HOW FINANCIAL STRENGTH CAN AFFECT YOUR INSURABILITY

Times are tough for many in the scrap industry. The COVID-19 pandemic and the business closures and recession it has caused are affecting financial results in this industry and many other industries as well. These dynamics are leading insurance firms, lenders, and other financial service providers to look more closely at a company's financial strength before offering any type of trade credit or loan. On the insurance side, RecycleGuard has seen a deterioration in financial scores across the board. This can create more work for insured companies or prospects and their agents, who have to submit financial statements to the insurers for credit review.

SAFETY AND FINANCIAL SOUNDNESS

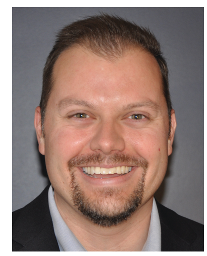
Insurance companies review financial strength as an underwriting characteristic for several reasons. First, businesses that are profitable tend to have a good leadership team. Profitable companies also have the ability to fund risk-management activities; procure new equipment, which is usually safer; invest in preventive maintenance; as well as hire, train, and retain high-quality employees. In contrast, companies that are facing financial struggles tend to delay preventive maintenance, run older vehicles and equipment past their limits, and perhaps take on jobs outside of their expertise to stay afloat—all of which increase risk. Insurers also might perceive companies in financial difficulty as having greater opportunity for moral hazard on first-party insurance coverages. For example, a company leader might set fire to property or equipment to obtain an insurance payout.

LEARN AND IMPROVE YOUR CREDIT SCORE

In these difficult times, and with an eye toward the financial risk they face from their many and diverse trading partners, it's more important than ever for scrap companies to be aware of their credit scores. Dun & Bradstreet and Experian are two of the largest business credit monitoring firms. Your company most likely has a score, or at least a record, with both of these firms. I recommend that you get a copy of your score from each firm and decide whether you think it's an accurate reflection of your firm's ability to pay bills and maintain a safe operation.

If you don't believe your score is accurate, take action to fix it. Each firm's website has a section that explains the inputs to its calculations as well as steps you can take to improve your business credit. Some of these recommendations are basic, and you likely are already implementing them, such as operating as a corporation or limited liability corporation, having a federal employer ID number, using business banking accounts under the legal name of your company, and establishing a dedicated phone line for the business.

The most obvious thing you can do to maintain good business credit is to pay your bills on time or early. Doing so can "help avoid the appearance of financial stress on your business credit profile," the Dun & Bradstreet website notes. "Failure to pay creditors can lead them to submit negative reports to the business credit agencies. A history of delays or defaults can damage your ability to obtain credit or prove your credibility to another company."



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DON'T FORGET TRADE CREDIT

Most businesses rely on trade credit to purchase the goods or services they need to operate and pay for them later. While people typically associate credit with taking out a loan from a bank or using a credit card, trade credit with suppliers is essential for efficient business operations. Good long-term payment records also can improve your credit risk assessment. "If your business is meeting its obligations to vendors, you should ask these companies to report your payment history to credit agencies as a trade reference," Dun & Bradstreet's website suggests. Such references, once verified, "can be weighted in the calculation of many business credit scores and ratings," including its own. Free tools, such as Dun & Bradstreet's Credit Signal, can help you monitor your credit scores and take other actions to improve them.

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