**Interview by Michael Bickers of** **Frédréic Bourgeois, Managing Director UK&I, Global Head of Single Risk Business Development, Coface**

**Michael**:

Hello, and welcome. Today our session is in the run up to our event next month in London, which is ***Alternative and Receivables Finance*** event, and that is on the 11th (*correction: 18th*) of November, at the offices of Addleshaw Goddard in London. And I'm delighted to be joined today by one of the speakers for that event, and that is Frederic Bourgeois, who is Managing Director, UK and Ireland, Global Head of Single Risk Business Development at Coface. Frederic, you're very welcome. And thank you for joining us this morning. Frederic, there're really two things I want to talk to you about today. I want to just ask you a little bit about the Greensill situation. I don't want to focus too much on it, because it has been covered quite a lot recently. And I'm not really sure that there's too much to report on it, because as far as I can see, it was a fairly isolated case, and not really reflective of the typical supply chain finance structures particularly operated by banks, which, as we know, banks represent, I'm sure, the vast majority of the business in supply chain finance. And when I say supply chain finance, I'm talking about the reverse factoring buyer centric model, not the the other definition, the ICC definition, which is much broader. So we'll talk a little bit about that. And then I'd like to ask you some questions about the current environment, coming out of the pandemic and what we might see over the next few months and beyond in the credit insurance market. So let's start with Greensille. Frederick, what lessons do you think, if any, have we learned from the Greensille case? Or do we need to learn lessons at all? Because as I mentioned, it seems to me a fairly isolated and unique kind of situation with Greensille. The situation with Tokyo Marine Holdings - has that affected the industry/the sector today? And do we need to think about putting measures in place to avoid any kind of repetition? Or is that just not really likely because of the uniqueness of the situation? What are your views on that?

**Frederic:**

Thank you, Michael. And morning! There's quite a number of takeaways from this crisis, if you will. Although I can carry at that my opinion is that not final because we've not work we've been to so. So really, we need to look at it from what we know, that has been released in the press what we know because we were in touch on these theories of what, whereas of Greensille was doing with the broker, but we never really went into any of the transactions with them.

**Michael:**

Sorry, thank you for clarifying that. I did mean like to say that you're looking at this from the outside, and you had no direct involvement in it.

**Frederic:**

But nevertheless, there are three strands in my view. The first one is although the insurance industry has not covered itself in your way, you could always say that. And there's been a number of fingers pointed at the insurance industry, I don't think it's been alone in that. We all know that chemistry has been very heavily impacted as well from a reputation perspective as well as from financial perspective. But beyond that, there are a number of investors who are also stepped in - put money into Greensill in a big way. General Atlantic put a lot of money, I think, worth 250 million US dollars, something like three years ago. And then SoftBank also topped that and the valuation of Greensill, we remember, ran into billions at some point. So although it's very easy to point the finger at the insurance industry, we have to remember that it's not the only industry that probably was a bit too lenient in its assessment of the risks going with Greensill. So that's the first thing. The second one is should there be - because we've heard about that as well - should there be more regulations to avoid this type of events? And I don't think regulation is the answer. I think regulation would not prevent that. I think a number of [*unintelligible*] probably have been more careful and Greensill, as from what I understand, from those who were involved in the transactions, was always a marginal risk, for the transactions they were in, were always considered slightly marginal and quite risky, but nevertheless, it was a big company, a lot of premium one to the market, so it was attractive. Why I don't think it's a question of regulations because I think it's a pure question of underwriting ultimately. We could not necessarily foresee all the details that have led to the inquiry at the Parliament level, etc, etc. But already, when you looked at it from an underwriting perspective, there were questions to be raised along the lines of - what does Greensill bring to its class? How is the value chain organized, and how much of that value chain goes to the insurance market? And the reason why Coface did not step in these transactions is not because we discovered plenty of things which our competitors did not discover. I would not be truthful if I told you that. It's just the fact that we consider that the distribution of the added value, if you will, of Greensill was completely unbalanced. And that the insurers bore most of the risks, if not all of the risks, of a fraction of the overall remuneration that went into the market, to investors, to Greensill, and to the insurance. So there was a clear unbalance which we could not understand, and which we thought was way too big. And this only added to the other question marks, which everybody probably add about what would be naked, or these transactions are very complicated, we don't understand everything, etc, etc. So there was really the question of economics, which in our view, did not stack up as well as the other questions which were unanswered or answered in a way, which was not always entirely satisfactory. So coming back to your question - how can we avoid such situations? probably is to make sure that we shall all understand the underlying foundations of transactions as opposed to just the pure insurance part in isolation.

**Michael:**

So really, the whole Greensill proposition didn't fit your risk appetite or anywhere near it by the sound of it. There were a lot of things that were wrong with it in terms of you taking that on as a client as risk. And it kind of begs the question, why do you think it was taken on by Tokyo Marine? Why did they not see the same kind of concerns that you saw when you were looking at it from the outside?

**Frederic:**

It's very difficult to speak on the eye of Tokyo Marine or anybody else, by the way, because on the face of it, the transactions looked attractive. And Greensill was very good at advertising a track record, which rightly or wrongly, they presented it as being very good. And I remember discussions with Lex Greensill. And he said, Oh, we know, in the past, we had an issue with Abengoa And some insurers were covering it. But you know, what, we covered so much that the insurance had been made raw. So he was very good at advertising and promoting Greensill as well, which, by the way, again, it's not just with insurance, we've seen it in political spheres, as well as with investors. So I think there was this perception that the company was really on something new. It was growing very, very fast. And so there was definitely an attraction there. So sometimes it's a marginal decision which you have to make. And you know what? Three years ago, I remember being asked a number of times, why are we not on Greensill? Why is it that we are not taking advantage of one of the market leaders? It's very difficult to keep the decision of refusing to join a panel with a company which is successful, well-advertised and which apparently has got very, very decent results, and which brings very decent results to its insurers as well. So there is a lot of pressure there. Again, from our side as well, it was a marginal decision. We really discussed it at the highest level, and there was an alignment within the Coface, nevertheless it was discussed at the highest level.

**Michael**:

Sure. And in the end, you made the right decision.

**Frederic:**

It was a right decision. But again, if I were to tell you now why we made that decision, I could not tell you it's just one thing. It's a combination of factors as much as anything else.

**Michael:**

Sure. And you mentioned regulation and of course the whole question of regulation and balance sheet treatment was not triggered by Greensill. That was there before. Greensill came along but maybe accelerate the discussion of that aspect a bit, the whole Greensill situation. Okay, let's move on from Greensill, Frederick. And let's have a look at the current general environment that we're in at the moment. And of course, we've seen a lot of government support across many markets for SMEs in terms of grants and loans and furlough schemes, which, of course, very much helped the situation. And we've also seen backstop style reinsurance that governments have been offering to support credit insurers, and to help in terms of the risk situation. And we're seeing all that tailing off now of course. And there are some concerns about what we might see in the coming months and beyond in terms of business failures, and the level of cover that we might see from insurers. And, you know, if we make a comparison with what happened during the banking crisis 2008-2009. We saw at that time a lot of cover being withdrawn, particularly in emerging markets, where there were some very serious situations arising because of that. And of course, there are concerns that we may see a return to this kind of scene. And Atradius, sorry to mention them, but as you compete with them, but they have issued an expectation of an increase in global insolvencies by 33% as government support diminishes and moves away. So what's your view on that? How do you see things panning out over the coming months and beyond in terms of those kind of scary predictions, that comparisons that some people are making, and I'm making right now, but am I completely wrong? Or the situation can be a lot better than it was, you know, in the previous crisis coming on from that.

**Frederic:**

So our economy department has got about the same view as the one held by Atradius in Europe because all credit insurers tend to see the world in the same way. And there are two aspects really - there is the underlying trend, and then there is just the base effect. We have to remember that in the second half of 2020, the level of insolvencies particularly in the UK but across a number of countries just collapsed, exactly for the reason which you mentioned, which is government intervention, a lot of casting punching the economy. And if you take the UK numbers, I think insolvencies for four or five months in a row were down by 40% or so, between 30 and 40% down against 2019. So necessarily, the numbers will go up. But it doesn't mean we are yet at the level seen in 2019 in terms of the number of insolvencies. What is more of a concern obviously, is that this trend will not just stop at the point and stabalise, is that it carries on and then we've got a big way, or that it can be extremely, extremely strong in some specific areas, some sectors which have been weakened, which have just held or barely held their own, and which now will sink under. And that can be compounded of course by the fact that you have a number of other features, such as the rise of the price of energy. And we've seen a number of energy companies going under in the last few weeks. So the difficulty we have is to forecast what could happen at a global level or even at country level when a lot of the actions will take place in specific sectors. You can mention hospitality; you can mention travel; you can mention mentioned steel or energy, where there will be specific factors which can drive the level of insolvencies.

**Michael:**

Sure, I mean, you know, it's a very complex situation. We have there a lot of influences, global influences going on at the moment, not just the pandemic; we have Brexit; we have, you know, trade flows changing enormously. But, could we perhaps say that comparing the situation now with 2008-2009, the industry is better positioned in terms of risk analysis, in terms of available data, in terms of tools that you have, which enable you to make more accurate decisions in terms of providing cover? Is that a major difference between now and then that might help in this situation?

**Frederic:**

That's exactly what we said in 2007 compared to the previous crisis. So we are better equipped. There's no doubt about it. All the credit insurers are much better equipped. By the same token, the changes can be more dramatic. I don't think anybody would have forecast a pandemic such as this one and all the consequences that went with it. Everybody was probably still fixed on the good old traditional economic crisis for united etc. The good news - there were two good news. The first one is the governments reacted very, very swiftly. And that helped everybody. And the second good news is that the credit insurers themselves reacted in a more considerate way compared to 2008-2009. Some carriers who took 40% of cover across the board in 2008. Tried as much as they could to act more sensitively, because they thought otherwise, they would just destroy that franchise. And so the whole market was…

**Michael:**

Sorry, do you think some insurers overreacted 2008-2009 in the crisis?

**Frederic:**

Yes, it's in annual report, I don't want to quote names, but it's in the annual report. Some insurers withdrew 40% of the cover they had before the crisis. So insurers withdrew 15% of the cover; some 5%. So obviously, the positions were very different depending on where they stood at the beginning of 2008, and whether they needed to react very, very rapidly, or they could afford a bit more time. But in 2020, I think the insurance world has reacted in a way which is relatively similar overall, thanks to the government schemes, but also thanks to the lessons of the previous crisis. So typically for Coface, we had an instruction and which we are very happy to carry to say - we don't do any bulk action, all the decisions will be taken manual. So that means a lot of work for the underwriters, a lot of work for the information teams, we are to gather the very latest information to be able to make informed decisions. But clearly, whilst we took a large number of decisions, and all of them were carried manually, which means there was an underwriter taking that decision. And so that's a huge difference compared to what happened previously. And I think all our clients benefited. It means we have had more cover overall in market. Again, it doesn't mean some sectors have not been badly affected. But overall we kept a lot more cover than we would have done if we are not taking this approach. And if you look at the official figures released by Coface, I think the Coface Group has already got more exposure globally now than it had at the beginning of the crisis. We were just about 500 billion (euro) of cover, if my memory serves me well, early in 2020 or at the end of 2019; we are at 534 billion euros of cover as of the 30th of June. So effectively overall we have added cover during those times.

**Michael:**

Okay, that's really encouraging news certainly from Coface. And of course you have some aspects of your particular business and structure which can help you with that. You have a very large database of clients I think, or debtors - 3 million debtors that you can examine and help in terms of your risk analysis and providing cover. And so I don't know how that compares with your size/your database in 2008-2009. But that's certainly a strength that you have today. And you have some other aspects and services that Coface can offer which generally provide additional support and services. For instance, your collection capabilities. Can you just talk us quickly through that, Frederic?

**Frederic:**

That's a very good point. Coface is at risk at any point in Coface is at risk with about 3 million companies. So we've got 3 million companies on which we have credit limits running. And of course our database is larger, but the ones which we monitored constantly are these 3 million, which is already a very, very big number. So we are back to why would people touch credit insurance? You've got those who purchase credit insurance just because they want price on cover. And that’s the large number of clients obviously. And as an insurer you are to provide a good price and a good level of cover. But a lot of our clients as well, possibly in the global space, and with financial institutions and asset managers etc. are interested in that database, what we can provide all the ancillary services, which can be bundled with credit insurance or unbundled, which are linked to this wealth of information. So how can we help our clients because we know so many companies, we grade them, we follow them, we monitor them. So that's the upstream part of effectively credit insurance business, which is a very big part of the added value of the credit insurance business. And then there's the downstream part, which is collections, because we collect effectively any debt on our behalf or when there are clients but on behalf of non-policyholders, if you will, in virtually every country in the world, except some central country. To cut the long story short, we can collect money everywhere in the world. And we do so through a unique system. So there's only one system, network of Coface, teams and partners across the globe. And that, again, is very, very powerful to our clients. And that again brings a lot of value, because it's one thing to be creating insurance with this of course, but it's great also just to know that you can try it. If something goes wrong in Brazil or China or the US, you know, you've got a company which can help knowing the local legislation, being close to the clients, and being very coordinated in terms of systems. So that's really what we try to bring and what we want also to bring to the insurance. The insurance world is not just price and cover. It's also the new nature of these three sides, 3 million debtors and the ability to collect monies wherever they are in the world.

**Michael:**

Yes, local knowledge is so important, isn't it? So well, Frederick, thank you very much indeed. It's good to hear that generally there's a positive outlook in your opinion, certainly compared to the last crisis. And we very much look forward to hearing you at ***Alternative & Receivables Finance Forum*** next month, as I mentioned on the 11th (*correction: 18th*) of November in London. Thank you for your time this morning, Frederick.

**Frederic:**

I'm looking forward to it. Thank you, Michael.

**Michael:**

Thank you.