



## The Growth of Credit Insurance

by Kerstin Braun

Inquiries for credit insurance are up 25%. That is a large increase when you consider most people don't even know what credit insurance is. So what is credit insurance and why is it selling so briskly?

Credit insurance is a way for businesses to protect their accounts receivables. For most companies, accounts receivables are among their three top assets. Indeed, customer default is more likely -- and often more severe -- than a fire, flood or theft. With credit insurance, if a company's customer defaults, is unable to pay for some reason or simply goes out of business, the seller still collects what it is owed.

As for the brisk sales, there are two principle drivers: a dramatic increase in exports by U.S. companies and continued unease about the U.S. economy.

We all saw how quickly the economy went south only a few years ago. Since that time the recovery has been slow. In fact, many economists say the world's economy is actually more vulnerable now than it was before the crisis. American companies realize it could all happen again.

Moreover, companies that were savvy enough to survive the economic crisis have come to realize they need to become more sophisticated when it comes to the risk/reward ratio. Even for small and medium-sized businesses, risks have become increasingly complex. Physical and financial risks, once clearly segregated, are beginning to overlap. Plain old property/casualty just does not cut it anymore.

As a result, many American risk managers are taking a lead from their European counterparts. While half of all European companies use credit insurance, only one in 10 American companies do. However, U.S. premium written, presently about \$800 million, is expected to double in the next three years.

Likewise, some agents have noticed this trend and have begun selling credit insurance in the same way their European counterparts do -- as a way to provide their clients a competitive advantage. European users know that credit insurance does a lot more than merely ensure payment. (This does not make EU companies invulnerable to default, however. Above, Coface analysis from five of the region's notorious economies highlights vulnerabilities.)

When a client's accounts receivables are insured, the client's financial standing also improves. Banks, realizing that the credit insurance buyer's revenue stream is

insured, are more willing to extend credit. And they may do so at lower rates. As a result, the company can borrow more for less. Credit insurance also enables companies to be more aggressive with the credit terms they offer customers. This ability to offer better credit terms means better sales -- especially overseas.

Between the reduced credit risk, improved financial standing and increased sales, the cost of credit insurance is a wash for many clients. The more sophisticated users can even come out ahead. No wonder demand is way up. Credit insurance can make risk managers look golden to top management.

To compete in the global marketplace, American companies have no choice but to adopt more sophisticated approaches to risk management. Already widely used in the rest of the world, credit insurance is a product whose time has come in the United States.

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