Export Credit Insurance

Answers to Frequently Asked Questions

Long used in Europe, export credit insurance has been making its way into the U.S. market as well. Export credit insurance serves to mitigate some of risks associated with international trade. It generally covers commercial losses – insolvency of the buyer, bankruptcy or default, and political losses – war, terrorism, revolution, nationalization, currency inconvertibility, etc.

Aside from its obvious benefits (such as entering new markets that otherwise would be too risky, and expanding the potential customer base), export credit insurance can add needed flexibility in the marketplace. It allows export companies to offer customers more liberal terms of payment and still avoid risk. By sidestepping letters of credit and using insurance as a guarantee the costs are lowered. In addition to the cost savings, this can go far in increasing the attractiveness of a business deal abroad.

Export credit insurance has other immediate effects on the business as well. Insuring their foreign receivables allows a company to transfer that debt to the collateral base, thus boosting the borrowing capacity.

Companies who have domestic insurance may wonder why they would need additional insurance for exporting. Since the need for enforcement of payment of an export contract will need to be in the jurisdiction where the buyer is located, a domestic insurance policy will not be applicable.

As any other transaction, export credit insurance has certain nuances that need to be addressed properly in order for the insurance policy to be effective. Such nuances include, but are not limited to getting a signed pro forma invoice and a buyer's acceptance form, being precise on the names of the shipper and the consignee, and getting recent credit information on the buyer. The detailed pro forma and a matching Commercial invoice will decrease the possibility of a dispute (a default that is due to a trade dispute will not be paid out until the dispute is settled – in the buyer's country).

QUICK FACTS

What is it?
Export Credit Insurance is protection for an exporter against a foreign customer's failure to pay for most reasons except product disputes.

What does it do?
The ability to extend credit to a foreign customer may make the difference in winning a sale. Credit Insurance encourages the use of competitive selling terms while providing a critical protection against default. Insured receivables can also be used a loan collateral when obtaining additional financing. In its most basic function it is risk protection against default, whether commercial and political.

How does it work?
Credit Insurance is offered either on a portfolio "multi-buyer" basis or for a single sale. Multi-buyer policies which insure essentially all credit sales made during the year are the most widely used by established export companies. It is now possible to insure all, some or one of the export accounts. Since an exporter looking to cover only one sale is presumed to be insuring a risky transaction, single sale policies are usually more expensive and have tight parameters. A multi-buyer policy offers lower rates and broader coverage.

What does it cost?
Coverage is typically for 90-95% of the outstanding credit balance, against both political and commercial risk of default. All pricing is a reflection of risk [country, buyer, volume, etc]. Many policies feature a pay-as-you-go monthly reporting on shipments. Most multi-buyer policies cost less than 1% of insured sales. Single sale prices vary widely.

Does it work?
Ask the furniture company, whose exports grew ten-fold in 2 years of using credit insurance, now shipping over $5,000,000. Or a trading company which used insurance to obtain financing that now supports over $17 million in annual sales. Or the communications firm which would have lost a $1.5 million sale without insurance.

Where can I get it?
Policies are offered by commercial risk insurance companies and the Export-Import Bank of the U.S. Most exporters use a specialty insurance broker to access the most cost-effective solution to their needs. When requesting a quote, no charges are incurred as this is free. Policy premiums must be maintained current for coverage to be active. A default in A/R payment is compensated in a claims process which must be filed according to the policy requirement.

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Export-Import Bank Policy
Small Business Export Credit Insurance

http://www.exim.gov/products/insurance/index.html
