

Short-term Trade Credit Insurance Expected to Reach \$13billion by 2017

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According to research published by Finaccord, the global market for short-term trade, credit insurance was worth around USD 10.2 billion in gross written premiums in 2013, and this figure is expected to rise to approximately USD 13.0 billion by 2017. As the markets for this type of cover in most European countries are stagnant or delivering very low growth rates, Finaccord expects major non-European economies to account for a rapidly rising proportion of the worldwide market for short-term trade credit cover (as opposed to long-term cover which is often monopolised by government-backed export credit agencies).

Based on research across 20 individual geographies, Finaccord estimates that the fastest-growing market for short-term trade credit insurance between 2009 and 2013 was that of the Middle East (comprising Bahrain, Kuwait, Oman, Qatar, UAE and Saudi Arabia) with a compound annual growth rate of 38.2%, followed by China with 30.1% and Russia with 22.5%. While the Middle East and Russia still host relatively small markets that are growing quickly from a low base, the Chinese market for short-term trade credit insurance is already very well-developed, recording around USD 1.6 billion in gross written premiums in 2013.

"While the growth rates of trade credit insurance in certain major non-European markets signal excellent opportunities, it is important to understand which niches in these markets are accessible for commercial insurers. In some countries, including Brazil, China and India, the concept of taking out domestic trade credit insurance is actually more recent than the notion of acquiring trade credit protection for dealing with foreign business partners. Indeed, national markets for trade credit insurance have often been established by state-owned export credit insurers which, in the cases of China and India, for example, are still the dominant providers of the product", comments Bernd Bergmann, a consultant at Finaccord.

Although the development of the Chinese market has been led by Sinosure, the state-owned export credit agency which until 2013 had a monopoly on export trade credit insurance, Finaccord's research suggests that a change in the structure of the Chinese market is underway: "A major development in China is the boom in domestic trade credit insurance which is forecast to grow at a compound annual rate of 24.1% between 2013 and 2017. This development opens up the opportunity for commercial insurers to gain a stronger presence in China", continues Mr Bergmann.

Another important finding of Finaccord's research is that not only emerging markets but also certain developed economies can still offer substantial growth opportunities for trade credit insurers. The outlook is especially positive for North America where penetration rates for trade credit insurance have traditionally been very low. "The growth of the market for trade credit insurance in North America has been helped by the fact that the percentage of total trade flows backed by letters of credit is decreasing. With trade on open account terms becoming more widespread, many businesses are showing a greater interest in protecting their receivables. One particular aspect of the US market is that growth has been partly driven by policies with non-cancellable limits", says Mr Bergmann.

In terms of forecast growth in premiums, Finaccord expects the US and Canadian markets to increase at compound annual growth rates of 4.9% and 5.7% respectively, between 2013 and 2017. "Given the largely untapped potential, the North American market looks attractive especially in the light of its relatively benign claims experience", concludes Mr Bergmann.