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BIG "I" BEST PRACTICES •AGENCY• 2019

The HHC Herald

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Credit Insurance: "When Customers Don't Pay"

While most companies would not dream of operating without insurance for their business, it's ironic that many do not insure their receivables. Receivables often represent the single largest asset and the greatest concentration of resources—including materials, production, profit, and more. Many companies don't recognize the need to insure one of the largest and most important assets: accounts receivable (credit). Cash flow is the lifeblood of any company and an unprotected baddebt loss can open a hole in the bottom line.

Many companies attempt to ensure the reliability of their receivables by conducting due diligence credit checks on customers in deciding to whom to sell and how much credit to extend. They often don't take into account the layer of unexpected credit risk that's just as real and typically much harder to evaluate. Unexpected risk is the threat of uncontrollable, unpredictable events that could affect a customer's ability or willingness to pay. Examples of such risk include fraud, class action lawsuits, natural disasters, and financial deals and structures that cause the customer to have short or long-term liquidity problems.

While competitive pressures and market opportunities encourage companies to extend aggressive open credit terms to their customers, many aren't in a position to absorb the potential loss that could occur. Have you ever had a customer not pay you? With midsize accounts, the effect of an unexpected loss can be devastating. With large customers, a loss could prove fatal to a company's business.

There is a financial tool than can transfer the risk of customer defaults on both domestic and export receivables and helps eliminate the threat of a catastrophic credit loss. That tool is credit insurance which could provide payment in the event a customer becomes unable or unwilling to pay.

Credit insurance can cover both foreign and US domestic receivables. Coverage on foreign receivables not only protects against the commercial risk of customers, but also the political and country risk associated with sales overseas. Credit insurance can help companies track and monitor the credit risk of foreign customers and grow international sales more effectively.

In summary, credit insurance provides an option to help eliminate the threat of a large unexpected customer default, transfer the risk off your balance sheet, and help assure the long-term financial stability of your business—regardless of changes in your industry or the economy.

THE BENEFITS OF CREDIT INSURANCE

- Catastrophic loss protection. Receivables are one of your largest and most at-risk assets. Credit insurance helps protect against potential bad debt losses.
- Safe sales expansion. Whether you are trying to expand credit lines with existing customers or extend competitive open credit terms to new accounts, using credit insurance to reduce or eliminate the risk is a great way to safely grow your business.
- Increased borrowing. Money is the fuel that feeds the growth of your business. Cost effective access to working capital can help you grow and avoid cash flow crunches. A credit insurance policy can help you maximize working capital availability from the receivables you pledge to your lender.
- Credit decision support. When you implement a credit insurance program, you are not just buying coverage on your receivables. You are getting a partner in credit risk management whose goal is to help you avoid credit losses before they happen as well as support you when they do.

For more information:

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