Teaming Up for Global Competitiveness: *Community Banks, Trade Credit Insurers and SBA*

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The partnering of banks with trade credit insurers has been a natural outcome of the world-wide focus on risk management as lenders have recognized the benefits of providing their clients with a solid credit management tool. Moreover, being able to include insured receivables in their customer's borrowing base has added to the banks' lending volume and enhanced their customer service, while simultaneously improving exporters' cash flow. In addition, this partnership has helped banks grow their customer base by expanding lending opportunities to subsidiaries of U.S.-based multinational clients (Troncy, C., Banks and Trade Credit Insurers: Partnering to Increase Deal Flow and Broaden Services to Clients, BAFT For Your Information , January 2005) And, for providers of insurance, this trend has been a market penetration opportunity. A win-win situation all around? Not quite.

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The market's demand for revenue maximization has a built-in preference for customer size and larger deals. This inadvertent bias has left out many small export businesses with current financing needs that are not sizeable enough to be attractive to large trade banks. In addition, credit risk insurance is by its nature focused on receivables; it cannot address the performance risk inherent in pre-shipment financing, so often the Achilles heel of early stage exporters who may lack adequate supplier terms. Community banks which routinely service and know this customer base are well positioned to meet those small business exporter financing needs in a new partnership with trade credit insurers.

Risk Management and Liquidity Are Key for Small Exporters

New, small exporters without sufficient working capital can get stuck in an untenable financing status which slows their export sales growth. By definition, they lack the track record which could decrease their bank-assigned risk rating and make them bankable. And, being risk-averse, they frequently restrict their exports sales to only pre-paid or letter of credit terms. Lack of information about foreign credit risk insurance and how to use it to their advantage can prevent them from opening up their trade terms as a competitive sales strategy.

To be successful in global markets, small exporters must have both access to working capital and diversified risk mitigation strategies. They face the same competitive pressures as large companies to offer liberal sales terms, in keeping with the trend toward open account in international trade; and, they have the same potential exposures to non-payment risk. Foreign receivable insurance — long accepted in Europe — generally has not been used much by U.S. companies in the past. This lack of use can be attributed largely to dominance of U.S. traders in global markets and their ability to dictate terms.

However, today a more nuanced credit policy is required for success in international trade. Export credit insurance provides both risk protection and increased business opportunity, allowing increased leverage in asset-based lending, as well as enabling a more aggressive approach to new business opportunities than might be possible without some mitigation of the risks of offering trade credit to new customers.

Credit Insurers Partner with Community Banks

There is growing evidence that the link between the banking and the insurance industry is being replicated at the community banking level. Community banks — with or without an international division — will reap the same benefits the larger trade banks have realized, when they have added relationships with credit insurance providers. Account managers, who can coach their export clients on the merits

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of insured open account sales for increased liquidity, competitiveness and risk management, can add real value to their bank's services aside from strengthening the bank's loan portfolio. And, they are adding more than just increased service to their customers. While the potential for retaining the relationship is strengthened, they also present the company with the opportunity to grow its export sales, manage its risk, and enhance its profitability.

Leveling the Playing Field for Small Exporters

The insurance industry has adapted to global market demands with modified, customized products that allow streamlined models for efficient mitigation of commercial and political risk. A policy protects the exporter from nonpayment losses as a result of commercial and political factors, as long as there is no product dispute. The Eximbank has long offered Single Buyer and Multi-Buyer policies. In addition to the Eximbank programs, a growing private market for credit insurance with many private sector insurers has considerable flexibility in structuring policy coverages.

Eximbank responded to the growing small business market with a Small Business Policy and its advantages have made it Eximbank's fastest growing product. Available to SBA-defined small businesses with less than $5 million in annual export credit sales, the policy offers insurance for multiple buyers at very competitive rates. When combined with an SBA export loan, Eximbank will discount the insurance premium by 25%, reducing the premium from 65 b.p. to 49 b.p. on the invoiced amount. [see http://www.exim.gov/products/insurance/small_bus_multi_buyer.cfm]

SBA Export Loan Guaranty: The Final Piece of the Puzzle

Adequate working capital, a critical need for small, emerging exporters, is frequently not considered until the export contract has been signed and the working capital crunch becomes apparent. The demands of a longer cash cycle, inadequate supplier terms and an insufficient track record to qualify for bank financing are leading causes of cash flow problems for small, new exporters. By using export credit insurance as both an enhancement to the asset quality and for risk management and combining it with transaction financing that leverages the community bank's SBA lending ability, new exporters can overcome their non-bankable status.

The Small Business Administration's Export Working Capital (EWCP) loan program can successfully address both the risk and liquidity challenges of small exporters. Whether needed as supplier financing or to support a long cash cycle from extended sales terms, SBA-guaranteed export loans can provide needed working capital [see http://www.sba.gov/oit/finance/ewcp.html] The Export Working Capital Program features SBA's highest loan guarantee, a 90% share that can be leveraged by community banks to mitigate performance risk. Transaction financing up to $2 million is now possible with SBA's EWCP loans, thanks to a co-guaranty agreement SBA signed with the Eximbank. Participating community banks benefit from federal, inter-agency collaboration, since only one loan authorization is issued.

Small exporters, especially if they are new to international trade, tend to rely on export development and advising services more than large companies with established export departments. Through SBA's export finance staff located in Export Assistance Centers in major cities throughout the country [see http://www.sba.gov/oit/export/useac.html], early stage exporters have easy access to qualified finance and credit professionals. Exporters can ask for assistance with structuring the transaction, explanation of payment options, risk assessment and SBA loan applications. They have much to gain also from the personalized services of insurance brokers who offer risk assessment and policy packaging. Brokers have access to multiple sources of credit information on individual companies and some are specialized in the small business market, prepared to coach a small export company through its first application.

By working with SBA's loan guaranty programs and trade credit insurers, community banks are beginning to successfully and profitably fill a niche in meeting the working capital needs of America's small export businesses. Now, there's a global competitiveness strategy for a long-term win-win. ■

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