Trade Credit Insurance For AWCI Members

Trade Credit Insurance: An overview

Trade credit insurance is protection for a business against the possibility of non-payment. Essentially, when selling on credit terms there is a risk that customers will not be able to pay, this could be for many reasons but the most common is insolvency. The resulting bad debt can have a dramatic impact, for example, it could slow expansion, hinder cash-flow, or put the business at risk of collapse.

A business that loses $50,000 as a result of non-payment, will have to sell another $500,000 worth of goods or services at a 10% profit margin to recoup those losses. Trade credit insurance not only protects a business from the impact of a bad debt, but it gives directors and owners peace of mind that they will be protected and puts cash back in their pocket!

Is Trade Credit Insurance suited to AWCI members?

The quick answer is yes, providing members are trading on credit terms. Generally, it becomes cost effective when a business turns over more than $2 million per year, but there are exceptions.

A specialist trade credit insurance broker will assess many aspects of a business before approaching the market. As this process is taking place, the specialist broker will assess different approaches to structuring a client's cover and potential policy variations to offer a solution that is the best fit for the particular client. The most common policy is Whole of Turnover, where all sales are covered for the policy period and the insured can claim in the event of non-payment. But other structures are growing in popularity, for example, where only sales to major buyers are covered, or where all sales except those to major buyers are covered – the variations available may not be endless, but there are a lot!

How can members reduce the risk of a bad debt?

Trade credit insurance is the ultimate protection against a bad debt, but there are many things a business can do to reduce the risks. For example, businesses should:

- Know who they're trading with and confirm they are dealing with the correct entity
- Have up-to-date terms and conditions that their customers agree to
- Have a robust assessment criteria with a process to evaluate potential customers and stick to it
- Set specific credit limits and make sure they're justified

What do insurers look for when assessing risk?

When insurers are assessing a business and the risk it presents, they consider many things but, most importantly, they will look at:

- Estimated credit sales for the year
- Top exposures/customers
- Bad debt history
- Credit procedures
- The industry they trade in

How these factors present will determine the insurer's willingness to offer cover, on what terms and, importantly, at what price.

Summary

Like insurance for your car, trade credit insurance is there for when the unexpected happens. No one wants to experience a bad debt but for many it is part of doing business. A trade credit insurance policy is there to protect a business against non-payment, but it can also give them confidence to grow by taking on new contracts and customers.

As a supporter of the AWCI Queensland, NCI are more than happy to run through Trade Credit Insurance, how it works and to do an assessments as to whether it is suitable for individual AWCI members.

Talk to us today

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NCI TRADE CREDIT SOLUTIONS

AWCI Association of WALL & CEILING INDUSTRIES Queensland