Banking & Finance: Insurance Freeze Hits U.S. Supply Chain --- Specialized tool that protects global trade has been curtaile

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By Julie Steinberg and Joe Wallace

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An obscure part of the insurance industry that helps commodities flow smoothly around the world is seizing up, presenting another obstacle to the U.S. economy's fitful recovery.

Trade-credit insurance, a financial tool that protects trade, has been severely cut back for U.S. companies, say insurance executives, brokers and policyholders. Companies are often reluctant to move goods without this type of insurance, so shipments of metals are being delayed or dropped even as demand for raw materials revives.

Suppliers take out insurance in case customers don't pay, while banks use it to insure deals they finance. But insurers have become less willing to write policies for metals such as aluminum and nickel due to travails in sectors that purchase these materials. The automotive and aviation industries have endured falling sales during the pandemic, while steelmakers have long faced pressure on profits. That raises the prospect companies will default on deals to buy metals.

It is "an incredibly difficult predicament," said Jay Sandler, president of Imperial Zinc Corp., a Chicago-based manufacturer of zinc and aluminum alloys and anodes. "Credit insurance is an extremely important tool for our business."

A large portion of the aluminum Imperial sells goes to the auto industry, where many insurance policies have been reduced or canceled. The company is unwilling to sell without coverage. In one instance, Imperial temporarily stopped shipments to a large auto-parts customer after its policy was terminated due to bankruptcy.

Credit insurance is less prevalent in the U.S. than in Europe but popular among American companies that operate on thin profit margins and can't run the risk that customers default. Metal, energy and food traders are often policyholders, said Jerry Paulson, who specializes in credit and political risk at insurance brokerage Lockton Companies. Exporters that borrow against foreign sales are also frequent users.

Some $600 billion in U.S. sales were covered by credit insurance last year, according to a July report that was funded by Euler Hermes Group SA, Coface and Atradius NV, the biggest providers.

The pullback for metals started last year, said Mr. Paulson. Carriers reducing coverage during Covid-19 "was like adding salt to the wounds in the metals industry," he said. Mr. Paulson estimated that insurers have sliced coverage by between 30% and 40% for the sector since the crisis began.

Trade-finance platform LiquidX Inc. said almost half of insurance requests, nearly all made by U.S. companies and covering all sectors, were approved last year through mid-September. That has fallen to 14% for the equivalent period this year.

Insurers are also raising premiums across sectors, said Kim Sturiano-Cordero, a senior vice president at insurance broker Marsh LLC. She estimates prices have increased between 15% and 30% and as much as 60% in some cases. The increase is a response to the prospect of further payouts. U.S. private trade-credit insurance premiums totaled around $800 million in 2019, and claims are up about 50% year over year, according to Marsh.

The insurers' retreat has added to the stress on commodity suppliers and traders, which are also finding it increasingly difficult to get funding from banks. Higher insurance premiums squeeze profits in an industry that runs on slim margins.

Reduced coverage has other painful side effects. It can make it more difficult to borrow, because traders often take out insurance to get funding from banks. And it can force companies to unload excess stock so they aren't exposed to swings in commodity prices.

Unlike in Europe, where governments have stepped in to reinsure transactions, the U.S. hasn't supported the market. Discussions between insurance representatives and the Treasury Department haven't yielded anything, according to people familiar with the talks. Some trade associations have said their members need added protection from the U.S. government.

Some companies are being forced to take more risks. Before Covid-19, Intra American Metals Inc., of Noblesville, Ind., bought insurance for about 95% of its receivables. That fell to 83% after Euler Hermes reduced or canceled coverage for dozens of customers, said Chief Financial Officer Jay Stutz.

A Euler spokesperson declined to comment on specific clients but said the insurer has "adjusted coverage in accordance with increased risk and reduced trade volumes brought on by the pandemic."

Given the business already lost to the coronavirus, Intra American couldn't stop shipping. It kept selling to most customers, meaning it is on the hook if something goes awry for those that aren't covered by insurance.