Growth Still Available for Credit Insurance Market

Trade creditors are gamblers. Don't worry! They aren't using company money for the March Madness pool. However, they are using company resources to help build and increase revenues along with the sales team and other departments.

Typically, accounts receivable (AR) covers 40% of a company's assets, according to credit insurer Euler Hermes. We protect many aspects of our lives. We save a project we're working on at our desk; we store family photos and back them up to the cloud. So, why not protect nearly half a businesses' assets?

There is a way: credit insurance. Like any other insurance, it is designed to protect against loss and indemnify the policyholder. Although a way to help bring in money lost, the purpose is not to make the policyholder whole again. The same goes for personal insurance. There are premiums and out-of-pocket costs like deductibles and coinsurance that can eat into the indemnification. While personal insurance, such as auto, home, life and health, are widely used, credit insurance is an untapped resource for many in the industry, and there is plenty of room for growth.

Trade credit insurance has been thrust to the front of newsstands recently with the collapse of United Kingdom-based construction firm Carillion. The Association of British Insurers (ABI) reported in January, following Carillion's fall into liquidation, that only 31 million pounds ($43 million) is expected to be paid out through credit insurers. While this may seem like a large sum of money for suppliers, it is not. According to Bloomberg, Carillion was facing more than $2 billion in debt to banks, bond investors and suppliers at the time of the giant's fall.

"The demise of Carillion is a powerful reminder of how trade credit insurance can be a lifeline for businesses in these uncertain trading times," said Mark Shepherd, assistant director, head of property, commercial and specialist lines, with ABI, in a release. "For all businesses, large or small, bad debt could easily put their day-to-day operations at risk, threatening the jobs of their employees."

This domino effect was also seen in the Carillion case. Small- and medium-sized businesses are out hundreds of thousands of pounds while large businesses are owed more than 15 million pounds on average, according to the BBC. Without credit insurance, not only will one of the company's largest assets be unrecoverable, it will flow downstream and have an impact on other aspects of the business.

Why Trade Credit Insurance?

If recovering AR and avoiding nonpayment due to insolvencies and other risks, such as war, weather and politics, isn't enough to make you become a trade credit insurance policyholder, Euler Hermes offers several other factors to consider. They include:

- Grow domestic and international sales safely
- Gain a competitive advantage in exporting by offering safe, open terms overseas
- Improve credit management department's efficiency
- Access bank financing, often at more favorable rates

Insurer XL Catlin released its *Global Credit Insurance Monitor 2017* earlier this year based on interviews with insurance companies, brokers, credit insurance buyers and export credit agencies. Some of the reasons behind not insuring assets are: lack of risk awareness, viewing the risk as minor and smaller and medium-sized firms tending “to exclude domestic risks.” Insurance costs and contract language can also factor into the decision-making process.

XL Catlin cited the World Trade Organization, which stated that credit insurance is expected to grow 3.2% in 2018, just ahead of gross domestic product predicted growth. 2016 marked the first time since 2001 that trade to GDP fell below a 1:1 ratio, yet 2017 was forecasted to be a rebound year. According to those interviewed, nearly 90% believe credit exposure will outpace GDP growth in the next year.

Both sides of the table (insurers and policyholders) see room for growth and additional protection. Insurance buyers reported that current products do not “fully meet protection needs and/or that policies are too rigidly applied,” said Peter Schmidt, chief executive Asia Pacific, Latin America & global credit surety, with XL Catlin, in a statement about the report.

“These results therefore suggest more flexible and tailored products may bring about new business opportunities for insurers and open access to previously untapped client segments,” added Schmidt.

-Michael Miller, managing editor