COVER OVERVIEW

Trade Credit Insurance

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The risk of debtor insolvency is an inherent part of owning a business. Sometimes your customers simply do not or cannot pay you—it is unavoidable, but not disastrous. Your business can survive such a loss by purchasing a trade credit insurance policy.

Trade credit insurance, or credit insurance, provides your business with protection against the failure of your customers to pay their debts and substantial delays in receiving their payments. What may seem catastrophic at first is completely bearable with adequate trade credit cover. Learn how to overcome the non-payment of customers' debts with the following overview of trade credit insurance.

Reining in Customers

Purchasing trade credit insurance can help save your business from crippling bad debt. As globalisation continues to lengthen businesses' supply chains and expand their customer bases beyond national borders, debtors and creditors continue to grow further apart. This makes it easier to lose track of your customers and presents more obstacles for their payments, such as government restrictions or political instability abroad. Trade credit insurance can protect against the various risks of trading across borders.

Not receiving customers' payments on time—or at all—could be fatal for your business, but trade credit insurance helps transfer that risk. Policies typically cover about 90 per cent of customers' outstanding debts, so the failure of one large customer or multiple small ones will not overwhelm your organisation.

There are two main types of trade credit insurance:

- **Whole turnover** covers the insured's entire book of debtors, providing the maximum level of protection against bad debt.
- **Specific account** applies only to those accounts the insured feels are at risk. These policies may be subject to an increased premium, and are riskier than whole turnover cover, since the insured may choose incorrectly and fail to insure an account that defaults.

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Common Extensions

In order to be effective, trade credit insurance policies should be tailored to your business and list of debtors. Insurers typically offer extensions to provide a bespoke policy, including:

- **Pre-delivery work in progress,** which safeguards against the insured's financial losses due to a customer becoming insolvent before work is completed but after the insured has incurred costs such as material or labour. If a project goes bust, the insured is not left to shoulder the debt and pick up the pieces.

- **Supplier default,** which protects against financial losses from a supplier going out of business. This includes the costs associated with finding new suppliers, the loss of advance payments to the defunct supplier and any possible fines or damages for late delivery.

Calculating Premium Costs

Insurers assess your business and determine your premium by considering your business' risk, the amount of turnover you want to insure, your customer demographic, the overall state of your industry and your success or failure in past credit management. Your premium will likely increase if your customers are concentrated in one or two accounts rather than several. If you prefer a specific account policy, the insurer will investigate the credit worthiness of each individual account when calculating your premium.

Make sure to implement and maintain a stringent credit control policy. Any flexibility or instability in how your business administers and sustains credit will translate to higher premiums.

Depending on which cover you choose, you can arrange a policy for a fixed period of 12 months or for the duration of a specific customer's contract.

Bespoke is Best

A clunky, ill-fitting trade credit policy will not benefit your business. Make sure your insurer offers bespoke cover that fits your business' needs. Trade credit insurance is a small, specialised field that requires careful risk assessment. A precise assessment will create an effective insurance policy that keeps you above water when your customers go under. Contact **Crendon Insurance Brokers Limited** on **0121 45 45 100** today for more information on wielding bespoke insurance policies to shield your business from risk.