Five Reasons Businesses Have Shied Away from Credit Insurance

Businesses will likely have insurance to protect assets such as buildings or equipment, but one of its largest assets oftentimes goes uninsured. Credit or trade insurance provides an option to cover a company's accounts receivable.

Trade finance or credit insurance supports up to 80% of global trade, according to the Export-Import Bank of the United States (Ex-Im). While nearly half of European exporters routinely use trade credit insurance, only about 10% of U.S. exporters do, it says.

It notes that U.S. small business exporters traditionally opt for cash-in-advance or letters of credit in high or intermediate risk markets or on larger contract sales. "Foreign buyers often demand favorable open account terms and the long-term trend in global trade is toward sale on open account."

While insurance can help companies protect against a customer's nonpayment, a large number of businesses still don't use it. Ex-Im has cited five of the most common reasons businesses don't use trade insurance.

U.S. Export Markets. Cross-border political and commercial risks don't appear particularly concerning to companies shipping primarily to Canada, Mexico or Europe. Ex-Im cautions, however, that market volatility could exacerbate risk.

U.S. Financial Institutions. U.S. companies and financial institutions are less familiar with trade credit finance instruments than international competitors.

Availability of Trade Finance. Small- and medium-sized businesses account for about 53% of rejected finance transactions.

High Cost. The upfront premium and other associated costs such as underwriting fees trim profit margins.

Misinterpretation of Coverage. Misconceptions about what risks are being assumed and what coverage may afford.

Source: The Export-Import Bank of the United States