



**WITH BANKS** tight on lending in the wake of the financial crisis, a window of opportunity has opened anew for trade credit insurers.

**“THE U.S. IS A POTENTIAL GROWTH MARKET AND THEY NEED TO GO OUT AND CONVINCE THE MARKET OF IT.”**

—Dan Riordan, president, Specialties Division, Zurich North America

insurance program becomes a custom-tailored financial management tool used to eliminate the risk of a large, unexpected credit loss.

Coface, Atradius and Euler Hermes ACI are the three largest full-service trade credit companies operating around the world. They are also the three largest trade credit companies operating in the United States. As full-service insurance carriers, the three trade credit carriers take risk management from analysis to monitoring to coverage repositioning to insolvency management.

At between \$500 million and \$600 million, the trade credit market in the United States is far smaller than the \$4 billion trade credit market in Europe, a continent with more than 320 million people and 30 nations where the transportation of goods and services across more international borders creates more demand for trade credit coverage.

Now that the trade credit insurers are emerging from their sixth credit crisis since 1970 and that the near-collapse of the financial markets fades, there's plenty of growth potential on North American shores once more, according to Brett Halsey, president of Atradius, just as there was before the economic downturn.

“The U.S. is a potential growth market and they need to go out and convince the market of it,” said Riordan.

**DIFFICULT TWO YEARS**

So far, so good. But it's been difficult slogging for trade credit insurers over the past two years. In the latest boom years, from 2003 to 2007, the trade credit insurers underwrote coverage to many business that turned out to be on weak financial footing.

When the downturn swept through the global economy, trade credit insurers pulled back. Like many other insurers, they raised premiums and cancelled coverage in the United States and abroad. The pullback left some customers in the lurch without trade credit insurance. Not surprisingly customer retention suffered.

The Big Three players in the U.S. trade credit universe began to take “calculated and precision risk actions of buyers in underperforming sectors,” according to Joseph A. Ketzner, Sr., executive vice president, commercial director of Euler Hermes ACI, as early as the first quarter 2008.

The past two years have not been the easiest, agreed Ketzner, as the global downturn squeezed

**summary**

- The past two years have been difficult for trade credit insurers.
- New opportunities await them in the U.S. market as banks continue their tight lending policies.

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- More resources from the International Credit Insurance & Surety Association.
- Trade credit market share.

U.S. companies in the export business.

Trade credit insurers have been through tough times before, however, and Ketzner also noted that the global trade credit industry paid out between \$8 billion and \$10 billion in claims in 2008 and 2009. That's a sign that the industry's long-term health is good and that it is ready to live up to its financial commitments. “Obviously we assumed the risk,” he said.

Withdrawing from a particular risk, he added, has less to do with the economics of the carrier, and more to do with the state of the overall economy, the performance of an industry sector and the individual company risks trade credit insurers are asked to underwrite.

“While I don't question the assertion that some ‘leeriness’ exists in the market associated with how the trade credit insurance industry responded to this recession, I think that the market also recognized the significant value it brought forward as well,” added Ketzner, noting that 2009 was a record year for Euler Hermes ACI in terms of writing new business.

In an up cycle, he noted, the dominant value proposition of trade credit insurance is typically about helping its client set higher sales goals. “When you go into a down cycle, those priorities revert to a loss-avoidance strategy,” he said. “It's more about capital protection, cash flow protection and earnings maintenance. There is more focus on the insurance aspect from the policyholder's perspective and how well the risk is managed through effective joint monitoring.”

**GLOBAL HEFT**

Despite the competition from self-insurance, trade credit carriers benefit from the backing of global organizations. Coface North America, for example, relies on its French parent company Coface Holdings, which boasts a presence in more than 80 countries.

Atradius Credit Insurance, formed in 2001 out of a merger of Dutch and German trade credit companies, is backed by the global Dutch company Atradius Group, which is active in 42 countries. Euler Hermes ACI, a subsidiary of Euler Hermes Group based in France, and is a company of Allianz, has access to a first-rate global infrastructure and a panoply of distribution channels. It operates in more than 50 countries.

Globally, the three companies control about 85 percent of the trade credit market, with Euler Hermes laying claim to a 36 percent market share, followed by Atradius at 31 percent, and Coface at about 20 percent.

Each with operations in dozens of countries around the world and thousands of employees, getting back in front of North American customers after a couple of lean years isn't likely to be much of a problem as all three companies already manage large trade credit portfolios.

In the United States, Coface North America has been busy buying databases to be able to provide clients with more data, the real key to growth in light of the weak credit environment, is for the trade credit insurers to make an economic case for themselves.

Unlike many forms of property/casualty coverage, which is mandatory, trade credit insurance is entirely discretionary. Few risk managers have to buy trade credit insurance and so executives with trade credit insurers have their work cut out for them as they make their

client rounds and hone down their lists of favorite prospects.

That makes positioning trade credit insurance particularly tough. Agents and brokers are going to need to stress the value the coverage and risk management support these services provide compared to other products in the marketplace.

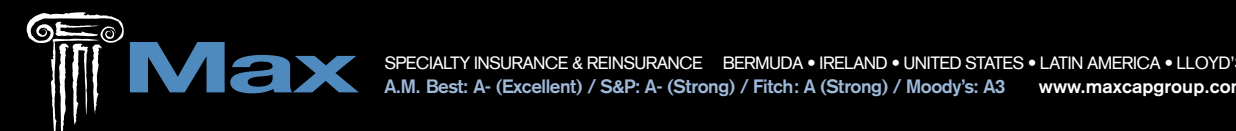
“Companies have made it through the toughest times and recent credit losses are still fresh in their minds,” said Michael Ferrante, CEO of Coface North America. “In such an environment, the cost of credit insurance appears very reasonable.”

Trade credit insurance, said Halsey, “is on the cusp of mainstream acceptance in the United States,” particularly as clients see the value of working with trade credit insurers to remove risk off the balance sheet. “It's not about us swooping into our clients' offices and saving the day and outsourcing their credit team. It is truly a partnership with our policyholders.”

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Monday mornings can test your mettle. Especially those that follow catastrophes such as Katrina or 9/11. The upheavals that punctuated our first ten years in business have strengthened our discipline. Sharpened our underwriting skills. And driven our strategic growth. The result? A financially-strong, global enterprise with 350 talented professionals, working from seventeen offices in seven countries – all dedicated to providing diversified specialty insurance and reinsurance products, solving risk challenges one at a time. Roll on next Monday!



# A Window Reopens for Trade Credit Insurers

**With banks still tight on their lending, trade credit carriers see renewed opportunities to make gains in the U.S. market.** *By Steve Yahn*

The ace-in-the-hole for the three leading credit insurers doing business in the United States—Coface of North America, Atradius Credit Insurance Inc. and Euler Hermes ACI—is the large number of bank failures in the Great Recession.

“We've lost 150 banks in the recession,” noted Dan Riordan, president, Specialties Division, Zurich North America “The larger story is that banks are not lending as much, or if they are, they are doing so on more difficult terms. So it's an opportunity for the short-term multibuyer market.”

The lending reticence of the banks means a big opportunity for trade credit insurers, hoping for a return to historic growth levels of between 10

percent and 15 percent by 2011, according to the leading trade credit insurance executives working in the United States.

Trade credit insurance—also known as business credit insurance or export credit insurance—is an insurance policy and a risk management product sold by private insurance companies and governmental export credit agencies.

Buyers of trade credit tend to be smaller, export-oriented businesses wishing to protect their balance sheet assets and accounts receivable from loss due to credit risks such as protracted default, insolvency, bankruptcy and other risks.

If a customer's debt is credit insured, the credit