Can trade credit insurance help your business become more successful?

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Trade credit insurance has come into the fore in recent years, making a name for itself on the global business stage as the financial crisis hit, with claims pay outs by trade credit insurers saving many businesses from the knock-on effect of their clients going under.

Finding itself suddenly centre stage has been beneficial for the trade credit insurance industry. Today, it is generally – though not always - better understood than it was prior to the financial crisis. A trade credit insurance policy is unlike any other kind of insurance in that it expands and contracts in tandem with a business' trading activities, reflecting their trading pattern. Each time a company undertakes a new contract, providing goods and services to a new client, they work closely with their trade credit insurer. This is where the key benefit of trade credit insurance kicks in. A good trade credit insurer becomes the eyes and ears on the ground for their client. On a company's behalf, they will check any prospective client's stability, creditworthiness and reputation.

Christine Gerryn comments: *"What many businesses don't necessarily realise is that a good trade credit insurer can offer help and trade intelligence which is virtually impossible for all but the largest businesses to replicate in house. At Atradius for example, we have 160 offices located in 50 countries around the world. The underwriting teams in those locations have live data on over 100 million businesses at their fingertips. But more importantly, their geographical spread and invaluable local knowledge of business culture, payment practices and emerging geopolitical situations around the globe offers a significant advantage to businesses seeking to trade in new parts of the world, or with new customers."*

But this is not the only advantage of using trade credit insurance.

What is less well documented is that trade credit insured businesses are more likely to succeed. The reasons for this are numerous, but not least because of the structured way in which trade credit insurance encourages businesses to engage with best practice in the management of their cash flow.

Gerryn continues *"Trade credit insured businesses are more likely to understand and practice good credit management discipline. A well-structured dunning process is the first step to good credit management. Given that any monies overdue need to be communicated to your insurer at a predetermined time ie. a certain number of days overdue, dunning is a critical part of this process. Further down the line, getting a claim paid requires the same - any notifications of non -payment must be filed within a fixed timeframe for a claim to be valid."*

The other key stabiliser of businesses who use trade credit insurance is that they hold more comprehensive knowledge of their customers than uninsured businesses. An example might be a manufacturer of car exhaust pipes, who is supplying a car manufacturer. The car manufacturer is overdue with their payment, so the exhaust manufacturer notifies their trade credit insurer. At the same time, the trade credit insurer is sent notifications of non-payment by other suppliers to the same car

manufacturer – those providing tyres, interiors, paint, electrical fixtures and so on. In circumstances like these, where a number of insured companies have reported the same payment default pattern, the insurer is able to build up a comprehensive picture. The trade credit insurer's next step is to contact the defaulting business and work with them to determine the cause of the situation. This is subsequently reported back to the insured businesses as up-to-date credit risk information. This means that those insured companies are trading, safe in the knowledge that they have access to the most up-to-date picture of their trading partner. The default may be for a good reason – or it may not. Either way, insured businesses can make an informed trading decision.

In the case of on-going non-payment there is the added benefit of debt collection – many businesses are unaware that this is part and parcel of the service offered within certain trade credit insurance policies. With detailed knowledge of local legislation, business practices and so forth, the success rate of an insurer such as Atradius collecting the debt is likely to be higher than that of an individual business attempting the same, particularly in a remote foreign country and as the debt ages. In certain parts of the world, such as China, it is even illegal for a foreign business entity to collect a debt from a Chinese business, so a locally based collections service is critical to the retrieval of monies owed.

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To conclude, although the benefits of trading with trade credit insurance are not always fully understood, the advantages are multiple, and ultimately, lead to successful trading, wherever in the world it takes place. As Gerryn sums up, *"As an industry, we still have some way to go to fully educate businesses – particularly SMEs – with regard to the multiple positive facets of trade credit insurance. But in a nutshell, it keeps businesses better informed, better disciplined and better protects them from inherent dangers in the supply chain. Successful business practice is about taking risks – and we help businesses to select the right ones."* ■