

reading

Asia-Pacific

premiums to double by 2020,

off Sandy

says Munich Re

FM Global shrugs

Hong Kong GI

underwriting profit

fell 36% in 2012

Ease of doing

business in Asia

remains strong,

Major cyber attack

suspected in

South Korea

says Aon

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James Portelli

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Middle Eastern Promise

Andrew Tjaardstra

Happy Year of the Snake

World Insurance Report 2013

Capgemini and Efma are pleased to present the sixth edition of the World Insurance Report

(WIR). This report looks at the channel and

other preferences of insurance customers by

analysing data from Capgemini's Customer

Designing an international

Designing a multinational insurance

programme is a complex undertaking.

However, the right strategy and tools help

optimise performance and boost bottom-line

results. This Aon Benfield article addresses

cultural issues, regulations, business process

Lloyd's country profile: Singapore -

summaries for Lloyd's key territories. These

profiles contain factsheets on the economy, insurance market and Lloyd's business. This

analyst report from September 2012 focuses

IJ ERNST & **Y**OUNG

Quality In Everything We Do

Country Profiles provides individual

the key challenges to overcome, including

insurance programme

Experience Index (CEI).

management and risk.

September 2012

on Singapore.

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On the other hand, for companies with significant concentrations, which

generally saw value in credit risk mitigation, obtaining cover was

cover and effect of cancellations is very significant.

challenging, as costs are high, maximum liability limit seriously affects

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"It is for companies with medium concentration that credit risk mitigation has so far proved to be most valuable."

It is for companies with medium concentration that credit risk mitigation has so far proved to be most valuable as it prevents significant (but not catastrophic) fluctuations of losses that are acceptable to insurers (on an overall portfolio basis) but may be undesirable to companies.

Outsourcing the credit process

Another important driver for the use of credit insurance is that is gives corporates the ability outsource the credit process and related costs.

The key question is whether a company is using insurance as a substitute or compliment to their own processes In some cases it is used as a substitute to external ratings/systems). Using credit insurance as alternative to say D&B or other reference agencies) makes sense in case of highly diversified, relatively small, exposures as the company feels better relying on somebody who is risking their own capital on the back of their decisions.

Admittedly, some companies have taken this to an extreme, letting go of in-house credit analysis resources and instead following whatever decision their insurer makes.

This is a very risky strategy, as the insured company gives up any ability to make an independent assessment and decisions, meaning they lose control over their customer relationships. In addition, their ability to negotiate with underwriters, by presenting them with facts and analysis to support requests for coverage limits, is weakened.

> "If the company relies totally on the insurer for its credit risk analysis process, it is potentially exposed to a lower quality of underwriting."

Relinquishing control

Moreover, if the company relies totally on the insurer for its credit risk analysis process, it is potentially exposed to a lower quality of underwriting.

For instance, if the insurer declines 'good' companies and approves 'bad' ones, the company will both lose perfectly good sales and suffer higher claims and future premium increases.

This could be particularly important if sales are industry specific, in which case the company might well have better knowledge of the industry than the insurer.

It is also possible that the insurer's decisions are not necessarily driven by unbiased opinion on the quality of the buyer but are perhaps influenced by other factors. Such factors might include the insurer's own exposures at customer, industry and regional levels, possible re-insurance constraints, etc. In particular, companies with highly concentrated exposures, on a buyer, industry or regional basis, are at significant risk if the cover is withdrawn or materially reduced and if they do not have clear contingency plans.

Self-fulfilling prophecy

One significant factor to keep in mind is that views of insurers became an essential part of credit analyses; in similar way as rating agencies, as recent experience (particularly in retail) shows that such views may become trigger of insolvencies. Previously, conventional wisdom suggested these were driven mainly by banks, so their decisions could become a self-fulfilling prophesy, particularly where the buyer did not notice they need to work with insurers.

The last, and surprisingly most underutilised (the amount financed is only about 15% of amount insured) area of use of credit insurance is as part of receivable finance solutions.

"Such solutions present good value when compared with offerings from financing providers and give companies a significant value driver on top of risk mitigation."

With the crisis there was reduction of supply from some banks on creditinsurance backed invoice discounting, but such solutions still present good value when compared with "one stop shop" offerings from financing providers, and give companies a significant value driver on top of risk mitigation.

The need to finance may be general working capital funding (particularly for weaker suppliers) or ability to offer/accept longer terms from the buyers without increasing credit risk (by using insurance) or consuming working capital (compensating through receivable financing). Flexibility in offering payment terms became extremely important through the crisis, where terms are sometimes even more important to buyer than the price and other factors.

Vital tool

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Effective use of insurance-backed invoice discounting solutions require monitoring and management of two key risks-policy compliance (buyer identity, timing claims and declarations) and clear distinguishing between credit and performance risk - it is essential for companies to establish processes and systems to support these.

Credit insurance remains vital tool for corporate customers. It serves multiple purposes and its value depends a lot on the way company is using it. Understanding this process is equally important for corporate users and the insurance industry.

consultancy.

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Opinion

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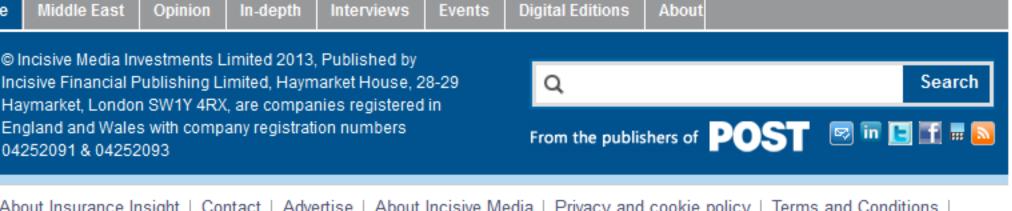
Igor Zax is managing director at Tenzor, a corporate restructuring



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