Political Risk and Trade Credit Predictions 2024

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1. Structured trade credit insurance can give the green light

The world will increasingly recognise the positive impact of trade credit insurance. The transition to net zero is difficult, even without the political considerations associated with the costs in post-COVID economies. Trade credit insurance can and does contribute to the battle against climate change, albeit the industry could perhaps be louder in pointing this out. Structured trade credit insurance can de-risk certain financial aspects for banks/investors by insuring against loan defaults. These insurance products enable capital exposure to be spread across the banking and insurance industries; smarter use of capital and risk sharing ensures that more green projects are developed, especially in developing states.

2. Political rains down in Africa

Political upheaval on the continent may drive political risk claims. The past three years have seen multiple coup d'etats in Africa, culminating in the ousting of the Gabonese president, Ali Bongo Ondimba, in August 2022. Political change, especially when driven by populism, brings with it significant risk for foreign investors. New regimes can have differing views to those with whom investors have dealt previously – including the respecting of private rights of ownership. New regimes may also seek to justify their ousting of prior governments on the, often unjustified, basis of fraud and corruption – with successful investors seen as relatively easy targets for a quick domestic political win. These are all unwelcome developments for investors and for political risk insurers who may have insured against the risk of confiscation, expropriation, nationalisation and deprivation by host governments.

3. Ukrainian shipping route indirectly increases risk of political violence in developing nations

Political violence risk increases the longer the Black Sea corridor remains exposed. Pre-war, Ukraine was one of the world's leading exporters of grain in the world, especially to developing nations. It provided more than 50% of the UN's World Food Programme supply of wheat grain in 2022, to help people in Afghanistan, Ethiopia, Kenya, Somalia, Sudan, and Yemen. With the status of the Black Sea Grain Initiative still unclear, those in developing nations face significant uncertainty around food security – especially as the impact of climate change affects domestic harvests. Increased civil unrest related to a government's (in)ability to feed its population is a significant risk as the war in Ukraine continues. Whether the corridor reopens will be watched keenly by underwriters in both the political violence space and political risk (as those seeking power may seek to take advantage of impending humanitarian catastrophe for their own ends).

4. Tech developments will take on the pretenders

Trade credit insurance will benefit from greater use of electronic trade documents. Credit insurance granted to the traders of commodities brings with it elements of risk beyond non-payment. The nature of international trade and shipping has become increasingly complex, and trade credit insurers who thought they were insuring simple seller A and buyer B transactions can now find themselves faced with multiple (alleged) intermediate trades between A and B, potentially increasing the risk of fraud. The market has been exposed to sophisticated attempted frauds in the past, with perpetrators using fraudulent bills of lading to evidence the existence of alleged insured trades. Developments in technology, increased digitisation and the use of e-bills of lading ought to reduce fraudulent claims as evidence of title to goods becomes automated and far harder to fake by those with nefarious intentions.

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