Credit Insurers in the SCF market:

Why they should better match product development

Credit Insurers in the Supply Chain Finance market

Credit insurance is a key element in the Supply Chain Finance (SCF) market. By covering the non-payment risk of Obligors, Credit Insurance enables Funders to engage in programs involving a wider range of counterparts and jurisdictions than what they would without credit insurance coverage. Moreover, as mentioned in the ADF´s Views report titled Credit Insurance in the SCF market, credit insurance is a credit risk mitigant that can allow Funders under Basel III regulation to obtain capital relief, thus further enhancing their credit appetite. The resulting improved offering from Funders has positively contributed to the development of the SCF market. However, this can change going forward if Credit Insurers do not keep abreast of product development.

SCF is a fast developing market, with new products and structures being regularly created in order to adjust to changing environments and requirements from companies. In general, Funders have been able to adapt themselves to the evolving circumstances, assisted by the appearance of alternative Funders from outside the banking space. Conversely, Credit Insurers have been less capable of keeping up with the SCF market development pace, maintaining an approach with room for improvement in the response rate and time, as well as in the support of innovative structures than divert from standard set-ups.

Risks & recommendations for Credit Insurers

Credit Insurers at times lag to step up and meet new market requests. This could lead to the development of alternative solutions provided by new participants, like private equity investors and other direct takers of risk, which replace Credit Insurers where they lack providing full support. For example, by focusing mainly on accounts-receivable based programs rather than balancing this out with well-designed accounts-payable based solutions (not to be confused with Reverse Factoring), Credit Insurers are not capturing a significant part of the working capital needs of companies.

Some of the improvements that Credit Insurers could consider in order to remain being crucial supporters and drivers of the SCF market are the following:

- Open up to and effectively evaluate new structures with adequate risk parameters and controls. For this, adoption of technology as a tool to enhance credit risk management is of essence.
- Shorten the response time when setting up new policies, in order to match the fast-pace market developments within SCF. Establish a more service-oriented approach.

- Show flexibility to adjust the wording of credit insurance policies to programs´ specific needs. Straight-forward wordings should be offered that allow for capital relief of Funders.

Furthermore, Insurance Brokers, as relevant market participants which at times have struggled to push Credit Insurers out of their comfort zone and modernize, could support this by acting as an innovation catalyst amongst Credit Insurers.

Conclusion

Given the clear warning signals, Credit Insurers should be mindful of the improvement points raised above and actively develop strategies that address them in order not to lose market share to more agile players that respond to current market needs.

Alternative Distribution Financing Ltd. (ADF) has successfully developed new programs with innovative structures, many of which incorporate credit insurance, and continues to work constructively towards having a SCF market where Credit Insurers are key contributors to growth and innovation.

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