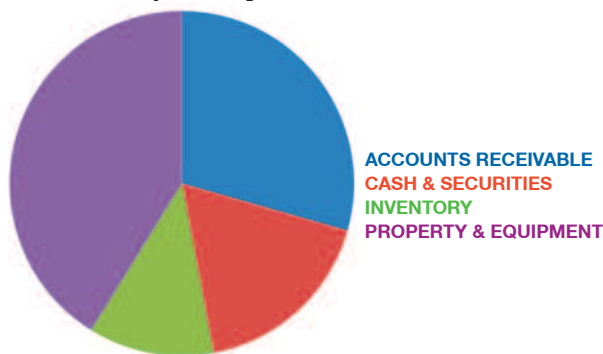


## CLIENT ADVISORY

### “Do My Clients Need Trade Credit Insurance?”

A business can protect their accounts receivable in the same way they protect their property and equipment and their cash and securities – with an insurance policy. A property policy protects the risk of loss to a firm’s property and equipment. General liability, crime, and directors’ and officers’ policies protect cash and securities. Trade credit insurance is designed to insure accounts receivable against bad debts. Accounts receivable is often a large part of a firm’s current assets, yet many companies do not have this critical insurance.

#### Accounts Receivable can be a large and uninsured part of your balance sheet.



#### How does trade credit insurance protect my business?

Even in stronger economies, there have been many noteworthy corporate failures. It goes without saying that protracted difficult economic conditions lead to bankruptcies. There are many events that can impact your vendor’s ability to pay you for your products or services, such as:

- regulatory changes
- financial restructuring
- management deficiencies
- political upheaval
- global economic changes
- natural disasters
- bankruptcy

Trade credit insurance helps protect you from having your vendor’s problems become your problems. The insurance can be written to cover all your vendors or a shortened schedule of the larger or most concerning credit risks.

#### How does trade credit insurance help me grow my business?

If you are able to protect a meaningful part of your balance sheet from credit risk, it reduces the funds you need to reserve for bad debts. You can redeploy that capital towards growing your business.

It may also allow you to increase your own line of credit to a large trading partner. We often look to limit our own exposure to a large trading partner by reducing the amount of business we do with them. With trade credit insurance, you can have the peace of mind to increase your trading with your larger key trading partners.

It is also worth noting that your own lenders will look at your business more favorably when offering you lines of credit and loans if your receivables are protected. It is very likely you will be

To learn more about how AmWINS can help you place trade credit insurance, reach out to your local AmWINS broker or [marketing@amwins.com](mailto:marketing@amwins.com).

If you do not have a contact at AmWINS to help with your financial services risks, [click here for a list of brokers on our website](#).

Legal Disclaimer: Views expressed here do not constitute legal advice. The information contained herein is for general guidance of matter only and not for the purpose of providing legal advice. Discussion of insurance policy language is descriptive only. Every policy has different policy language. Coverage afforded under any insurance policy issued is subject to individual policy terms and conditions. Please refer to your policy for the actual language.



AmWINS Group, Inc. is a leading wholesale distributor of specialty insurance products and services. AmWINS has expertise across a diversified mix of property, casualty and group benefits products. AmWINS also offers value-added services to support some of these products, including product development, underwriting, premium and claims administration and actuarial services. With over 2,000 employees located in 16 countries, AmWINS handles over \$5.7 billion in premium annually through our four divisions: Brokerage, Underwriting, Group Benefits and International.

able to borrow higher amounts with more favorable terms. Better interest rates lead to increased profits.

Trade credit insurance may also give you the comfort to transact overseas. The trade insurers have customers all over the world and have the ability to manage your foreign exposure to credit risk. You may have stayed out of foreign trade out of fear of not knowing your trading partners. Foreign trade presents an opportunity to grow your sales.

Trade credit insurance premiums are operating expenses that reduce your tax burden as opposed to bad debt write-offs that reduce your profits.

#### **What other value added tools are available?**

The insurers can provide vendor tracking systems and tools. Since the trade credit insurers are tracking vendor payment issues for more than just you, they get warning signs from other customers before you realize you have an issue. The insurers are tracking tens of millions of vendors around the world. Some insurers provide desktop tools that send you warnings when your own vendors are having payment issues. This early warning can allow you to reduce your exposure to that vendor by reducing how much credit you extend to them or inventory you ship to them. Many buyers of trade credit insurance will turn to their insurer for approval of a vendor prior to transacting business with that vendor. The knowledge shared by the insurer helps you avoid bad debts. Access to their database will also help you prequalify trading partners.

Many trade credit insurers also own debt collection agencies that will assist you with your collections at a greatly reduced price. They can often consult with you prior to turning a bad debt over for collections to possibly improve a situation before threatening a business relationship by tendering bills to a collections agency.

#### **How does a business know it may need trade credit insurance?**

- Have you ever had to write off bad debts?
- Do you know the financial stability of all your trading partners?
- How would your balance sheet be impacted if your largest trading partner defaults on payment?
- Would you like to trade more with your larger customers without taking on more credit risk?
- Would you be able to borrow at more favorable terms if your receivables were protected?

If the answer to any of these questions is a cause for concern, your business is likely a good candidate for trade credit insurance. Insurers are generally looking for firms that have revenues over \$5,000,000 annually, but there are exceptions. The most common purchasers of this product are manufacturers, wholesalers and distributors often in industries such as food, paper, toys, energy, metals, chemicals, pharmaceuticals, textiles, retail, high tech and manufacturing. Buyers are usually selling goods on short credit terms such as 180 days or less.

When considering the insurance premiums for trade credit insurance, you should be factoring in offsetting factors such as reduction in debt write-offs, debt collection expenses, better borrowing rates, and your ability to increase your revenues by having the freedom to extend more credit to your vendors. Your accounts receivable are an exposed part of your balance sheet. Trade credit insurance should provide you the comfort you need to grow your business without losing sleep over credit risk.

*David Lewison authored this piece. David is an AmWINS employee and supports the Financial Services Practice.*