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Brokers Missing Out on Big Opportunities in Trade Credit Insurance Market

By Amy O’Connor, February 13, 2014

Agents and brokers who are not selling trade credit insurance – also known as receivables insurance – are missing huge opportunities but also opening themselves up to errors and omission (E&O) exposures, according to trade credit insurance experts.

Worldwide capacity for the coverage, which protects companies that sell products against the risk of non-payment from vendors, is close to $9 billion and has increased substantially over the last 10 years as more insurers look to benefit from the profitability of the segment. Companies from retail and manufacturing to engineering to software firms can use the coverage.

“Any company that has receivables on its balance sheet has a potential exposure to loss from the inability or failure of a customer to pay them,” says Mark Attley, president of the recently formed Receivables Insurance Association of Canada (RIAC).

According to Attley, North America has a service-driven economy and most of these industries can benefit from trade credit insurance. The coverage is also widely used in export markets with countries and customers where a business has no previous experience or there is a political environment that makes it more of a challenge to do business.

By utilizing the coverage, says Attley, businesses can leverage enhanced borrowing capacity with lenders and financial institutions.

“Receivables are often used as collateral for revolving lines of credit,” he says. “A bank will lend a higher percentage for insured receivables versus uninsured receivables.”

Still, with all this capacity, opportunity, and more interest from insurers, specialists in the segment say the toughest part of this class has been educating agents and brokers on how the coverage works and how it will benefit their clients.

“Our biggest challenge is not really a new one,” says Kerstin Braun, executive vice president in the North America region for top trade credit insurer, Coface. “It’s to make the agents and brokers and the business community aware of this product. We often say that our largest competitor is self-insurance because many companies are not aware of the benefits of this product.”

Raising awareness was the main motivation behind the formation of the Receivables Insurance Association of Canada, a trade association made up of all of the underwriters that are licensed to underwrite trade credit insurance in the Canadian market.

Attley, who personally became successful in the Canadian trade credit insurance market with his former company Millennium Credit Risk Management, says trade credit insurance accounted for $208 million (Canadian dollars) in gross written premium in Canada in 2012, with only 1 percent of Canadian companies currently purchasing the insurance. The RIAC’s goal is to increase that number and grow the market to $350 million in GWP within five years.

“The industry has come together and said we need to do something collectively to increase awareness so let’s form an organization to do that,” says Attley. “Everyone knows and everyone saw the same challenges in this growing market, which is broker awareness. Making brokers aware that this insurance exists is our key focus.”

One of the ways the RIAC is doing that, says Attley, is by educating brokers about how important this coverage can be to their clients and the repercussions an agent may face for not telling clients about the coverage.

“We are telling commercial brokers that when they do a risk analysis, if they are not including this exposure in the analysis then they are not doing their job,” he says. “Our message is if you are performing your role properly and want to avoid E&O claims, treat this as a business interruption discussion. You wouldn’t not have that discussion with a client.”

The RIAC is also building an education backbone with materials that brokers across Canada can access, as well as webinars and courses that offer Continuing Education credits. Attley says the association is also partnering with larger brokers, in addition to insurers, so they can encourage their colleagues to join as well.

In the U.S., the market for trade credit insurance is relatively limited compared to the size of the U.S. economy, says Ewa Rose, managing director of Trade Credit for Markel International. However, she says progress is being made because clients are seeing the benefits of the coverage, such as better or cheaper financing from banks that loan money to commodity traders, for example.

“For trade, you need that working capital cash flow to be able to offer credit terms to customers and those huge commodity traders certainly know how to use these types of policy effectively,” she says.

Markel is a relatively new player to the trade credit space as it just began offering the coverage in March 2010, and the company has focused a lot of its initial efforts on improving the knowledge-level of the agency force.

“The larger brokers have [trade credit] specialty divisions, but the medium-sized and smaller brokers often don’t understand it and there certainly needs to be a lot of education on what can be achieved for their clients through this coverage,” she says. “That is something we are definitely working on with the broker market.”

Rose says Europe has the highest market penetration of trade credit coverage with awareness and demand rising quickly in Asia and the Middle East. The improvement in the global economy is also increasing demand for the coverage worldwide, says Rose, as companies begin to invest in new countries, products and regions.

"As companies regroup they want to limit their exposures – that tends to motivate them more to protect their balance sheets rather than when their businesses are shrinking and there is less cash available for discretionary spending," she says.

The time is right for agents and brokers to specialize in this class, say these experts.

"Financial officers and credit managers are likely to get the coverages they need at affordable prices, especially now with more insurers going after this business," says Coface's Braun. "With the economy picking up, access to lending is becoming easier and companies are refocused on growing, which in turns means they are facing more competition. In this competitive environment, companies are finding value in a credit insurer that supports them in trading safely."

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