

Trade Credit Insurance

Information on Current Trends

What is trade credit insurance?

Trade credit insurance is a business insurance and risk management product that indemnifies companies against losses from non-payment of a commercial trade debt. Credit insurance providers usually cover a portfolio of buyers and pay an agreed percentage of an invoice or receivable that remains unpaid as a result of protracted default, insolvency or bankruptcy. The premium for credit insurance is usually charged quarterly, and is calculated as a percentage of sales or as a percentage of all outstanding receivables. Policy holders require a credit limit on each of their buyers for the sales to that buyer to be insured. The premium rate reflects the credit risk of the insured portfolio of buyers and previous loss history. In addition, credit insurance can also cover single transactions or trade with only one buyer.

What is export credit insurance?

Export credit insurance is a category of trade credit insurance that provides protection for an exporter against a foreign customer's failure to pay for most reasons except product disputes. Export credit insurance is designed to guarantee that an exporter will be paid for his/her goods after delivery.

What is the benefit of export credit insurance?

- Export credit insurance allows exporters to offer competitive open account terms to foreign buyers while minimising the risk of non-payment. With reduced non-payment risk, companies can increase export sales, establish market share in emerging and developing countries, and compete more vigorously in the global market.
- Suppliers who have received credit insurance on a company are more likely to offer favourable credit terms to the company. Most companies in Ireland are on three to five credit insurance databases that are used by vendors, supplier and insurers for risk and credit information.
- When foreign trade debtors are insured, financial institutions are more willing to increase borrowing capacity and offer more attractive financing terms.

What are companies experiencing in the export credit insurance market?

- There is on average a one third reduction in credit insurance policy-holders limits with some sectors hit much worse than others.
- Companies can find difficulty in attaining credit insurance for exports beyond the EU.
- There is a major reduction in credit insurance availability for suppliers selling to sectors in difficulty. Quarterly management accounts are being required by some credit insurers due to the exigencies and uncertainties in export markets.
- Financial data from companies increasingly feed into standardised credit insurance models. This makes it more difficult to differentiate a company within a sector and maintain insurance limits.

How can companies attain more acceptable terms for export credit insurance?

- Begin negotiating with credit insurance providers three months before the scheduled renewal of existing policies.
- Companies that show a willingness to restructure policies to take the first exposure in the event of a claim will reduce the premium rates charged by providers.
- Many insurers provide top up cover for key customers. It is usually better to structure policies that cover your main customers rather than selectively applying for individual customer cover.
- Consider taking out policies with local credit insurance providers especially in niche/diverse markets.

How do I ensure that suppliers can get credit insurance on my company?

- Be professional at all times with credit insurers as they are major influencers and should be treated as key stakeholders.
- Submit financials on time and keep up to date management accounts. In this market transparency is essential. In order to improve supplier terms companies must be proactive and open with credit insurance providers.
- Priority must be given to phone calls from credit insurers seeking financial information. Companies that are reluctant to provide information will invariably go down as 'wouldn't take call' or 'not available to discuss' on credit insurers databases. This can easily lead to limits being subsequently pulled.
- Seek to pay creditors on time. The prioritisation of larger creditors can lead to bad reports from smaller non-core suppliers such as stationary vendors etc. These reports can lead to credit limits being pulled on core business activity.
- Be prepared to explain the differentiation of your company within its sector. This can help avoid the tendency amongst credit insurers of systematically pulling 'similar' companies' limits within sectors.
- Have a narrative prepared to explain the reasons behind financial difficulties and the steps taken to mitigate.
- Examine other avenues for trade security such as bonds and guarantees.

Who are the main credit insurance providers?

Over the '90s, a concentration of the trade credit insurance market took place and three groups; Atradius: www.atradius.ie , Coface www.coface.ie and Euler Hermes www.eulerhermes.ie , now account for over 85% of the global credit insurance market. These main players focused on Western Europe, but rapidly expanded towards Eastern Europe, Asia and the Americas. Most credit insurance companies in Ireland report into the U.K. The big three credit insurers are system driven with extensive databases of companies. Generally speaking companies with a turnover of €2M or less will be on at least three credit databases. Companies with a turnover of €10M+ will be on eight or nine credit databases. CIFS, QBE, ACE, LLOYD'S, Crédito y Caución, Zurich Financial Services and AIG are some other big providers of credit insurance in the Irish market.

What do credit insurance brokers do?

Brokers mainly help in creating market competition between different insurers for better premium pricing and policy wordings for policy holders. Brokers also assist policy holders to comply with the policy wordings in order to ensure a smooth claiming process. Some of the specialist credit insurance brokers based in Dublin include: CIMCO (The Credit Insurance Management Company) www.cimco.ie, Trade Credit Brokers www.tcbrokers.com, Affinity Insurance Brokers www.affinityinsurance.ie and Aon www.aon.ie. The Irish Brokers Association: www.iba.ie is a useful information source and provides contact details for over 700 brokers in Ireland and can be searched by insurance product type and region.

For further information you can contact Peter Sexton at peter.sexton@enterprise-ireland.com or Eoghan Hanrahan at eoghan.hanrahan@enterprise-ireland.com

July 2009