



**coface**  
FOR TRADE

TRADE CREDIT INSURANCE  
**UNLOCKING GROWTH**



# GROWTH AMIDST UNCERTAINTY

A lot is changing in today's global economy. Economic growth in North America appears to be slowing; likewise, there are signs of weakness in regions across the globe. With tariff wars, Brexit and military conflicts, there is uncertainty domestically and across the globe. Making business decisions in this environment can be daunting.

Even in this unpredictable business climate, most leaders are still not satisfied with the status quo — they want their businesses to thrive and succeed. And these companies can. With the right tools in place, companies can prevent and manage risk, monitor the health of their customers and protect themselves in the event of an unforeseen loss. With the right preparation, organizations can grow with confidence.

One of the risk management tools that continues to gain in popularity in the North America market is trade credit insurance. This white paper will explain what trade credit insurance is and how it works, offer tips on how to put strong credit management procedures in place, and provide examples of how adding credit insurance to your risk management toolkit can help you to grow your business confidently.

## What is trade credit insurance?

Trade credit protection policies cover the unpaid credit balance from sales made to approved customers. They also include credit assessment and collection functions for a business. Each policy is structured individually, and the specific features of coverage vary depending on the insurance policy and the individual business requirements. The most effective trade credit protection policies typically offer:



**Protection** against non-payments arising from bankruptcy, slow payments and, in some cases, political risks.



**Coverage** of short-term invoicing periods, generally between 60 and 180 days.



**Credit risk checks** to help ensure policyholders are selling to credit-worthy customers. (Insurers with a global footprint, such as Coface, continually update and monitor the financial health of companies around the world.)

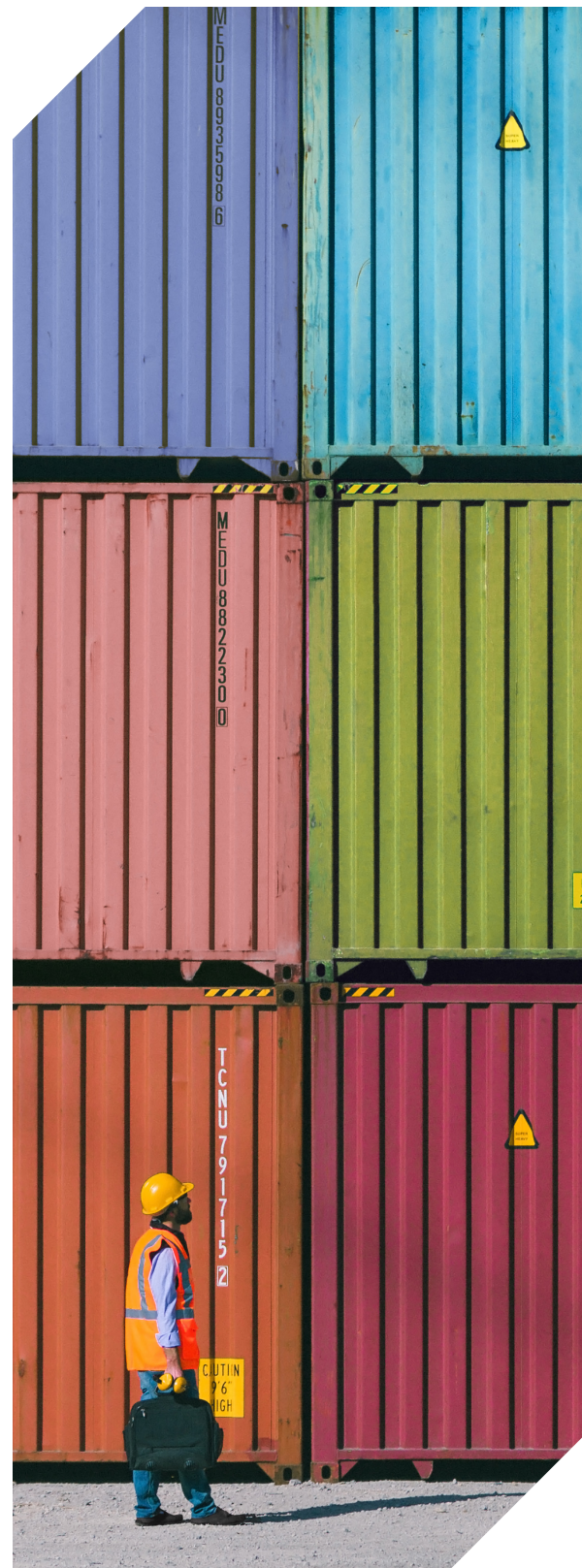


**Collection** of overdue payments on accounts they cover. Some insurers also offer collection services on accounts that don't fall under the policy.



**Potential** to unlock improved financing options, including more favorable borrowing terms.

Trade credit insurance companies typically have high success rates as collectors. That's because debtors know insurers can see their payment patterns beyond a single account and therefore they may have difficulty obtaining future credit if they don't cooperate.





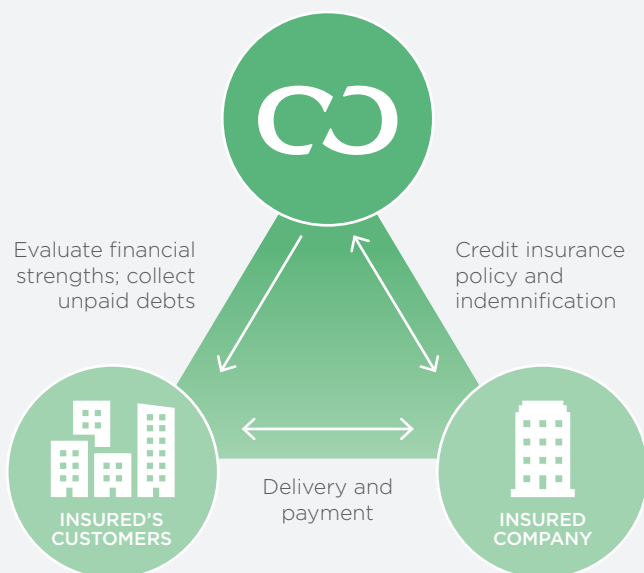
## How does trade credit protection work?

A company seeking trade credit insurance provides information on its business and customers, including a list of top buyers and a recent loss history. The trade credit insurance carrier reviews the financial health of the buyers to establish credit limits and terms of business, such as the maximum invoicing period. In some cases, automatic coverage up to a certain amount or percentage of sales is granted to give the policyholder flexibility in trading.

After the assessment, the insurer provides a quote that outlines policy terms and price. The quote would indicate the amount of coverage, the level of coinsurance (typically 10%), and whether there is a deductible or a minimum dollar amount threshold for the claim.

During the course of the policy, the insurer continually monitors the policyholder's buyers and can adjust coverage accordingly. Likewise, as the company expands its sales, new buyers can be added to the policy.

Policyholders can file a claim when a customer is insolvent or financially unable to pay the balance owed.



# 8

## Eight tips for effective credit management

Most trade risk can be mitigated by prudent credit management. Here are practical tips for assessing customers.

1

### Establish a direct contact with the company beyond the salesperson.

It's important not to intermingle the sales function with the credit function. Make the sale on its own merits and deal with the credit terms in a businesslike manner with someone other than the salesperson.

2

### Investigate the company.

Obtain a signed credit application that requires at least two credit references (bank or trade). Be sure to check the references. Also, purchase an independent, third-party credit report and check it closely against your internal information to make sure it's accurate. The credit report, at a minimum, should help you confirm a company's location, ownership, key executives, financials (if available), trade relationships and public-record filings.

3

### Don't be afraid to ask awkward questions.

Look at the latest financials and check for evidence that the company is trading profitably. You may want to look into other information products such as credit opinions, which give you a suggested credit limit, and credit scores, which calculate a probability of default.

4

### Join an industry credit group.

You will stay on top of developments in your industry, especially in regard to company creditworthiness.

5

### Consider insuring your trade transactions.

This outsources the assessment and monitoring of your portfolio, ensures payment and provides collection services.

6

### If you are going to manage your credit function in house, establish and communicate clear rules.

Don't be an "enabler" of your customer by allowing them to exceed their credit limit or become consistently delinquent. Your lack of forcefulness on these points could come back to haunt you.

7

### Be precise on the shipping conditions, and retain proof that the goods were received.

You need to ensure the customer has no excuses to later withhold payment.

8

### Be vigilant.

When agreeing to special payment arrangements be reasonably flexible but be sure to fully document all arrangements, and follow up diligently.

## The payoff

Companies that need increased access to bank financing often need to demonstrate prudent credit management—professional processes embedded in the organization to mitigate credit risk. Having a trade credit insurance policy in place satisfies this requirement and assures the financial institution that its risk is covered. Banks may also provide larger lines or reduced financing fees for covered receivables. In addition, banks may be added as loss payees to the policy, whereby claims are paid directly to the bank. The opportunities and cost savings provided by trade credit insurance can offset the cost of the policy.

Additional potential benefits include:



### Loss mitigation

For example, a manufacturer with a margin of 4% that experiences a nonpayment of \$50,000 would need 25 equivalent sales to make up for a single instance of nonpayment.



### Expense savings

Businesses can reduce their spending on trade credit information and staff time spent on chasing collections. The company can also deduct the cost of the policy as a business expense.



### No bad debt reserves

Capital set aside as reserves can be freed and converted to earnings.



### Lower cost of capital

Bank borrowing costs are often lower if receivables are insured, due to lower risk for the bank.



### Increased sales

Allowing for higher credit lines to existing customers or opening new markets can increase revenue. Multiplying this increase by several customers could easily offset the cost of a policy.

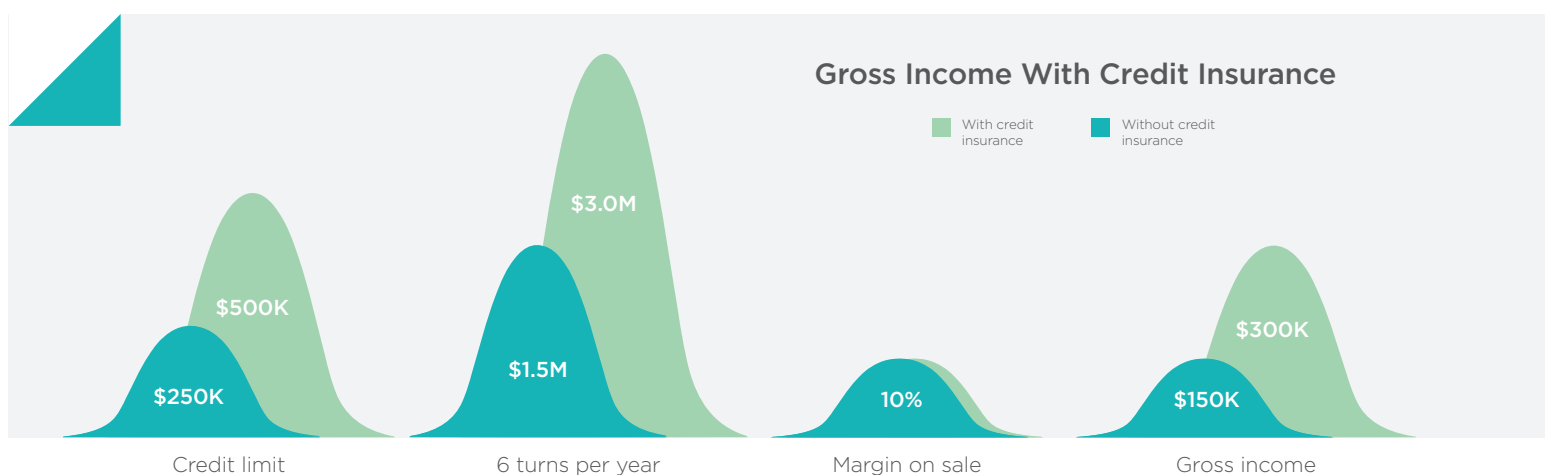


## What is the ROI potential?

### Scenario 1: Using Trade Credit Insurance to Increase Profits

Company A seeks to expand sales with current customers but is not completely comfortable offering them higher credit limits. Company A can obtain trade credit insurance to cover its customers. If Coface approves the higher credit limits, then Company A can increase its credit limits, grow revenues and deliver more profits.

In the following example, Company A is able to capture \$300,000 of incremental gross profit from just one trading partner. Those benefits could be multiplied across a broad portfolio of its customers.



### Scenario 2: Using Trade Credit Insurance to Improve Lending Terms

A wholesaler of chemicals and raw materials based in northern New Jersey is one example of a company that has improved its ability to secure credit by adding trade credit insurance. The company, which sells to customers outside of North America, needed a solution that provided more transparency to its lender, which was concerned about the foreign receivables in the borrowing base.

“We purchased trade credit insurance initially to facilitate the perfection of our credit line facility,” says the managing director and CFO. “From the initial objective of providing comfort to our banks, the service added depth to our business decisions.”

The interaction allows the company to assess its clients’ condition more accurately and has been a valuable tool in business development.



# In a volatile world, Coface can help.

More businesses are realizing the importance of trade credit protection as they expand their market presence. They know that winning new business oftentimes depends on their ability to offer payment terms to customers. Also, demands for upfront payment will simply drive customers elsewhere, while other options, such as self-insurance or letters of credit, are either too risky or cumbersome to undertake.

Coface trade credit insurance can help companies through every phase of the credit process — from analyzing credit risk of customers to collection of debt to reimbursement for losses due to insolvency of one or more customers. Coface provides accounts receivable protection to 50,000 companies around the world. Our strength and integrity are supported by excellent ratings from top insurance company rating organizations.

We are a company that understands global trade, with an ambition to become the most agile global trade credit insurer in the industry. Coface has been working with businesses like yours for over 70 years. Sharing a passion for trade, we want to collaborate with our clients to build successful, growing, dynamic businesses.

## About Coface

Coface’s professionals across North America are part of a global network of more than 4,300 employees in 100+ countries who offer you risk prevention, monitoring and protection services. We serve companies of all sizes and in all sectors. Our people help you manage your business on an ongoing basis, with emphasis on ensuring that you have the data and information you need to make smart decisions about extending credit to your customers. In the event that any of your customers are late to pay or become insolvent, we insure your accounts receivable and indemnify you for your losses, subject to the terms and conditions of the policy.

To learn more about how Coface can help your business grow, visit [www.coface-usa.com](http://www.coface-usa.com) or [www.coface.ca](http://www.coface.ca).

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