the COVID-19 pandemic on ECA and PRI operations highlighting *ICIEC's Underwriting Outlook 2021 and Beyond, which calls for Striking a Balance Between Member Countries' Needs and Managing Risks*.

One of the unintended consequences of the COVID-19 pandemic is the rise in commercial disputes involving states and/or companies as a result of claims relating to business losses due to lockdowns, companies unable to meet contractual obligations and payment defaults. We

> **Our ICIEC Member Country ECA Profile focuses on Etihad Credit Insurance (ECI) and its dedicated 'ECI Islamic', a suite of Shariah-compliant export credit solutions to boost the country's halal export industry and to cement its position in the fast-growing Islamic economy**

have an exclusive interview with *Kwadwo Sarkodie*, Partner & Africa litigation and arbitration lead at international law firm, *Mayer Brown*, discussing issues relating to dispute resolution in trade, commerce and investment and why mediation could be a win-win option. One recourse is arbitration which is costly and drawn out. As an alternative dispute resolution option, the UN's Singapore Convention on Mediation came into force in September 2020. The indications are that dispute resolution through mediation is set to increase as a result of the economic impact of the pandemic.

As such the interview on *Dispute Resolution* headlined *Resolving Trade, Commercial and Investment Disputes Cost-effectively Through Mediation* is a must read.

The continued economic impact of the coronavirus pandemic with several countries now experiencing a second wave exacerbated by a more contagious mutant strain, the oil price fall and cuts in central banks repo and profit rates, once again raises the perennial issue of the use or dearth of effective Shariah-compliant derivatives as hedging tools especially for risk management purposes.

As such we consider the current options and greater need for *Shariah-compliant Alternatives in Derivatives, Hedging, Credit Support in Transactions* and the wider challenge of *Risk Management - Upscaling Hedging Through Shariah Compliant Derivatives.*

Our *ICIEC Member Country ECA Profile* focuses on Etihad Credit Insurance (ECI) and its dedicated 'ECI Islamic', a suite of Shariah-compliant export credit solutions to boost the country's halal export industry and to cement its position in the fast-growing Islamic economy. *ECI Builds Back Better in COVID-Disrupted Export Credit Insurance Market* analyses the current business and future ambitions of ECI Islamic.

Finally, we round up with a selection of pertinent shorts on ICIEC Member Country ECAs and Partners.

Status Report

Impact of COVID-19 on the Export Credit and Investment Insurance Market

Insurers are confronting the COVID-19 outbreak, which started in earnest in March 2020 when WHO declared it a global pandemic, on various fronts – claims, decline in business insured due to a decline in economic activity especially trade and investment, knock-on health, economic and social impact on member countries and societies, impact on the (re) insurance companies and their capacity to deal with the fall out.

"We expect the financial impact of coronavirus upon (re)insurers," maintains Neal Baumann, Global Insurance Leader at Deloitte, "to be specific to the circumstances of each enterprise – the classes and mic of business they underwrite, their pricing and reserving, policy wordings, and reinsurance coverages."

A saving grace is that claims related to catastrophes and natural disasters have seen a lull in 2020. According to Swiss Re, global economic losses from natural catastrophes and man-made disasters in 1H20 were US$75bn - up from the US$57bn for the same period in 2019, but well below the 1H US$112bn average of the previous 10 years. Of the economic losses, around 40% (US$31bn) were covered by insurance. In the previous 10 years, 1H insured claims averaged US$36bn annually. These catastrophe loss estimates are for property damage and exclude COVID-19 related claims.

The export credit insurance industry response to the COVID-19 pandemic has been swift given the profound immediate impact of the pandemic on global trade. The latest estimates from the WTO predict a fall in merchandise trade between 13% and 32% for 2020. "Even at the optimistic end of this estimate we would expect a decline in excess of that seen in 2008-2009, at the start of the global financial crisis," emphasised the Berne Union. But it rightly warns against expectations of a quick rebound especially in the wake of issues relating to vaccine accessibility and the spate of virus mutations and variants.

Its members collectively provide cover for some US$2.5 trillion of exports annually, equivalent to 13% of global cross-border trade. The good news is that the H1 2020 results reported by major Berne Union ECAs still show a rather contained decrease to US$134bn in overall new business compared to US$141bn for the same period in 1H 2019, and no increase in total claims paid.

Virtual Stock Take

During a virtual stock take by Berne Union members of the state of the ECA and PRI industry during the COVID-19 pandemic, members reported a marked increase in payment deferrals and pre-claim situations and also expect to see COVID-related claims levels rising from early 2021. This development comes at a time when claims activity according to the Union is relatively subdued

with US$3.3bn being paid in 1H2020 compared to US$3.2bn in the same period last year.

Export is an engine of economic growth and 90% of world trade relies on some form of credit from a bank or other financial institution. Concomitantly credit insurance protects exporters and banks against non-payment/default by obligors which may be caused by commercial or political risk.

Banks use credit insurance both for credit risk mitigation and credit management, such as loss compensation, safeguarding continuity, stabilising cash flows and

> **"The mantra is that the insurance industry is generally well prepared for uncertainty due to major loss events including pandemics. The reality is as the COVID-19 pandemic has proven, the financial impacts will take time to play out and will be (re)insurer specific**

credit monitoring. Insurance is provided on the basis of a partnership between insurers and insured (exporters or banks), with full disclosure by the bank of the risk to be insured, supplemented by the insurer's independent underwriting process.

Berne Union's ECA Committee Chair Robert Suter and Vice Chair Irene Gambelli, however warn that the macro uncertainty of the environment in which ECAs operate remains a major concern. A second wave of rising COVID-19 infection rates, they maintain, has already led to a tightening of sanitary measures in Europe and other regions, creating economic uncertainty about future demand and – as we have seen in the first wave – supply. "The risk of a rise in protectionism, government-led onshoring of certain industries and general inward-looking focus of countries remains very real. Companies and even governments are reconsidering large investments, a development which impacts the demand for export financing."

"Worryingly, some of our members have already seen a more selective approach of banks in financing transactions, mostly affecting sectors and countries that have been hit hardest by the current crisis." They predict the demand for ECA-financing will probably remain stable, as it is precisely the function of ECAs to maintain capacity under high uncertainty and thus to minimise disruptions to trade and investment during a crisis.

They foresee: i) a further shift towards the less traditional business lines like domestic support; ii) the role of ECAs in promoting trade and investment is likely to gain additional momentum from this crisis; iii) sustainability outside the traditional sphere of 'jobs and exports' will become core pillars of ECA mandates; iv) the promotion of climate and SDG finance and good governance in executing the export finance business is here to stay; v) a positive long-term outcome of the COVID-19 crisis would be a renewed appreciation for a well-functioning and sensibly governed international trade system; vi) and ECAs will remain open to new partnerships and cooperation in pursuit of fulfilling their mandates.

The widespread physical lockdown has brought some industries to a halt and is strangling others, with disruptions to supply chains aggravating both supply and demand. "This disruption, combined with uncertainty and plummeting cashflows are putting pressure on corporate liquidity, increasing credit risks and ultimately driving a spike in defaults and insolvencies," added the Berne Union.

The lessons learnt from the 2008 global financial crisis ensured official export credit schemes to become more flexible

The risk of a rise in protectionism, government-led onshoring of certain industries and general inward-looking focus of countries remains very real. Companies and even governments are reconsidering large investments, a development which impacts the demand for export financing

and innovative, especially in supporting the SME sector, the backbone of many emerging economies.

At the same time, the private insurance market has grown considerably in capacity and in their collaboration with ECAs and multilateral institutions across all areas of business. Responses from the private insurance market mainly targeted to ease the pressure on exporters (the policyholders) through: i) relaxation of some administrative obligations; ii) granting of extra time for notifications of payment delays by importers; iii) granting of extended payment terms to importers; and iv) flexibility on premium payments in some cases.

Likewise, ECAS supported policyholders through: i) expediting approvals process and extended validity period of offers; ii) extending time for notification and claims filling; iii) special claims handling processes; iv) concessions and waivers on premiums and various fees; and v) giving discretionary powers for policyholders to extend credit terms to buyers without additional consent.

Investment Insurance

In the field of investment or political risk insurance (PRI) the G20 and MIGA, the export credit and political risk insurance (PRI) agency (ECA) of the World Bank Group have both come up with solutions aimed at new forms of collaboration between multilateral agencies and the private sector aimed at rebuilding growth and development especially in the emerging economies through the provision of political risk guarantees to investors and lenders aimed at promoting FDI.

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Ramping up PRI and credit enhancement historically, says MIGA Executive Vice President, Hiroshi Matano, provides "effective de-risking and thus catalysing private investment into emerging markets through capital-efficient instruments.

Deploying these types of de-risking solutions in combination with debt and equity financing has the potential to materially increase the flow of private sector capital into emerging markets and developing economies."

The G20, the group of twenty important economies which include ICIEC member countries Saudi Arabia, Turkey and Indonesia, and MIGA adopted two initiatives in early 2021 aimed at building back better. The former conducted a stock-take study commissioned by the G20 Saudi Presidency for 2020 on the current state of political risk and credit insurance market for equity investments and MLT debt investments, identifying also best practices and potential gaps in the market.

Its four recommendations don't seem game-changing at first glance – increasing awareness of ECA and PRI in order to mobilise additional private capital for development from local banks and international and domestic investors; far greater insurance and guarantee offerings of multilaterals; the latter also to cover risks in equity investments; and for them to enhance their Global Emerging Markets (GEMs) Risk Database.

The MIGA report advocates a partnership approach to grow private investment through expanding PRI. The G20 Report was conducted by the 57-member Jeddah-headquartered Islamic Development Bank (IsDB), the second largest multilateral development bank after the World Bank, and its insurance arm, ICIEC.

ICIEC of course is the sole multilateral export credit and investment insurance Corporation in the world that provides dedicated Shariah-compliant export credit and investment insurance solutions to its member countries (see separate article). Given the underdeveloped ECA culture generally in IsDB member countries, there is huge scope for Shariah-compliant credit and PRI solutions and guarantees especially also targeting SMEs in member countries.

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The UAE's Etihad Credit Insurance (ECI), which has a dedicated Shariah-compliant entity, for instance similarly increased financial and insurance guarantees without increasing fees. It has more than 1600 revolving credit guarantees of US$1.2bn equivalent to support the non-oil economy. It is particularly supportive of SMES. "Prior to the pandemic crisis in August 2019," reminds CEO Massimo Falcioni, "ECI launched specific support to SMEs in the form of an online solution 'SME Protect' which provides simple to access support via an OTC product helping businesses broaden their understanding of trade credit solutions and providing guarantees to receivables so SMEs can provide credit to clients without financial loss"

Then pandemic has also raised discourse in terms of innovation especially in the use of data and digitisation. "Traditional documentary trade finance," says John Bugeja, Managing Director at Trade Advisory Network, "is seen as 'short term, self-liquidating and secure' resulting in increased credit appetite relative to unstructured, unsecured debt. Its use has, however, been in long term decline as trading parties have increasingly favoured open account settlement."

Digitalisation, he maintains, will facilitate innovation. The aim should not be to merely digitalise existing processes, but to find new, more efficient ways to meet clients' financing and risk mitigation needs, exploiting the functionality that digitalisation brings. In the reinsurance sector, the industry, says Fitch Ratings, began to raise prices more due to higher natural catastrophe claims and concerns over reserve adequacy and loss severity for US casualty business in January 2020. "Price increases have gained momentum through the various renewal seasons since the onset of the pandemic and we expect the hardening market to continue into 2021. Demand for reinsurance is likely to increase due to heightened uncertainty linked to the pandemic and primary insurers› stronger ability to purchase reinsurance given increases in their own pricing."

The 9M20 results of the four major European reinsurers - Munich Re, Swiss Re, Hannover Rueck and SCOR SE revealed that fewer new pandemic-related claims reserves were booked in 3Q20 than in 2Q20. Event cancellation covers was the only affected business line that required major adjustments to expected claims, Fitch Ratings says.

Despite the pandemic-related claims incurred in 9M20, Hannover Re, Munich Re and SCOR SE remained profitable. Meanwhile, Swiss Re substantially reduced its net loss, which had been reported after six months, in 3Q20. These relatively strong results were possible as a fairly light natural catastrophe loading and an improvement of the underlying underwriting result helped to compensate for losses related to the coronavirus crisis.

Capital Strength

The sector's capital strength has remained largely unscathed despite substantial pandemic-related underwriting losses in several segments, including contingency/ event cancellation, travel, trade credit and surety, business interruption and mortality. This was achieved thanks to a series of capital increases and the recovery of financial markets from the lows recorded in spring this year.

All four major reinsurers in fact remained well capitalised in 2020, which was partially achieved by the issuance of subordinated debt. This allowed for strong premium growth in reinsurance, driven by higher prices, rising demand in Asia, and an increased risk appetite.

In fact, cooperation in reinsurance between ECAs and private insurers has gradually increased in the last two decades. This is particularly true of ECAs reinsuring part of their business in the private market. According to the Berne Union, a number of private insurers have developed appetite and have created capacity for increasingly longer tenors for single risk ECA business, allowing ECAs to reinsure this business with tenors even beyond 10 years.

This cooperation has turned out to be mutually beneficial: ECAs can thus expand their capacity, while private insurers tap an additional source of income, diversifying their portfolios at the same time. This trend is set to continue in 2021 and will be further strengthened by the launch of a joint committee for this business.

The COVID-19 pandemic, says the Berne Union, has also seen a flow of reinsurance going the other way around: ECAs providing private insurers with reinsurance, especially for short term business. "This cooperation has also been facilitated by the frequent exchange of information between our public and private members in dedicated COVID-19 sessions, forum discussions and member surveys," adds the Berne Union.

Going into 2021, the sector expects risk-adjusted prices in property and casualty reinsurance to rise further. Fitch projects pandemic-related claims burden will reduce progressively due to the exclusion of pandemic covers in renewed treaties.

Progress Update

ICIEC Boosts COVID-19 Mitigation Support with

Nearly US$500m of Cover and Other Facilities to Date

The Islamic Development Bank (IsDB) Group allocated US$2.3 billion to its member countries and to Muslim communities in non-member countries in April 2020 under its Strategic Preparedness and Response Programme (SPRP) to combat the health and socio-economic effects of the COVID-19 pandemic.

This includes US$150 million from ICIEC for the provision of credit and political risk insurance to sustain imports of strategic commodities, investment protection, and to minimise volatility.

Since then, it has been a consolidation and refinement of the Group's and its individual standalone entities' COVID-19 mitigation initiatives. The IsDB Group fully recognises the limited ability and capacity of its member countries to cope with these adverse impacts of COVID-19 and assured them of the Group's full and unwavering support to get through this tough period.

ICIEC's response to the pandemic has been guided by the IsDB Group's "3 R's": Respond, Restore, Restart. It is ICIEC's goal to provide the necessary support for our member countries as we transition from R1 into R2 and R3, ensuring that the Organisation of Islamic Cooperation (OIC) region emerges from this pandemic stronger and more sustainable than ever before.

As at the end of 2020, ICIEC for instance has provided a total of US$495,990,260 in support to member countries through the SPRP, ICERI and R2 project finance in various member countries. The Corporation will continue to provide support to member countries throughout 2021.

"As the COVID-19 pandemic continues," explains Oussama Kaissi, CEO of ICIEC, "we have been working to provide aid and solutions to member countries and their inhabitants, coordinating with our partners to find innovative responses to the present challenges.

"While the creation of vaccines has brought hope for an end to the health crisis, the global economic recovery will require continued patience. During this time, ICIEC will continue the development and implementation of programmes designed to mitigate risk and provide financial relief of member countries by fostering trade and stimulating investment."

This aid initiative, says Kaissi, "will be crucial in helping member countries respond to the virus, restore normalcy and restart their economies, thus achieving the stated IsDB's "3 Rs"."

The IsDB Group fully recognises the limited ability and capacity of its member countries to cope with these adverse impacts of COVID-19 and assured them of the Group's full and unwavering support to get through this tough period

ICERI Launch

A major development subsequently has been the launching of the ICIEC-ISFD COVID-19 Emergency Response Initiative (ICERI) by ICIEC and the Islamic Solidarity Fund for Development (ISFD), the poverty alleviation arm of the IsDB Group.

The initiative is primarily a collaboration between ICIEC and ISFD which is prioritised for certain IsDB member countries to meet their import needs of medicine, medical equipment, food supplies and other essential commodities.

As part of the joint effort of the IsDB Group entities to fight against the negative impact of the COVID-19, ISFD has allocated a grant to ICIEC which shall be partly utilised as a premium discount to facilitate the procurement of medicine, medical equipment and other essential commodities.

The partnership of ISFD and ICIEC, according to Kaissi, is both timely and targeted to yield considerable results based on the structure of supported transactions, clear objectives and predefined beneficiary countries.

The programme is aiming at leveraging the ISFD grant to support up to US$400 million in trade finance for the procurement of urgent product requirements, especially:

1. Medical equipment, pharmaceutical products and other related items that are needed for the fight against the COVID-19. This includes but not limited to, protective gear, testing kits, sanitisers, ventilators etc. And
2. Essential commodity items, including staple food supplies and energy commodities.

A number of strategic projects have already been supported through ICERI. Some examples are the following:

1. US$9 million to secure urgent imports of strategic commodities to Senegal.
2. US$5.5 million for the urgent importation of wheat to address food security for the citizens of Bangladesh.
3. US$4.75 million to support the import of fuel to Tunisia. And
4. US$30 million in financing to Egypt's Ministry of Finance to import crude oil and refined petroleum.

Some 22 IsDB member countries are beneficiaries under ICERI. They include Bahrain, Bangladesh, Benin, Burkino Faso, Cameroon, Chad, Cote d'Ivoire, Djibouti, Gambia, Guinea, Iran, Lebanon, Mali, Mauritania, Mozambique, Niger, Nigeria, Palestine, Senegal, Sudan, Tunisia and Uganda.

To facilitate the rapid uptake and implementation of ICERI, the two partners have established an Implementation Team composed of representatives from both entities. The role of the implementation team is to set the procedure of using and allocating and the oversight of the ISFD Grant to eligible transactions.

ICIEC is undertaking the operational tasks of insuring and monitoring the transactions in its normal course of business. In the process, some eligibility requirements will be relaxed given the exceptional circumstances of the pandemic.

ICIEC is also committed to prioritising the transactions related to combating COVID-19 and will try to augment the impact of ISFD's grant as much as possible. Origination will come from the Governments, ICIEC clients or any of its multilateral financing partners in collaboration with its member countries, in order to mitigate the overall risk given the target countries are mainly least developed member countries (LDMCs).

Suppliers and banks that wish to supply/finance medical, pharmaceutical and essential commodities or items to the eligible Member Countries can contact ICIEC with a clear description of their transactions and attaching any relevant documentation such as supply/purchase contract, purchase orders etc. They can also be referred to the Initiative by the Member Country concerned.

During the course of 2020 and January 2021, ICIEC has signed several Memorandums of Understanding (MoUs) with Export Credit Agencies (ECAs) throughout the pandemic. These partnerships facilitate flexible yet strong agreements for risk sharing in the form of reinsurance or co-insurance, supporting both parties to increase their risk appetite for trade transactions and investments.

"Through the expanded trade coverage supported by these partnerships, firms in member countries can access new markets, grow in existing markets, and in the process generate employment and economic growth," explains ICIEC's CEO, Oussama Kaissi.

Virtual Education

ICIEC has also engaged in webinars with key partners to roll out COVID-19 response measures and funding, discuss the impact of COVID-19 on IsDB member countries, and strategies for the continued support of those in need.

These include: The IsDB Group Private Sector Action Response to COVID-19 webinar which focused on the challenges facing the Private Sector and Global Economy during the COVID-19 outbreak. The IsDB Group Private Sector entities have also presented immediate joint action response and the outlook to combat the COVID-19 pandemic, whilst considering the new reality.

The impact of COVID-19 on the Insurance of Investment and Export Credit for Strengthening Intra-OIC Trade and Investment webinar, hosted jointly by ICIEC and the Islamic Centre for Development of Trade (ICDT), discussed the role and experiences of insurance and export credit agencies (ECAs) in OIC countries, as well as the insurance sector response to the COVID-19 pandemic. The webinar highlighted the importance of the investment and export credit insurance sector in covering risks for countries, local companies, and international trade partnerships.

ICIEC has also contributed to a number of projects that have promoted the "3 R" action plan, enabling countries to combat COVID-19, construct and sustain healthcare facilities, maintain the flow of goods, and secure investments for continued growth.

These include:

i) A EUR124 million ICIEC cover for a Deutsche Bank investment in Cote d'Ivoire to broaden access to hospitals and healthcare services. Two new hospitals with a collective capacity of 400 beds will be built in the south-eastern towns of Adzope and Aboisso, bringing state of the art equipment and facilities to this underserved region. The two hospitals will employ around 600 local people and foster the development of a micro-economy in the areas surrounding them. Additionally, the project will finance five new medical units in existing hospitals across the country. The project's EPC will be conducted by a Moroccan contractor, supporting the export of services from another ICIEC member country and facilitating intra-OIC trade of services between Cote d'Ivoire and Morocco. The support from ICIEC will help Cote d'Ivoire achieve its National Development Plan targets for 2016-2020 while also improving the Republic's ability to contain the COVID-19 pandemic.

ii) ICIEC has provided EUR20 million in Non-Honouring of Sovereign Financial Obligation cover against the non-payment of a loan facility provided to the Government of Cote d'Ivoire. ICIEC's cover enables the government to move forward with the renovation of the Scientific High School of Yamoussoukro, in addition to the construction of 22 new classrooms. The project is part of a general social programme that Cote d'Ivoire is implementing. The programme aims to mitigate poverty and illiteracy by enabling as many children as possible to have access to quality education.

iii) ICIEC has provided US$12.5 million in cover, issuing the Corporation's first ever BMP Murabaha to BMCE Bank of Africa Morocco in support of its financing for a Nigerian bank. ICIEC's support allowed for the urgent financing to secure essential imports of food and refined oil to Nigeria, helping to offset the social and economic distress caused by the COVID-19 pandemic. ICIEC has played a crucial role in facilitating trade flows and reinforcing trust, directly supporting banks and private sector resilience through the crisis.

iv) ICIEC has provided US$16 million under a Documentary Credit Insurance Policy (DCIP) to a French international bank, Société Générale, for the importation of essential commodities to Egypt. ICIEC's contribution is essential as the facility was allocated in response to the Government of Egypt's call to the international market for a more secure and steady supply of strategic commodities to help Egypt in the fight against the economic and social impact of COVID-19. And

Through the expanded trade coverage supported by these partnerships, firms in member countries can access new markets, grow in existing markets, and in the process generate employment and economic growth

Oussama Kaissi, CEO of ICIEC

v) ICIEC provided US$135 million in NHSO cover for Sumitomo Mitsui Banking Corporation's (SMBC), London Branch, covering its participation in the first international syndicated bank financing facility for the Egyptian Ministry of Finance totalling US$1.5 billion. The facility, which saw the participation of 12 regional and international financial institutions, was signed in August 2020 and will strongly contribute to the additional financial resources required for the Government plan regarding the needed action against the social and economic impacts of the COVID-19 pandemic. The transaction will also serve SDG 8 by contributing to the promotion of inclusive and sustainable growth, employment and decent work.

Outlook 2021/2022

Rebuilding Back Better

Global Economic and (Re)insurance Market Prospects

> Judging by the sheer number of scenarios speculating about the outlook for the global economy and the insurance and reinsurance market in a continuing pandemic paradigm in 2021/22, it is enough to make one dizzy

These are uniquely challenging times for everyone as we enter the second year of a pernicious COVID-19 pandemic. No amount of vaccine optimism nor deniers or intermittent lockdowns will suffice on their own. What we need is a dispensation fit for purpose hopefully in a post COVID era based on a new collective and collaborative resolve, resilience and sense of purpose.

This would encapsulate not only pandemic preparedness, but also the other pressing challenges facing mankind – climate change, ESG and sustainability, SDGs, digital and other inequality, conflict resolution, social media and infodemics, press freedom, food security, democratic deficits, gender equality and domestic violence, and yes trade and business recovery and risk mitigation, and poverty alleviation.

Assumption parochialism and nationalism aside, there is a general consensus that the year ahead remains full of uncertainties and contradictions. Any economic or societal recovery in general in 2021 is subject to a cornucopia of caveats of which the main ones are the speed and reach of vaccinations, the rapid mitigation of mutations and virus variants and the return to a 'new normal' bereft of lockdowns, layoffs and insolvencies.

The fact that the pandemic continues to define the 2021/22 outlook suggests that national and multilateral fiscal and monetary support remains essential to support economies and the stability of financial systems that have gorged on quantitative easing sending many into recession on the back of burgeoning public finance deficits.

The low-and-middle income countries may take years to balance their books because of their high debt to revenue ratios. The reality may be that the economic cost of the pandemic will be felt more strongly in 2021 compared to last year, given its impact on labour markets, business failures and the medium-term fiscal position of countries. The danger

is that forecasts of a seemingly strong short-term rebound in GDP growth in most countries in 2021 from the huge contractions in 2020, may lull many of us into a false sense of security.

In the credit and investment insurance space there is the strong possibility of a slow release unfolding especially of claims. According to Berne Union secretary general Vinco David, "a combination of the natural claims cycle, and mitigating efforts from governments around the world means that COVID-related claims will not appear immediately. We do expect to see increasing claims in 2021, but exactly how much is still not clear. Many of the special government measures are set to expire by end 1Q21." Not surprisingly, to him "this may be a determining factor, as indeed will be the substantive course of the pandemic itself, which remains to be seen. The credit insurance industry continues to maintain capacity but is exercising prudent risk underwriting."

Global GDP Growth Dynamics

Global GDP growth in 2021 is projected by the IMF to recover to 5.5%. This outlook is based on expectations of persistent social distancing, other measures to contain the pandemic and address its public health consequences, and continued significant fiscal, monetary and structural policy intervention. Early widespread vaccine availability could boost the outlook, and a delay would be a drag on growth.

In advanced economies, output growth is projected to strengthen to 4.3%, with inflation remaining low. The eurozone will have a bounce-back of 4.2% and the US and advanced economies are projected to grow by 5.1% to 4.3%. However, the collective GDP of advanced economies at the end of 2021 will still be 0.6% below year-end 2019.

In emerging markets and developing economies, collective growth of 6.3% in 2021 is projected, with inflation declining modestly to under 5%. The rebound will not be sufficient to regain end-2019 level of activity by the end of 2021. China's recovery will be much stronger than most other countries, with the IMF projecting growth of about 10.4% over 2020-2021 (2.3% in 2020 and 8.1% in 2021). China was the first economy to face a shutdown, and it rebounded faster than expected thanks to strong policy support and resilient exports. By contrast, India's GDP contracted much more severely, by 8.0%, but is expected to rebound by 11.5% in 2021.

Swiss RE's Sigma Institute in contrast expects global GDP to shrink by 4.1% in 2020, followed by a protracted recovery to 4.7% in 2021. This forecast is below market consensus expectation of 5.2% in 2021, driven by Sigma's "belief that even with a vaccine. Much of the structural damage to the global economy has already been done."

Sigma concurs that the various fiscal stimulus unleashed to cushion the blow from the pandemic were necessary. But maintains that these sti mulus will "decrease global economic resilience by 20%, shaving at least a cumulative 1.6% off global growth over the next five years relative to long-term trends."

For sustainable economic recovery, it contends, there needs to be a policy reset – fiscal spending should be redirected to productivity-enhancing areas such as sustainable infrastructure and technology; ways of better recycling of private savings into the real economy; and a greater focus on inclusive growth to mitigate widened income inequalities as a result of the impact of COVID-19. "Insurance," according to Sigma, "has a key role to play in supporting inclusive growth and resilience by providing households and businesses with the means to better withstand shock events."

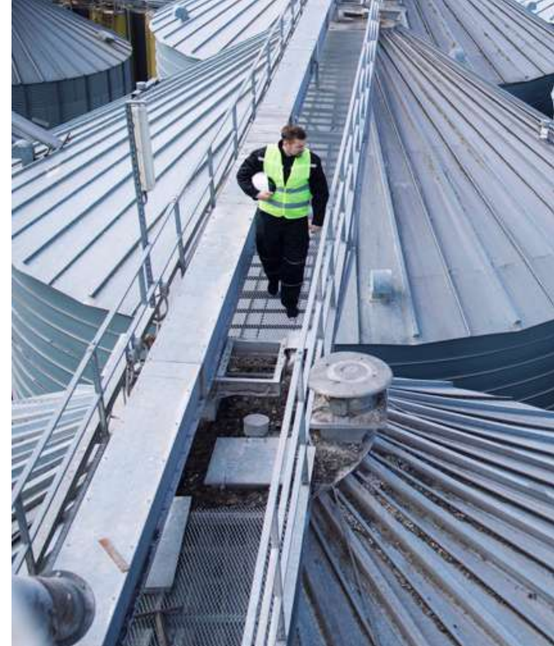
Catalysing Private Investment

In this respect, says Hiroshi Matano, Executive Vice President, MIGA, the political risk insurer of the World Bank Group, "political risk insurance and credit enhancement have a track record of effectively de-risking and thus catalysing private investment into emerging markets through capital-efficient instruments. Deploying these types of de-risking solutions in combination with debt and equity financing has the potential to materially increase the flow of private sector capital into emerging markets and developing economies."

The scale and complexity of today's development challenges necessitate a renewed effort to mobilise investments into emerging markets and developing economies. Achieving the Sustainable Development Goals (SDGs) alone will require annual investments of US$3.9 trillion over the next 10 years. The stress on national budgets introduced by

Political risk insurance and credit enhancement have a track record of effectively de-risking and thus catalysing private investment into emerging markets through capital-efficient instruments

Hiroshi Matano, Executive Vice President, MIGA



the global COVID-19 pandemic, adds Matano, "has severely limited the ability of governments to mobilise the funds necessary to finance the investments that will close this gap. The result is a need for private sector capital that is greater than ever before."

Another glimmer of hope is that global trade contraction, according to Atradius, is now expected to come in at 7-8% in 2020 compared with an earlier forecast of a 15% contraction, with a rebound of similar size in 2021, but leaving the level of global trade in goods by the end of 2021 still below 2019. Further, although slowing, recovery is expected for 2022.

So, what are the priorities for the credit and investment insurance industry in 2021 in order to 'build back better' to a more stable post-COVID world? The emphatic message from Michal Ron, the new President of the Berne Union seconded from the Italian ECA, SACE, is cooperation, cooperation, cooperation.

"I believe that one lesson to be learned from this crisis is that governments, businesses and financial institutions acting alone cannot fully and adequately address systemic global challenges," she stressed in the Berne Union Yearbook 2020. "The post-COVID recovery must necessarily pass through a more integrated international cooperation and it will be critical to prioritise new and more sustainable ways of doing business, in order to reduce inequalities and mitigate the negative effects of the deregulatory race to the bottom which has fed protectionism and other 'lose-lose' economic strategies over recent years," she added.

Export credit agencies were more involved in the immediate response to the crisis, mainly providing support to domestic companies (especially SMEs) in accessing emergency liquidity. She is confident that in future months, the Berne Union will further enhance cooperation between public and private sectors, and create institutional platforms for sharing information, common initiatives and projects of mutual interest.

> I believe that one lesson to be learned from this crisis is that governments, businesses and financial institutions acting alone cannot fully and adequately address systemic global challenges

Michal Ron,
President of the Berne Union

"We will necessarily invest in those aspects that proved to be the best tools to confront the current difficult environment, such as digitalisation, innovation and sustainable business practices. In parallel, and in order to regain an equilibrium between ECAs and private sector insurers and lenders, we will need to ensure a gradual reduction of implicit and explicit subsidies that were temporarily introduced to deal with the emergency – but that may impact negatively on global trade in the longer term," she warned.

The pandemic perhaps unwittingly has both exposed operational shortcomings and imposed new forms of engagements. In short the workplace environment and experience may never be the same again.

Future Priorities

Industry officials such as John Racher, Vice-President & Head of International Growth at AdvantageGo, have identified digital proficiency, the remote workforce, customer experience, exposure management and aggregation software, and digitisation of insurance processes as potential game changers which the credit and investment insurance industry can ill afford to ignore.

Digital proficiency has become an immediate necessity and not something that can be addressed in the future. "We have seen companies with advanced digital underwriting, claims and administrative processes in place have a distinct advantage in running a business smoothly and limiting losses. Having a robust, flexible digital working model not constrained by travel, office space and physical presence will be on every chief operating officer's agenda," maintains Racher.

The remote workforce is here to stay, whether it is the full team or just specific roles. Many firms do not see a return to the office until summer/autumn 2021 depending on the pathway of variant infections and mass vaccination roll outs. Even when office doors do reopen, it is likely that there will be a hybrid working model in place with employees opting to work a few days in the office and a few days from home.

However, warns Racher, it is incumbent on all players not to ignore those non-financial risks in the reset world: primarily the mental health of employees and company culture. "Working from home for an extended period, if not managed carefully, can cause a range of issues such as isolation, disconnection and overwork. All managers should be regularly checking in with their team and organisations should have mechanisms in place where an employee can safely seek assistance with issues related to home working," je added.

Can the insurance industry like others really create and foster a culture via a Zoom call or virtual meetings and webinars? "Communities can and do successfully exist online, but let us face it, they will never replace in-person contact. This industry famously runs and thrives on face-to-face negotiations. Nurturing customer relationships, training new staff members and sharing tacit knowledge will force us to be flexible in the way transact business," he contends.

Customer experience and the customer journey has become a focal point for many firms. The ability to communicate efficiently and effectively with customers has been paramount and has brought into focus the opportunities for automation, frictionless processing and artificial intelligence within the insurance life cycle.

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John Racher,
Vice-President & Head of International Growth at AdvantageGo

The latest advances in exposure management and aggregation software allow firms to assess potential losses across all classes of business providing real-time analytics and exposure assessment metrics. This includes the ability to assess pandemic risk exposure and assess portfolios in unparalleled detail at a macro level. Having the right software tools will become the key differentiator for those that thrive in the new normal.

Digitisation of insurance processes, explained Racher, has accelerated amid the pandemic and there is no turning back. Cloud-based underwriting platforms with in-built collaboration capability allowing business to be processed and discussed remotely in real time will be near the top of every chief investment officer's list. The digital underwriting platform retains focus with submission data ingestion, automated triage and efficient workflow distribution to underwriters even more important than ever.

"To perform optimally and be successful, underwriters need a tool that provides the capabilities to operate in the new online world effectively, including integration with electronic placing platforms, augmenting underwriters' decision process with third-party data and ultimately introducing artificial intelligence to advise and assist in rapid decision making. Underwriters need the right capabilities to keep up and make the best use of these technological advances now more so than ever," he added.

Others stress that data is the new oil, which fuels the modern economy. It is equally pertinent to the credit and investment insurance industry as it is to the Tech giants and other sectors. Good, reliable data is essential for buyer underwriting, country risk assessment, exposure management or strategic choices.

Digitalisation Technology not only allows for wider use of data, it also impacts profoundly on short-term whole-turnover business, digitalisation has taken hold.

The sector outlook also reflects our expectation that the underlying fundamentals of major developed non-life primary insurance markets, the main source of business for reinsurers, will stabilise in 2021

Robert Mazzuoli,
Director, Insurance at Fitch

The COVID-19 pandemic, says the Berne Union, has accelerated this process of digitalisation even further. So far, digitalisation by credit insurers has been to a large extend standalone, for example, not yet very linked to other services for exporters, such as finance, logistics or digital document handling. The next phase is expected to include links between these different services, to eventually create a one-stop shop environment for exporters. Artificial intelligence (AI) will play an increasing role in this, for example for assessing creditworthiness.

Reinsurance Outlook Stable

In the reinsurance sector, Fitch Ratings outlook for global reinsurance in 2021 is stable, reflecting hardening pricing conditions, stabilising pandemic-related claims but depressed investment income due to ultra-low interest rates and deteriorating asset quality.

"The sector outlook also reflects our expectation that the underlying fundamentals of major developed non-life primary insurance markets, the main source of business for reinsurers, will stabilise 2021. We expect the hardening market to continue into 2021. Demand for reinsurance is likely to increase due to heightened uncertainty linked to the pandemic and primary insurers' stronger ability to purchase reinsurance given increases in their own pricing," emphasised Robert Mazzuoli, Director, Insurance at Fitch.

Changes in reinsurance terms and conditions, notably the exclusion of pandemic cover in new and renewed contracts, should progressively reduce the potential for future property and casualty reinsurance claims stemming from the pandemic. Nevertheless, the uncertainty around ultimate losses from the pandemic remains high.

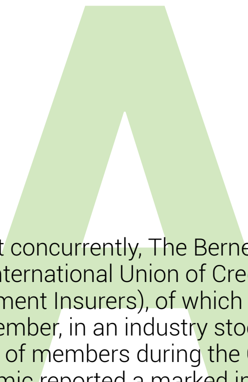
Reinvestment rates, according to Mazzuoli, are well below the running yields on reinsurers' investment portfolios and are continuing to fall. The resulting pressure on reinsurers' investment income will erode some of the likely increase in underwriting income in 2021. Moreover, a weak economic recovery could foster a deterioration in asset quality, to the detriment of the sector's profitability. Lower investment income may motivate reinsurers to maintain underwriting discipline and push up prices, but competitive forces could ultimately thwart these aims.

Fitch's sector outlooks for major developed non-life primary insurance markets in 2021 are stable or improving. "This reflects our view that most pandemic-related claims will be reserved for in 2020, meaning that these markets' claim levels should normalise in 2021. We expect rate increases in several key lines to take firmer hold in 2021, but economic pressures will dampen primary insurers' premium revenue and could weaken their asset quality. The global reinsurance sector is closely linked to these markets through quotashare Treaties," added Fitch.

Product Wise
Beyond the ICIEC/IsDB COVID-19 Guarantee Facility

ICIEC COVID-19 Guarantee Facility
A Private Sector Recovery Support Model for Other MDBs?

"The COVID-19 pandemic is a shock to global commodity markets that presents a challenge to policy makers in commodity exporters: to the extent that it is short-lived, policy stimulus can buffer its impact; to the extent that it is lasting, policy makers need to allow their economies to adjust smoothly to a new normal," maintained Ayhan Kose, World Bank Group Acting Vice President for Equitable Growth, Finance & Institutions, in its October 2020 World Commodity Market Outlook



CoGF is aimed at supporting the private sector in particular COVID-19 hit industries in the OIC member countries and to attract cross-border investments

Almost concurrently, The Berne Union (The International Union of Credit & Investment Insurers), of which ICIEC is a member, in an industry stocktake survey of members during the COVID-19 pandemic reported a marked increase in payment deferrals, pre-claim situations and corporate insolvencies. On the positive side, 80% of members reported an increase in new demand including "a substantial increase in inquiries from new clients – most commonly for short-term credit and working capital products." The reality is that it is still too early to fully assess the full impact of the pandemic on the credit and investment insurance industry.

Supporting the Private Sector

As such, the timely launch by ICIEC, the insurance arm of the IsDB Group, and its parent of the US$2 billion COVID-19 Guarantee Facility (CoGF) in October 2020, assumes a much greater importance. It could serve as an innovative model for other regional multilateral development banks (MDBs) to emulate.

CoGF is aimed at supporting the private sector in particular COVID-19 hit industries in the OIC member countries and to attract cross-border investments. The CoGF Framework Agency Agreement was signed by IsDB Group President, Dr Bandar Hajjar, and ICIEC CEO, Oussama Kaissi in Jeddah in October, following its approval by the IsDB's Board of Executive Directors in its 336th meeting in June 2020.

One of the unfortunate consequences of the economic impact of the COVID-19 pandemic is the severe disruption of private sector trade and commercial business, including that of small-and-medium-sized enterprises (SMEs), which form the backbone of most of the economies in the 57 member countries of the Islamic Development Bank (IsDB).

Export credit, commercial credit and investment insurance are the traditional risk mitigation tools but in many of the developing IsDB member countries the culture of trade and investment insurance provided by state or private sector export credit agencies (ECAs) and banks is under-developed and at best a "work in progress".

The Berne Union recently reported a marked increase in payment deferrals and pre-claim situations in FH2020 by members. For FH2020 claims activity is relatively subdued with US$3.3bn being paid compared to US$3.2bn in the same period last year. But most of them expect to see COVID-related claims levels rising in 2021.

The IsDB estimates that global GDP growth would contract by 0.5%-1.5% as a result of the crisis, and according to the United Nations Conference on Trade and Development an estimated loss to the global economy of US$1-US$2 trillion in 2020. The International Labour Organisation also estimates a loss of 25 million jobs.

New Operational Model for Intra-IsDB Partnerships

ICIEC is implementing CoGF in partnership with IsDB. Its Agency Agreement with IsDB assigns clear roles and responsibilities between the institutions based on their specialisations, laying the foundation for a new operational model for the systematic partnerships between IsDB and IsDB Group entities. This agreement will also set the tone for mainstreaming synergies between ICIEC and other IsDB Group entities beyond the CoGF.

According to ICIEC CEO Oussama Kaissi "the framework agreement opens the door for new forms of cooperation between IsDB Group entities. ICIEC is very focused on addressing the challenges our Member Countries are facing in mitigating the repercussions of COVID-19 and we are dedicated to ensuring that the Corporation will meet all the framework's requirements for the COVID-19 Guarantee Facility to be implemented successfully."

This Guarantee Facility is separate to the US$150 million trade credit and political risk insurance capacity pledged by ICIEC in March at the onset of COVID-19 in supporting the efforts of member countries in their fight against the pandemic, and as part of the IsDB Group's comprehensive US$2.3 billion COVID-19 financial rescue package.

ICIEC's aim was to support its partners, i.e. Lenders, Investors, Manufacturers/ Exporters and ECAs, through its trade credit and investment insurance offerings instead of providing any direct funding facilities, and through partnerships with key stakeholders within the IsDB Group such as ICD, the private sector arm, and ITFC, the trade fund, and with national ECAs.

To further facilitate its support for the private sector in member countries, the IsDB also signed a MoU in October with Standard Chartered Bank (Middle East) to participate in IsDB's Restore Track Programme aimed at supporting member countries' private sectors through stimulus packages to the economic sectors most impacted by the COVID-19 pandemic.

This agreement leverages on IsDB's US$2Bn CoGF to establish an operational cooperation framework for IsDB and Standard Chartered Bank (SCB) to facilitate financing arrangements to IsDB's Member Countries.

The COVID-19 pandemic has disrupted international financial channels and put pressure on hard currency inflows to Emerging Markets. This pressure led to considerable limitations of the private sector's access to financial liquidity. Combined with the loss of income due to reduced demand, the health crisis poses unprecedented challenges to the private sector and especially SMEs.

MSMEs Hardest Hit by COVID-19 Disruption

Micro, small and medium-sized enterprises (MSMEs) are hardest hit by COVID-19 in several IsDB member countries and will deteriorate further. In IsDB countries, MSMEs have an even greater importance with a rate of 53.2 enterprises per 1000 population, which is more than twice the global rate of 25.2 enterprises per 1000 population. Agrarian SMEs is particularly important here. Globally, agriculture employs around 1 billion people, that is 1 in every 3 workers. In OIC member countries, agriculture employees over 230 million people, nonetheless the yield is way below the global average.

"Global supply chains," reminded Dr Hajjar, "stand disrupted as a result of poor trading conditions, with MSMEs being among the hardest hit. The economic crisis, compounded with dampened economic activity, commodity price crashes, lower tax receipts and low investments presents a huge risk to the Member Countries with a long-term impact on growth and productivity."

Through its cooperation with SCB, IsDB aims to help alleviate some of these pressures by providing blended lines of finance to local banks at competitive prices. "I am glad to see our, already strong, relationship with SCB further strengthened with this unique and innovative partnership. Standard Chartered Bank's funding expertise adds to the IsDB Group's de-risking guarantees which will make a lasting impact for Members Countries," stressed Dr Hajjar.

Both Dr Hajjar and M. Sunil Kaushal, Head of Middle East, Standard Chartered Bank, who signed the operational framework agreement, concur that these "out of the box" partnerships between MDBs and the private sector are necessary to overcome the current challenges.

ECA Financing on the Increase

ICIEC's reputation as the only dedicated Shariah-compliant multilateral export credit and investment insurance Corporation in the world was boosted in October when Moody's Investor Services affirmed the Corporation's Aa3 Insurance Financial Strength Rating (IFSR) rating for the 13th consecutive year with stable outlook. The rating, said Moody's, reflects ICIEC's position as the only Shariah-compliant multilateral export credit and investment insurer in the world and affirms the strong level of support and synergies the Corporation enjoys from IsDB Group and its member countries.

The report highlights the significant growth in business during H1-2020 with gross premiums increasing by 21% over H1-2019. Moody's' also acknowledged ICIEC's low accumulation of claims, despite the negative impacts from the coronavirus pandemic, was a strength when comparing to other global credit insurers that experienced notable weakening in claims performance. To mitigate COVID-19 related risk, countries and corporates are tapping into ECA-related financing facilities. In the case of ICIEC, it has in recent months signed several agreements with ECAs to help facilitate trade, investment and guarantees flows with member countries.

This includes MoU's signed with CESCE, the Spanish ECA; the UK Export Finance (UKEF), Austria's OeKB; the Uzbekistan National Export-Import Insurance Company (Uzbekinvest); and with Eximgarant of Belarus, the ECA of Belarus. "During this time of economic uncertainty, ICIEC has placed high importance on building relationships with peer ECAs," explained ICIEC's Oussama Kaissi. "By working jointly, the Corporation and its partners can increase the reach and depth of service offerings, therefore enabling both parties to provide the best support possible to our member countries".

> "Moody's' also acknowledged ICIEC's low accumulation of claims, despite the negative impacts from the coronavirus pandemic, was a strength when comparing to other global credit insurers that experienced notable weakening in claims performance

The MoU with UKEF allows for both entities to enter into co-insurance, reinsurance or cooperation agreements to engage in strategic joint projects that support exports and investments from the United Kingdom into ICIEC's 47 member countries. The partnership is beneficial for both institutions as they share an interest in promoting and supporting Islamic finance transactions. There is also potential for UKEF to risk-share with ICIEC and leverage on the Corporation's preferred creditor status, across key international markets for UKEF's support including UAE, Oman and Bahrain – all ICIEC member countries.

"This cooperation agreement strengthens the existing relationship the Corporation has with UKEF," stressed Kaissi. "Despite, or perhaps due to the troubling times we're living in, demand is growing for guarantees in OIC markets where credit and political risks pose a greater challenge. Having this partnership between two leading ECAs allows both institutions to take on larger projects with greater impact – better serving the citizens of ICIEC member countries."

UKEF Director & Head of Business Development, Richard Simon-Lewis, reiterated that "UKEF is committed to the development of new relationships across new sectors, markets and regions which will expand the reach of its world class finance. I therefore look forward to working with the ICIEC as we continue to help UK companies reach their full exporting potential by helping them to win, fulfil and get paid for international opportunities."

Partner Purview

Paving the Road to COVID-19 Related Recovery with

Unique Financing Options

Sunil Kaushal,
Regional CEO, Africa & the Middle East, Standard Chartered Bank

The COVID-19 pandemic continues to have a significant negative impact on the private sector and has evolved rapidly to pose growing risks to financial stability across developed and emerging markets. However, as economies return to normalcy, albeit gradually, governments now need to prioritise longer-term policy decisions, underpinned by sustainable financing, to get the economies back to pre-COVID levels. Besides the reliance on debt capital markets, governments have several innovative and sustainable options that will add impetus to restoring fiscal balance

At Standard Chartered, we have had successful projects particularly in structured export finance and blended finance across the Africa and Middle East regions. Placing a strong focus on ESG standards and demonstrating solid, strategic policymaking that will attract investors is also becoming increasingly important for emerging economies.

In recent months, we worked with Export Credit Agencies to provide structured export finance in African countries. For instance, we collaborated with a Scandinavian ECA to provide a loan to Côte d'Ivoire for the purchase of buses that would form the public transport backbone in the city of Abidjan. We also arranged a loan to the Government of Ghana to build the new Eastern Regional Hospital at Koforidua, in partnership with UK Export Finance.

This type of debt finance, which is a unique tool for medium- and long-term financing, has gained more popularity amongst commercial banks since the pandemic. It offers low-income economies access to stable capital through international cooperation that could ultimately reignite economic activity while continuing the fight against coronavirus.

Targeted Blended Finance

Another type of financing option is blended finance – a highly targeted concessional financing model that is supported by a combination of guarantees from multilateral development banks and private sector participants. Innovative models like these – between MDBs and the private sector – are now necessary to overcome the challenges of our times.

We signed a Memorandum of Agreement with the Islamic Development Bank (IsDB), to participate in IsDB's Restore Track Program. By providing blended lines of finance to local banks at competitive prices, our aim was to support the private sector through stimulus packages and alleviate some of the pressures faced during the pandemic

In October 2020, we signed a Memorandum of Agreement with the Islamic Development Bank (IsDB), to participate in IsDB's Restore Track Program. By providing blended lines of finance to local banks at competitive prices, our aim was to support the private sector through stimulus packages and alleviate some of the pressures faced during the pandemic.

Unique, out-of-the-box financing solutions can assist the private sector with balancing short-term sector relief coupled with medium to long-term recovery. However, governments, together with the private sector, need to also work hand-in-hand to focus on sustainable recovery and maintaining long-term reform agendas that will ensure their countries avoid short-term economic bounce-back.

As the world looks towards COVID-19 recovery, we expect many of our sovereign clients to shift their focus from emergency response and liquidity management to rebuilding their economies. Standard Chartered is looking to ramp up its collaboration with Multilateral Development Banks, Development Financial Institutions and Export Credit Agencies to provide financing solutions for strategic infrastructure projects across our footprint in Africa and the Middle East to benefit both economies and societies.

IsDB Group Taking the Lead

IsDB has taken a lead in this space by issuing the first ever COVID-19 response Sukuk under its Sustainable Finance Framework - a USD 1.5 bn issuance in June 2020, with the proceeds being used exclusively to address the economic and social challenges caused by the coronavirus outbreak in IsDB's Member Countries. The success of the deal reflects the great development in the ESG / sustainable market which has seen a boom in issuance of social bonds since the start of COVID-19, and Standard Chartered is proud to have been associated with this fund-raising as a Joint Lead Manager.

An increasingly popular topic in this context is ESG, which has gained significant popularity recently, and even more so amid the pandemic. ESG brings together three parallel priorities for all stakeholders: investors' interests in positive returns, governments' economic growth objectives whilst upholding environmental, social and governance standards.

The private sector, including SMEs, has a key role in embedding ESG in their operations. During the pandemic era, investors are likely to look for businesses with 'impact' according to four key themes: education and skills; health and wellbeing; environment; and 'underserved' areas.

There is a realisation that meeting ESG requirements can generate both financial returns and long-term benefits, and investors are becoming increasingly receptive to ESG linked financing structures such as green bonds, green loans, and even green deposits. A recent S&P Global Market Intelligence study found that out of 17 funds that select stocks based in part on ESG criteria, 14 of those funds posted higher returns than the S&P 500 in 2020.

The Need for Long-term Policy Making

Finally, emerging markets need to ensure they demonstrate long-term, strategic policymaking and a commitment to plugging fiscal deficits. Today, investors are - and will continue to be - selective as to where they are placing their funds, as they are rightly concerned about the economic and financial health of some countries.

Governments, on the other hand, will need to have high-quality, risk-appropriate projects in place, showing that their planning extends beyond the immediate crisis. The South African 'Economic Reconstruction and Recovery Plan' is a great example of what investors will be looking for. It begins with its people first: fixing the social and health issues, and extends to recovery and reform of fiscal policies, ending with reconstruction and transformation of its infrastructure across the country.

It is essential for governments and the public sector to establish an enabling regulatory environment and introduce smart public incentives to fasten the realignment of private finance towards sustainable development. Innovative financing models, such as blended finance, should be utilised as key vehicles to incentivise and catalyse private sector contribution to bridge this funding gap. Ultimately, sustainable development can only be achieved once countries establish close collaboration and strong partnerships between the public and private sectors.

Notes

1 https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/esg-funds-outperform-s-p-500-amid-covid-19-helped-by-tech-stock-boom-59850808

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ICIEC's Underwriting Outlook 2021 and Beyond

Striking a Balance Between Member Countries' Needs and Managing Risks

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The advent of COVID-19 in 2020 has changed life as we knew it. Underwriting at ICIEC is not an exception. In this brief article, we will look at what form that change is taking and how it will affect the way we transact business with our clients

The first aspect of underwriting that has been affected by 'the new normal' is the nature and source of risk. In the space of a very short period of time, the pandemic has reorganised the global economy, transforming certain sectors into very risk-prone ones, whereas it boosted the position of others.

Any business that has a significant exposure to sectors such as tourism, aviation, oil and gas, automotive, global logistics and cross-border supply chains have changed overnight for the worse. Also, in the initial phase of the pandemic the chemicals and textile sectors were hard-hit as well, though they later recovered some ground. On the other hand, there are sectors that gained from the change. These include the healthcare sector, food and beverages, online shopping, telecommunications etc.

In terms of specific perils, currency inconvertibility and transfer restrictions and repudiation of contractual obligations (breach of contract) increased significantly. Moreover, civil disturbance and riots have declined significantly due to the restrictions imposed by authorities to control the spread of the virus. Nevertheless, this is a short-term dip, as the lockdowns will ultimately be phased out and people will once again be able to organize demonstrations and protests of one kind or another.

In general, there are certain fundamental changes that will stick in the way business is done in the credit and political risk insurance industry. In the following paragraphs, I will touch upon the most salient of those changes, particularly those that have serious implications for underwriting.

Digitization

Prior to the COVID-19, there were some technological trends that were already under way. These include FinTech, Blockchain, AI and others. One of the changes wrought by the pandemic and which will cement that trend is the work-from-home reality. The business community has been forced globally to abandon their offices and to telecommute on a daily basis for the better part of 2020.

At ICIEC, we have been working from home since March the 17th 2020, and it is likely that the first part of 2021 will be

> A fine balance needs to be stricken between supporting member countries at a time when they need the Corporation's services the most and managing risks

the same, as a deadly second wave and a new more easily transmissible strain of the virus has just been discovered in the UK, South Africa and other European countries. In that regard, digitization is no longer a nice-to-have option, but it is a necessity for almost all types of businesses.

Underwriting at ICIEC had already been moving in the direction of digitization, as a new bespoke Takaful system was under development. Moreover, decentralization at the IsDB Group level had already led to the Corporation moving in that direction, by deploying the first underwriter outside the headquarters of ICIEC. With work-from-home becoming a norm, it is desirable that we place more underwriters in the Group's regional hubs, where we currently have business development staff only.

Virtual Due Diligence

Traditionally, due diligence is a physical thing where underwriters visit projects, meet with project staff, inspect facilities on the ground and arrange physical meetings with the concerned host member country authorities. In the new post-pandemic reality, that is no longer possible in most cases.

Thus, it becomes necessary for us to adapt to the new situation and conduct due diligence for complex projects without visiting them. This means more reliance on technology, and even though it is not the ideal way of conducting due diligence work, we know it is a practical alternative. Our experience from working from home using various types of global applications is a testament to that. The upshot of this is that the roles of documentation and the trust between the policyholder and the insurer are going to assume new significance. In other words, insurers will rely more and place heavier weight on the information provided by applicants.

Rising Sovereign Debt

The COVID-19 crisis followed a prolonged period of boom in commodity prices, low international interest rates— running negative in some instances— and soft international finance and credit terms. These combined to lead to a build-up of government debt in the developing countries. This was preceded by the sweeping debt forgiveness through the Highly Indebted Poor Countries (HIPC) program of the Bretton Woods Institutions. This resulted in the vast write-off of debt from many developing countries, including many ICIEC member countries.

To be sure, the debt build-up problem was underway prior to the COVID-19, which made the situation even more precarious. A case in point is Sub-Saharan Africa, where just before HIPC kicked in the average external debt to GDP was above 120% of GDP in 1998. By 2011, this came down to close to 20% of GDP, before rising again to about 40% of GDP in 2018.

The Debt Service Suspension Initiative (DSSI) of the G20 is a response to that concern. The Initiative was initially designed to cover the debt service payments from 73 IDA member countries that were due from May 2020 to the end of the year. This was later extended to the first half of 2021. Only 43 of the 73 countries have signed up for the Initiative.

All eligible member countries that had facilities insured by ICIEC met their obligations in 2020, despite the fact that some of those member countries had requested to benefit from the Initiative. We expect those same member countries to pay the debt service amounts due from them in 2021. Nevertheless, we will closely watch the situation, not only in relation to those DSSI eligible member countries but also all low-income member countries that may be affected by the debt build-up.

In conclusion, the above trends and others point to the need for a more diligent and conservative underwriting going forward. A fine balance needs to be stricken between supporting member countries at a time when they need the Corporation's services the most and managing risks. Underwriters need to keep abreast of developments— much more closely than before —in all member countries and globally. Another corollary of the above changes is the imperative of partnership, starting with the IsDB Group sister entities, and including other MDBs as well as ECAs.

Mohamud Hussein Khalif
Acting Director, Underwriting Department, ICIEC

Resolving Trade, Commercial and Investment Disputes Cost-effectively Through Mediation

"One of the unintended consequences of the COVID-19 pandemic is the rise in commercial disputes involving states and/or companies as a result of claims relating to business losses due to lockdowns, companies unable to meet contractual obligations and payment defaults. One recourse is arbitration which is costly and drawn out. As an alternative dispute resolution option, the UN's Singapore Convention on Mediation came into force in September 2020. The indications are that dispute resolution through mediation is set to increase as a result of the economic impact of the pandemic. In an exclusive interview, **Kwadwo Sarkodie,** Partner & Africa litigation and arbitration lead at international law firm, **Mayer Brown,** discusses issues relating to dispute resolution in trade, commerce and investment and why mediation could be a win-win option

Impact Insurance: The Singapore Convention comes at a time when the impact of the COVID-19 pandemic on the civil justice system has seen a wide encouragement of parties to look to alternative means of resolving disputes. Has there been an increase in dispute resolution through mediation since then or is it too early to assess given that disputes take time to work their way through?

Kwadwo Sarkodie: There has been a steadily growing interest in online mediation for some time. However, the Covid-pandemic has fast-forwarded us at least half a decade in terms of the market's willingness to mediate online. Business and social environments have been severely disrupted by the pandemic and mediation is an ideal dispute resolution forum to deal with the relational and commercial aspects of the many conflicts that are now emerging. As a result, we have seen the release of mediation related COVID-19 protocols such as that released by the Singapore International Mediation Centre[1] to deal with current international circumstances. Similarly, in recognition of the increasing need for mediators, the Civil Mediation Council has produced dedicated guidance for members on online mediation[2].

While we are not yet at a point where we have concrete mediation statistics for 2020, when they are released, I expect them to show a rise in mediations since early to mid-2020 when the pandemic took hold.

How well suited is the Singapore Convention to mediation specifically in trade, investment and associated areas? What are the specificities?

The primary goals of the Singapore Convention (the Convention) are to facilitate international trade and to promote the use of mediation for the resolution of cross-border commercial disputes.[3]

It establishes a harmonized legal framework for the right to invoke settlement agreements as well as for their enforcement[4].

The Convention applies to an agreement arising from mediation and concluded in writing by parties to resolve a commercial dispute which, at the time of its conclusion, is international. International is widely defined in the Convention[5].

The flexibility and ease of application of the Convention also makes it well suited to these areas. Unlike the New York Convention (NYC) (on Arbitration), there is no requirement in the Convention that the relevant settlement agreement be foreign (i.e. made in a different country from where it is enforced). The Convention therefore applies to all settlement agreements that meet the criteria above, wherever they are made and regardless of the governing law; and whether or not the country where the settlement agreement is made or whose law applies to the settlement agreement is itself a party to the Convention. 6 As with the NYC, it is also possible for the courts to refuse to grant relief on specified grounds laid down in the Convention.

Maxwell Chambers, location of the Singapore International Mediation Centre

We have seen the release of mediation related COVID-19 protocols such as that released by the Singapore International Mediation Centre to deal with current international circumstances

Another important feature making it well-suited to international trade, commerce and investment is the fact that the parties retain their other rights to enforce the settlement agreement – such as through the relevant court or arbitral tribunal in accordance with the dispute resolution provision in their agreement. Hence, courts and arbitral tribunals can still serve as back-stops where mediation is unsuccessful.

Turning to investor-State disputes, the mediation procedure and mechanism does need to factor in certain specific concerns, for example, corruption and transparency. While confidentiality is perceived as a benefit of mediation, this may present an issue, as it is important for a State to be able to demonstrate transparency in settling an investor claim (which will inherently be politically sensitive) – it is important to avoid any risk of an impression that someone may be profiting from the settlement.

The choice of mediator is also critical – in addition to being neutral, the mediator also needs to be facilitative, directive and cloaked with institutional authority, in order to gain the approval of States 7. So, it will be interesting to see whether there are more mediations of investment disputes in future (arbitration being very prevalent at present). Only if mediations become commonplace will the Convention have any role to play in these disputes and it will also depend on the extent to which a State has invoked the reservations under the Convention.

What about disputes related to claims in export credit and investment insurance provision and to coverage of policies?

The convention provides a framework for enforcement rather than impacting the mediation process itself, so its use relies on mediation remaining a popular dispute resolution mechanism. I understand that mediation is an increasingly popular mechanism for resolving complex insurance coverage disputes and is also used for resolving export finance claims. So, the Convention could become relevant and useful for these areas.

However, it is worth talking about the reservations to the Convention here as it could impact whether these claims and investment claims actually fall within the Convention. A signatory State may specify two reservations:

1. That it shall not apply the Convention to settlement agreements to which it is a party, or to which any governmental agencies or any persons acting on behalf of a governmental agency is a party, to the extent specified in the declaration (Article 8(1)(a)) and/or
2. That it shall apply the Convention only to the extent that the parties to the settlement agreement have agreed to the application of the Convention (Article 8(1)(b)).[8]

If a State opts for the first reservation, a wide range of disputes will therefore be excluded. As to the second reservation, it will mean that the Convention can only be invoked if the parties specify in their original contract that the Convention will apply to any settlement agreement arising out of mediation, alternatively in the settlement agreement itself.

So far of the 53 signatories, only Belarus, Iran and Saudi Arabia have signed or ratified the Convention with reservations. Belarus and Saudi Arabia adopted the first reservation while Iran adopted both reservations 9. I am optimistic that all the types of disputes we have spoken about so far will, by and large, fall within the remit of the Convention.

How well suited is dispute resolution through mediation to developing countries where both governments and companies especially SMEs do not necessarily have the resources nor the expertise to opt for alternatives such as litigation and arbitration which can be drawn out and expensive?

By facilitating a negotiated settlement between parties, mediation can usually provide them with a faster, more cost-effective and commercial method of resolving disputes than resorting to litigation and arbitration. It also provides the opportunity for the parties to become part of the tailored solution as they control the process and the outcome, and are able to maintain, restore or potentially improve their relationships.

However, until the Convention, no harmonised enforcement mechanism existed for negotiated settlements arising from mediation. Prior to the Convention, if an uncooperative counterparty to a mediated settlement agreement refused to comply with the terms of the agreement, the party seeking enforcement would often have to bring fresh litigation proceedings before the courts to sue on the settlement agreement, obtain a court judgment, and then attempt to enforce that court judgment.

The Convention obviates the need to litigate the breach of contract; the obligations contained in international settlement agreements are directly enforceable in contracting States simply by virtue of resulting from a mediation.

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So, the Convention has the potential to greatly increase the appeal of mediation as a mechanism of resolving commercial disputes with a cross-border dimension.

Further, as the Convention is consistent with the UNCITRAL Model Law on International Settlement Agreements resulting from Mediation (2018) States have the flexibility to either adopt the Convention, the Model Law or both as complementary instruments of a comprehensive legal framework for mediation[10].

The African Continental Free Trade Area (AfCFTA) Protocol on Investment is soon to be published. Do you expect the Protocol to further promote the use of mediation alongside, or instead of, arbitration in the resolution of investor-State disputes in Africa, perhaps alongside the Singapore Convention?

The discussions on the Investment Protocol have not been made public so we do not yet know the approach which will be adopted. The Investment Protocol should be published soon.

One would expect the Investment Protocol to be consistent with the approach taken in the Pan-African Investment Code (PAIC) as well as by Africa's numerous regional economic communities (REC). The PAIC introduced ADR, including but not limited to mediation, as a mandatory step in solving investment disputes. Under the REC protection investment instruments, the parties must make efforts to reach an amicable settlement of their dispute prior to initiating proceedings.

As the negotiation of the Investment Protocol is based on consensus, it is likely that the Investment Protocol will adopt the same approach as PAIC and leave the Member States to opt-in or opt-out of any investor-State dispute settlement mechanism. It is fair to say that African states have not always been praiseworthy of investor-State arbitration.

The statistics also seem to indicate that African states have a relative preference for solving disputes amicably. For example, of the 11 conciliation cases registered by the ICSID Secretariat, 9 have involved an African state. These comprise the only ICSID case where a State Party initiated a conciliation procedure, *Republic of Equatorial Guinea v. CMS Energy Corporation*. Further, at national level, numerous States are adopting rules that favour investor-State mediation and/or limit opportunities for investment arbitration.

I expect there to be a strong focus on amicable settlement mechanisms in the Investment Protocol (with, hopefully, a direct reference to mediation), which may either replace or exist alongside a right to arbitrate.

To what extent does the Singapore Convention supersede local laws and regional or continental codes such as the 2015 PAIC, which aims to "Africanise" international law, or do you see these complementing each other?

The Convention complements the PAIC, other codes and local laws since it is a tool aimed at promoting the enforceability of settlement agreements arising from mediation rather than one designed to regulate the mediation process itself. It is akin to the NYC in the arbitration world (and indeed modelled on the structure of the NYC). I see the Convention as fully supporting the likes of the PAIC which makes ADR mandatory.

Article 7 of the Convention is also relevant here since it clarifies that: *"the Convention shall not deprive any interested party of any right it may have to avail itself of a settlement agreement in the manner and to the extent allowed by the law or the treaties of the Party to the Convention where such settlement agreement is sought to be relied upon"*.[11]

I also believe that the Convention creates a platform for discussion and should allow further multilateral collaboration on procedures for mediation and soft law, for example, codes of conduct and codes on mediator's disclosure, similar to what has happened in international arbitration.[12]

I am looking forward to seeing how the Convention impacts the use of mediation as a dispute resolution option. I think it is going to be a while before we know how effective it really is. Since it applies to particular set of circumstances, in which there is a settlement agreement, but one party refuses to accept the enforcement, we will have to look across a number of jurisdictions before we have got examples of the Convention being used. But the Convention is being well received globally. For example, in July this year, Ghana made a formal commitment that its courts would enforce mediated settlement agreements from international disputes.

South Africa and Egypt are promoting investor-State mediation through their investment protection laws. This is administered by their Departments of Trade & Industry as the default dispute resolution mechanism, without prior consent to, say, international arbitration. Gambia, Ghana, Ivory Coast, Mali, Mauritania, Morocco, Niger, Nigeria, Rwanda, Tanzania, Tunisia, and Togo, among others, have also adopted rules that favour investor-State mediation and/or limit opportunities for investment arbitration. Can local laws and say the international conventions such as Singapore co-exist and cooperate?

The Convention shall not deprive any interested party of any right it may have to avail itself of a settlement agreement in the manner and to the extent allowed by the law or the treaties of the Party to the Convention where such settlement agreement is sought to be relied upon

Absolutely, because they serve different purposes. The local laws may promote and regulate investor-State mediation and if the State in question is also a party to the Convention, then they will be obliged to enforce any settlement agreement (domestic or foreign) in accordance with the rules and conditions set out in the Convention.

While they can co-exist harmoniously, the specificities in the Convention may just bring fresh challenges to the mediation process which users should be aware of at the outset. For example, Article 4 of the Convention requires parties to produce evidence that the settlement resulted from mediation – this could be the mediator's signature on the settlement agreement, a document signed by the mediator indicating that a mediation was carried out or an attestation by an institution which administered the mediation. Individual mediators might be reluctant to do this, so African parties might wish to involve a mediation institution from the outset (if permitted by the local laws) as they may be more likely to provide the necessary evidence.

Since China is a predominant investor in emerging markets in Asia, Africa, Middle East and Latin America, there have been suggestions for setting up a Belt and Road Initiative (B&R) International Commercial Mediation Centre. In addition to PAIC and the AfCFTA Protocol, there is also the OHADA Uniform Act on Mediation adopted in November 2017. Are too many cooks spoiling the broth of mediation?

PAIC, the AfCFTA Protocol and the OHADA Uniform Act on Mediation are all reforms favouring investor-State mediation at continental level but with their own specific purposes. To me, it is not a matter of too many cooks spoiling the "mediation broth" - the more that can be done to promote and increase ADR, and mediation in particular, the better.

OHADA's mission is to harmonize business law in Africa in order to guarantee legal and judicial security for investors and companies in its 17 Member States. Before the Uniform Act in 2017, there was virtually no framework for mediation, ad hoc or institutional, so this filled a key gap. By contrast, I understand the AfCFTA Protocol to be building on PAIC and to address the fragmented nature of the investment legal framework throughout Africa by addressing the overlaps and inconsistencies and establishing a coherent continental investment legal framework. For example, looking at BITs alone, according to UNCTAD, African countries have signed a total of 854 BITs (512 in force); 172 intra-Africa BITs (47 in force)![13]

At the intercontinental level, the creation of the B&R International Commercial Mediation Centre also seems to favour investor-State mediation. Four key Belt and Road (B&R) jurisdictions – China, Hong Kong, Singapore and Malaysia – have already been promoting mediation in the context of B&R disputes. Mediation is particularly suitable for high-stakes, cross-border disputes of the type that B&R may generate, without endangering the underlying project or parties' relationships. Typically, these disputes will involve at least one Chinese, and one non-Chinese party and mediation is important given that Chinese parties prefer a less adversarial approach 14. Combining these factors with the likely increase in future B&R disputes, I think that a designated Mediation Center addressing

B&R-specific disputes will be invaluable and should help facilitate future Chinese engagement and investment in these emerging markets.

Third party funding is on the increase during COVID-19 as countries and companies are finding themselves under budget, liquidity and cash-flow pressures. This has seen the rise of litigation funds investing mainly in construction and financial services claims. Do you think litigation financing will take off especially in Africa and Asia?

In the past few years, Hong Kong and Singapore have enacted legislation expressly permitting third party funding showing they are quick to embrace change and shed historical limitations which made them less attractive and competitive as global arbitration centres. Many of the world's leading funders are now present in the region even though both legal regimes mandate the disclosure of the existence of the funding agreement and the funder's name (in Hong Kong the funded party must make these disclosures whereas in Singapore legal practitioners must do so in accordance with their professional conduct rules). I certainly foresee continued growth of the litigation funding industry in Asia including an increasing variety of funding products[15].

> **Mediation centres could also scrutinise the settlement agreement and draw the parties' attention to any Shariah breaches. There is also nothing stopping parties from having two separate settlement agreements, one dealing with the Shariah issues and one dealing with the remaining issues**

Like with Asia, funding is growing at a fast pace in Africa, where many jurisdictions either expressly allow litigation funding or simply do not regulate it. COVID-19 has negatively affected all African economies and litigation funding has become a really important means of ready access to capital to pursue legitimate claims, while removing cost and risk from the balance sheet. It therefore offers companies financial clarity and flexibility amid great uncertainty.

Funders have been increasingly interested in Africa for many reasons, which include the proliferation of disputes in Africa, their legal systems being based on English law or harmonised by the likes of OHADA and improved enforcement prospects. As portfolio funding continues to grow, I think this will benefit continents like Africa where disputes may not always be extremely high value but nonetheless meritorious.

Although the Singapore Convention does not specifically mention Shariah-compliant dispute resolution – given that there are 57 member countries of the Islamic Development Bank – largely in Africa, Asia and the Middle East – is there a need to develop this as a subset of the Singapore Convention and other investment protection and mediation protocols?

Focusing on the Convention, Shariah law has important implications in the sense that in certain jurisdictions a breach of the Shariah requirements may lead to the inability to enforce the settlement agreement on the basis that it is contrary to public policy (Article 5). So, when enforcement is sought in MENA countries, particular attention should be paid to the compliance of mediated settlements with Shariah law insofar as it is a core component of public policy in that country (which it is in three ratifying countries: Jordan, Qatar and Saudi Arabia).

I am not convinced that we need to develop a subset of Shariah-compliant dispute resolution just yet. We could minimise the risks associated with this by, for instance, training mediators to better understand the Shariah requirements. Mediation centres could also scrutinise the settlement agreement and draw the parties' attention to any Shariah breaches. There is also nothing stopping parties from having two separate settlement agreements, one dealing with the Shariah issues and one dealing with the remaining issues.

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5 Article 1(1) international means: (a) At least two parties to the settlement agreement have their places of business in different States; or (b) The State in which the parties to the settlement agreement have their places of business is different from either: 4 (i) The State in which a substantial part of the obligations under the settlement agreement is performed; or (ii) The State with which the subject matter of the settlement agreement is most closely connected.

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Derivatives, Hedging, Credit Support in Transactions - Shariah-compliant Alternatives

Risk Management- Upscale Hedging Through Shariah Compliant Derivatives

"The continued economic impact of the coronavirus pandemic with several countries now experiencing a second wave exacerbated by a more contagious mutant strain, the oil price fall and cuts in central banks repo and profit rates, once again raises the perennial issue of the use or dearth of effective Shariah-compliant derivatives as hedging tools especially for risk management purposes.

Islamic banks, similar to conventional banks, face a host of risks ranging from credit risk, liquidity risk, profit-rate risk and currency risks, among others. Conventional banks use derivatives to hedge their exposures against interest-rate risk and currency risk, in addition to offering their customers derivative products. However, around 40% of Islamic banks reportedly do not use derivatives, and most of the remaining use it in a limited capacity, constraining it to instruments like profit-rate swaps and Islamic-currency forward contracts. The latter are more common in Malaysia.

However, in a recent commentary, Fitch Ratings concluded that Islamic derivatives are increasingly necessary in today's COVID-19 compromised and volatile economic circumstances, albeit several constraints remain. Fitch maintains that "the derivatives markets remain underdeveloped in most countries where Islamic finance is prevalent. Moreover, issues with the Shariah compliance of derivatives and the lack of standardisation and harmonisation across jurisdictions of available hedging instruments are constraining the expansion of Islamic derivatives market."

Is Fitch justified in its conclusion or does the very nature of Islamic finance preclude the necessity or extensive use of hedging, which can be mitigated through other forms of risk management tools? "We consider an increased usage of derivatives for risk-management purposes," maintains Bashar Al Natoor, Senior Director, Global Head of Islamic Finance at Fitch, "as positive for Islamic financial institutions, Sukuk investors, issuers and Shariah compliant non-financial corporates. Derivatives play a vital role in hedging and mitigating risks that come from volatilities in profit rates, exchange rates and commodity prices."

But is Shariah compliance of derivatives a major limitation as Al Natoor says? Many Shariah governing bodies and scholars, he adds, are of the view that conventional futures and forward contracts are not Shariah compliant. This, he stresses, leaves the halal industry at a competitive disadvantage with far fewer hedging instruments compared with their conventional peers.

Furthermore, general guidelines pertaining to Islamic hedging, he continues, stipulate that transactions should be entered into only for the purpose of hedging actual risks of the relevant party and that transactions should not be entered into for speculative purposes, which means that actual settlement of assets and payments must take place, and that cash settlements cannot take place without finalising the transaction. "This prevents Islamic banks from engaging in speculative activities, but it also prevents Islamic financial institutions from trading derivatives in the same way as conventional banks do," he emphasises.

Standardisation a Must

The International Islamic Financial Market (IIFM), a global standard-setting body based in Bahrain, has introduced five Standards relating to Islamic Liquidity Management and Risk Mitigation as part of its Strategic Plan (2017-2020) to expand its Islamic financial documentation standardization initiatives and other services. A number of jurisdictions and international Islamic banks are using the IIFM hedging and risk-mitigation standards.

Ijlal Ahmed Alvi, Chief Executive of IIFM concurs with Al Natoor that "standardization is a must for the advancement of Islamic finance industry in a transparent, efficient and harmonized manner and the completion of this first phase of the translation effort will indeed benefit users of IIFM Standards in various jurisdictions".

These standards include:

i) The Master Agreements for Treasury Placement – the industry's first globally standardized documentation developed for the purpose of liquidity management based on Commodity Murabahah and Agency contracts.

ii) The Tahawwut (Hedging) Master Agreement developed with ISDA (International Swaps & Derivatives Association), the global trade organization of participants in the market for over-the-counter (OTC) derivatives - the industry's first joint globally standardized documentation developed with collaboration between two International standard-setting organizations, designed to facilitate risk management functions of institutions active in Islamic finance. The risk mitigation product confirmations and credit support documentation fall under ISDA terms and conditions.

iii) The Unrestricted Interbank Master Investment Wakalah Agreement, which provides an alternative Islamic liquidity management instrument for institutions to transact without guaranteeing the principal and profit. The documentation, says IIFM, is robust and provides operational, legal and Shariah certainty.

iv) Islamic Foreign Exchange Forward (Single Binding Wa'ad and Two Unilateral & Independent Wa'ad based structures) – the IFX Forward templates, designed with ISDA, is used for bilateral deliverable FX Forward transactions subject to a Tahawwut Master Agreement entered into between the parties. Its objective is to minimize the impact of currency rate fluctuation and volatility for stable business operations; and

v) The Islamic Credit Support Deed for Cash Collateral Standard designed with ISDA - governs the exchange of collateral for hedging transactions under the Tahawwut Master Agreement following the roll-out of variation margin requirements for non-cleared transactions by regulators. Initial and variation margin exchange is part of G20 commitment to make global financial markets safer and more resilient.

Islamic Hedging Requirement Based

However, Alvi reminds that "Islamic hedging is requirement based and volumes cannot be the gauge though there is still room for banks who have not yet started using hedging to implement certain risk mitigation tools particularly related to currency risk. In terms of instruments, we have provided the key vanilla hedging product confirmations to mitigate currency and rate of return mis-match plus for regulatory variation margin requirement we have published

> **Derivatives play a vital role in hedging and mitigating risks that come from volatilities in profit rates, exchange rates and commodity prices**
>
> **Bashar Al Natoor**, Senior Director, Global Head of Islamic Finance at Fitch

Without adequate systems and proper management oversight, the use of derivatives could result in significant financial losses. As Islamic banks evolve their risk-management practises, the effectiveness of their derivatives portfolio needs to be regularly estimated, including its impact on their banks' capital/ solvency positions and future profits

Fitch

Credit Support Deed." He welcomes the development and exploration of other risk mitigation tools though he is "not sure how insurance can be used for currency or equity risk mitigation."

Risk management is a core component of ICIEC's corporate and business strategy, which is regularly revised and updated in ever-evolving market conditions. Some of the emergent risks include pandemic, business continuity, catastrophe, climate related, General Data Protection Regulation (GDPR), cybersecurity, Third Party outsourcing and post LIBOR benchmark risks.

As part of its assessment of Viability Ratings, Fitch analyses an Islamic bank's exposure to profit-rate risk alongside mitigants employed to neutralise/hedge and manage those risks through, for example, the use of derivatives. "Offering Shariah compliant hedging derivative products to their customers," explains Al Natoor, "would also support Islamic banks' earnings generation capabilities. Hedging is also important for Takaful companies as we assess, among other areas, their hedging activities through the lens of risk management and primarily focus on how these institutions reduce their exposures to market risks. We also assess the effects of hedging on insurers' liquidity and solvency. Hedging is also important for Shariah compliant non-financial corporates as we assess their risk management practises."

Another key challenge, according to Fitch, in analysing Islamic derivatives is that public disclosures in financial statements are in general limited and do not typically provide detailed information on their intended purpose and their effectiveness. This impedes analysis of the appropriateness and effectiveness of an Islamic bank's hedging programmes, as well as their impact on the financial results on a case-by-case basis.

In countries where Islamic finance has a key presence, the derivatives market in general remains underdeveloped. In April 2019, the OTC interest-rate derivatives turnover (daily average) in the UAE, Malaysia, Saudi Arabia, Indonesia, Turkey and Bahrain, combined, was only US$3 billion and geographically stood at less than 1% of global OTC interest-rate derivatives turnover, based on BIS data. The UAE currently is the only GCC country with an exchange-traded derivatives market, although Tadawul in Saudi Arabia is in the process of launching one.

Another challenge is that derivatives usage by small-to-medium sized Islamic banks tend to be limited because it is cost-prohibitive as they would need to have in place sophisticated risk-management systems and controls due to the increased exposure to counterparty, operational, market, credit and liquidity risks caused by entering into derivatives contracts.

"Without adequate systems and proper management oversight, the use of derivatives could result in significant financial losses. As Islamic banks evolve their risk-management practises, the effectiveness of their derivatives portfolio needs to be regularly estimated, including its impact on their banks' capital/solvency positions and future profits," stresses Fitch.

Future Growth of Derivatives

Al Natoor emphasises that the future growth of derivatives in key Islamic finance markets will also depend on regulators and policy makers adopting enabling legislation that permit the enforceability of close-out netting provisions and collateral arrangement provisions in derivatives contracts. "The enforceability of close-out netting provisions is important as it enables firms to mitigate credit risks by terminating outstanding transactions with a counterparty following an event of default and calculating the net amount due to one party by the other. Collateral arrangement provisions also help to mitigate credit risk by enabling trading parties to pledge variable levels of collateral in support of their trading positions on an ongoing basis," he adds.

Close-out netting legislation has not been adopted in key Islamic finance jurisdictions like Saudi Arabia, Kuwait, Oman and Pakistan. However, it has been adopted in other jurisdictions like Malaysia, the UAE (at the federal level and the free zones of Dubai International Financial Centre & Abu Dhabi Global Market (ADGM)), Qatar (Qatar Financial Centre), Bahrain, Turkey and Indonesia. "This is a positive credit development, but we will be monitoring how this legislation is enforced in practice for Islamic banks. Legislation pertaining to collateral arrangement provisions has been adopted by Malaysia, Indonesia and Turkey. However, none of the GCC countries adopted this in their legislation, with the exception of ADGM in the UAE," observes Fitch.

To address the issue of lack of standardisation and harmonisation across jurisdictions, various regulatory as well as shariah standard-setting bodies have issued a number of guidelines and standards related to derivatives.

Bank Negara Malaysia was one of the first to issue and adopt the Islamic Derivative Master Agreement way back in 2007. This was followed by IIFM's standards. While the uptake of the IIFM's standards is increasing, particularly in Saudi Arabia and the UAE, the market's approach to documentation still remains fragmented and a number of institutions continue to use bespoke documentation, which results in increased negotiations and longer lead time for execution. Many Islamic jurisdictions have a slow uptake and implementation culture as with other standards such as those of AAOIFI and IIFM, partly because they clash or overlap with standards from local regulators or bodies.

ICIEC Member Country ECA Profile
UAE

ECI Builds Back Better in COVID-Disrupted Export Credit Insurance Market

For an Export Credit Agency (ECA) that started operations in 2017, the Etihad Credit Insurance (ECI), the UAE Federal ECA, is an institution in a hurry. Its rapid development could be a model for spreading and normalising the culture of export credit and investment insurance not only in the UAE, but also in the GCC, MENA region and wider IsDB member countries

It, like many other national ECAs, is a perfect complement to ICIEC, the only standalone dedicated Shariah-compliant multilateral export credit and investment insurance Corporation in the world. The UAE is a founder member of ICIEC and cooperates closely with the corporation, driven by the MOU signed between ICIEC and ECI in September 2018 aimed at: i) "establishing a long-lasting relationship"; ii) promoting Shariah-compliant export credit and investment insurance solutions to UAE exporters including SMEs aimed at promoting non-oil exports, trade and strategic sectors development; iii) information exchange and provision of technical expertise; iv) ICIEC extending reinsurance capacity; iv) and cooperation in promoting the estimated $3.2 trillion global Halal economy worldwide in line with the ambitions of the Dubai Islamic Economy Development Centre (DIEDC).

Business insured with UAE entities since inception totalled $456 million and FDI to the UAE insured by ICIEC since inception amounted to $417 million. To put ECI in context, it is a Public Joint Stock Company owned by the UAE Government and the Governments of Abu Dhabi, Dubai, Ajman, Ras Al Khaimah and Fujairah. It is not a standalone Shariah-compliant ECA but has a specific mandate to support the export and re-export of UAE goods, works, services, and the foreign investments of UAE companies, through the provision of a range of export credit, financing and investment insurance products.

The aim is to develop the Federation's export support programme thus contributing to the sustainability of its National Economic Diversification & Development and the UAE Vision 2021. ECI provides cover to UAE exporters against commercial and non-commercial risks.

Dual ECA System

However, a major step in developing a dual ECA system – a conventional one operating side-by-side a Shariah-compliant one, cooperating but no intermingling, came in October 2020 when ECI launched 'ECI Islamic', a suite of Shariah-compliant export credit solutions to boost the country's halal export industry and to cement its strong position as a global leader in the fast-growing Islamic economy.

The launch of ECI Islamic makes it one of the first sovereign ECAs in the Middle East to offer Shariah-compliant Export Credit Insurance and Guarantee Solutions, an initiative which Massimo Falcioni, ECI CEO, regards as a ground-breaking "innovation". In this respect, ECI in June set up a Joint Committee with DIEDC to boost UAE exports through Shariah-compliant export credit solutions. According to Falcioni, ECI CEO, "SMEs contribute 53% to the UAE's GDP and provide 86% of its jobs in the non-oil private sector."

According to the State of the Global Islamic Economy Report 2020/21, Muslim spend across halal food, pharmaceutical,

"The ratings reflect ECI's systemic importance to the UAE, given its specific government policy role in the diversification of the UAE's economy, especially the promotion of non-oil exports, trade, investments and strategic sector development in line with the economic agenda of the UAE's 'Vision 2021'

and Islamic lifestyle sectors is projected to grow from $2.2 trillion in 2018 to reach $3.2 trillion by 2024 at a 5-year Cumulative Annual Growth Rate (CAGR) of 3.1%. Of this, spending on halal food is estimated at $1.38 trillion by 2024. The Islamic economy has not been immune to the impact of the pandemic, as investments in the Islamic economy fell by 13% in 2019/20 to $11.8 billion from $13.6 billion in 2018/19. The number of relevant M&A, private equity, and venture capital transactions fell from 197 in 2018/19 to 156 in 2019/20.

All of these sectors, except travel and hospitality, are expected to return to pre-pandemic spend levels by the end of 2021. UAE is deemed as the third best ranking for the Halal economy after Malaysia, Saudi Arabia; for halal food after Malaysia and Singapore; and for Islamic finance after Malaysia and Saudi Arabia.

ECI, buoyed by the affirmation in November 2020 by Fitch Ratings of its "very strong" Insurer Financial Strength (IFS) and Issuer Default (IDR) Ratings – both at 'AA-' with a stable outlook, has shown remarkable resilience in helping to mitigate the economic impact of COVID-19 to contributing to economic recovery in the UAE.

"The ratings reflect ECIs systemic importance to the UAE, given its specific government policy role in the diversification of the UAE's economy, especially the promotion of non-oil exports, trade, investments and strategic sector development in line with the economic agenda of the UAE's 'Vision 2021'.

Fitch expects domestic expenditure to remain broadly stable as the government will try to avoid weakening the non-oil economy, as evident in an economic stimulus package of AED256 billion in 2020. According to the IMF, the UAE economy is projected to contract in 2020 to -3.5% but is expected to rebound in 2021 to +4.9%.

Market Stabiliser

Falcioni stressed in a recent interview with CFI.co that "ECI moved in quickly to provide alternatives and act as a market stabiliser during the pandemic. We were able to leverage our international AA- credit rating, and the fact the ECI is a fully government company (sovereign risk), to have both local and international banks honour the guarantees we provided, according the BASEL II articles. UAE-based exporters experienced few difficulties in finding commercial banks willing to discount their ECI insured receivables."

ECI's capitalisation is very strong, supported by a strong capital base with a total paid-in capital of AED250 million, with a further AED750 million committed by the shareholders. The agency uses treaty, facultative and quota-share agreements placed through brokers to cede almost 70% of its credit, surety and political risk business to 'A'- and 'AA'-rated reinsurance companies with a limit of AED100 million per reinsurer, including ICIEC.

Not surprisingly, Fitch expects ECI to become profit-making in the next three years following its initial start-up phase, underpinned by strong Government support.

The opportunities for Shariah-compliant export credit and investment solutions are implicit against the background of this promising growth trajectory and the establishment of the Halal Trade and Marketing Centre (HTMC) in the UAE with the aim to develop business opportunities within the Islamic economy for UAE manufacturers, suppliers and distributors of the Halal economy products and services.

HTMC recently launched its Halal Guidebook (Second Edition) titled 'Dubai – A Global Gateway for Halal Industry: A Step-by-Step Guide.'

Massimo Falcioni, ECI CEO, stressed at the launch of ECI, that this upward trend can further be strengthened with a more extensive use of secure trade credit because it can help businesses free up cash flow and finance growth. Trade credit is a type of commercial financing in which a customer purchases goods or services under 'credit' and pays the supplier at a later scheduled date. This arrangement, however, gives rise to a higher risk of non-payment – and this is where protection from ECI comes in very handy.

Products and services under 'ECI Islamic' have been reviewed and approved by Dar Al Shariah, and re-insured by the Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC), the insurance arm of the Islamic Development Bank (IsDB) Group.

ECA Role in Halal Economy

The Halal economy growth is fuelled by high growth and affluence among Muslim populations, increasing adherence to ethical values, continued engagement by global multinationals and investors, and a growing number of national strategies dedicated to halal products and related opportunities.

The launch of 'ECI Islamic' is also in line with the vision of DIEDC which is centred on finding new ways to manage economic, commercial and financial growth, and the adoption of the Islamic Economy to stimulate economic growth and create new opportunities and initiatives through collaborations between local, Islamic and international companies. "Through our Shariah-compliant trade credit, finance, and investment solutions," added Falcioni, "ECI stays true to its mission of supporting the UAE's non-oil sector and boosting the competitiveness of businesses. These solutions will provide UAE businesses operating in halal trade with a competitive advantage in the international market. We aim to not only strengthen the efforts of halal exporters in the country, but also to facilitate the development of new and innovative products that contribute significantly to positioning the UAE as the global leader in the Islamic economy."

Among the export credit solutions offered under 'ECI Islamic' include Trade Credit Insurance, which offers whole turnover policy, single risk short term policy, and single risk long term policy; Letter of Credit Confirmation Insurance; Islamic Export Finance; Foreign Investment Insurance, and Surety Bonding.

With these trade credit solutions, says ECI, it can help companies recover the cost of fulfilling an order that is terminated by events outside their control, such as insolvencies, non-payments, and other adverse impacts of COVID-19. In addition, companies who avail of these solutions can also get loans and additional funding capacity from banks at a concessional rate, guaranteed by ECI. The Federal export credit company can also help them tap alternative supplies through its global network of 360 million companies worldwide.

ICIEC Member Country ECA & Partner Roundup

Malaysia and UAE – MEXIM and ECI

Pandemic Defines Rating Actions While Strong State Support Acts as a Mitigator

> The ratings revisions of two ICIEC member countries ECAs and export import banks in the midst of the COVID-19 pandemic underlines a growing trend in expectations that the institutions will receive extraordinary support from their respective governments in the case of a prolonged impact of the pandemic especially with the emergence of new mutations and variants of the virus and its knock-on restrictions through further lockdown measures

Fitch Ratings recently downgraded the Long-Term Issuer Default Rating (IDR) on Export-Import Bank of Malaysia Berhad (MEXIM) to 'BBB+' from 'A-'. The Outlook is Stable. Fitch has also downgraded MEXIM's Support Rating to '2' from '1' and revised its Support Rating Floor (SRF) down to 'BBB+' from 'A-'. The rating actions follow the downgrade of the sovereign's Long-Term IDRs to 'BBB+' from 'A-' in December 2020.

Similarly, Fitch also affirmed Etihad Credit Insurance PJSC's (ECI) Insurer Financial Strength (IFS) Rating 'AA-' (Very Strong) and affirmed the group's Long-Term Issuer Default Rating (IDR) at 'AA-' (Very Strong). The Outlooks are Stable.

Both rating actions are underpinned by the expectation that strong state support will be forthcoming if needed. In the case of MEXIM, its IDR is also equalised with Malaysia's sovereign rating. "This reflects our expectations of a high probability of extraordinary state support for the bank,

if needed, due to its long-standing policy mandate, full state ownership and record of financial support from the state," confirmed Fitch in its rating rationale.

However, the downgrade of its Support Rating and the downward revision on the SRF reflects the sovereign's reduced ability to provide support, in case of need, due to a widening fiscal deficit and deteriorating government debt metrics. As such, the Stable Outlook on MEXIM's IDRs mirrors that on the sovereign rating.

The Malaysian economy like most others in the world has been adversely affected by the pandemic. In its Article IV Consultation preliminary report with Malaysia in December 2020, Nada Choueiri, who headed the IMF team, stressed that "the Malaysian economy entered the (COVID-19) pandemic from a robust economic position, but the shock has been severe and is expected to cause a 5.8% decline in real GDP in 2020. Inflation is expected to settle at negative 1.2% and unemployment, which peaked earlier in the year, has only partially recovered."

Looking ahead, she added, "real GDP is projected to rebound by 7% in 2021 supported by both domestic and external demand. Exports, which were propped up in 2020 by strong pandemic-related demand for personal protective equipment and electronic products, will continue to underpin growth. But the recovery will be uneven across sectors. Inflation will rise to around 2% in 2021 as electricity tariff rebates expire, fuel prices rise, and domestic demand recovers." The full report will be published in 1H21.

Similarly, Fitch in its rating rationale for the sovereign's downgrade in December warned that Malaysia's economic recovery going forward is tempered by several factors. These include:

i) Rising Government debt which is projected to jump to 76.0% of GDP in 2020 from 65.2% of GDP in 2019. Malaysia's debt is close to 400% of revenue, around three times the peer median and the debt/GDP ratio to remain broadly stable after the pandemic recedes, given the likely fiscal deficit reduction, and low debt service costs, illustrated by an average 10-year yield of 2.7% in November.

ii) A slight deterioration in Malaysia's governance metrics in 2020 compared to 2019 according to the World Bank's World Governance Indicators 2020 especially in dealing with corruption and increasing transparency.

iii) The government's thin two-seat parliamentary majority implies persistent uncertainty about future policies. Deterioration in governance and continued political uncertainty could dampen investor sentiment, constraining economic growth. And

iv) The share of the government's foreign currency-denominated debt is low, at just 2% of total debt. The government is still relatively dependent on foreign financing, as foreign holdings of domestic debt are around 24% of the total. This is down from a high of 34%in 2016 and reflects a deep and developed domestic bond market.

The good news is that the rating agency acknowledges that MEXIM plays a strategic policy role in supporting Malaysia's foreign-trade sector. "The bank's mandate," added Fitch, "has become more important amid the sharp contraction in trade flow during the coronavirus pandemic. MEXIM has actively engaged its borrowers who need repayment assistance, similar to other commercial banks. Its inclination to provide such relief is heightened by its policy mandate, in spite of more challenging credit conditions."

However, the long-term rating on MEXIM's sukuk programme, issued through its wholly owned SPV - EXIM Sukuk Malaysia Berhad - is also downgraded in line with MEXIM's IDR.

The planned merger of Malaysia's four Development Financial Institutions (DFIs), including MEXIM, could also weaken the probability of state support if the bank has a diminished policy role or is acquired as a subsidiary of other DFIs, resulting in weakening in its linkages to the state. However, these changes are unlikely to happen in the near term given that the merger has been postponed.

Similarly, for Etihad Credit Insurance PJSC (ECI), Fitch's rating reflects its view of an extremely high probability of support from the UAE authorities in case of need, reflecting its systemic importance to the UAE, given its specific government policy role in the diversification of the UAE's economy.

Fitch views ECI's systemic importance to the UAE as the main driver of the IFS Rating. ECI was founded to insure UAE-based non-oil export companies against non-payment. The company also protects investments outside of the UAE against political risks and supports corporate bidding for international tenders.

ECI, adds Fitch, plays a significant role in the promotion of UAE's non-oil exports, trade, investments and strategic sector development in line with the economic agenda of the UAE's 'Vision 2021' and its ambition of Dubai becoming the global hub for the halal economy.

ECI is owned by the UAE federal government and the governments of five out of the seven emirates, including the governments of Abu Dhabi and Dubai.

Some of the rating drivers include:

i) The expectation that domestic expenditure will remain broadly stable as the government will try to avoid weakening the non-oil economy, as evident in an economic stimulus package of AED256 billion in 2020.

ii) ECI's strong capitalisation, supported by a strong capital base with a total paid-in capital of AED250 million, with a further AED750 million committed by the shareholders. And

iii) ECI uses treaty, facultative and quota-share agreements placed through brokers to cede almost 70% of its credit, surety and political risk business to 'A'- and 'AA'-rated reinsurance companies with a limit of AED100 million per reinsurer.

Fitch expects ECI to become profit-making in the next three years following its initial start-up phase. Underwriting will be decided on a commercial basis with a targeted 50% loss ratio for all products, which is in line with other major credit insurers. Fitch regards ECI's investment strategy as prudent with its invested assets allocated in fixed deposits of five different UAE banks and in bonds rated in the 'AA' categories and at 'AAA'.

Indonesia

Credit Insurance Claims in Indonesia Set to Rise in 2021 and Beyond

> Credit insurance claims in Indonesia is projected to continue to rise in 2020 and 2021 driven by the economic and health impact of COVID-19. This follows on from the 2019 trend

The Indonesian General Insurance Association (AAUI) confirmed that there was a surge in credit insurance claims at the end of 2019 into 2020 as the pandemic started to unfold. This surge, according to Dody Achmad Sudiyar Dalimunthe, Executive Director of AAUI, was accompanied by an increase in premiums as credit insurance business soared.

In 2019 the credit insurance premium income reached IDR14.64 trillion (US$998m), an increase of 86.2% compared to 2018. Claims similarly increased by 88.9% to IDR9.87 trillion in 2019.

The increase in claims continued in 1H20 when the premium income declined by 6.1% to IDR5.7 trillion compared to the corresponding period in 2019. Claims paid out in the period totalled IDR4.09 trillion, up 16.3% from the corresponding half in 2019.

The AAUI is advising members and all credit insurers to boost their risk management and mitigation policies by conducting risk assessments properly and spreading the necessity credit insurance protection coverage.

According to Mr Dody, AAUI officials recently met officials from the Indonesian insurance regulator Financial Services Authority (OJK). The aim is to adopt measures to curb the surge in credit insurance claims. The government has also extended the credit restructuring period to March 2022 to cushion the impact of the pandemic on the country's borrowers and banks, by granting more time for repayment.

Saudi Arabia and the UAE – SFD and ECI

SFD and ECI Collaborate to Promote Financing and Credit Insurance to Boost Non-oil exports of the Two Countries

The Saudi Fund for Development (SFD) and Etihad Credit Insurance PJSC (ECI) have signed a cooperation agreement to promote financing and credit insurance to boost non-oil exports of the two countries

Under the agreement, the two institutions will cooperate in technical training programmes; trade promotions and SME programmes; insurance, reinsurance collections; and in client commercial and credit information sharing.

"We are certain that ECI's association with SFD," said Massimo Falcioni, CEO of ECI, "will prove to be beneficial to UAE-based businesses as they will have access to new markets, potential business market intelligence supported by ECI's bespoke trade credit solutions to diversify their businesses."

According to Dr Khaled Bin Sulaiman Al Khudairy, Vice Chairman and Managing Director of SFD, which has financed programmes in education, health, transportation, agriculture, energy and water since the 1970s especially involving SMEs, targets developing countries by granting loans, technical aid, institutional support as well as lines of financing and guaranteeing national non-oil exports.

Both the UAE's Vision 2021 and Saudi Vision 2030 aim to promote non-oil diversification in their economies and enhance economic growth and investment in the region.

Atradius Extends Participation in Dutch Government's EUR12 billion Supplier Credit Reinsurance Programme

> It is not only ECAs in emerging markets that are undergoing pandemic-related structural changes but also international credit insurers who support their respective home companies in their cross-border business including with ICIEC member countries

Dutch international credit insurer Atradius in January 2021 for instance extended its participation in the Dutch government's EUR12 billion supplier credit reinsurance programme.

"The agreement between the government and the credit insurers has significantly contributed to the stabilisation of Dutch business in recent months. However, with the second lockdown, the situation for many businesses has become even worse. In this very difficult situation, we continue to take responsibility for the Dutch economy and, together with the Dutch government, we help Dutch companies to do business safely," said Tom Kaars Sijpesteijn, Managing Director of Atradius Nederland.

The EUR 12 billion guarantee from the Dutch government will allow credit insurers to continue to provide credit limits totalling more than EUR200 billion to their customers. "It is the intention that from July 2021 onwards Atradius will assume the trade credit risks for its customers as usual again", added Sijpesteijn.

> It is the intention that from July 2021 onwards Atradius will assume the trade credit risks for its customers as usual again
>
> **Tom Kaars Sijpesteijn**, Managing Director of Atradius Nederland

The relaxation of bankruptcy law and a large number of other public support measures, says Atradius, have meant that the number of company bankruptcies has so far not increased to the extent feared in the course of 2020. Nevertheless, the risk of irrecoverable debts for Dutch companies has increased considerably since the outbreak of the pandemic. For example, the latest Atradius Payment Practices Barometer shows that an average of 10 percent of total turnover for Dutch companies surveyed was irrecoverable and had to be written off after March this year.

This is more than a sevenfold increase compared to the results of last year's survey, when the figure was 1.3%. Atradius expects the number of bad debts due to business failures to increase significantly in the coming months. "At this stage, good protection against non-payment is more important than ever for companies. The likelihood of bad debts is very high. The money that companies have to wait very long for, or at worst do not get at all, is unavailable for other purposes, for example to meet their own obligations. Against this background, the extension of the Dutch government's credit reinsurance programme helps to stabilise supply chains, provided that companies cover their losses on bad debts with credit insurance," emphasised Kaars Sijpesteijn.

Governments as Insurers of Last Resort is Unsustainable but an Established Approach to Pandemics Encompassing Scope of Intervention and Clarity of Cover is Essential Going Forward

"

One of the unintended consequences of the COVID-19 pandemic is the involvement of governments in funding economic and financial rescue packages to mitigate the socio-economic and health impact of the virus and to lay the foundation for the post-pandemic economic recovery

In the insurance market governments have stepped in effectively as an Insurer of Last Resort (ILR). But as the impact of the pandemic continues on the back of second and third waves of the pathogen due to mutations and new variants, how sustainable is it for governments to continue to step in as an ILR.

The London-based Chartered Insurance Institute (CII) conducted a survey in this regard towards the end of 2020. The conclusions were indeed revealing. A survey of 476 CII members showed 54% do not feel the government can continue to provide a safety net for everybody and company financially affected by COVID-19.

"Ultimately, no government can save every business," maintained Keith Richards, chief membership officer of the CII. "Coronavirus has acted as a catalyst for some trends (for example, towards online shopping) and the government cannot have a 'zero failure' regime that prevents every business from closing. However, only the government has the tax raising powers to raise the hundreds of billions of pounds needed to transition to a post-Covid economy in an orderly way, that avoids the kind of suffering that happened, for example, in the 1930s.

"While government cannot be the insurer of last resort for every business and individual, it can offer a wider safety net than insurers can raising money through voluntary premiums. The key is for the insurance profession to define roles and responsibilities in a clear and sustainable way, so that investors can have confidence and the economy can rebuild."

The Chartered Insurance Institute (CII) has urged insurance professionals and the government to focus on three areas to reduce the need for legal proceedings such as the business interruption (BI) insurance test case brought by the UK's Financial Conduct Authority (FCA) in the wake of the pandemic plus to ensure the public are aware of what insurance covers and when the government will offer financial assistance. The FCA won the landmark in the High Court in London requiring companies to honour BI claims.

CII has called for a consensus among professionals on definitions where the same words and phrases are used in different contracts, to reassure consumers that two policies, which "look the same on paper", cover the same risks. The CII has also proposed an improvement to advice processes, as well as non-advised buying processes, to help clients understand insurable and non-insurable risks.

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