Taking the worry out of exporting

Export credit insurance can take the worry out of overseas trade. Kirk Cheesman advises on what sort of cover is available and the best place to get it.

By Kirk Cheesman*

An increasingly popular option for growing export sales safely … is through export credit insurance.

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Selling goods or services overseas can be tricky and often daunting. Exporters not only have to locate their market and understand their buyer's local customs, on many occasions, they also need to involve their bank to gain support in business ventures.

Above all, exporters need to get paid for their overseas sales.

Letters of credit are an old fashioned way of competing in the international marketplace, especially with expanding markets such as China, India and South East Asia. Creditworthy companies overseas are accustomed to buying on "open account terms" from their suppliers. They would expect the same from new suppliers wanting to trade with them.

Buyers in emerging markets, on the other hand, may face problems such as insufficient capital and no supportive credit rating systems to assist in assessing whether trading with these companies is a good risk.

An increasingly popular option for growing export sales safely and extending competitive terms to overseas buyers is through export credit insurance. This is a viable and secure alternative for any exporter in lieu of dealing with cumbersome documents and letters of credit.

The ability of exporters to identify, reduce and protect against potential losses is vital to their business. Overseas buyers could file for bankruptcy, run into cash flow problems, suffer from currency fluctuations or fail to pay for a number of reasons.

Export credit insurance enables a business to protect its overseas receivables (or debtor's ledger) against non-payment risks. Additionally, it helps to significantly minimise risks before they occur through enhanced credit management and trade credit information – both of which support an exporters decision making process by way of third party evaluations of buyers, prospective buyers, industries and countries.

Cover available

Cover for both commercial and/or political risks can be provided with credit insurance. There are several ways a policy can be structured to suit the needs of an exporter, taking the industry into consideration. Both commercial and political risks can be extremely difficult to predict and could have a devastating effect on an exporter's profits, so it is advisable that exporters seriously consider protecting their bottom line.

The most popular option is to cover all receivables under one multiple buyer policy but in some cases, top buyer or single risk coverage may be more effective. The kind of cover often depends on the size of the business, sales turnover and diversity and spread of customers.

Premium rates vary and depend on factors such as the type of policy chosen, the level of turnover insured, the level of deductibles, the credit terms extended, the spread of customer and country risks, the quality of debtors, export experience and loss history.

It is a common misconception that export credit insurance is too expensive. The cost is low, usually much lower than ½ a percent of a company's insurable turnover. Moreover, it assists exporters win more overseas sales through credit terms and by being more competitive.

Financiers and banks are also aware of the benefits of an export credit insurance policy to support exporting ventures. The majority of banks around the globe recognise credit insurance policies as security when they provide finance for clients' overseas sales. Exporters can assign their policy proceeds to their lender for additional comfort.

Benefits

There are five main benefits to export credit insurance:

1. Preserves profit and strengthens the balance sheet
2. Protects liquidity and cash flow
3. Strengthens credit management with access to unique information
4. Increases export profits
5. Adds security and enhances your borrowing capacity

Types of risks

Commercial risks

- Buyer insolvency
- Protracted default on payment by a solvent buyer

Political risks

- Contract frustration due to war, civil war, riots or commotions, other than war between Australia or New Zealand and the buyer's country
- Inconvertibility of currency, i.e. an inability to pay in the invoiced currency
- Contract repudiation, i.e. the buyer's failure to accept goods despatched (excluding quality disputes)
- Contract cancellation as a result of action by the Government of the buyer's country.

Export Underwriters

There are various export credit insurance underwriters in the marketplace. Specialist credit insurance brokers like National Credit Insurance (Brokers) assist clients to explore the various options in how to obtain the best, most suitable and flexible cover. The main credit insurance underwriters in our zone are:

- QBE Trade Credit
- Atradius
- Euler Hermes
- Coface
- AIG

All insurers have specific policy wordings designed to structure cover around commercial and political risks. In a growing global environment, insurers have focused on the ability to support businesses who are looking to expand their sales beyond local borders and into the export arena.

Choosing the Right Underwriter

National Credit Insurance (Brokers) have well established relationships with all insurers, which means a unique understanding of their offerings and how we can best work with each insurer to obtain the appropriate cover.

You can benefit from extended covers, competitive terms and premiums. Above all, you can rest assured that when it comes to claims, we will negotiate the best outcome from your policy and achieve fast and efficient claims settlements.

Using a trade credit insurance broker for your export credit insurance delivers informed advice and services, not commonly available from general insurance brokers.

NCI have built a significant global database over many years to assist finding the "right" customer for you to deal with. With our specialist advice and unique depth of resources, we can provide an analysis of your credit risks and exposures whilst assessing the most appropriate credit management and debt collection procedures in association with a credit insurance policy.

It is our aim to protect your bottom line, releasing you from the worry about your potential trading risks, so you can focus on winning more business and export sales. ■

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