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EUROPEAN ASSOCIATION OF GUARANTEE INSTITUTIONS

MARKET TRENDS, INDUSTRY DISRUPTIONS AND THE FUTURE OF CGIs

EMGN Autumn Academy 2021 - Session 1E



KEYNOTE

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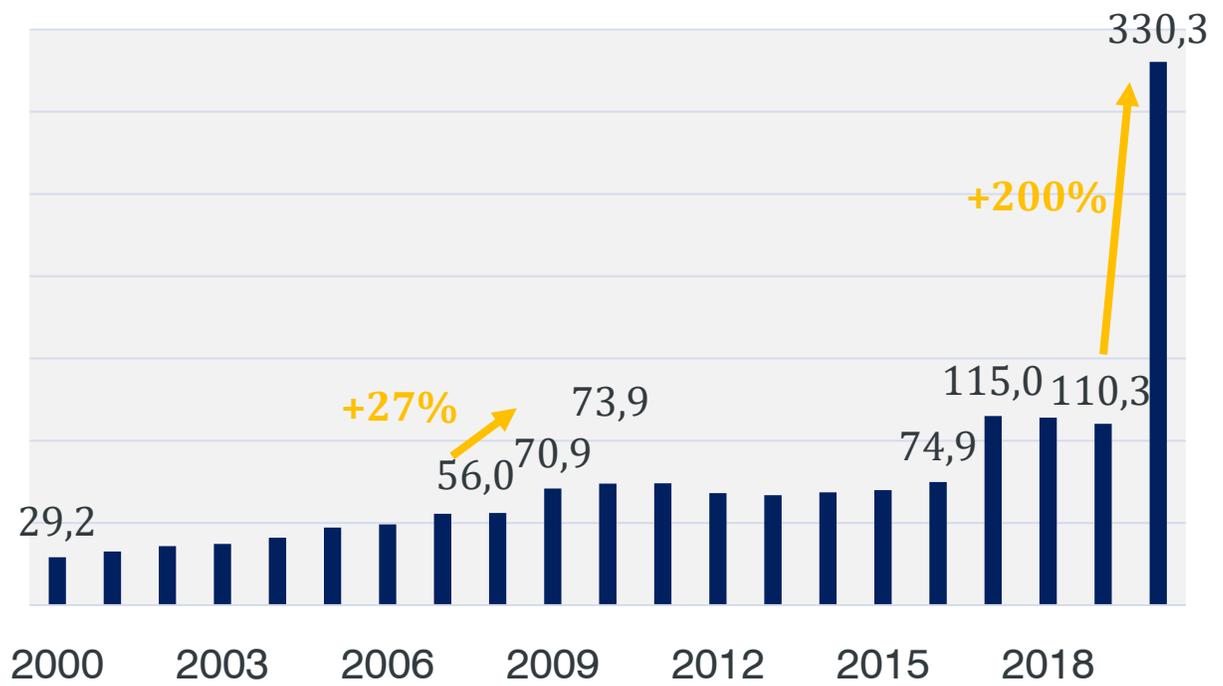
THE IMPACT OF AECM'S MEMBERS

The role of CGIs in times of crisis and beyond

THE IMPACT OF AECM'S MEMBERS

TODAY: COVID-19

Outstanding guarantee volume (in bEUR)



Number of supported SMEs (in m units)



- [SME support in the covid crisis – The role of Guarantee Institutions](#)
- [Statistical Yearbook 2020](#)

THE IMPACT OF AECM'S MEMBERS

TOMORROW: LOOKING BEYOND THE CRISIS

- Counter-cyclical role in crisis times + policy instrument to overcome market failure
- Massive support measures during crisis ⇒ strong contraction of budgetary resources expected
- Need to keep guarantee system functioning ⇒ [AECM position on the need to keep up enhanced guarantee support](#)
- Positive impact of guarantee institutions' activity proved by numerous impact studies ⇒ overview in impact sections of AECM Statistical Yearbooks [2019](#) + [2020](#)



**Cost-benefit
relation of the
guarantee
system is 1:17**

bpifrance

- **bEUR 1 negative
cost to taxpayers**
- **217k additional
jobs**



- **7.3% higher growth
in turnover**
- **6.6% higher growth
in employment**

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THE CHALLENGES AHEAD

ESG | Digitization | Our place in the value chain | Regulatory Pressure

THE CHALLENGES AHEAD

ENVIRONMENTAL SOCIAL GOVERNANCE

Growing Importance of ESG criteria

- Growing focus on ESG in policy-making and society in general
- European Union «Green Deal»
- European Union ESG taxonomy + Corporate Sustainability Reporting Directive (CSRD)
- Regulatory pressure to factor in ESG criteria in risk-assessment processes
- As a CGI: How to assess and monitor ESG criteria in a transaction?
- As a CGI: How to give customers and intermediaries guidance on ESG criteria?

THE CHALLENGES AHEAD:

CGI staff need to become Sustainable Finance Experts

CGIs need to build an ESG-oriented organization

THE CHALLENGES AHEAD

DIGITIZATION

The CGI in a digitized world

- OECD: SMEs increased their use of digital technologies by 70% during pandemic
- Digital transformation needs to continue to secure place in global competition
- As primary SME financers, CGIs need to keep up with new digital business models
- Technical obstacles and complexity harder to navigate for smaller CGIs
- Managing customers' and intermediaries' expectations – while in the crosshairs of regulators

THE CHALLENGES AHEAD:

CGI staff need to become experts on digital business models

CGIs need to adapt their structure and processes constantly

THE CHALLENGES AHEAD

OUR PLACE IN THE VALUE CHAIN

Our future role: Counseling and transaction structuring expertise

Moving forward from CGIs being exclusively risk relievers, towards being transaction structurers, advisors, enablers for customers and intermediaries

Focus on the whole value chain

Reducing dependency on commercial banks by generating business directly with the end customer

Strengthening the network

Making better use of a broad network of chambers, promotional institutions, trade associations, other relevant stakeholders

THE CHALLENGE AHEAD:
CGIs need to navigate every step of the
« SME promotional value chain »

THE CHALLENGES AHEAD

OUR PLACE IN THE VALUE CHAIN – BEST PRACTICE EXAMPLE

Addressing end customers directly

Direct interface to external banks' core banking system is complex and highly regulated

Taking third-party stakeholders into the equation

VDB platform solution « Enabler »

Frontend digital hub and common workplace for guarantee requests from SMEs, banks as well as other stakeholders (chambers, trade associations, tax advisors etc.)



THE CHALLENGES AHEAD

REGULATORY PRESSURE

- The financial industry and also the CGIs are regulated like no other industry
- Of course: Stability and security of the financial sector are important goals of financial market regulation
- However: They must not hinder change and innovation
- Mismatch between level of regulation and the goal of CGI activity: Fostering economic development
- Proportionality must be a key focus!
- Are special regulatory frameworks for promotional guarantees an option? – State aid exemptions as an example

THE CHALLENGE AHEAD:

CGIs and their stakeholders need to tackle regulatory pressure through solid arguments towards policymakers and regulators

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LOOKING INTO A PROMISING FUTURE

Building on a strong foundation

LOOKING INTO A PROMISING FUTURE

BUILDING ON A STRONG FOUNDATION



- **Guarantee instruments have proven themselves again in the Covid-19 aftermath**
 - Positive anticyclical effects continue to remain a key asset of guarantee instruments
- **Low interest rates, margin erosion, regulatory pressure**
 - Commercial banks' use of risk sharing instruments intensifies
- **Consolidation process in the banking market, larger focus on cost-cutting**
 - CGIs' external risk assessments come in handy
- **Added value through CGIs' guidance in special topics**
 - CGIs as expert partners in financing digital business models, ESG
- **Branching out: CGI financing instruments are useful for many purposes**
 - mezzanine, agriculture, leasing, VC, project finance ...

CGIs can turn their strong position today into a leading position tomorrow if they keep adapting to current market developments.



THANK YOU FOR YOUR ATTENTION



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