

Euler Hermes North America Insurance Company  
800 Red Brook Blvd.  
Owings Mills, MD 21117

May 20, 2020

Commissioner Ricardo Lara  
California Department of Insurance  
300 Capital Mall, 17th Floor  
Sacramento, CA 95814

RE: Bulletins 2020-3 and 2020-4

Dear Commissioner Lara,

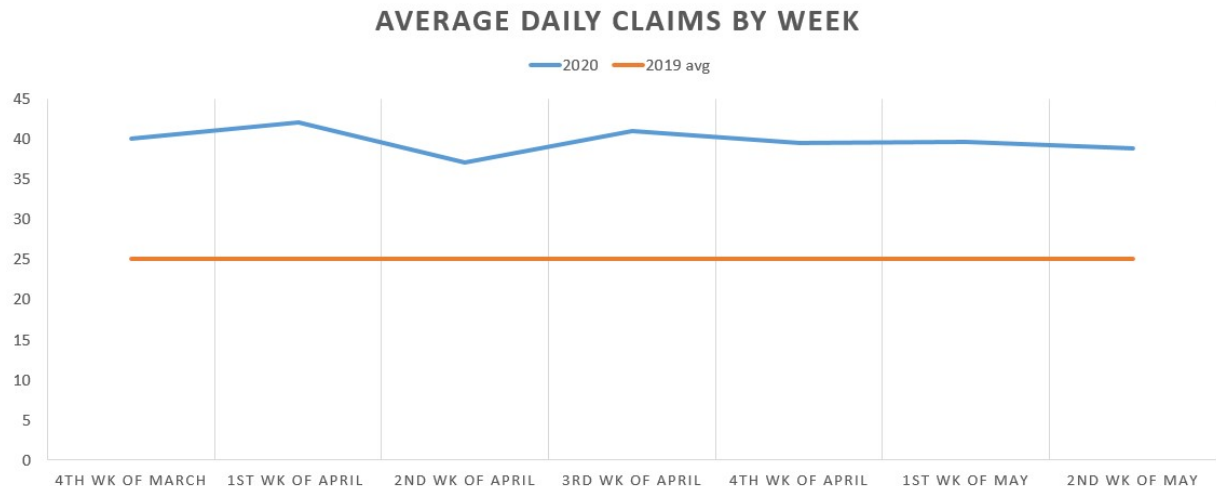
Euler Hermes North America Insurance Company (“Euler Hermes”) is a trade credit insurance company. Trade credit insurance reimburses policyholders when they are not paid for goods and services delivered on short-term credit due to insolvency, non-payment and or political risk events. We reviewed Bulletins 2020-3 and 2020-4 carefully and concluded that it does not require us to provide a premium reduction or refund, as our overall risk profile has not and will not be substantially reduced. Conversely, the risks associated with trade credit insurance are increasing due to the current COVID-19 pandemic.

Unlike other Property and Casualty lines of insurance noted in Bulletin 2020-3 whose risk profiles are substantially changed and often reduced as a result of the COVID-19 pandemic, risk for trade credit insurers has and will continue to substantially increase. This is a direct result of the economic downturn because trade credit insurers are on risk for shipments that occurred prior to and during the COVID-19 outbreak. There is a direct correlation between the resulting economic downturn and the ability of businesses to pay for merchandise delivered before, during and after the outbreak, which will unquestionably cause increased claims submissions. Requiring a refund, credit or reduction of premiums for ongoing coverage will place trade credit insurers at considerable risk. While our customer’s revenue is one factor in our determination of premium, it is not the only factor. Several components of risk also determine premium such as trade sector risk, buyer credit risk, country risk and default risk. While a customer’s revenue may be reduced for a short time period as a result of the pandemic, for the reasons stated below the overall measure of risk has not and will not become substantially overstated due to the Pandemic. In fact, the overall risk will likely increase.

For Example:

Current policyholders could be seeking reimbursement for unpaid merchandise shipped as far back as November 2019. How this works: A policyholder has an approved buyer ABC Co., up to \$100K. If they shipped the full \$100K over the months of December 2019, January 2020 & February 2020, they may still have invoices outstanding in April 2020. If ABC Co. is having hardship due to the COVID-19 pandemic, they may not be able pay in April or May 2020. Since the policy covers the previous shipments, the policyholder continues to benefit even if they do not ship ABC Co. any more product during the COVID-19 pandemic. Because the COVID-19 pandemic will likely cause disruption to cash flows, more protracted default and insolvency claims are likely in the coming months.

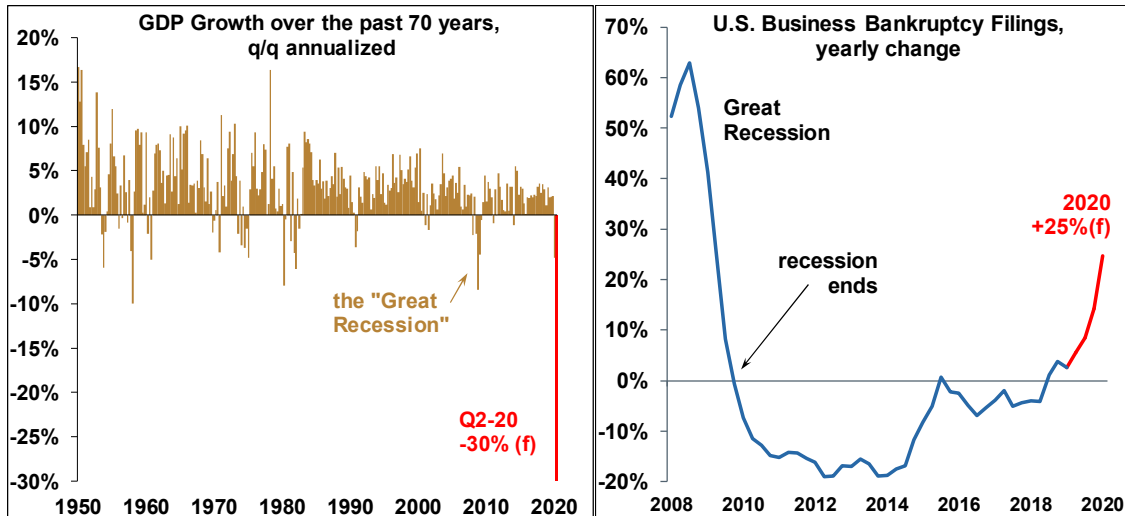
We are already seeing an increase in the daily claims submissions. The year over year comparison shows a 65% increase in daily claims from this time last year. For further clarity, the chart below shows the daily claims filed during the pandemic vs. our average claims filed in 2019.



The claims shown above relate to shipments from 3-6 months ago, which is just the beginning of the claims submissions we will see due to this pandemic. We expect to see an additional increase around the 3<sup>rd</sup> quarter, as outlined by our Chief Economist Dan North in the details below.

- The U.S. economy just exited the worst quarter since the Great Recession, as Q1 GDP growth fell -4.8% quarter over quarter (q/q) on an annualized basis.
- Consumption, which accounts for 70% of GDP, fell a record -7.3% in March vs. the previous record of -2.5%.
- Our forecast projects that GDP will decline at an unprecedented -30% q/q annualized in Q2.
- Even if the economy were to make a strong recovery in Q3 and Q4, it is likely that 2020 as a whole will be the worst year of the post-World War II era in terms of GDP.
- The economy will shrink more than twice as fast as the previous record low of -2.5% set in 2008.
- Even before the start of 2020, businesses had already been showing signs of stress as bankruptcies rose 2.5% in 2019, the first increase in 10 years.

Further evidence of oncoming bankruptcies is already emerging. Thirty two percent (32%) of businesses have shut down temporarily while another 31% have reduced working hours. The majority of job losses in March and April were in small businesses, and on average, those businesses have only a 27-day cash buffer to survive. Clearly many companies are already on the path to bankruptcy. As a result of this evidence and the severe shock to the economy, we forecast that bankruptcies are likely to rise approximately 25% in 2020, again the highest increase since the Great Recession.



Based on the information presented above Euler Hermes' measures of risk have substantially increased due to the COVID19 pandemic. Therefore, we believe the increase in risk associated with the increase in sector risk, buyer risk, country risk, and default risk offsets any reduction in risk associated with a reduction in revenue. Accordingly, we do not believe that Euler Hermes provides a line of coverage where the measures of risk have become substantially overstated as a result of the pandemic. Therefore, we respectfully contend that Euler Hermes is not subject to the terms of Bulletins 2020-3 and 2020-4. If you have questions or would like to further discuss please reach out to Nilam Saini, Head of Compliance and Government Relations, [nilam.saini@eulerhermes.com](mailto:nilam.saini@eulerhermes.com); (410) 753-0866.

Very Truly Yours,

*Nilam Saini*

Nilam Saini  
 VP, Regional Compliance Officer and Head of Government Relations