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Development of Trade Credit Insurance Market – Technology and Innovation

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Abstract

Trade credit insurance is an arrangement between an insurance company and a business firm under which the firm as the insured is guaranteed indemnification against abnormal credit losses arising from failure of business debtors to pay and, because of this relationship, receives other auxiliary services or benefits. Trade 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. Trade 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. Although trade credit insurance is commonly included in the area of insurance, it differs significantly from it. By nature, it is much closer to banking products rather than to classic insurance products. Trade credit insurance considers disparate sources of risks and uses contrasting underwriting techniques, which makes it similar to a bank's examining a client's credit rating. Additionally, credit risk may appear and vanish with time, as soon as the debtor repays the loan. However, the damage caused by the debtor's lack of solvency may be beyond repair. The specificity of trade credit insurance in the traditional construction of the product makes their service requires a lot of knowledge and constant effort, both on the part of the insurer, the policyholder and entities cooperating with them, e.g. debt collection companies. These problems can be at least partly solved by applying innovations, which are currently gaining strength on the insurance market, especially in the use of modern information technologies. It is easy to see that trade credit insurers do not want to miss this trend and try to use it to make changes in their business that have many implications for *both their business and the insurance market. Insurers and related institutions, such as debt collection companies, try to make the best use of available technological solutions. Innovations together with creativity and entrepreneurship creates a set of factors encouraging the economic development. Innovations are rather common in terms of production. However, the process is also challenging for the financial services including insurance. On the one hand, sector itself can be innovative, with the latter should support innovative activities of others entities by reducing the degree of risk aversion of these entities. One of the first who examined innovation within financial services was Silber. He has examined monetary innovations, such as new credit instruments and investment contracts, in US capital markets since 1952. He found a positive correlation between such innovations and money market constraints relating particularly to the level and volatility of interest rates. Very interesting research has been done by Barras. He has studied the impact of IT on financial services such as insurance and retail banking since the 1960s. From this he has constructed a theory of services innovation based on a reversal of Schumpeterian product cycle theory. The aim of the article is to answer the question of how new technologies and innovations affect the development of the trade credit insurance market. The paper consists two main parts. First part focuses on the idea of innovation within financial sectors starting from definition of innovation activity than move to an analysis of innovation within financial markets describes the research conducted by Silber and Barras. In general, the author assume that insurance markets are now between the first and second phase of revers Barra's cycle. The second part focuses mainly on description of development of trade credit insurance market from the perspective of innovation cycles provided by Barras. The paper ends with the conclusion that the trade credit insurance development and innovation confirm the statement that nowadays trade credit insurance market is somewhere between second and third phase of the innovation cycle.*

Keywords: insurance innovation cycle, trade credit insurance