Understanding Trade Credit Insurance in U.S. Markets

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Trade credit insurance is experiencing an emergence of sustainable growth within U.S. markets. Trade insurance credit solutions have been successfully embraced as a financing strategy throughout global regions, such as the UK and Asia. Available capacity for leveraging receivable assets has gained traction in response to heightened demand in the U.S. among financial institutions, supply chain manufactures and multinationals.

Trends underscoring expansion expectations in the sector are attributable to three primary drivers: banks desire to monetize receivables, distressed retail markets, and corporate bankruptcies. A study released by Marsh estimates that U.S. would represent a $1 billion market by 2018, which compares with $4 billion in the UK and $9 billion as global total premium value of tax credit insurance in place. Market observers state that as much as 20% of receivables in the UK are covered by such insurance programs.

Traditional trade credit insurance is available on private obligors, as well as public sector sovereign and non-sovereign entities. Also known as "accounts receivables" insurance, the product is structured to protect valid and enforceable debt obligations against the risk of non-payment, which can arise from the sale or financing of trade transactions. Financial institutions, in particular, may leverage various financing credit strategies including, but not limited to, the confirmation and refinancing of letters of credit, bi-lateral trade loans, participation in international syndications, supply chain financing, and prepayment of export financing.

Trade insurance is a credit management strategy. Ironshore has been active in the global trade credit marketplace since 2010, having now underwritten more than $14 billion par value insurance since its inception. Ironshore extends its range of political risk products to address international and domestic trade flows, as well as clients' foreign investment strategies. Ironshore has experienced an emergence of regional growth opportunities in the "short term trade credit sector." Of note is the expressed interest by U.S.-based global banking entities eager to introduce credit financing protection to complement lending appetites for Latin American corporates.

As a specialty lines product, trade credit insurance programs have responded to unrelenting demand over the past three to four years as banks, multi-nationals and other global entities recognize the long term value of protecting receivable assets in a trade financing transaction.