

Research Report

in Finance and Banking

Credit Insurance in Europe

Impact, Measurement
and Policy Recommendations

Amparo San José Riestra



CENTRE FOR
EUROPEAN
POLICY
STUDIES

CREDIT INSURANCE IN EUROPE

IMPACT, MEASUREMENT & POLICY RECOMMENDATIONS

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TABLE OF CONTENTS

EXECUTIVE SUMMARY	i
INTRODUCTION	1
1. CREDIT INSURANCE: MORE THAN AN INSURANCE POLICY	2
1.1 Credit management: Reducing the risk of insolvency and late payment and using commercial credit as a competitive tool	4
1.2 Access to new markets	9
1.3 Balance sheet protection	10
1.4 Access to finance	11
1.5 Alternatives to credit insurance: Factoring, letters of credit and ART	12
2. CREDIT INSURANCE IN THE EU	14
2.1 Evolution of the credit insurance industry in Europe	14
2.2 Domestic and export credit insurance	17
2.3 Turnover covered	19
2.4 Cross-border credit insurance	20
3. CREDIT INSURANCE AND SMES	23
3.1 Country profiles	25
3.1.1 Austria	25
3.1.2 Belgium	26
3.1.3 Denmark	27
3.1.4 Germany	28
3.1.5 France	29
3.1.6 Greece	30
3.1.7 The Netherlands	31
3.1.8 Portugal	32
3.1.9 Spain	33
3.1.10 United Kingdom	34
4. OBSTACLES TO THE DEVELOPMENT OF CREDIT INSURANCE FOR SMES	36
4.1 The ‘disengagement’ process and the need for further liberalisation	36
4.2 Cost of policies	38
4.3 Divergent bankruptcy regulations	41
4.4 Taxation of credit insurance in the European Union	42
4.5 Entrepreneur’s perception	44
4.6 The attitude of banks and the impact of the new Basel Capital Accord	44

4.7	Access to public information	46
5.	CONCLUSIONS	47
	ANNEXES	50
1.	Methodological Notes	50
2.	Premiums and penetration rate by country from different sources	52
3.	Credit insurance vs. factoring (2001)	53
	REFERENCES	54

CREDIT INSURANCE IN EUROPE

IMPACT, MEASUREMENT & POLICY RECOMMENDATIONS

AMPARO SAN JOSÉ Riestra

EXECUTIVE SUMMARY

Commercial credit is a basic element of business transactions in market economies. The majority of commercial transactions are carried out on the basis of credit. Commercial credit is an important instrument to attract new customers. But commercial credit also exposes companies to late payments and defaults, becoming a serious problem that might hamper business development.

Since slightly more than 20% of all assets on balance sheets are commercial credit, effective credit management becomes an essential tool to succeed in business. Unfortunately, credit management is often neglected by small and medium-sized enterprises (SMEs), which typically lack the administrative resources to assess buyers' risks, to tailor credit terms to reflect these risks and to monitor payments in order to reduce cash collection periods and minimise the occurrence of payment default. In comparison to smaller companies, large firms dedicate vast resources to credit management, which together with their bargaining power grants them important competitive advantages.

To face the lack of credit management, SMEs can rely on credit insurance. Credit insurance provides SMEs with a guarantee of reimbursement of unpaid invoices, varying from 70% to 90% of the receivables insured. Credit insurance also allows small firms to improve their credit management capacity. The credit insurer is able to provide training and advice to the company to enhance sales, credit and marketing functions, such as customer screening, risk assessment, market prospect and follow-up and collection procedures. Sound credit management procedures are also an effective instrument to combat late payments.

As shown by the study, there are important differences between national credit insurance markets in the EU:

- The development of credit insurance within the European Union today is very uneven, varying from well developed and established markets, such as is found in the Netherlands, Germany, France or Spain, to other countries where credit insurance is more recent and less significant. The highest penetration rate of premiums is over 0.06% of GDP for Spain while the lowest rate corresponds to Greece with 0.006%. The average for the countries researched is 0.03%.
- About 14% of European GDP is insured and 20% of exports with important differences between the countries studied. While 21% of GDP is covered in the Netherlands, only 1.7% is insured in Greece. Coverage is higher in general for exports.
- As compared to 15% of all large enterprises, only 8% of small enterprises are using credit insurance in Europe. About 115,000 small and medium-sized enterprises are insured in the countries researched, an estimated total number of 130,000 in Europe. Credit insurers in Spain and Belgium seem to be close to the small segment, ensuring as many as one-fifth of small companies in those countries in Spain (14% Belgium). In contrast, other markets are more biased towards medium to large enterprises. Germany, Austria, Greece and the UK have the lowest proportion of companies insured with less than 8% (7%, 6%, 4% and slightly more than 1%, respectively).

- On the other hand, France, Austria and Germany have the highest percentages of large companies insured. In all three, more than 20% of large companies are insured (60% in France, 37% in Austria and 21% in Germany). The country with the lowest proportion of large companies insured is Greece, even though 10% of them are insured.

Different demand and supply issues appear as obstacles to the development of credit insurance in Europe. On the demand side of the market, the most important factor is the entrepreneurs' lack of awareness of the impact of bad debt, which combined with the absence of credit management procedures makes entrepreneurs perceive credit insurance as an extra cost rather than possibly being beneficial to the financial health of the company. A lack of credit management and low turnover are factors that result in high fixed administrative costs for insurers, which reflect on higher premium rates for the small-size firm segment.

On the supply side, there are signs that credit insurance products are not adapted to the needs of the smaller companies, and credit insurers prefer to concentrate on larger size enterprises. Adapting policies to the small segment might also require an effort at simplification from the credit insurer.

Obstacles to the expansion of credit insurance amongst SMEs are also due to lacunae in the policy framework at European and member-state level. Unattractive creditor legislation, provisions on repossession rights, divergences in bankruptcy laws, access to company information and high taxes on credit insurance premiums may hamper the growth of credit insurance. For instance, recovery costs of cross-border claims for small companies can be proportionally high and take long periods. Since competition takes place at national level and a few large international groups control the national and international markets, the lack of an effective single market in place is of relevance.

The improvement by public policy action of certain aspects concerning the regulatory environment or taxes can play an important role. Public policy intervention might be also desirable to further liberalise short-term credit insurance. The experience has been successful in some countries such as the UK and the Netherlands, which signals private insurers are willing to take on all forms of short-term credit insurance, also for export related and politically unstable countries. Looking further ahead, it is worth considering that instruments could reduce the cost of policies for the small-firm segment; a way forward could be to investigate the adequacy of public or private-public reinsurance schemes.

Nevertheless, the most important field of action remains the attitude of entrepreneurs towards credit management and the relevance of bad debt. In this area, public policy could promote the benefits of sound credit management among EU companies, something that will also be important in the context of the new Basel Capital Accord.

INTRODUCTION

Credit insurance offers protection to suppliers of goods and services against the effect of insolvency or default by the purchaser and political risk. The services provided by credit insurers vary widely. They range from strong involvement by underwriters, with the establishment of credit limits and debt collection services controlled by the underwriter, to policies where the underwriter has hardly any input in credit-limit decisions or debt management. In most cases, underwriters tailor products according to the needs of companies.

Credit insurance is thus more than a simple insurance policy. It can be a complete risk management tool that helps management to put in place the necessary procedures to prevent and minimise late payments and defaults, reducing the risk of the receivables portfolio and enhancing the capacity of using commercial credit as a competitive tool.

In a staff paper, the European Commission (2001) recognised the importance of credit insurance in easing access to finance, especially for export-oriented small- and medium-sized enterprises (SMEs), those willing to explore new markets, those broadening their product range, those having strong growth potential and companies operating in a high-risk sector and those companies with narrow margins.

The impact and the extent of the use of credit insurance by European companies, in particular small- and medium-sized enterprises, are poorly researched, however. Quantification of the penetration of credit insurance in terms of the number and size of companies involved, the relevance of receivables insured within the balance sheet and the impact of claims paid by insurers on the financial health of companies have not been carried out.

A first insight into credit insurance indicates that only a small percentage of companies in Europe are insured against bad debt, default and bankruptcy. The proportion of companies insured declines according to the size of companies. Also, the credit insurance market is unevenly developed in the EU, and while certain countries have a long tradition of credit insurance products, credit insurance has just taken off in others.

This study represents a first attempt to compile a set of data that enables the measuring of credit insurance in Europe by company size, volume of business covered and destination of trade. Bearing in mind the difficulties of SMEs to access bank finance and with a view to the outcome of the new Basel Capital Accord, this paper presents the use and benefits of credit insurance for small- and medium-sized enterprises, analyses the obstacles to the development of credit insurance and draws clear conclusions for policy-makers.

This paper is organised as follows. A first chapter presents the main elements of credit insurance products and reviews the impact of credit insurance on risk management and its relevance as a competitive element for enterprises. Chapter 2 reviews regulatory issues affecting credit insurance in the EU framework and the single market. Chapter 3 offers an overview of the EU markets, focusing on the measurement and analysis of credit insurance within EU countries, to highlight relevant issues and areas for development. Lastly, we consider the obstacles and opportunities for the development of credit insurance and the establishment of an effective single market. The paper concludes in Chapter 5 with a set of recommendations to be put forward to policy-makers.

This report is only concerned with commercial credit insurance. Credit insurance underwritten by government agencies, referring to long-term and political risk, will not be covered.

CHAPTER 1

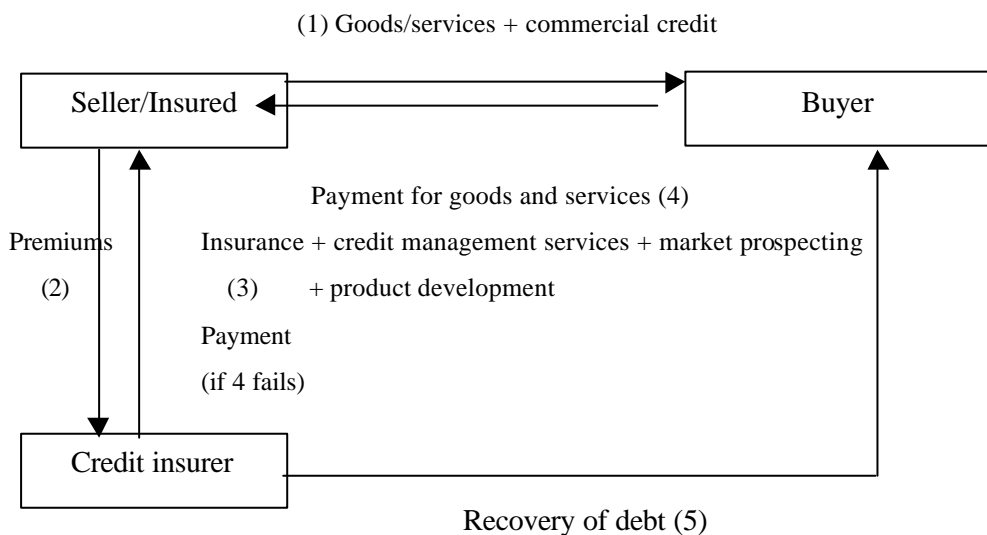
CREDIT INSURANCE: MORE THAN AN INSURANCE POLICY

Credit insurance provides companies with coverage for outstanding receivables, protection against the risk of protracted default or insolvency of the buyer. Commercial credit insurance covers commercial risk, namely, the risk of non-payment as a result of insolvency or default.

A standard credit insurance policy will cover all receivables, although specific account insurance has been recently made available for a selected group of customers or a single transaction. Based on insurance principles, this global approach guarantees that the insurer will not be faced only with bad debtors. Policies generally exclude trade between companies belonging to the same group with strong ties, trade with government departments or agencies and credit granted to individuals.

The role of the credit insurer is not limited to the traditional notion of insurance by simple financial protection in the event of a bad debt. All credit insurance companies nowadays offer credit management services, providing clients with credit information, credit lines for potential buyers and a continuous follow-up of the credit risk of the insured.

Figure 1. Functioning of credit insurance



In order to apply good credit management practices, the seller must evaluate the credit-worthiness of prospective clients before deciding to trade with them. The commercial credit department of the company must provide the sales department with an assessment of the credit quality of targeted clients and establish the credit line to be granted to the potential buyer. External agencies, including credit insurers, are better equipped to undertake this task, as they can benefit from their knowledge of the market and their domestic and international network. The credit insurer has information on company-specific behaviour on payments for receivables and its database covers more products over a longer time horizon than the credit department of a company.

Box 1. From debt to reimbursement

1 st January	Invoice due date (i.e. €10,000) Action: Attempt of recovery by the company
1 st March	Invoice still unpaid Action: No new credit limits granted to the debtor Stop deliveries to the debtor (new credit granted will not be insured)
1 st April	Invoice still unpaid Action: Introduction of claim to the insurer by the company or the broker. Claim will cover all the outstanding invoices with the debtor on 1 April. If during this period the insurer recovers the debt, the company will be paid.
1 st July	Invoices still unpaid Action: Indemnisation by the insurer (85% of €10,000, i.e. €8,500 payment by the insurer and €1,500 own risk)

If prevention fails, the credit insurer will indemnify the company in case of insolvency or protracted default. Coverage provided by policies ranges in general between 70% and 90% of all insured risks. The amount not covered by the policy (30-10% of trade insured) serves to avoid moral hazard and to ensure the insured will continue to manage its risks in an appropriate manner. The time of payment will vary between 4 to 12 months, shorter for declared insolvencies than for protracted default cases, depending on the insurer (see example of recovery stages below).

Premiums to be paid depend on the turnover covered, the past claims and the present spread of risk (few large clients/many small clients), the activity of the company, the country of operation and the quality of the existing credit management of the firm. Others factors relate to elements such as late payments, bankruptcies and local business practices, i.e. countries with a higher occurrence of bankruptcies or with longer payment periods will pay higher premiums. The bankruptcy regulation in a country impacts premium rates via recovery costs and risk.

The average premium rate is 0.35% of credit sales, excluding the cost of consultation to grant credit limits, which vary between €7 and €74. Litigation costs are often also charged to the insured and will be considered a loss to be reduced from the indemnisation.

A different type of policy is *excess loss cover*. This class of insurance covers the risk of exceptional default payments expected to harm the financial balance of the enterprise. The principle is the same as the global annual franchise policy. This policy targets larger companies' good credit management procedure in place. The company is fully in charge of granting credit limits and recovery procedures.

Insurance is also available for a select group of clients or for a single client. In general, these policies are more expensive.

As can be seen, a wide range of services and coverage formulas is available from credit insurers to cater for the needs of companies with different risk and different client portfolios.

From the selling company's point of view, there are five main advantages of buying credit insurance, namely, risk transfer of insolvency and late payment, credit management, facilitated financing, access to new markets and balance sheet protection. These are analysed in detail in the following section.

Table 1. Different types of policies

Single franchise policy. The coverage is restricted to the part of the receivable above a certain amount.

Unpaid receivable	€10,000
Franchise	€5,000
Indemnity (85% of €5,000)	€4,250

Minimum threshold. Losses below a certain amount are not subject to indemnity. If the loss is higher than the minimum, the coverage will applied to the whole amount.

Unpaid receivable	€10,000
Minimum threshold	€5,000
Indemnity (85% of €10,000)	€8,500

Unpaid receivable	€4,500
Minimum threshold	€5,000
Indemnity	0

Global annual franchise. All defaults occurred over a year are aggregated and indemnified for balances above a minimum amount.

Annual franchise	€0,000
Unpaid receivable 1	€30,000
Unpaid receivable 2	€40,000
Unpaid receivable 3	€40,000
Indemnity (85% of €60,000)	€51,000

Mezzanine policy. It provides coverage above the credit limit granted and normally below a threshold fixed by the insurer.

<i>Client A</i>	
Credit limit	€1,000,000
Credit granted	€4,000,000
Coverage first contract	€1,000,000
Franchise	€500,000
Limit coverage mezz	€4,000,000
Coverage mezzanine	€2,500,000

1.1 Credit management: Reducing the risk of insolvency and late payment and using commercial credit as a competitive tool

The granting of credit to customers is a vital tool in daily business. Competition takes place not only in price but also on the basis of credit terms. A company will always look for a period of credit from its suppliers, as this is an important element of sales promotion and commercial development. The company that has granted the credit assumes that the services or the goods have been sold and therefore payment is under way. If payment never arrives or arrives late, it becomes a burden for the lender, which might encounter financial difficulties if it is a large payment or if an important part of its customers pay systematically late.

Bad debt levels clearly fluctuate with the economic cycle, but are also a function of the sophistication of front-end credit management practice. Despite sophistication in risk assessment, bad debt is an inevitable consequence of business-to-business sales of commercial credit. Firms lose on average between 1% and 5% of turnover as a consequence of bad debt. Inevitably this will have an adverse impact on profitability and can even threaten a firm's survival if the bad debt is large, unanticipated or occurs in markets where profit margins are very low.

With credit insurance, the company has the security that payment will be received, either from the client or, after his client's failure to pay, from the insurer. In this way the receipt of at least 70-90% of the amount of the sale is ensured without starting a process of debt recovery (the insurer will do that on its own account). Credit insurers manage risks by holding diversified portfolios and back these risks with large amounts of equity and reinsurance, and therefore they are more suited to assume risks than the selling company.

Insolvency puts an extra burden on the supplier, who needs to make extra sales to recover the bad debt. This situation is especially virulent in suppliers operating within narrow margins, with few large clients or tailor-made products. For a company operating with a margin of 4%, a bad debt of €10,000 will suppose the realisation of extra sales of €250,000 (see Table 2).

Table 2. Additional turnover to compensate a default payment (€)

Margin in %	5%	10%	15%	20%
Amount unpaid	Additional turnover to even the loss			
10,000	200,000	100,000	66,666	50,000
20,000	400,000	200,000	133,333	100,000
30,000	600,000	300,000	200,000	150,000
40,000	800,000	400,000	266,666	200,000
50,000	1,000,000	500,000	333,333	250,000
100,000	2,000,000	1,000,000	666,666	500,000

Many companies do not have a good spread of risk from customers, and where there is a single buyer for a large volume, the company can go out of business if this buyer makes a late payment or defaults on his payment.

Although the risk is of default payment, whether from insolvency or political risk, it is perceived to be higher when dealing with non-EU or non-OECD countries. The reality is that insolvencies and business failure are numerous within the EU, which is precisely the area where the majority of trade takes place. Although the number of bankruptcies has declined significantly in the EU countries listed in Table 3 below, it has started to increase again with the change of the business cycle. In Denmark and Germany, it has increased considerably.

When bankruptcy occurs in a country different from the one where the company is established, the difficulties of recovering the debt increase. The seller faces different bankruptcy regulation systems and needs to dedicate extra resources (personnel time or resources to a debt recovery agency) that increase the cost of recovery of cross-border debt.

*Table 3. Number of bankruptcies in Europe**

	1996	1997	1998	1999	2000	2001
Austria	5,698	4,934	3,045	2,907	2,449	2,939
Belgium	7,310	7,589	6,977	7,139	6,752	6,800
Denmark	1,763	1,759	1,652	1,636	1,748	2,278
Finland	2,239	1,880	1,558	1,565	1,539	1,351
France	61,279	60,924	52,835	48,328	43,702	43,496
Germany	25,530	27,507	27,968	26,984	28,081	32,394
Italy	14,109	13,774	11,231	10,040	9,187	8,504
Netherlands	3,973	3,929	3,543	2,838	2,984	3,676
Portugal	445	477	515	566	710	535
Spain	n/a	n/a	468	372	396	335
Sweden	10,485	10,229	8,235	6,611	6,590	7,279
UK	41,107	36,368	38,634	43,365	40,847	40,532
Total	173,938	169,370	156,193	151,979	144,589	149,784

*Figures come originally from national registries and are restricted to bankruptcies as defined legally. The differences in definitions explain for instance the low figures for Spain.

Source: Dun & Bradstreet.

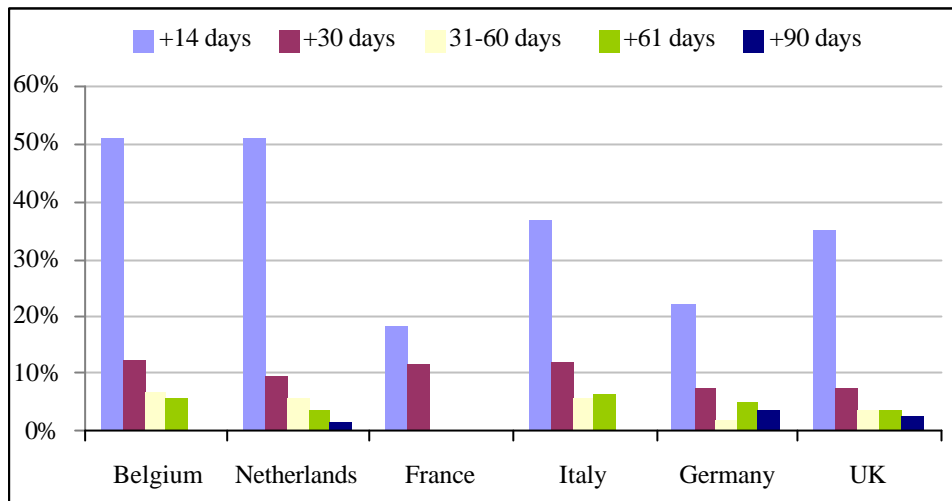
Late payment

Late payment is a key issue in the finances of European enterprises, which spend too much time chasing payments. Late payments and long payment periods affect negatively the export capacity of European companies. Companies would export more if they could obtain shorter payment periods from their foreign customers.

A recent survey by Dun & Bradstreet (D&B) reveals that there is no clear trend in the reduction of late payments. In Belgium and the Netherlands, more than 50% of outstanding invoices are paid after the due date (up to two weeks after) and in Belgium, the Netherlands, France and Italy around 10% of invoices are paid between 15 and 30 days after due date (see Figure 2).

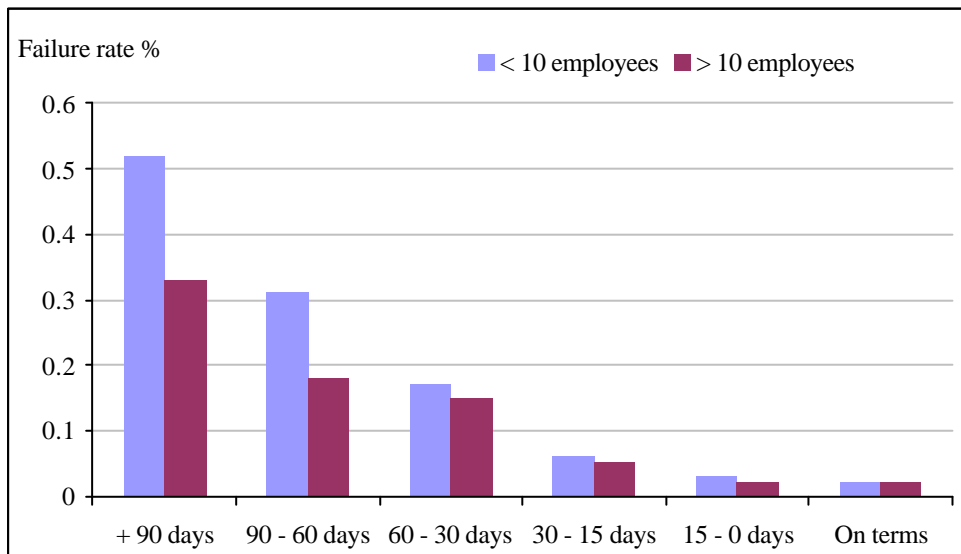
Delays in payment also constitute an early sign of financial difficulties. Persistent late payment behaviour indicates an increasing risk of failure (see Figure 3). Statistics provided by D&B have proved that in France, failure rates of companies paying over 90 days beyond agreed terms are 30 times higher than the average failure rates of French companies, and as much as 50 times higher than the average failure rate amongst French small- and medium-sized companies. Therefore, monitoring of late payments can be essential for companies in order to detect at an early stage possible financial difficulties of buyers.

Figure 2. Payment behaviour



Source: D&B, 2002.

Figure 3. Failure rate by number of employees and rate of late payment



Source: D&B, 2002.

Recent public policy developments have intended to reduce late payments. The main provisions of the 2000 Directive¹ on late payments deal essentially with the legal right to charge interest on late payments and effective redress procedures to recover the payments due. It provides for a penalty interest rate seven percentage points higher than the rate applied by the ECB. It fixes a period of 30 days as a reference for late payments, against which it will be possible to judge the deadlines fixed in contracts.

It is too early to assess the impact of the directive, since it just came into force in some countries (e.g. 2002 in Belgium), but previous experience of similar regulation already in place in some

¹ Directive 2000/35/EC of 29 June 2000.

countries (Sweden, Spain and the UK, for example) have not brought about a significant improvement in payment times. The bargaining power of large firms make enforcing late payment legislation difficult for small firms, which are afraid of damaging customer relationships with larger debtors. Payment performance is rather a cyclical phenomenon related to the economic environment – companies delay payment in economic downturns – and it is also largely influenced by the size of the company. From the table below, one can see that only 23.6% of large companies paid on time in the last quarter of 2001, against 40.5% and 32.9% of small- and medium-sized enterprises.

Table 4. Payments in Europe

Companies paying (%)	Micro		Small		Medium		Large	
	Q4 2000	Q4 2001	Q4 2000	Q4 2001	Q4 2000	Q4 2001	Q4 2000	Q4 2001
on time	45.0	45.6	41.2	40.5	35.8	32.9	27.7	23.6
1-14 days	19.7	20.2	25.0	26.2	30.6	32.6	37.5	39.5
+ 14 days	35.3	34.2	33.7	33.3	33.7	34.5	34.8	36.8

Source: D&B.

The establishment of sound credit management to follow pending invoices and precise identification of clients' outstanding receivables is particularly beneficial to small companies. With the help of credit insurers and brokers, small companies can put in place credit management procedures that help to prevent the occurrence of late payments and act as an early warning system.

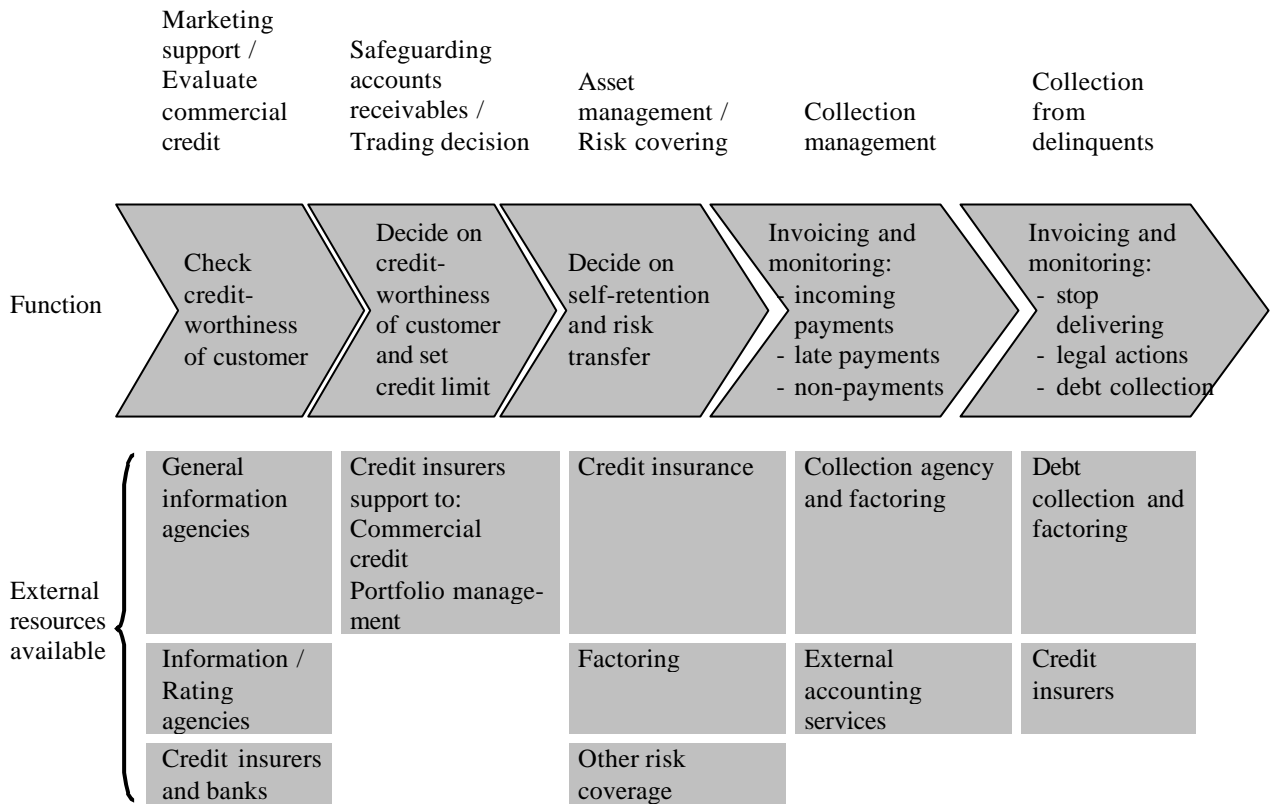
A competitive tool

Small firms often neglect credit management and only focus on payment collection. By contrast, large firms exploit the benefits of managing an adequate credit policy, dedicating vast resources to negotiation, risk screening, exploiting available credit information and applying competitive and adequate credit terms, which allows them to establish a more competitive pricing.

Credit insurance includes a large package of services, such as continuous monitoring of the credit-worthiness of the insured's customers, servicing the account receivables and debt collection. The value of credit insurance is to provide an external complement to internal risk management and to bring new and more effective methods of control. Accordingly, the credit insurer is present at several stages of the value chain of the credit department (see Table 5).

Often, a slight improvement in the granting of adequate credit limits, providing competitive credit terms, invoicing and monitoring of outstanding commercial credit can bring substantial benefits to the company. Small and young companies should benefit most from this service.

Table 5. Value chain of a commercial credit department



Source: Sigma, 2000.

1.2 Access to new markets

Risk assessment is becoming more and more difficult for SMEs since trade is increasingly internationalising. Limited access to new markets is considered by European SMEs as one of the main factors obstructing their growth. Credit is a necessary marketing tool for small firms and start-ups willing to grow. It is hardly possible that a new entrant in the market can succeed if it was not offered competitive credit terms. Credit insurance for small growing firms is therefore a necessity rather than an option.

The insurer can assist in the search for new clients and advise on the usual credit practice in the country. Assistance in this field can allow a company to enter new markets without having to make large provisions that will represent a burden for the company and deter them from expanding to less-known or 'secure'+ markets. Many firms are using credit reference information in determining risk of trade in certain markets, information that can be provided within the framework of a credit insurance product. Indeed, the fear of non-payment is important in the decision to export. A survey by the British Chamber of Commerce (1997) reports that 54% of exporting respondents state they have had an export venture that failed. Apart from internal weaknesses, the third most-cited reason was customer insolvency/failure to get paid (29%).

When attracting new business, credit might be a useful competitive tool, as one buyer enterprise will probably go for the supplier offering a credit line instead of demanding credit letters. Letters of credit tie up customers' capital and are expensive, cumbersome and they do not offer

a complete guarantee of payment. Most customers will prefer to work with open credit; therefore, credit insurance offers a competitive advantage.

In Europe 80% of all businesses operate on an open-account basis with their foreign customers. (In the US, trade is mostly done through letters of credit or other forms of pre-payment.) The use of credit insurance can also help to boost EU export activities. Indeed, according to the ENSR survey (2001), the main factor in most of the countries for not exporting more is fear of non-payment.

Table 6. Ranking of fear of non-payment as a factor discouraging export activities

Austria	1	Finland	1	Luxembourg	2
Belgium	1	France	3	Netherlands	4
Germany	1	Greece	1	Portugal	1
Denmark	2	Ireland	3	Sweden	9
Spain	1	Italy	1	UK	7

Source: European Business Survey (2001).

Despite the potential of credit insurance to boost exports, at present this potential is not being exploited and only a relatively small number of firms use it to find out new markets (NCM, 2001). The main source of export opportunities is evidently the companies' own effort, but also overseas agents or distributors, referrals from another company and credit reference agencies.

1.3 Balance sheet protection

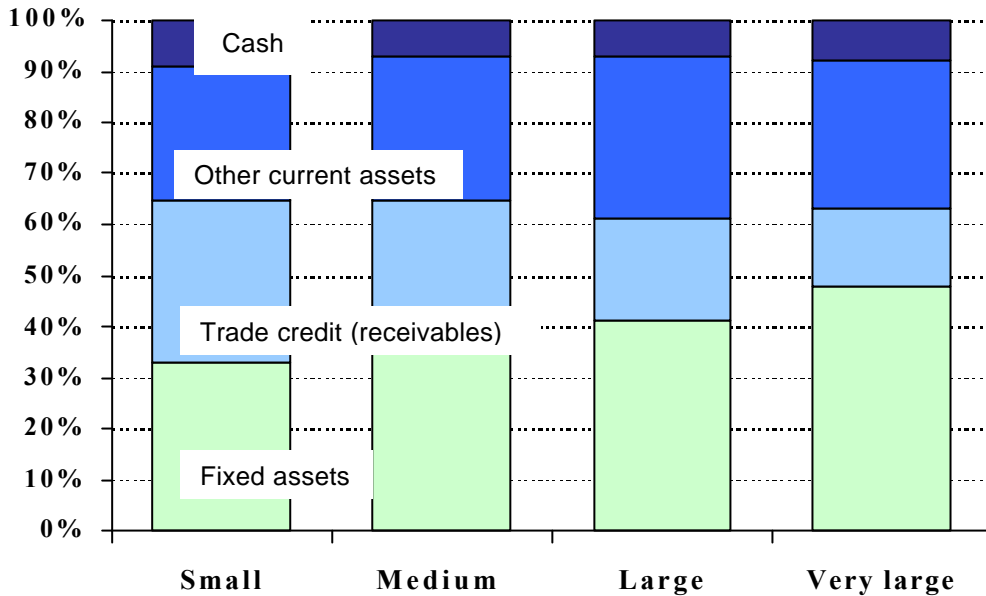
Commercial credit is an important part of a company's assets (see Figure 4). Therefore the ability to determine credit limits rapidly and accurately is a key element in business competition, especially in the framework of e-business. For instance, commercial credit in Germany amounts to roughly the entire sum of short-term credit given by the banks.² The cash-flow position of the supplier can substantially worsen in the event of a client's insolvency and late payment. The problem is exacerbated for many small companies, which are under capitalised, less liquid and exhibit more volatile cash flows and profits than their larger counterparts. Efficient management of working capital and good credit management practices are considered essential to the financial health and performance of small firms.

Credit insurance also provides specific products to cover exceptional losses that might have an impact on the balance sheet. 'Excess cover' policies are designed to protect the firm from the insolvency of a sensitive group of a firm's customers or a single large loss. Credit insurers have also created products that do not differ much from financing formulas. One example is the financing of pre-insurance losses, the so-called finite risk. With this policy, the credit insurer will re-finance a loss occurred previously to the contract of insurance. The company will distribute the loss in the form of premium repayments during the following years.

Credit insurance is also a good instrument for protecting managers vis-à-vis shareholders in the event of a worsening of the payment-collection situation. It is equally interesting for all stakeholders in a company. Often, German boards of employees require the management to take out credit insurance as a way of minimising the risk and ensuring the survival of the company.

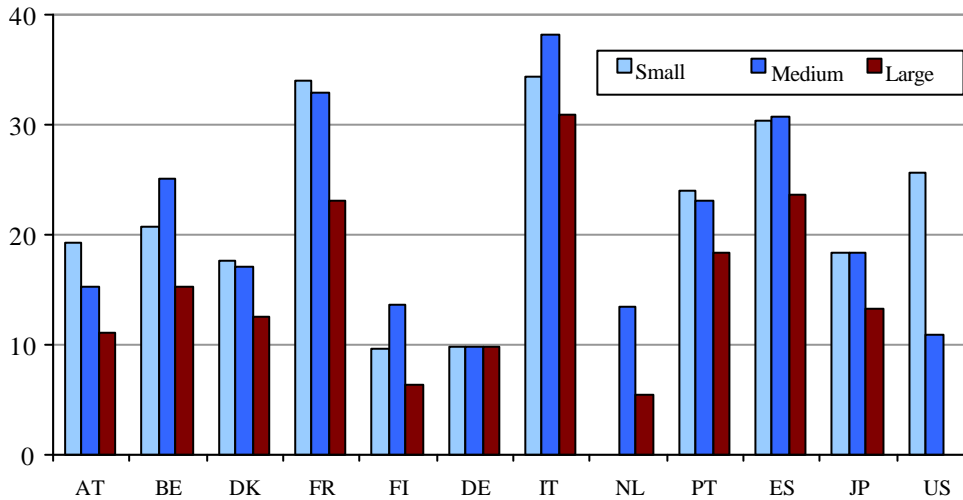
² Data from Hermes website (www.hermes-kredit.de).

Figure 4. Asset structure by size class



Source: EIB (2003).

Figure 5. Accounts receivables in total assets by type of enterprise (manufacturing sector in %, 1999)



Note: Data for Germany represent 'all sizes' of enterprises; no size breakdown available.

Source: BACH database.

1.4 Access to finance

Clearly, commercial credit is extremely important to small business finance, but it has received much less research attention than commercial bank lending, which provides only slightly more credit to small business.

Companies consider trade receivables income, but banks view receivables with more scepticism, and look at the provisions the company has made in relation to receivables and the advent of bad debts. Therefore, some credit insurers have developed schemes with banks that

allow them to monitor the insured's compliance with the policy and to check the insured's credit limits, providing even more reassurance to the lender. Since banks have different requirements, insurers tailor their products to suit the requirements of particular banks in a real 'partnership approach to protection and finance'.

Often the motivation to take out credit insurance is to improve the company's ability to borrow. According to research in the UK, one-quarter of credit insurance policies are used as collateral for a bank loan or to get extended credit, and banks are beginning to accept policies as guarantees. Credit insurance can help to overcome the reluctance of banks to lend on a regular overdraft basis more than 50% of outstanding receivables.

There are other innovative ways to use credit insurance to improve lending. For instance, a manufacturer and its bank can jointly purchase a credit insurance policy which covers the possible insolvency of the distributor. The insurer provides a 100% indemnity guarantee under the policy (this is only possible because of the size of the insured turnover and the spread of the risk). Additionally, it facilitates lending by the bank to the distributor, enhancing its capability to purchase from the manufacturer.

1.5 Alternatives to credit insurance: Factoring, letters of credit and ART

Factoring and letters of credit are the two most common alternatives to credit insurance for small- and medium-size companies, whereas other possibilities, such as self-insurance and ART (alternative risk transfer) solutions are almost exclusively reserved for large suppliers.

A letter of credit is a statement issued by a bank, according to the instructions of the buyer of the goods, committing itself to honor drafts drawn upon by the seller in accordance with the specified terms and conditions. With this method of payment, the risk lies with the bank, not the buyer. Letters of credit are popular in America, where approximately 70% of exported goods and services are traded through letters of credit or other forms of pre-payment. However, letters of credit increase transaction costs, time and expertise from managers and diminish buyers' ability to borrow from banks.

Alternative risk transfer (ART) is mostly reserved for large multinationals and not for credit risks. Nowadays, self-insurance, captives, finite risk and capital market products such as asset-backed securities are available to medium-sized groups whose risks are not well covered by traditional insurance. This type of instrument is increasingly available to credit risks. However, they are still far from serving SMEs in the way that credit insurance does. Therefore, factoring in practice is the only alternative to credit insurance.

In a factoring operation, the factor buys the receivables related to goods already sold. In the case of non-recourse factoring, there is an element of coverage by a third party of payment defaults. Factors do manage the risk of the receivable by monitoring the payment and the collection before the appearance of default, which gives them an advantage over credit insurers.

There are typically two costs involved in factoring: a service charge expressed as a percentage of sales factored and an interest charge for the cash advances. The service charge, covering sales ledger management, collections services and bad debt protection, can range between 0.60% and 3.0% of turnover. The main considerations in determining the service charge are the annual turnover, the number of invoices, the average invoice amount and the number of customers. The interest charges calculated on the daily usage of funds are typically comparable to normal secured bank overdraft rates.

When the risk of bad debts remains with the company, the service is referred to as recourse factoring. Non-recourse factoring protects the company against customers who fail to pay. The factor typically covers this risk by taking out credit insurance. The cost of the credit insurance is

passed on to the company and depends on the risk profile of its customers and the amount factored. The factor also applies credit limits, normally 80-95% of the factored amount.

Factoring can substitute for and complement credit insurance, depending on the needs of the company. The two have recently evolved into a sophisticated variety of financing alternatives. Indeed, we have seen that today's credit insurance can be more comprehensive than a simple policy and many credit insurers have developed factoring activities.

The decision of factoring versus credit insurance depends on the level of coverage the company wants and whether the company wishes to maintain internal credit and collection staff. In terms of cost, credit insurance usually costs less than factoring. That is because it does not typically include the bookkeeping and collection services that factoring does.

Large companies that efficiently manage their sales bookkeeping and collection procedures might only seek credit protection and not factoring. On the other hand, for small companies with restricted staff, factoring can alleviate the burden of dedicating resources to these functions. The number and size of clients are also an indication of the adequacy of one vs. the other. When a company has a large number of clients and low-value invoices, factoring might be more convenient, especially at this time when the difficulties of the market are prompting many insurers to introduce minimum loss or franchise clauses. Alternatively, for companies with a reduced number of clients and important amounts (provided they exercise good risk management), credit insurance is the cheapest and most convenient solution.

CHAPTER 2

CREDIT INSURANCE IN THE EU

There is some controversy concerning the origins of credit insurance. Some historians assert that British Commercial Insurance Company was the first underwriter of credit insurance, with the first credit insurer specialist following in 1852. Other sources claim it originated in the Mediterranean, where the end of Napoleonic wars permitted the flourishing of the maritime commerce. Insurers contributed to this development by covering the risks of wreck, damages to merchandise and pirating. Rapidly, insurers moved to offer surety and payment guarantees for the goods traded. Pioneer credit insurers would operate in the largest ports at the time – Livourne, Naples, Gênes and Venice. The extension of services would bring the granting of credit limits through a ‘solvency guarantee’ by a chamber of commerce.

Historically, credit insurance has been more popular in Europe than elsewhere, with more than 80% of worldwide premiums underwritten in Europe. The European market is the most dynamic and competitive credit insurance market in the world. However, the expansion of credit insurance is uneven among European countries. Spain, the Netherlands, Germany and France are the countries where credit insurance is more established and shows high penetration rates (premiums/GDP), whereas in countries such as Italy and Greece – where credit insurance has only recently started – the penetration rate is much lower.

In recent years, some countries such as Portugal and Greece have experienced a remarkable growth of credit insurance penetration due to the activities of new companies in those markets. In other more mature markets, however, despite the efforts of new entrants, the growth of premiums is stagnating.

Most European companies, whether exporting or operating locally, do not use credit insurance. On average, a figure close to 20% of large suppliers in the EU take out credit insurance to secure the receivables due after goods have been delivered, a figure that is halved for small suppliers. Nevertheless, the participation of the small- and medium-sized sector is different from one EU country to another. Spain has more small companies insured for credit as a percent of the total (20% vs. 5% in the UK, for example) among all the countries surveyed.

Total credit insurance taken out in the different countries researched varies between 15% and 20% of GDP, with the exception of Greece, whose credit insurance represents only 1.7% of GDP. The figures are slightly higher in the export sector than for domestic business, and also the spread is larger, from 50% of exports insured in the UK to only 4.6% in Greece.

2.1 Evolution of the credit insurance industry in Europe

The market for credit insurers is changing rapidly. Ten years ago there were more than 35 private credit insurers operating in the EU member states. In the past decade, consolidation has led to the disappearance of five larger companies: Gerling, Hermes, Coface, NCM and Euler. Today, this number has been reduced to three large groups (Euler & Hermes, GerlingNCM and Coface) which control 80% of the market, and a handful of independent insurers in the Spanish, Portuguese and Greek markets. It is not uncommon for two of the big insurers in a country to control 80% to 90% of that market; in some cases a single insurer can have a market share of 60% to 70%.

Credit insurance is a niche activity, representing on average only 1% of non-life premiums. The penetration of credit insurance highly correlates with the penetration of non-life markets. It is difficult to precisely quantify credit insurance activity on the basis of secondary sources because the

data vary significantly from one source to another. Often figures published by credit insurers on premium income in their annual reports include revenues from fidelity, guarantees and even consumer commercial credit, of which gross premiums from credit insurance activities represent 70% to 80%. For the purpose of this study and taking into account the facts mentioned above, the responses from credit insurers consulted and our own research, we will use the following penetration rates for the countries covered in the study (see Table 7). See Annex 2 for data from different sources.

Table 7. Penetration rate 2001 (as a percent of premiums/GDP) compared to the non-life market

	Credit insurance	Non-life insurance	Credit insurance (% non-life insurance)
Spain	0.0612	3.00	2.04
Netherlands	0.0443	4.20	1.05
Germany	0.0421	3.80	1.11
France	0.0409	2.90	1.41
Portugal	0.0341	2.80	1.22
Belgium	0.0336	2.80	1.20
Austria*	0.0312	3.10	1.01
United Kingdom	0.0311	3.50	0.89
Denmark	0.0212	2.30	0.92
Italy	0.0197	2.40	0.82
Greece	0.0066	1.20	0.55

*Y2000.

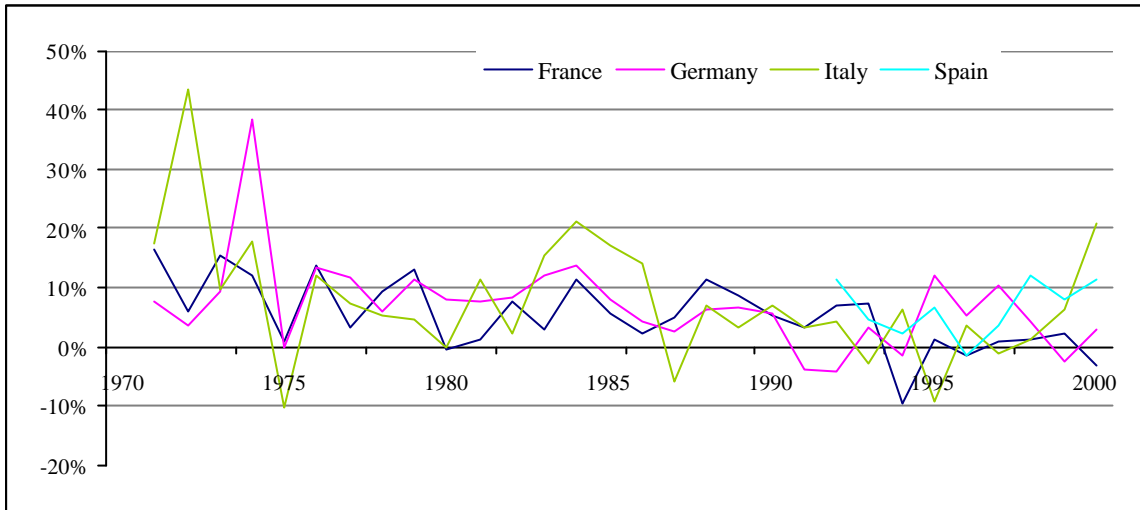
Source: CEPS.

At the low-end of the table we can find the positive correlation between general non-life insurance and credit insurance (Denmark, Italy and Greece), a relationship that can be observed at the top for countries such as the Netherlands and Germany. However, there are striking anomalies to this pattern in which the relationship is broken. The UK, for example, with one of the highest penetration rates for non-life insurance, shows a relatively poor record for credit insurance, whereas Spain, an average country for non-life credit insurance, ranks at the top for credit insurance.

The large number and importance of mergers and acquisitions in the sector are a consequence of a reorganisation process that occurred in the mid-1990s in response to stagnant or negative growth of premiums in France, Germany, Italy and Spain (see Figure 6 below). The privatisation of short-term credit insurance by EU regulations brought more competition and new markets to the private credit insurance sector, as reflected in a positive evolution of premiums.

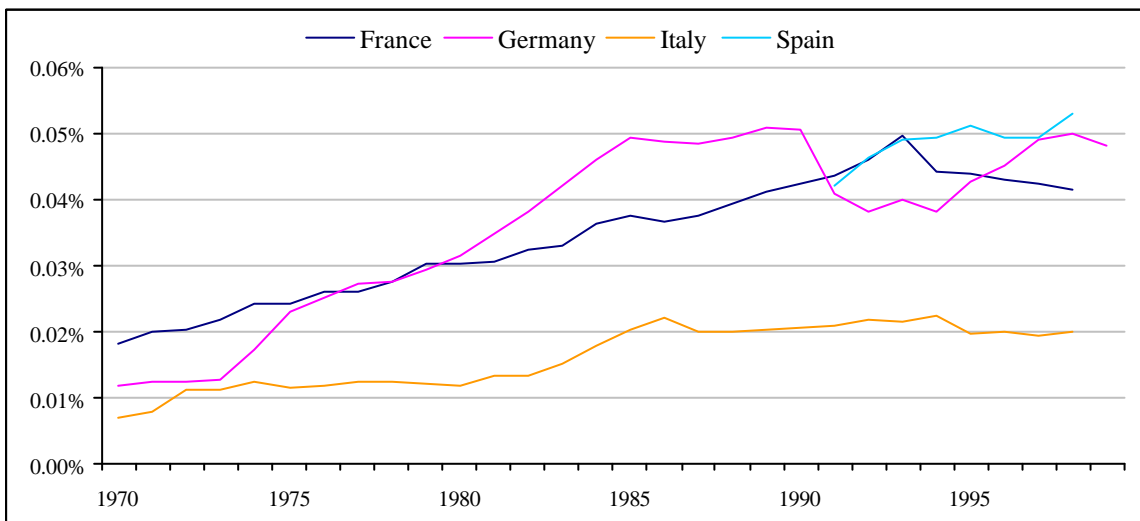
The European credit insurance market has been soft up to 2001, in part because of competition but also because of the general soft markets in insurance and the large availability of re-insurance. Premiums have continuously declined since 1993, from 0.35% to 0.25% of commercial credit sales. Only recently, following the WTC events and the economic slowdown, have credit insurance premiums returned to the previous levels (0.35% on average).

Figure 6. Growth of premiums



Source: Swiss Re Economic Research and Consulting.

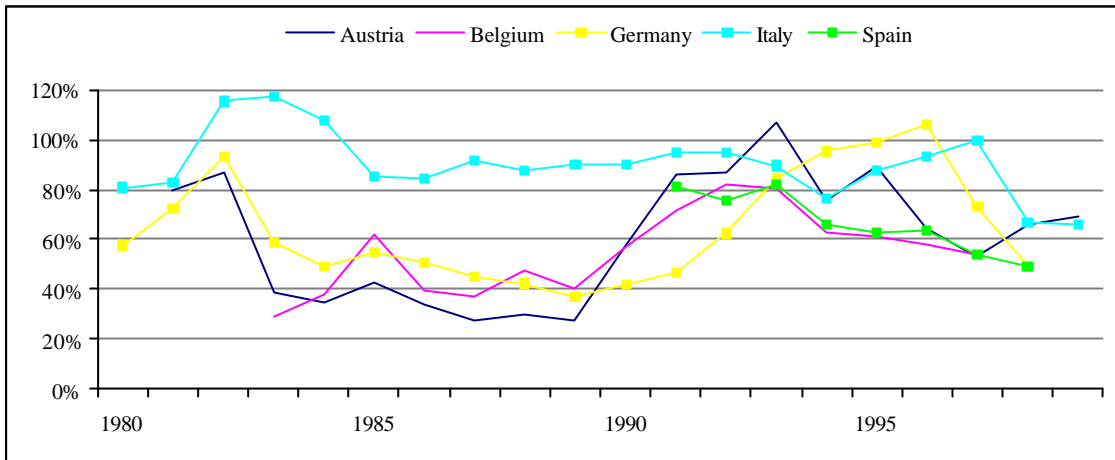
Figure 7. Evolution of penetration rates



Source: Swiss Re Economic Research and Consulting.

Credit insurance is a cyclical industry; as we can see from Figure 8, the evolution of claims ratio is linked to the evolution of the economic cycle, GDP, exports or bankruptcies.

Figure 8. Claims ratio (claims amount as a percent of premiums underwritten)



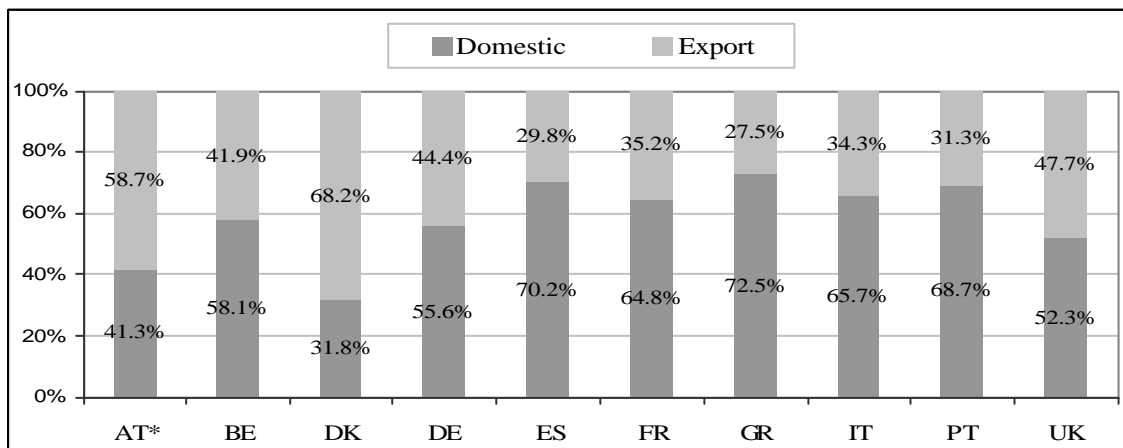
Source: Swiss Re Economic Research and Consulting.

2.2 Domestic and export credit insurance

In the early days of credit insurance, insurers were mono-liners, i.e. they carried a single line of insurance, focusing on domestic policy-holders. Domestic and export credit insurance were seen as distinct product lines. Nowadays, this distinction has blurred, especially for intra-EU trade, and many companies offer domestic and export coverage within the same policy and under the same conditions. There was generally one domestic and one (often state-owned) export credit insurer in each country.

Now credit insurers cover short-term credit in most countries of the world, whereas state agencies focus on those areas where the private sector is not interested. Increased competition due to the liberalisation of short-term export credit insurance brought about a reduction in prices, which together with the high growth of exports in recent years resulted in a more even distribution of domestic and export premiums.

Figure 9. Distribution of premiums (domestic/export)



*Y2000.

Source: CEPS.

In today's credit insurance markets, on average 60% of total premiums are contracted for the domestic markets and 40% for export business.

The distribution varies from one EU country to another, however. With the exception of Austria and Denmark (with 57.8% and 68.2% of premiums related to export credit insurance, respectively), more than 55% of premiums are underwritten for domestic receivables. In Spain and Greece, the domestic market represents as much as 70% of the total premiums underwritten.

Table 8. Domestic credit insurance premiums (m €)

	1995	1996	1997	1998	1999	2000	2001
Austria	21.7	23.6	25.5	24.8	26.7	26.4	
Belgium			37.7	40.8	42.6	47.7	50.1
Denmark			10.8	10.7	10.2	11.4	12.2
Spain	177.0	175.0	179.0	197.7	211.4	241.0	278.6
France			313.4	323.9	326.8	388.6	385.1
Germany		428.6	466.2	472.9	460.2	461.6	483.2
Greece		1.0	1.5	1.9	4.9	5.4	5.9
Italy			102.8	113.4	119.0	141.0	157.2
Portugal		12.7	13.1	13.2	19.7	22.9	25.7
UK			264.4	265.6	248.2	154.7	258.8

Source: CEPS.

Table 9. Export credit insurance premiums (m €)

	1995	1996	1997	1998	1999	2000	2001
Austria	21.0	25.4	29.9	32.4	33.9	37.5	
Belgium			26.7	30.2	30.3	34.5	36.2
Denmark			21.6	25.1	24.4	24.3	26.3
Spain	59.0	57.0	61.0	72.9	82.6	91.0	118.4
France	138.6	146.0	168.0	178.1	173.3	192.3	209.1
Germany		276.8	310.8	333.1	377.7	366.7	386.0
Greece		0.5	0.6	1.1	1.2	2.2	2.7
Italy			53.3	59.2	62.0	73.9	82.1
Portugal		8.43	8.9	9.3	9.4	11.2	11.7
UK			221.3	24.6	253.2	347.7	235.9

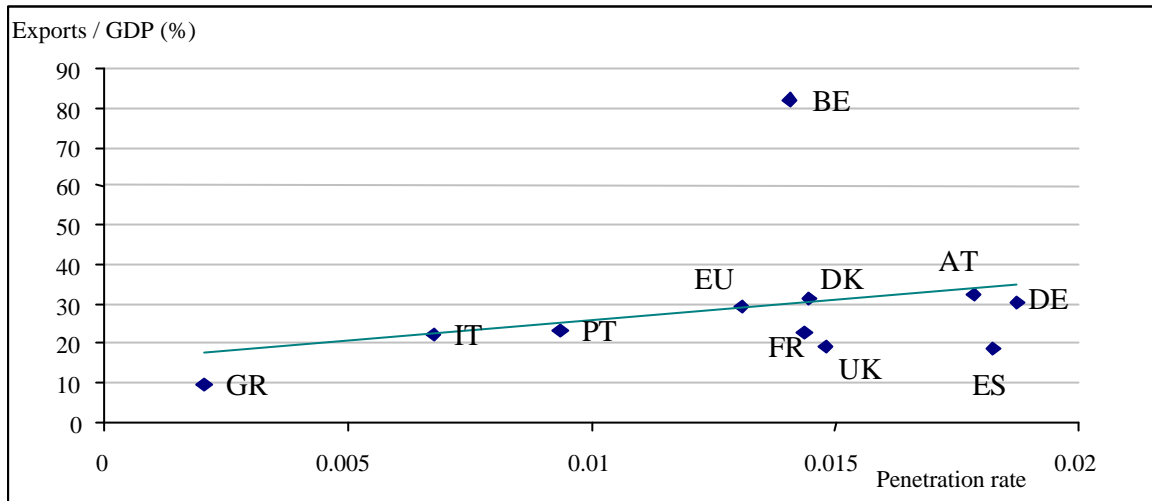
Source: CEPS.

Surprisingly it is not possible to identify a direct relationship between the relevance of exports in the economy and the use of credit insurance to cover these exports. It depends more on the development of the credit insurance market than on the magnitude of exports (see Figure 10).

In the past, credit insurers traditionally started operations to cover domestic markets, and then once they had developed sufficient expertise, they would move to insurer countries representing increasing risk. The formation of large international groups facilitated access to and exchange of information between local partners and as a consequence the assessment and management of export credit risk became less costly and efficient. The liberalisation of short-term credit insurance has led

to more competition in the export credit insurance market and therefore lower premiums have attracted business.

Figure 10. Correlation between the weight of exports in GDP and export credit insurance penetration



Source: CEPS.

The extreme case is Belgium, where exports represent 80% of GDP and the penetration rate of export credit insurance is similar to France, where exports only represent around 20% of GDP. Italy and Portugal, with similar levels to France of export business, have a much lower penetration of export credit insurance. The countries with a higher penetration of export credit insurance are Germany, Spain and Austria, with higher penetration rates than countries in their same range of export business.

2.3 Turnover covered

On average 14% of European GDP and around 20% of European exports are insured for the total of the countries researched. This is due to the fact that although the volume of premiums might be very similar for domestic and export business, in general, insured turnover is smaller in the export business. The fact that export premiums can be more expensive also has to be taken into account. Overall, slightly more than €1,000 billion of European GDP are covered, 35% of which correspond to exports (see Table 10).

The observation of the volume of business insured can also be used to compare the size of business insured. The large proportion of exports and GDP covered in the UK compared to the volume of premiums underwritten in Germany, France and Spain (in all cases superior to the UK) clearly indicates the tendency of UK insurers and brokers towards medium to large companies with large turnovers. The high percentage of exports covered also signals that UK exporting companies are well aware of the benefits of credit insurance and use it extensively for their export business in particular.

Table 10. Volume of business covered, 2001 (m €)

	Domestic	Export	Total	% GDP insured	% exports insured
Austria*	12,000	16,325	28,325	13.8%	25.3%
Belgium	20,000	18,000	38,000	14.8%	8.5%
Denmark	8,300	14,400	22,700	12.5%	25.5%
Spain	80,000	18,000	98,000	15.1%	13.8%
France	160,000	54,000	214,000	14.7%	16.4%
Germany	130,000	65,000	195,000	9.4%	10.4%
Greece	1,530	717	2,247	1.7%	5.8%
Italy	n/a	n/a	n/a	n/a	n/a
NL	n/a	n/a	93,950	21.8%	n/a
Portugal	7,000	7,000	14,000	11.5%	24.6%
UK	158,000	156,000	314,000	19.7%	50.9%
Total	576,830	349,442	1,020,222	14.4%	19.8%

*Y2000.

Source: CEPS.

2.4 Cross-border credit insurance

Cross-border credit is a marginal activity. There are indications that this type of underwriting is increasing, however, representing as much as 10% of premiums in the UK, and corresponding to 15-20% of total business insured. Also in Spain and Germany, premiums underwritten with foreign companies amount to up to 10% for certain insurers. In Finland, as much as 20% to 30% of credit insurance is underwritten by foreign insurers, who are also underwriting an important share of policies in Sweden and Ireland. Unfortunately, companies have not provided sufficient statistical data to allow us to look in-depth into the matter.

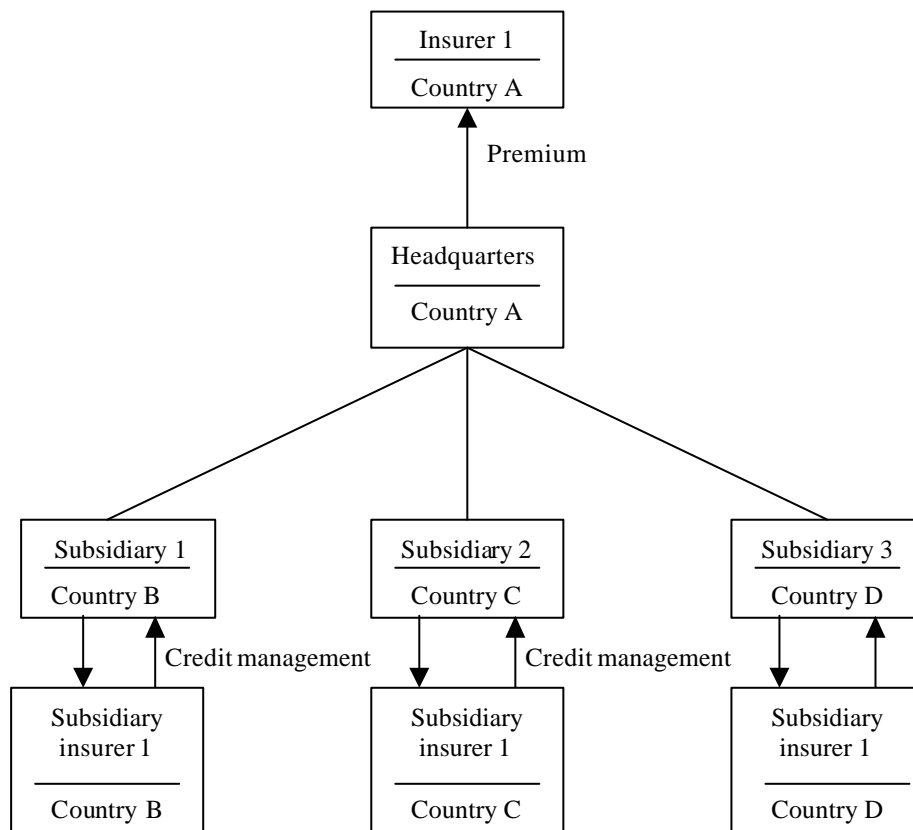
Evidence of the emergence of a EU-wide credit insurance market is restricted to the services offered to multinational manufacturers, which demand global group policies covering all their foreign subsidiaries. Few companies that are not large groups would decide to buy policies from credit insurers based abroad. Competition in the market is therefore within countries and not cross-border.

National markets play an important role for several reasons. First, since personal contacts are required during the customer acquisition phase and for policy handling, local presence is essential to the operation of credit insurers. Precise knowledge of the local business community is equally crucial. Second, even though multinational customers subscribe global policies, many of the subsidiaries of large groups sign additional sub-policies with subsidiaries or branches of the credit insurer in their territory. Third, as demonstrated by this study, the largest part of the portfolio in terms of number of policies and volume of premiums is the one represented by small- and medium-sized enterprises. These companies would not be inclined to take out policies with foreign groups, and do not have subsidiaries in other countries, but only export business. Therefore, the most common strategy for entering a market is to set up new branch offices in that market and to merge with or buy a local player.

The emergence in the past two years of three large groups has not encouraged the development of cross-border credit insurance. Whenever a company approaches an insurer in a foreign country, the foreign insurer will redirect the company to the local partner where the company is established. Neither the premiums nor the policies offered by insurers within a group, however, are the same in all countries, and the company does not have any choice but to accept or to reject the conditions offered by the local branch. Indeed, there is need for greater competition within the EU market in order to bring product innovation.

Even within global policies that involve large multinational groups, policies tend to be managed locally, i.e. if a Swedish company were to take out a credit insurance policy with credit insurer A in the UK, most probably the management of the policy would be transferred to one of the A group's insurers in Sweden, and local markets would be served by local insurers.

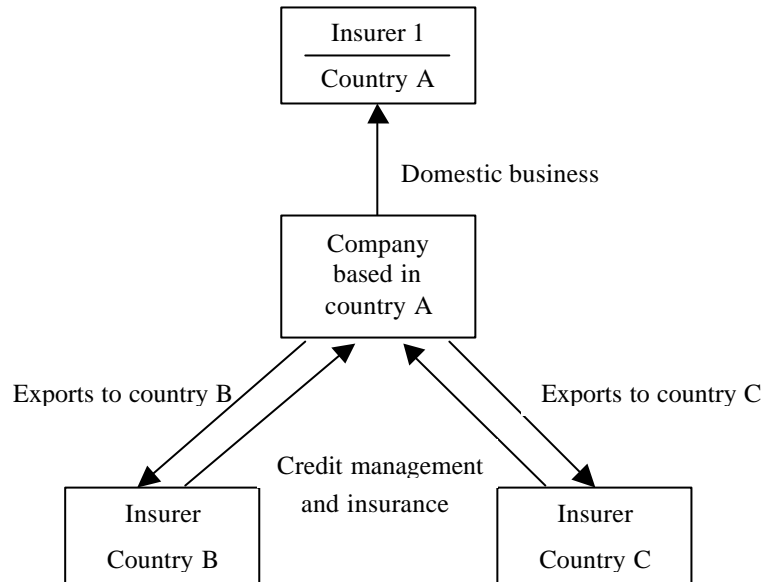
Figure 11. Management of global companies policies



Source: CEPS.

Another form of cross-border credit insurance involves ensuring trade with an insurer from the country of destination. For instance, a subsidiary of a German company located in Sweden and delivering goods to Germany might also buy credit insurance from Germany. Formally, the subsidiary is acquiring export credit insurance, but for the German credit insurer, it is like domestic insurance.

Figure 12. Local management of export business



Source: CEPS.

The kinds of advantages provided by selecting the most adequate policy and insurer regardless of where it is based are only available to large groups. Contracting for a policy in one country and managing the policy in a second one only creates extra administrative burdens for smaller companies.

CHAPTER 3

CREDIT INSURANCE AND SMEs

In Europe, small- and medium-sized companies are less frequent users of credit insurance than large companies, with the exception of Belgium and Spain – where small companies account for a large share of total insured companies. In countries such as Austria, Germany or the UK, the percentage of small companies insured varies from 4% to 7% of all the small companies in the economy, whereas for large companies it increases up to 37% in Austria and around 20% in the UK and Germany (see Table 11 and Figure 13).

Insurers recognise that small companies with a low turnover – less than € million a year – have greater difficulty to access credit insurance. (For the purpose of this study, micro enterprises, with an average turnover of €200,000 in the EU, are considered to be not insurable.)

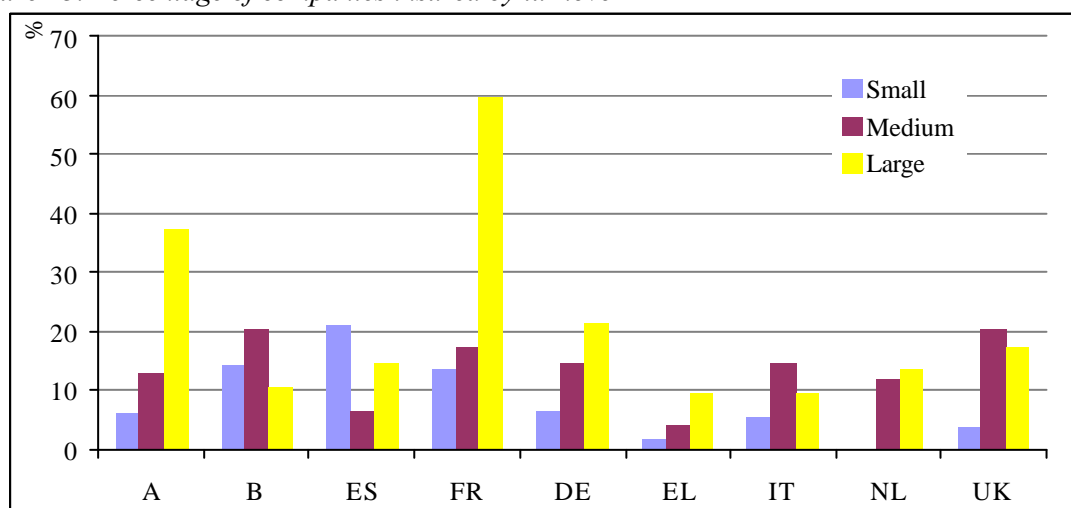
Table 11. Number of companies insured by turnover

	Small	Medium	Large	Total
Austria	1,750	750	450	2,950
Belgium	3,100	650	110	3,860
Spain	28,600	1,500	300	30,400
France	17,500	4,000	450	21,950
Germany	23,000	6,500	2,700	32,200
Greece	230	90	30	350
Italy	8,650	2,350	250	11,250
Netherlands	5,000	1,400	340	6,740
UK	6,310	5,280	1,170	12,760
Total	89,140	21,120	5,460	115,720

Total EU estimation: 130,000.

Source: CEPS.

Figure 13. Percentage of companies insured by turnover



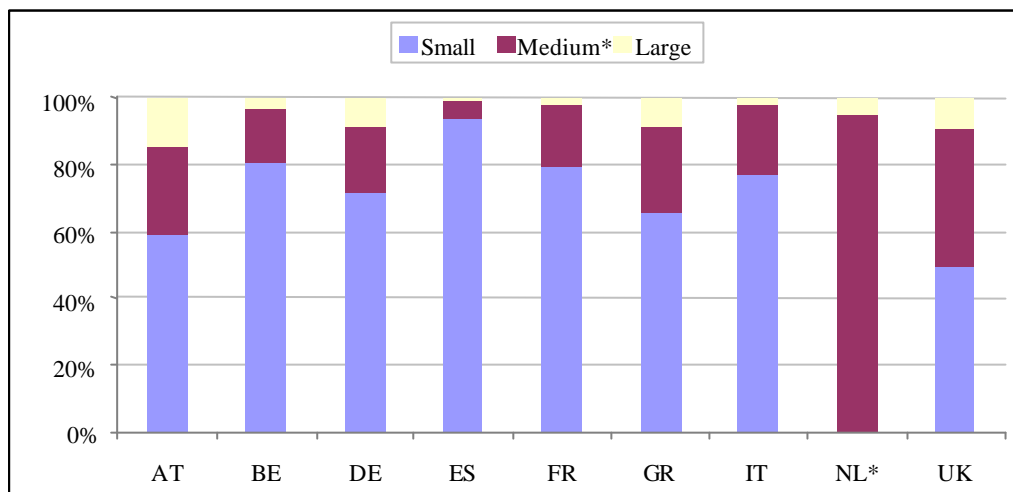
Source: CEPS.

Indeed, large companies are the preferred clients of insurers because they imply large volumes, good credit management practices and low administrative costs compared to the premiums paid by

them. Large companies are the main contributors to the volume of premiums underwritten by insurers and are also their main source of profits. Some credit insurers might strategically choose to work only with large or medium-to-large companies, refusing to insure smaller companies.

However, to achieve more than marginal activity, credit insurers need to address the smaller-size firm segments. In fact, in terms of policy numbers, small- and medium-sized enterprises represent at least 50% of all companies in insurers' portfolios with remarkable differences between countries. In the UK, SMEs constitute 50% of insurers' portfolios, whereas in Spain the proportion raises to 95% (see Figure 14).

Figure 14. Credit insurers portfolio by turnover



* Data under 'Medium' includes all SMEs.

Source: CEPS.

By contrast, in terms of volume of the premiums, large companies are the largest single source of revenue. For instance, in France only 12% of the companies insured are large, but they represent more than 40% of insurers' revenues. An even clearer example of the profitability of large companies is Belgium where large companies insured represent only 2.8% of the number of companies insured, but more than 30% of the revenues.

It is also clear that credit insurers' portfolios also reflect the structure of the industry in which they operate. In Spain, for instance, 94% of companies insured are small companies, which reflects the weight of small companies in the economy and the fact that there are only 2,600 large companies in the economy. The latter therefore do not represent sufficient business for Spanish credit insurers. Conversely, in the UK, with a large number of medium- and large-sized companies, credit insurers choose to concentrate in those sectors rather than in the smaller-scale sector.

The market for credit insurance among SMEs is largely undeveloped, with only a minor percentage of SMEs being insured (Austria, 7.29%, France, 15% and Greece, 1.8%) whereas the percentage of large companies insured reaches 50% (Austria, 37%, France, 50% and Greece, 10%). The obvious untapped potential of credit insurance for SMEs has led insurers to create special policies to address small business and to target different segments. For example, Euler's SME policy targets all companies under €10 million, whereas CESCE's (Spain) SME policy targets companies under €1 million.

3.1 Country profiles

3.1.1 Austria

Table 12. Key indicators of credit insurance in Austria

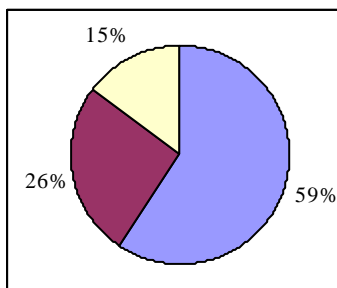
	1995	1996	1997	1998	1999	2000	2001
Premiums (€m)							
Domestic	21.74	23.63	25.46	24.83	26.67	26.43	n/a
Intra-EU	20.23	24.33	28.70	27.81	28.83	32.44	n/a
Other	0.82	1.07	1.25	4.59	5.03	5.05	n/a
Total market	42.79	49.02	55.41	57.23	60.54	63.92	n/a
Business insured (€m)							
Domestic	8,324	9,514	10,486	10,919	10,919	12,000	n/a
Intra-EU	8,185	10,301	12,457	11,768	12,488	14,425	n/a
Other	463	618	710	1,529	1,761	1,900	n/a
Total market	16,973	20,432	23,654	24,216	25,168	28,324	n/a
Market evolution (%)							
Premium growth		14.6	13.0	3.3	5.8	5.6	n/a
Excess premium growth over:							n/a
GDP		13.2	13.4	-0.6	1.5	1.4	n/a
Exports		11.1	3.2	-5.3	3.3	-10.4	n/a
SMEs and large companies							
		Small	Medium	Total SMEs	Large	Total	
Number of enterprises by size-class (1998)		28,668	6,033	34,701	1,164	35,865	
Number of companies insured by turnover		1,758	773	2,531	436		

The penetration rate in Austria is 0.03%, with the total share of GDP insured amounting to 13.82%. Almost 60% of premiums underwritten concern export credit insurance, which represents one of the highest coverage rates of exports in the EU, 25.3%, only exceeded by the UK (50.9%).

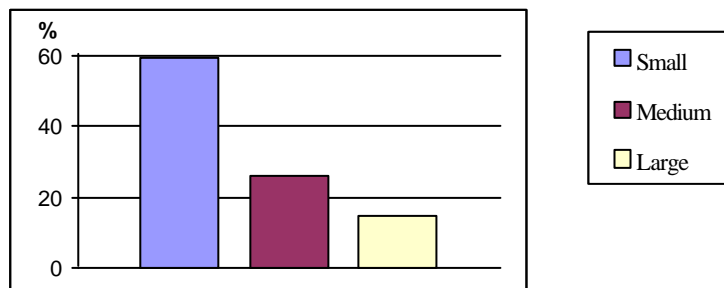
Austrian credit insurers clearly target large and medium companies, which overall account for more than 41% of their portfolios. The result is that more than 37.45% of large companies in the country are using credit insurance, compared to only 6.13% of small enterprises, one of the lowest figures in the countries studied.

Figure 15. Graphs depicting credit insurance in Austria

Credit insurers' portfolios by number of companies



Companies insured by size



3.1.2 Belgium

Table 13. Key indicators of credit insurance in Belgium

	1995	1996	1997	1998	1999	2000	2001
Premiums (€m)							
Domestic			32.38	36.67	37.35	42.50	45.46
Other			28.08	31.63	31.70	36.09	37.84
Total market			60.46	68.30	69.05	78.59	83.30
Business insured (€m)							
Domestic							20,000
Export							18,000
Total market	n/a	n/a	n/a	n/a	n/a	n/a	38,000
Market evolution (%)							
Premium growth				13.0	1.1	13.8	6.0
Excess credit insurance growth over:							
GDP				9.3	-3.9	8.4	2.5
Total exports				8.3	-6.9	-6.5	4.2
SMEs and large companies							
		Small	Medium	Total SMEs	Large	Total	
Number of enterprises by size-class (1998)		21,719	3,225	24,944	1,036	25,980	
Number of companies insured by turnover		3,100	650	3,750	110		

The penetration rate of credit insurance in Belgium is 0.0324%.³ The percentage of small companies insured in the country is one of the highest in Europe, 17.26%, only exceeded by Spain (21.06%).

Moreover, the proportion of SMEs insured, 15.03%, is higher than that of large companies insured. Indeed, only 10.61% of large Belgium suppliers are covered by credit insurance, which represents the lowest figure in Europe with the exception of Greece (but Greece has a significantly lower penetration rate and a less developed market).

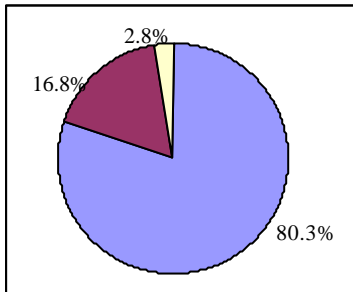
Exports play a more important role in the national economy in Belgium than in any other European country (in the study) representing more than 80% of GDP, yet the penetration rate of export credit insurance is lower than in countries such as Spain, Germany and Austria where exports do not represent the same weight. Therefore, the export credit insurance market in Belgium still has much potential to grow. Nevertheless, limitations in the data received prevent us from calculating what proportion of GDP or exports is insured.

SMEs in Belgium are well served by credit insurers compared with other countries; overall 15% of small- and medium-sized enterprises are insured in Belgium. One may surmise, therefore, that insurers in Belgium are more willing to work with SMEs than in other countries surveyed, as reflected in the fact that large companies carry the lowest weight in their portfolios. Large companies only represent 2.8% of the number of clients of credit insurers.

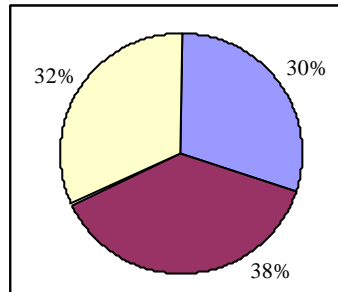
³ Responses to our survey were not sufficient to present a reasonable figure for business covered.

Figure 16. Graphs depicting credit insurance in Belgium

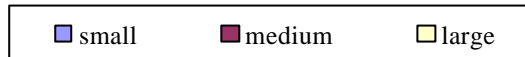
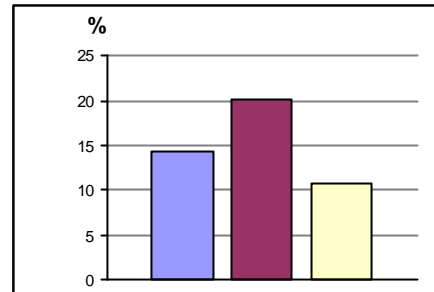
Credit insurers portfolio
by number of companies



Credit insurers portfolio
by premiums underwritten



Companies insured by size



Source: CEPS.

3.1.3 Denmark

Table 14. Key indicators of credit insurance in Denmark

	1995	1996	1997	1998	1999	2000	2001	
Premiums (€m)								
Domestic			10.79	10.66	10.75	11.79	12.63	
Intra-EU			15.46	18.00	18.47	18.18	19.44	
Other			6.09	7.11	7.01	7.03	7.71	
Total market			32.35	35.76	36.23	37.00	39.78	
Business insured (€m)								
Domestic						8,500	8,300	
Intra-EU						9,800	10,200	
Other						3,725	4,200	
Total market						22,025	22,700	
Market evolution (%)								
Premium growth				10.57	1.29	2.15	7.50	
Excess credit insurance growth over:								
GDP				7.28	-4.65	-4.39	3.16	
Total exports				8.81	-6.81	-14.65	2.27	
SMEs and large companies								
				Small	Medium	Total SMEs	Large	Total
Number of enterprises by size-class (1998)				14,983	2,613	17,596	538	18,134
Number of companies insured by turnover								

3.1.4 Germany

Table 15. Key indicators of credit insurance in Germany

	1995	1996	1997	1998	1999	2000	2001
Premiums (€m)							
Domestic		428.61	466.21	472.90	460.20	461.60	483.19
Other		276.82	310.79	333.14	377.70	366.69	386.00
Total market	654.60	705.43	777.00	806.04	837.90	828.29	869.19
Business insured (€m)							
Domestic							
Intra-EU							
Other							
Total market	n/a	n/a	n/a	n/a	n/a	n/a	276,000
Market evolution (%)							
Premium growth		7.8	10.1	3.7	4.0	-1.1	4.9
Excess credit insurance growth over:							
GDP		7.9	10.9	0.9	0.9	-3.7	3.1
Total exports		-4.1	8.2	-2.0	-2.6	-5.6	-10.4
SMEs and large companies							
		Small	Medium	Total SMEs	Large	Total	
Number of enterprises by size-class (1998)		348,877	45,133	394,010	12,643	406,653	
Number of companies insured by turnover		23,000	6,500	29,500	2,700		

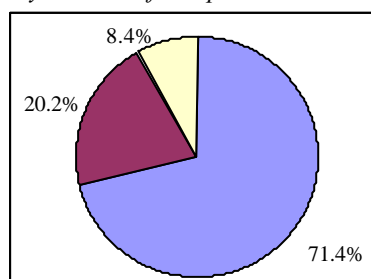
At 0.04210, the penetration rate in Germany is one of the highest in Europe, just below Spain. Insufficient responses by credit insurers do not allow an accurate measure of the business insured; it is estimated in the area of €276 billion.

The number of SMEs insured represents 7.48% of all SMEs in Germany, with big differences between medium, 14.10% and small, only 6.59%. On the other hand, as many as 21.35% of large companies in Germany are using credit insurance.

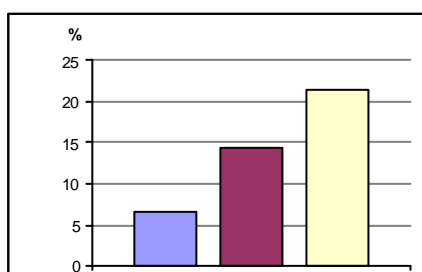
Despite the relevance of SMEs in the German economy, the potential for the development of credit insurance within the SME sector is largely untapped.

Figure 17. Graphs depicting credit insurance in Germany

Credit insurers portfolio by number of companies



Companies insured by size



■ small ■ medium □ large

Source: CEPS.

3.1.5 France

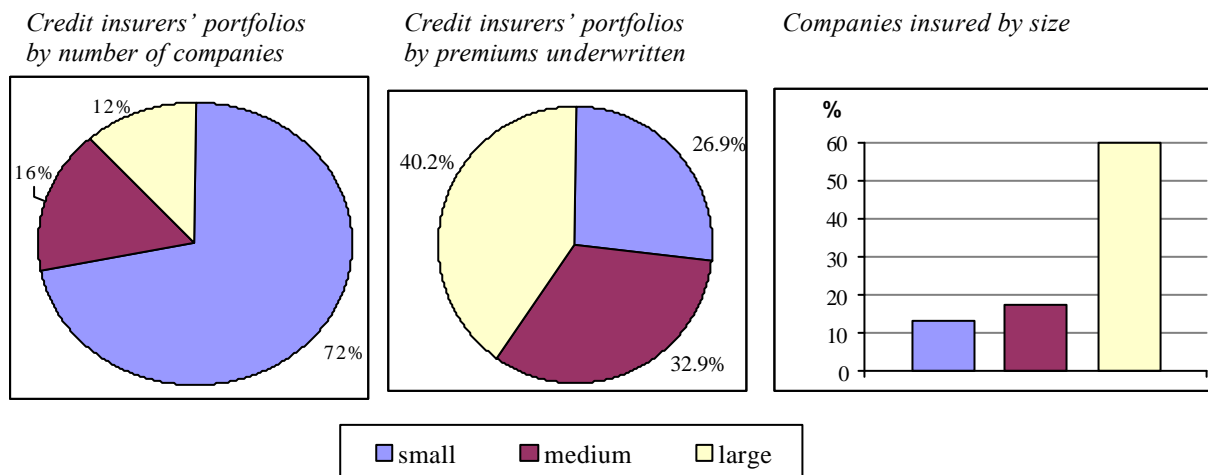
Table 16. Key indicators of credit insurance in France

	1995	1996	1997	1998	1999	2000	2001	
Premiums (€m)								
Domestic	n/a	n/a	313.43	323.88	326.79	388.55	385.08	
Other	n/a	n/a	169.48	179.93	175.81	194.98	211.84	
Total market	n/a	n/a	482.92	503.81	502.60	583.53	596.92	
Business insured (€m)								
Domestic			147,800	152,800	156,300	161,200	161,000	
Other			40,300	45,600	47,400	53,300	55,700	
Total market			188,100	198,400	203,700	214,500	216,700	
Market evolution (%)								
Premium growth				T	-0.2	16.1	2.3	
Excess credit insurance growth over:								
GDP					-0.2	-4.3	12.1	-1.2
Total exports					-3.0	-3.8	1.1	-0.8
SMEs and large companies								
				Small	Medium	Total SMEs	Large	Total
Number of enterprises by size-class (1998)				132,000	23,000	155,000	4,800	159,800
Number of companies insured by turnover				17,671	3,996	21,667	2,866	

France is one of the leading countries in credit insurance, with a penetration rate of 0.041%. Credit insurance covers 14.7% of GDP and 16.4% of exports.

The number of SMEs using credit insurance is around 22,000, which represents 15.19% of all SMEs in France. The smaller the company, the less it uses credit insurance: 13.48% of small companies and 17.37% of medium companies are insured. By contrast, more than 50% of large enterprises use credit insurance.

Figure 18. Graphs depicting credit insurance in France



Source: CEPS.

3.1.6 Greece

Table 17. Key indicators of credit insurance in Greece

	1995	1996	1997	1998	1999	2000	2001
Premiums (€m)							
Domestic		1.03	1.51	1.88	4.90	5.36	5.92
Intra-EU		0.43	0.48	0.89	0.87	1.73	2.23
Other		0.10	0.11	0.19	0.29	0.38	0.48
Total market		1.55	2.10	2.95	6.06	7.46	8.62
Business insured (€m)							
Domestic		261	293	768	1,253	1,530	2,006
Intra-EU		93	132	261	410	556	576
Other		24	35	68	94	101	143
Total market		378	460	1,096	1,756	2,187	2,725
Market evolution (%)							
Premium growth			21.9	138.3	60.2	24.5	24.6
Intra EU export			0.4	0.6	-9.1	4.5	7.7
Excess of premiums growth over:							
GDP			12.5	136.6	52.1	20.2	18.4
Exports			16.6	139.9	62.0	-1.3	20.6
SMEs and large companies							
			Small	Medium	Total SMEs	Large	Total
Number of enterprises by size-class (1998)			15,723	2,382	18,105	472	18,577
Number of companies insured by turnover			230	94	326	45	

The penetration rate in Greece is the lowest of the countries researched, 0.006%. The development of the market is rather recent. One of the main companies started operations only three years ago and already represents 50% of the market. The growth rate of credit insurance is the most remarkable in Europe.

GDP insured reaches 1.7% of GDP and exports insured are 5.8% of the total.

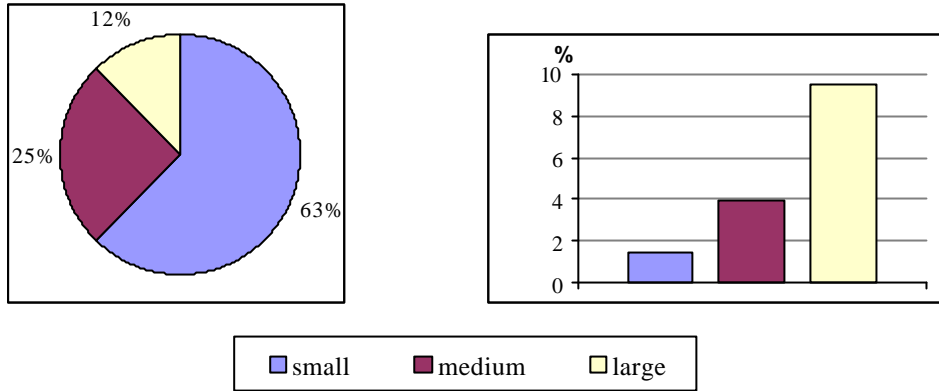
Greece is characterised by a large number of micro and small enterprises with an important share of total production. Only 1.8% of insurable companies contract credit insurance in Greece, and concerning micro and small SMEs it presents the same problems than other EU countries. The percentage of companies insured represents only 2% of Greek companies, including large enterprises. Overall, only a number close to 325 SMEs are insured in Greece.

The typical customer of credit insurers are small SMEs whose turnover is below €10 million. Companies with turnover under €1 million rarely use credit insurance. Credit insurers do not offer special policies for this type of company.

Figure 19. Graphs depicting credit insurance in Greece

Credit insurers' portfolios
by number of companies

Companies insured by size



Source: CEPS.

3.1.7 The Netherlands

Table 18. Key indicators of credit insurance in the Netherlands

	1995	1996	1997	1998	1999	2000	2001
Premiums (€m)							
Domestic							
Other							
Total market			193.57	188.52	177.07	181.37	190.67
Business insured (€m)							
Domestic							
Other						21.66	24.19
Total market			48.56	74.64	73.11	85.14	93.95
Market evolution (%)							
Premium growth				-2.6	-6.1	2.4	5.1
Excess credit insurance growth over:							
GDP				-8.3	-12.3	-4.9	-2.2
Total exports				5.5	-13.1	-20.5	0.6
SMEs and large companies							
			Small	Medium	Total SMEs	Large	Total
Number of enterprises by size-class (1998)			43841	9737	53578	2495	56073
Number of companies insured by turnover					6212	600	

The penetration rate of credit insurance in the Netherlands, 0.0443%, is among the highest in the group studied, alongside with Spain and Germany. Slightly more than 20% of GDP is insured. The number of SMEs insured is between 11.7%, but data provided by insurers do not allow differences to be drawn between small and medium firms.

It has to be remarked that intermediaries play an important role in the Dutch market (almost 80% of the NCM policies are sold through brokers or banks).

3.1.8 Portugal

Table 19. Key indicators of credit insurance in Portugal

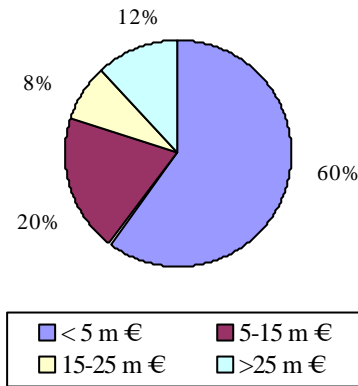
	1995	1996	1997	1998	1999	2000	2001
Premiums (€m)							
Domestic		11.40	13.09	13.18	16.10	20.06	25.70
Other		7.40	8.99	9.63	9.14	10.25	11.82
Total market	17.42	18.80	22.09	22.81	25.24	30.31	37.57
Business insured (€m)							
Domestic		1,667	2,203	2,865	4,837	6,675	8,679
Other		2,674	2,779	3,226	3,949	4,578	5,803
Total market		4,341	4,982	6,091	8,786	11,253	14,482
Market evolution (%)							
Premium growth			11.60	3.21	10.70	20.05	23.95
Excess credit insurance growth over:							
GDP			-1.7	-2.8	19.0	10.7	4.0
Total exports			-9.0	0.0	20.0	2.7	1.7
SMEs and large companies							
			Small	Medium	Total SMEs	Large	Total
Number of enterprises by size-class (1998)			40,202	6,168	46,370	870	47,240
Number of companies insured by turnover							

The penetration rate of Portugal is at present 0.03% with premiums growing at 23.95%. The recent high growth of credit insurance in Portugal represents the obvious benefits of increased market competition. One company in particular, the Spanish Crédito y Caución has developed its business, from a marginal level of participation in the Portuguese market in 1998, to close to 30% of the market in 2001, and it is accountable for a large part of the high growth of the market (more than 20% in 2000 and 2001). The knowledge of the Portuguese market acquired through the insurance of Spanish companies exporting to Portugal allowed Crédito y Caución to offer substantially lower premium rates that attracted new companies to the market.

Surprising results are reported for Portugal concerning the volume of business insured, which is rather high at 24.6% for export (similar to the Netherlands) and 11.4% for domestic.

Around 4,000 companies are insured in Portugal, representing slightly more than 8% of all companies in Portugal and 90% of the SME sector. No more precise figures on SMEs could be gathered from Portuguese credit insurers, except the results published (below) by one of the insurers with a market share close to 70%.

Figure 20. Percentage of companies in Portugal insured by turnover (1999)



Source: COSEC website

3.1.9 Spain

Table 20. Key indicators of credit insurance in Spain

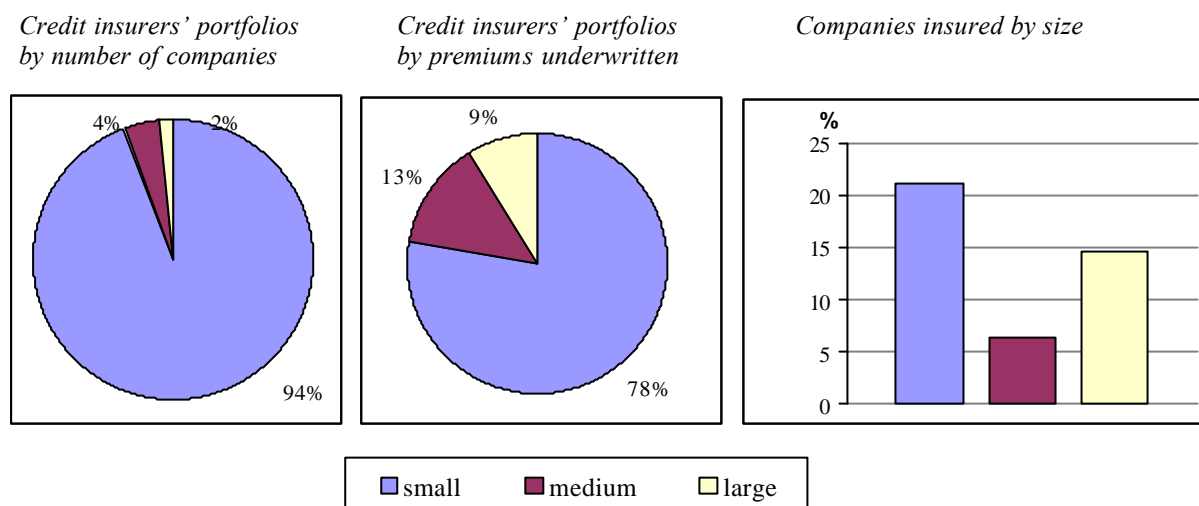
	1995	1996	1997	1998	1999	2000	2001
Premiums (€m)							
Domestic	177.00	175.00	179.00	197.70	211.40	241.01	278.58
Other	59.00	57.00	61.00	72.90	82.60	90.99	118.41
Total market	236.00	232.00	240.00	270.60	294.00	332.00	396.99
Business insured (€m)							
Domestic							80,000
Other							18,000
Total market							98,000
Market evolution (%)							
Premium growth		-1.1	2.3	10.4	6.9	14.0	15.6
Excess credit insurance growth over:							
GDP		-8.7	-0.9	4.4	-0.7	6.3	9.0
Total exports		-17.9	-14.8	6.4	-0.4	-3.5	9.2
SMEs and large companies							
		Small	Medium	Total SMEs	Large	Total	
Number of enterprises by size-class (1998)		110,233	14,681	124,914	2,621,000	127,535	
Number of companies insured by turnover		23,221	948	24,169	384		
Premiums underwritten by turnover		292.7	49.6	342.3	33.4		

The penetration rate of credit insurance in Spain is the highest in Europe. Due to the small size of companies insured in Spain, however, which means lower average turnovers, the turnover insured represents only 15.10% of GDP, and 13.8% of exports.

Small companies are by far the main client of credit insurers, not only in terms of numbers but also in terms of premiums paid to insurers. Overall 19.24% of SMEs in Spain are insured, of which 21.06% are small companies – the highest percentage in Europe. Belgium and Spain are the only two countries in Europe where a larger number of relatively small companies are insured than large companies, which represent only 14.65% of the total insured.

Spanish credit insurers do target small companies with a very low turnover, and they are also willing to work with start-ups. This more favourable predisposition towards the lower turnover segment is not only due to the characteristics of the market but also to the fact that the two largest credit insurers are owned (51% and 49%) by the state, and the provision of credit insurance to small companies is therefore part of their mission.

Figure 21. Graphs depicting credit insurance in Spain



Source: CEPS.

3.1.10 United Kingdom

Table 21. Key indicators of credit insurance in the United Kingdom

	1995	1996	1997	1998	1999	2000	2001
Premiums (€m)							
Domestic			264.4	265.6	248.2	254.7	258.8
Other			221.3	224.6	253.2	247.7	236.0
Total market			485.70	490.16	501.39	502.40	494.75
Business insured (€m)							
Domestic			161,086	165,985	135,692	170,126	158,499
Other			115,219	122,183	144,085	129,558	156,608
Total market			276,305	288,168	279,777	299,684	315,108
Market evolution (%)							
Premium growth				0.9	2.3	0.2	-1.5
Excess credit insurance growth over:							
GDP				-7.6	-5.3	-13.1	-4.2
Total exports				2.9	-1.0	-21.3	-2.9
SMEs and large companies							
			Small	Medium	Total SMEs	Large	Total
Number of enterprises by size-class (1998)			163,634	25,730	189,364	6,807	196,171
Number of companies insured by turnover			6,313	5,277	11,590	1,174	
Premiums underwritten by turnover							

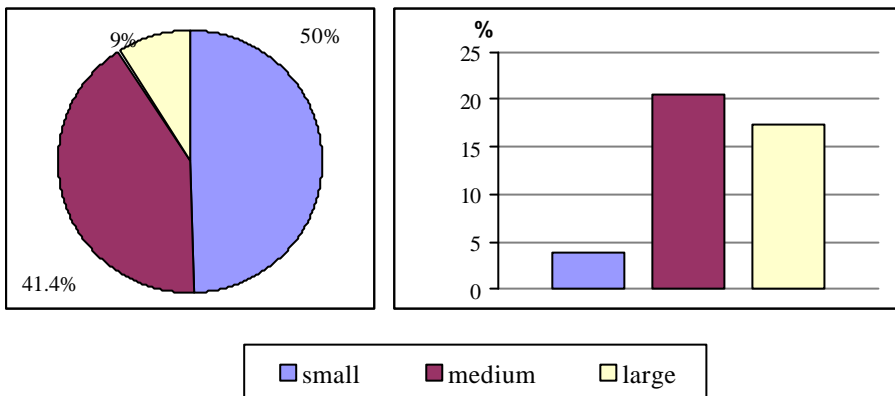
The penetration rate of credit insurance in the UK is 0.03%. The turnover covered represents 19.8% of GDP and an impressive 51% of exports.

The number of small companies insured in the UK is extremely low for a market with a well established credit insurance market, 3.8%, with a total ratio for SMEs that are insured is 6.12% (20.5% of medium-sized companies are insured). Large companies are better served and 17.24% of them use credit insurance.

Figure 22. Graphs depicting credit insurance in the United Kingdom

Credit insurers' portfolios
by number of companies

Companies insured by size



Source: CEPS.

CHAPTER 4

OBSTACLES TO THE DEVELOPMENT OF CREDIT INSURANCE FOR SMES

Several reasons act as obstacles to the expansion of credit insurance in the SME sector. On the demand side, the first factor is the additional cost represented by the premium to be paid – posing a burden that the company may not be willing to accept. Furthermore, as a result of a possible lack of awareness of the consequences of bad debt on the part of the entrepreneurs, credit insurance might only be considered as an extra cost, without any appreciation of the benefits it provides. Another factor is the additional administrative procedures that have to be put in place as required by the insurer in order to establish minimum credit management standards.

On the supply side, from the point of view of the credit insurer, small and new companies imply the dedication of more administrative resources and lower margins than larger insurees. Recovery and litigation costs for instance are relatively higher for smaller amounts. New companies pose a particular problem to insurers since they do not have a history of solid credit management and frequently prefer to grow by attracting new clients regardless of their risk profile. Small firms often have insufficient administrative resources to manage their receivables in a consistent way, focusing almost exclusively on collection procedures and failing to adopt further risk management practices.

There is also what can be called policy-induced obstacles, such as creditors' unfriendly legislation, provisions on repossession rights, divergent bankruptcy laws, access to public information, high taxes on credit insurance premiums and the lack of an effective single market.

4.1 The 'disengagement' process and the need for further liberalisation

Despite earlier efforts at liberalisation, there still existed in some EU countries in 1997 export-credit agencies operating on the account or with the guarantee of the State in parts of the short-term export-credit insurance market. Moreover, public intervention through public reinsurance agreements was also available to some insurers for certain business segments. This situation supposed a distortion of competition, disadvantaging private insurers that did not have such links with the State.

In 1997, the Commission published a Communication,⁴ the so-called 'short-term communication', requesting member states to end the granting of state aid to public or publicly supported export credit insurers with respect to business segments for which there was a commercial market. Those risks considered 'marketable' excluded medium- and long-term risks – more than two years – and all commercial and political risks for non-OECD countries. The Commission recognised that the definition of marketable risks was not immutable and might change over time. For example, it might be extended to cover political risks, and it should therefore be reviewed regularly.

The Communication also dealt with public reinsurance for the commercial market, which should also not be made on more favourable terms than those available from the private market. At present, state reinsurance support in the short-term field has declined sharply where the private reinsurance market now plays a major role. More and more short-term business is reinsured by a growing number of big reinsurance groups. These include Munich Re, Swiss Re, Axa Re, Capital Re, Hannover, ERC and Cologne Re.

⁴ Communication of the Commission to the Member States pursuant to Article 93 (1) of the EC Treaty applying Articles 92 and 93 of the Treaty to short-term export-credit insurance (97/C 281/03).

Indeed, the risks considered to be marketable are expanding, and nowadays the private sector is judged to be capable of handling commercial risks with respect to trade within OECD countries – the so-called ‘marketable’ risks.

In some countries like the UK and the Netherlands, private credit insurers underwrite all short-term risks. In others, where liberalisation has not yet been achieved, for instance in France, with a strong tradition of state support for exporters, the French state has largely retreated from the sector and now assumes risks on less than 20 countries considered not insurable by the private sector.

Deregulation and increased competition in credit insurance markets have widened the choice of cover options available for EU enterprises. It is clear that short-term business has continued to be increasingly insured by the private sector, and away from government accounts, for both commercial and political risks.

Table 22. European export agencies and short-term credit insurance (to be completed)

	Commercial risk		Political risk	
	OECD countries*	Non-OECD	OECD countries	Non-OECD
Austria	no	yes	n/a	yes
Belgium	no	yes	n/a	yes
Denmark	no	no	n/a	no
France	no	no	n/a	no
Finland	no	yes	n/a	yes
Germany	no	yes	n/a	yes
Greece	no	no	n/a	yes
Italy	no	yes	n/a	yes
Netherlands	no	no	n/a	no
Portugal	no	yes	n/a	yes
Spain	no	yes	n/a	yes
Sweden	no	yes	n/a	yes
United Kingdom	no	no	n/a	no

* As of 1 January 2002, commercial and political risks on public and non-public debtors in the core countries of the OECD – i.e. the EU member states, the US, Canada, Japan, Australia, New Zealand, Iceland, Switzerland and Norway – are defined as being marketable. (The European Commission’s Directorate General for Competition widened its definition of marketable risks.)

Source: CEPS.

Government-backed schemes still remain important in the short-term field in certain countries. We can see from the table above that short-term commercial risk in non-OECD countries is underwritten in some cases on the account of the state (i.e. Italy, Spain, Belgium and Austria).

Private insurers are also increasingly interested in covering risks previously considered non-marketable. There are indications that increasing international competition is driving private insurers to extend their risk portfolio to non-marketable risks. Some private credit insurers already underwrite political risks for ‘good’ clients, on a case-by-case basis. Countries such as the UK or Denmark have completely liberalised short-term credit insurance, and private insurers cover the totality of markets for both commercial and political risks. Covering political risks can be seen as an asset for the insurer. For instance, underwriting political risks may enhance a company’s image, and

rating companies also give higher rankings to insurers that provide cover also for non-marketable risks.

As mentioned above, the wave of mergers and acquisitions has possibly reduced competition in certain markets, dominated by one or two players with strong agents' networks. Since the mobility of customers is low in this market, as we have seen, the real competition takes places in the market for new companies. Brokers might have a role to play in this context. For instance, the sustained growth of credit insurance in Spain in recent years is partially attributable to the emergence of new brokers and to the process of agents becoming independent from credit insurers. Brokers, however, might also be tempted to behave more like agents and ensure gross profits from this method of operation.

The degree of competition within the credit insurance market can be established by comparing the distribution of credit insurance to the distribution of non-life insurance. In all countries, with the exception of France, the share of brokers is smaller than for general non-life insurance; accordingly, agents and direct insurance achieve higher shares in Belgium, Denmark, Spain and the Netherlands, which confirms the belief the specialisation acts as a natural factor reducing competition in the sector.

Table 23. Distribution channels of credit insurance and non-life insurance

	Non-life insurance				Credit insurance			
	Brokers	Agents	Direct insurance	Other	Brokers	Agents	Direct insurance	Other
BE	70	15	3	12	45	5	50	0
DK	15	0	40	45	10	10	45	5
ES	18	43	20	19	10	80	10	0
FR	19	39	2	40	76		24	0
IT	18	76	5	1	15	70	5	10
NL	60	0	20	20	30*	50**	20	0
UK	70	18	10	2	60	0	40	0

* Independent brokers inclusive of approximately 10% by banks acting as brokers.

** Includes banks' branded policies underwritten by insurance carriers.

Source: BIPAR and AON trade credit.

4.2 Cost of policies

The price of a policy depends on the turnover insured, the sector where the company operates, the credit risk history of the company, the existing credit management practices of the company and also the economic environment. Therefore, average premium rates are difficult to estimate. Nevertheless, real average premium rates in the market are around 0.35% of the turnover insured, a figure that can be sensibly higher for small companies – up to 1% or even more in present market conditions. In addition, certain insurers establish a minimum premium. From a relative point of view, however, credit insurance premiums are lower – in relation to the risk – than premiums for other types of insurance, such as fire insurance, which is compulsory for companies.

Credit limit consultation is a cost to be added to the premium. In general companies need to pay for every first consultation to obtain a credit limit and for the update on the credit limit applicable to their clients. Prices vary across EU countries from €5.2 to €74.37.

Table 24. Examples of prices for consultation on credit limits

Appl. for buyers in:	Belgium		Finland		France		Germany		Ireland		Sweden		UK	
	First Appl.	Maint	First Appl.	Maint	First Appl.	Maint	First Appl.	Maint	First Appl.	Maint	First Appl.	Maint	First Appl.	Maint
Domestic	7	5.2	35	35	14.8	11.4	35	35	16.1	16.1	35	35	16.1	16.1
Intra EU	13.6	18.6	35	35	25.9	20.5	35	35	19.4	19.4	35	35	19.4	19.4
North America	59.5	44.6	35	35	45.7	22.8	35	35	48.5	48.5	35	35	48.5	48.5
Rest of world	74.3	55.8	35	35	53.3	34.3	35	35	48.5	48.5	35	35	48.5	48.5

Note: Maint = maintenance.

Source: CRiON nv/sa.

The requirement to report continuously to the insurer on the development of the business and trade receivables makes credit insurance policies very expensive for small companies. Credit insurers demand the implementation of adequate risk management practices, which small companies often do not have in place and requires the recruitment of additional staff. Although the benefits of risk and credit management are obvious, it thus might represent a financial burden in the short-term.

There are other costs that have to be added to the total amount paid out by the company in relation to the policy. Recovery costs are often not included in the policy or only a part of them is reimbursed to the company. For instance, in Italy all insurers offer policies where the legal costs are paid by the insurers proportionally to the percentage of cover, whereas in Spain practices vary. In some policies, insurers would pay all expenses proportionally, but also depending on the country where the debtor company is based, in other policies the expenses have to be fully borne by the insured.

These elements make it very difficult for the insured to know the total costs associated with any particular policy at the time of subscribing. At the present time, not many insurers are offering flat premiums and flat fees that comprise all credit limit consultations that the company might engage in. This could be an attractive solution for small companies.

A big disadvantage of credit insurance that can also be relevant in terms of costs is the long length of time that can exist between the period in which the invoice is unpaid and the time of payment of the indemnity by the insurer. If the amount unpaid is a large sum, a small company can run temporarily into financial difficulties. Countries with longer payment periods and longer payment delays tend to also have longer periods for indemnity. Within a country, however, the practices can vary considerably according to the insurer. The example of Spain as shown in the Table 25 serves to illustrate this variety:

Table 25. Example of reimbursement in different policies in Spain

Insurer A	Amount	Reimbursement
Commercial risk:		
Bankruptcy or similar legal form	100% cover	10 days after court ruling
Protracted default	100% cover for debtors in group A	6 months after introduction of file to the insurer
	60% cover	6 months after introduction of file to the insurer
	40% cover for debtors in group B	11 months after introduction of file to the insurer
If the goods cannot be recovered	60% of cover	6 months after introduction of file to the insurer
Political risk:		
Bankruptcy or protracted default	100% cover	6 months after introduction of file to the insurer
Insurer B	Domestic	50% 50%
	Export	100%
		after 6 months after 12 months after 6 months
Insurer C	Domestic	Defaults < €12,000 100% cover
		3-6 months after introduction of file
		Defaults > €12,000 100% cover
		6 months after introduction of file
	Export	100% cover for debtors in group 1
		3-6 months after introduction of file
		100% cover for debtors in group 2
		3-6 months after introduction of file
Insurer D		100% cover
Insurer E		100% cover
Insurer F		100% cover
Insurer G		100% cover
		6 months after introduction of file 5 months after introduction of file 6 months after due date 6 months after introduction of file

^{a/} Countries in group A: Germany, Austria, Belgium, Canada, Denmark, US, Finland, France, Greece, Ireland, Italy, Iceland, Japan, Luxembourg, Norway, the Netherlands, Portugal, United Kingdom, Sweden, Switzerland, Austria, New Zealand.

^{b/} Countries in group B: Those not included in group A.

^{c/} Group 1: All EU countries.

^{d/} Group 2: All insurable countries not in group 1.

Lastly, credit insurers, especially in difficult market conditions such as exist at present, will harden the conditions of policies. For instance by establishing excess cover clauses, they will also reduce the credit limits granted for the coverage of credit to clients (not unusually down to zero), thereby, reducing the amount insurable of the total turnover and the risk level.

It is difficult for companies to change insurer, however. There are certain costs that discourage a company from changing to a more competitive policy and also reduce competition in the market, including the following:

- costs related to the e-infrastructure particular to an insurer. The insured will have to adapt the IT system of the present insurer to the new insurer and will have to train the workforce to operate with the new system, and
- costs related to the recalculation of all credit limits granted by the previous insurer.

Therefore it is very difficult for the company to amortise these costs, which might absorb the benefit of a lower premium rate.

Apart from the above-mentioned cost elements, there are other factors that can also influence the cost of a policy. Those are bankruptcy legislation and creditors rights, which will be treated below.

4.3 Divergent bankruptcy regulations

The role of creditors in bankruptcies and the distribution of the bankrupt company's assets are relevant to credit insurers covering debts affected by the bankruptcy. The diversity of regimes appears to explain the lack of cross-border credit insurance. The cost and the length of bankruptcy procedures also affect the provision of credit insurance to small companies, especially from a cross-border perspective.

The credit insurer will be involved, for instance, in the negotiation of legal arrangements, including corporate financial reconstruction plans and arrangements of compromise extending to final insolvency proceedings. At present legal procedures and lengths vary across EU countries, and insurers have to resort to specialists in all the different legal environments.

The risk of the insurer is higher in cases of bankruptcy where all outstanding debts will be lost. In most of the EU, the law determines the priority of payment, with provisions to pay in the first place, after employees, owners of securities, privileges, floating charges and rights of ownership, followed by a pro-rata payment to the other non-preferential creditors, which is the case of commercial creditors (see Table 26 below). The latter sometimes receive no payment after the preferred creditors have been paid.

It is worthwhile underlining that events of bankruptcy do not result from strictly mechanical processes. They are influenced by the behaviour of the debtor company and that of the court, especially regarding the duration of the procedure and the assessment of the debtor's situation vis-à-vis the creditors. A regularised system of credit should be supported by mechanisms that provide efficient, transparent and reliable methods for recovering debt, including seizure and the sale of immovable and movable assets and sale or collection of intangible assets.

Some national regulations are more creditor friendly than others. For instance, it is relatively easy in the Dutch system for trade creditors to have defaulting credits declared bankrupt in a procedurally simple and fast way, compared to other countries. In this way, the threat of bankruptcy can be a powerful tool for trade creditors.

The cost of bankruptcy procedures also affects credit insurers. The relevance of litigation costs can be proportionally very high, especially in cases when a foreign company is involved or for small amounts with small companies or retailers. These expenses are proportionally lower in insolvency cases for commercial credit among large companies that normally end in a bankruptcy procedure.

Table 26. Distribution of assets in a bankruptcy procedure

Austria	Following the distribution plan drafted by the bankruptcy administrator and approved by the creditor's committee
Belgium	Secured claims prior to others
Denmark	Distribution following a specific order
Finland	Secured claims prior to others
France	Distribution following a specific order (waged workers, then legal expenses, then creditors with mortgages or pledges...)
Germany	Special rules of distribution: right of ownership first, secured creditors and others afterwards
Greece	Priority to secured creditors and settlement with creditors on distribution
Ireland	Distribution following a specific order (preferential and secured creditors first)
Italy	Liquidation bankruptcy and compulsory administrative liquidation: - Specific order (preferred and secured creditors first) Extraordinary administration: - Specific order
Luxembourg	Specific order
Netherlands	Secured creditor may exercise its rights as if there were no bankruptcy Suspension of creditor's execution measures only if 'cooling-down' period ordered
Portugal	Specific order
Spain	Secured creditors first and proposal by the debtor on ranking and classification of debts (to be approved by the creditors' meeting)
Sweden	Secured creditors first
United Kingdom	Creditors secured by a fixed charge or mortgage first, then liquidator, preferential creditors

Source: Philippe and Partners (2002).

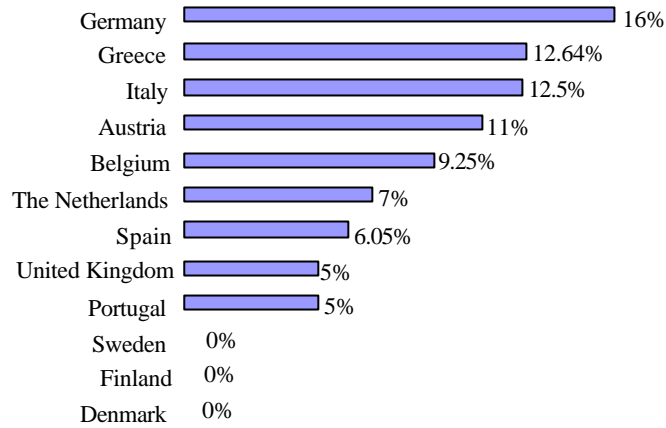
Repossession and retention of title is another important element of creditors regulation for credit insurers. Retention of title works very efficiently in Germany, whereas in other countries, such as Italy, the retention of title can only be opposed by third parties if the retention has been registered in the public register. This is a common practice for medium-term business and capital goods but rarely for short-term deals.

4.4 Taxation of credit insurance in the European Union

Taxes paid by credit insurance policy-holders vary among EU countries (see Figure 23 below), and between export and domestic policies. These taxes are paid to the host country. The advantages of shopping cross-border are often offset when the tax regime of the country or residence of the policy-holder is oppressive. The present credit insurance tax framework hinders cross-border operations of insurers and brokers and therefore reduces the potential for the completion of the single market.

For instance, an insurer based in Germany that wants to offer an attractive policy to a close-by Danish company with an insurable turnover of €15 million will have to reduce its premium income by at least €7,200 (based on a premium rate of 0.35%, which represents a premium of €52,500).

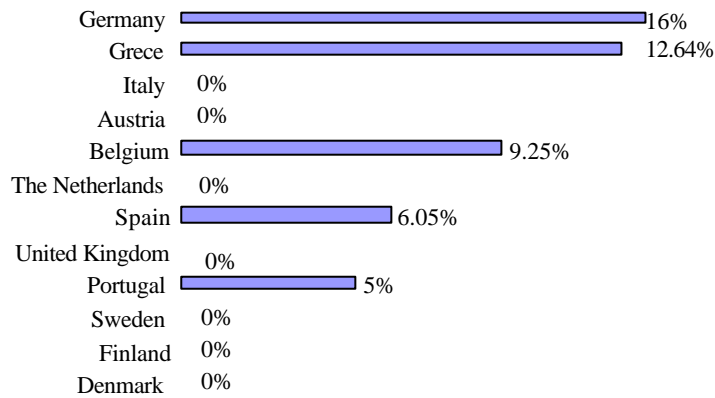
Figure 23. Tax rates on domestic credit insurance in the EU countries



Source: Credit insurance companies.

Since taxes on export and domestic credit insurance differ, the German insurer will also see its competitiveness reduced in the export credit insurance markets of neighbouring countries such as Austria and Italy (see Figure 24 below).

Figure 24. Taxes on export credit insurance



Source: Credit insurance companies.

Further harmonisation of taxation of credit insurance would benefit the completion of an effective single market.

Moreover, compared to alternative products such as factoring, credit insurance is disadvantaged since there are no taxes, apart from VAT (which is recoverable then by the company), applicable to factoring.

4.5 Entrepreneur's perceptions

Ignorance of the risks, misplaced trust or negligence are the main causes that prevent SMEs from buying credit insurance to cover losses on credit sales. One could also add the lack of 'modern management techniques' and a continuation of the traditional approach to insurance.

Thousands of companies fail each year, but these failures generally represent a small fraction (1 to 2%) of total companies operating in the economy in any one year. For this reason, the perception of the credit risk and the costs involved – not only in terms of premiums but also of disclosure and risk management – are not sufficient to stimulate greater product penetration (i.e. premiums as a percentage of GNP, which is a fraction of 1% in most countries).

Despite the possibilities offered by credit insurance as a counter-cyclical factor, credit insurers confirm that keeping revenues up and growing in bad economic cycles is hard. Companies faced with pressure on revenues and profits during downturns are tempted to reduce expenses, including credit insurance premiums. Companies would look to improve internal credit management and save the cost of credit insurance, especially in cases where the company did not face a single customer bankruptcy and therefore had no basis for reimbursement from the insurer. Managers look to their recent record of bad debts and seeing a positive evolution in good economic times, they feel confident of the repayment of their commercial credit without credit insurance.

SMEs are confident of their ability to judge their buyers' ability to repay. But the real problem is not merely the knowledge of the financial difficulties of a trading partner, but the awareness of whether or not an error in judgment is going to be critical to the profitability and the financial viability of the self-insured company itself.

For many of the credit insurers consulted for this study, the main problem for the development and expansion of credit insurance was the entrepreneur's attitude towards risk management and the lack of knowledge of the product, which for many SME managers is a financially sophisticated product.

The difficulty and length of the process for concluding the contract with the insurer are important for SMEs, especially the smallest, which very often do not have with a sufficiently trained credit-risk managers and approach risk management from a narrower perspective. Very few SMEs realise the potential to receive preferential treatment by banks, in terms of interest rates and access to bank loans, that credit insurance could bring to them.

Education and marketing of the product are the main obstacles that credit insurers face in expanding the use of credit insurance.

4.6 The attitude of banks and the impact of the new Basel Capital Accord

The perception of credit insurance by bankers varies widely in different European countries. The positive attitude of Dutch bankers for example has certainly contributed to the development of credit insurance. Bankers often advise companies to subscribe to a credit insurance policy and have their own network of brokers that offers branded policies tailored specifically for a particular bank. On the other extreme is Italy, where banks have only recently become more knowledgeable about credit insurance. In the past, credit insurance was regarded as a weak product that did not bring any added value to the risk profile of a company.

Recently, governments, banks, and small- and medium-sized enterprises have expressed concern about the impact of the new Basel Capital Accord on lending to SMEs. The Basel Accord has become a key issue for SMEs as it can be argued that relations between banks and businesses will be partly determined by prudential rules imposed upon banks by the Basel Committee. Basel may

change the way bank lending is conducted: banks will look more closely into operations of SMEs and the financial information provided by them, they will examine the risk represented by a SME's clients and the distribution of its client portfolio. In general banks will tend to monitor borrowing more closely by their SMEs. The use of credit insurance by SMEs can be one of these sources of information.

The new proposed framework will lead banks to modify their current rating system to be more sensitive to risk, and capital requirements will therefore be adapted to reflect the risk of the credit portfolio (at present, all types of business credit are weighted in a uniform way). Since SMEs are considered a high class of risk, capital reserves to be set up by banks for the SME portfolio will most likely be increased, a cost that will ultimately be translated in to the cost of borrowing to SMEs, since the conditions to obtain bank finance will become more difficult.

Many argue that the real cost of the implementation of Basel for SMEs is not so much in terms of capital requirements, but in the operational costs, which may result in increasing costs to be internalised in the cost of loans to SMEs.

One argument in favour of the Basel Review is that it is the illiquid character of SME loans that gives them special risk characteristics for banks and borrowers, and that therefore Basel has the aim of making them more liquid, instead of preserving the information secrecy inherent to the SMEs-bank relationship.

The risk of a bank's portfolio of SME loans will be lower if guarantees are taken into account. The Basel agreement does not mention credit insurance itself as a credit risk mitigation technique. Credit insurance is an instrument for reducing risks that is often accepted by banks as well as a credit enhancement tool in securitisation contracts, especially when the bank is the policy-holder. However, the general acceptance of credit insurance as a guarantee by the Basel Committee presents problems. The main obstacle cited by banks and supervisors is that credit insurance does not fulfil the conditions of a guarantee, which should be unconditional. Credit insurance is conditioned on the compliance by the insured with certain risk-management practices, if these are not satisfactory, the policy and therefore the insurance are no longer valid, and banks are deprived of the guarantee.

Although credit insurance is not unconditional, underwritten risks, once accepted, are irrevocable, direct and explicit (ICISA, 2001). The conditionality solely depends upon the good performance of the insured. Therefore, the credit enhancement effect on the credit insurance policy should not be underestimated.

However, the last draft of the Basel proposal establishes conditions for the acceptance of receivables as collateral under the internal ratings-based (IRB) foundation approach. These conditions are:

- To establish a 'sound process for determining the credit risk in the receivables', which should include the analysis of 'the borrower's business and industry and the types of business with whom the borrower does business'. It also requires that 'where the bank relies on the borrower to ascertain the credit risk of the customers, the institution must review the borrower's credit practice to ascertain its soundness and credibility'. It would be very unrealistic to expect bankers to be able to check upon the clients of all their small borrowers. It is in this context that credit insurance can play a decisive role in facilitating this task for banks by offering adapted quality products.

- It is also required that the ‘institution (bank) must maintain a continuous monitoring process that may include ageing reports (listing receivables by customer name, balance outstanding and current payment status), control of trade documents ... control of the proceeds of accounts paid ... especially in the case when a small number of large-sized receivables are taken as collateral’.

Such conditions can be met by all companies, not only large groups, with the help of credit insurance. Some insurers are already offering products that enhance the guarantees to bankers. One of the pioneers is EULER’s *Bankers Endorsement Scheme*. The scheme provides an on-line policy performance monitoring service, by which the bank is fully advised of all key policy details, such as the outstanding limits, state of claims or amounts overdue by buyers. Other companies have also developed similar practices.

4.7 Access to public information

The difficulty of establishing effective information networks, distribution systems and service networks are the greatest barriers to new entrants (Moody’s, 2000) and therefore account for the low competition in the market. It takes time to develop a stable network to provide all the services that constitute credit insurance since the business is as much about providing credit management services as about providing loss indemnification. Long-established credit insurers have proprietary knowledge about the buyers, extensive databases, systems to process credit limit requests quickly, experienced personnel, distribution channels to support company sales forces, and debt collection services and relationships with law firms to take legal action when needed.

CHAPTER 5

CONCLUSIONS

We present in this report a comprehensive picture of the development of credit insurance in Europe and identify opportunities and obstacles to its expansion, paying special attention to small- and medium-sized companies. Our conclusions are the following:

- *Credit insurance is a poorly researched field compared to other areas of insurance.* Only a few organisations such as the International Credit Insurance and Surety Association, the Pan-American Surety Association and the reinsurer SwissRe systematically collect data, although this is only restricted to the evolution of premium income in the different countries. There has been no attempt to study the links of credit insurance with the small-firm sector, for example. Given the high concentration of the market, companies are very cautious about releasing information that might reveal their portfolio, business strategy or market share. Research is also hampered by the fact that the recording systems of credit insurers do not allow for the collection of data by the size of companies insured, nor lay volume insured or premium rates.
- *Evidence of the emergence of an EU-wide credit insurance market is restricted to large multinational groups,* which demand global group policies covering all their foreign subsidiaries. Knowledge of the local business community and personal contacts during the customer acquisition phase and policy handling justify the present market segmentation at national level. Cross-border provision of credit insurance services remains somehow a marginal activity, although there are indications that this type of underwriting is increasing, representing as much as 10% of premiums for credit insurers in the UK, Spain and Germany. In Finland, as much as 20 to 30% of credit insurance is reported to be underwritten by foreign providers, while they also play an important role in Sweden and Ireland.
- *There is no geographical model in the development of credit insurance,* with the most developed markets being Germany, Spain, the Netherlands and France. These countries continuously have the highest penetration rates in credit insurance, although the growth of premiums there is low or stagnating, with the exception of Spain. The second group includes the UK, Belgium and Austria. Countries at the lower end of the table, with low penetration rates and a recent market development, such as Portugal and Greece, are experiencing very high premium growth due to the entrance of new players in those markets.

Credit insurance growth has been traditionally concentrated around the large credit insurance groups, Euler and Coface in France, Gerling NCM in Germany, the Netherlands and the UK, and Hermes in Germany, which only later expanded their businesses to Portugal and Greece. A particular case is Spain, where the three main credit insurers do not belong to international groups and the state is the major shareholder of two of them.

- *The use of credit insurance by SMEs in Europe differs significantly between markets.* In Spain, for instance, 25% of small companies use credit insurance, representing 94% of the credit insurers' portfolio and close to 80% of their income. The reverse can be found in Austria, where only 7.3% of small companies use credit insurance compared to 37% of large companies. In all the countries surveyed, the larger companies are the preferred customer of credit insurers, where large volumes and good credit management ensures the profitability of policies, despite the fact that single claims can represent important amounts.

Giving the inadequacy of securitisation as a risk-diminishing instrument to be used by smaller- and medium-sized enterprises, credit insurance is, for the time being, the only instrument that can assist

SMEs to reduce the risk of their receivables portfolio. However, the expansion of credit insurance within the segment of smaller companies, despite being the sector with more development potential, seems rather difficult in the present economic situation. The events of 11 September put insurance companies under pressure, and the bankruptcies of several large companies have triggered bad debts among small companies. Credit insurers are therefore readjusting their portfolios at present. Low-profitability policies with small companies have been cancelled, and insurers increasingly target medium and large companies.

Looking ahead, credit insurance can play an important role in the context of the new Basel Capital Accord for the small- and medium-sized sector. The last draft of the Basel proposal establishes conditions for the acceptance of receivables as collateral. These conditions demand ‘sound process for determining the credit risk in the receivables’ on the part of the company, and the ability of the bank to assess the credit risk of the customers to the borrower in order to ascertain the borrower’s soundness and credibility’. It is also required that the bank maintains a continuous monitoring process of the commercial credit risk of the borrower. Such conditions can be met by all companies, not only large groups, with the help of credit insurance. In this way, credit insurance can facilitate implementation of Basel by providing banks with instruments that can be recognised by supervisors as effective risk diminishing practices.

On the basis of these conclusions, we put forward the following policy recommendations:

- *To the private sector.* The most important handicap to the expansion of credit insurance within the small- and medium-sized sector remains the lack of awareness of the dangers of bad debt and the benefits of good credit management practices. In this area there is room for action from credit insurers in the marketing and adaptation of policies to the SME segment.

An excellent example of developments in the above-mentioned direction is the design of policies that bring enhanced guarantees to the bank lenders. For instance, the bank can be the beneficiary of a policy, minimising the risk that a company cannot repay the loan or the cash advances due to cash-flow or liquidity problems originated by the appearance of large bad debts. This is a common practice in countries such as Spain, where in some cases the payment of the indemnisation to the company is subject to the approval of the bank.

Also the simplification of policies or facilitating the mobility of policy-holders from one insurer to another would help to develop the market and increase competition.

- *To the public sector.* There are numerous policy-induced obstacles to the development of credit insurance that could be reduced. These obstacles relate to unattractive creditor legislation, provisions on repossession rights, divergences in bankruptcy laws, access to company information or high taxes on credit insurance premiums. Further liberalisation of the short-term credit insurance sector might also be desirable.

The study has considered the possibility of public intervention to make credit insurance more accessible to the small-firm sector. Since credit insurance is the insurance sector that currently cedes a high number of premiums to reinsurers (more than 50% on average), public re-insurance or public-private collaboration in this area could be a possibility. Public or subsidised re-insurance could reduce premium rates significantly (rough estimations indicate up to 20%) and it could be provided for SMEs bundled in groups. At this stage, a lack of statistical data on the composition of premium rates hinders the appraisal and quantification of this action. Equally, the impact of this scheme on small enterprises is difficult to foresee.

Since one of the main problems mentioned is the lack of awareness of SMEs and entrepreneurs, the EC could become involved by sponsoring initiatives to raise awareness.

The market would welcome initiatives that acknowledge the beneficial impact of good credit management of small- and medium-sized companies. For instance, the mention in the annual report of the use of credit insurance, or the inclusion of measures that can act as early warning signals for the worsening bad debt accounts and poor credit management would be desirable. It has to be kept in mind that for companies with a few big customers the bankruptcy of those can threaten the existence of the company. At present, in Germany the workers council, *Betriebsrat*, can demand the management team the subscription of a credit insurance policy as an essential element to the continuity of the company.

ANNEX 1

Methodological Notes

The study is based on a questionnaire addressed to 32 credit insurers in Europe. This figure includes national branches or subsidiaries or large groups. 25 responses were received.

Data on premiums have been calculated on the basis of responses complemented with data published by national insurance organisations, ICISA, and the annual report of companies. Responses represent at least 80% of national markets.

Data on turnover insured are constructed on the basis of responses and data published by national insurance organisations and companies' annual reports. Responses represent in most of the cases 60% of national markets, unless indicated otherwise in the relevant section.

The rate of responses concerning credit insurance and SMEs is lower than for the other fields. This study has collected data that represents at least 70% of national markets. Information for Italy and Belgium represents around 50%. In these cases, due to the differences between insurers' portfolios, the figures presented might not be fully accurate. Information on SMEs in Denmark is largely based on the estimation of one insurer. Information on the Netherlands might lack comparability due to different criteria used by credit insurers for the classification.

The study initially encompassed research of cross-border activity and the evolution of claims in EU countries. The low rate of response in these fields, however, did not allow for a comprehensive treatment of these issues.

Data received by country were analysed with the help of AON brokers through telephone conversations and meetings.

The questionnaire forwarded to credit insurers is reproduced below.

Questionnaire to Credit Insurers

Data to be provided:

- 1) For the quantification of the credit insurance market in the EU countries:
 - Gross premiums underwritten per year since 1995, and
 - Estimation of the volume of business insured by the premiums.
- 2) To present a picture of the risks covered by credit insurance:
 - Volume of business covered in different countries (domestic, intra-EU, OECD)
 - Numbers of claims paid out in domestic policies (intra-EU and OECD)
- 3) To investigate the market of credit insurance for SMEs:
Breakdown of data according the following segments:
<€10m turnover €10-20m €20-40m >€40m turnover
 - Estimation of gross premiums underwritten by SMEs
 - Number of SMEs underwriting a credit insurance policy
- 4) For the quantification of cross-border credit insurance activities:
 - Premiums underwritten by companies of a foreign country

Please note that:

- Figures requested refer only to business carried out by your company in your country.
- Data should only represent commercial credit insurance national, intra-EU and other, excluding guarantees and bonds.
- In case your company has not statistically recorded the requested data, we would appreciate your providing us with an indicative estimation. When doing so, please state that to be the case.

ANNEX 2

Premiums and penetration rate by country from different sources (premiums /GDP, 2000)

	Premiums (€million) SWISS RE	Premiums (€million) ICISA	Penetration rate (%) SWISS RE
EU			
Netherlands	209		0.057
UK	370	479	0.026
Spain	287		0.051
Germany ^a	923	1184	0.049
France	572	663	0.044
Finland	45	27	0.039
Portugal	30	21	0.024
Italy	251	220	0.023
Sweden	36.89		0.017
Greece	5.5	7.4	0.005
Other countries			
Czech Republic	31	39	0.061
Poland	22		0.014
Hungary	3	10	0.006
US	561		0.005
Canada ^b	15		0.002
Mexico	13		0.002
Australia	76		0.020
Japan ^c	83		0.002

^{a/} Includes surety and fidelity.

^{b/} Net premiums.

^{c/} Includes fidelity.

Source: Swiss Re Economic Research and Consulting (2000).

ANNEX 3. CREDIT INSURANCE VS. FACTORING (2001)

	Volume insured			% GDP insured			% exports insured			Factored volume		
	Domestic	Export	Total	Domestic	Export	Total	Domestic	Export	Total	Domestic	Export	Total
Austria*	12,000	16,325	28,325	13.9%		23.8%	1,550	457	2,007	1.0%		0.7%
Belgium	20,000	18,000	38,000	14.8%		8.5%	7,500	1,500	9,000	3.5%		0.7%
Denmark	8,300	14,400	22,700	12.5%		29.0%	4,000	2,050	6,050	3.3%		3.6%
Spain	80,000	18,000	98,000	15.1%		13.7%	22,900	700	23,600	3.6%		0.5%
France	160,000	54,000	214,000	14.9%		16.9%	63,800	4,000	67,800	4.7%		1.2%
Germany	130,000	65,000	195,000	9.4%		10.4%	22,914	6,459	29,373	1.4%		1.0%
Greece	1,530	717	2,247	1.7%		4.6%	1,800	250	2,050	1.6%		2.0%
Italy	n/a	n/a	n/a	n/a		n/a	120,000	5,000	125,000	n/a		n/a
Netherlands	24,190	n/a	n/a	21.8%		11.7%	13,200	5,600	18,800	4.4%		n/a
Portugal	8,679	5,803	14,482	11.9%		20.4%	9,850	350	10,200	8.4%		1.2%
UK	158,000	156,000	314,000	19.8%		51.0%	132,280	7,560	139,840	8.8%		2.5%
Total	602,699	348,245	926,754	13.6%		19.0%	399,794	33,926	433,720	4.1%		1.5%

*Y2000.

Source: Factors Chain International and CEPS.

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Founded in 1983, the Centre for European Policy Studies is an independent policy research institute dedicated to producing sound policy research leading to constructive solutions to the challenges facing Europe today. Funding is obtained from membership fees, contributions from official institutions (European Commission, other international and multilateral institutions, and national bodies), foundation grants, project research, conferences fees and publication sales.

GOALS

- To achieve high standards of academic excellence and maintain unqualified independence.
- To provide a forum for discussion among all stakeholders in the European policy process.
- To build collaborative networks of researchers, policy-makers and business across the whole of Europe.
- To disseminate our findings and views through a regular flow of publications and public events.

ASSETS AND ACHIEVEMENTS

- Complete independence to set its own priorities and freedom from any outside influence.
- Authoritative research by an international staff with a demonstrated capability to analyse policy questions and anticipate trends well before they become topics of general public discussion.
- Formation of seven different research networks, comprising some 140 research institutes from throughout Europe and beyond, to complement and consolidate our research expertise and to greatly extend our reach in a wide range of areas from agricultural and security policy to climate change, JHA and economic analysis.
- An extensive network of external collaborators, including some 35 senior associates with extensive working experience in EU affairs.

PROGRAMME STRUCTURE

CEPS is a place where creative and authoritative specialists reflect and comment on the problems and opportunities facing Europe today. This is evidenced by the depth and originality of its publications and the talent and prescience of its expanding research staff. The CEPS research programme is organised under two major headings:

Economic Policy

Macroeconomic Policy
European Network of Economic Policy
Research Institutes (ENEPRI)
Financial Markets, Company Law & Taxation
European Credit Research Institute (ECRI)
Trade Developments & Policy
Energy, Environment & Climate Change
Agricultural Policy

Politics, Institutions and Security

The Future of Europe
Justice and Home Affairs
The Wider Europe
South East Europe
Caucasus & Black Sea
EU-Russian/Ukraine Relations
Mediterranean & Middle East
CEPS-IISS European Security Forum

In addition to these two sets of research programmes, the Centre organises a variety of activities within the CEPS Policy Forum. These include CEPS task forces, lunchtime membership meetings, network meetings abroad, board-level briefings for CEPS corporate members, conferences, training seminars, major annual events (e.g. the CEPS International Advisory Council) and internet and media relations.

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