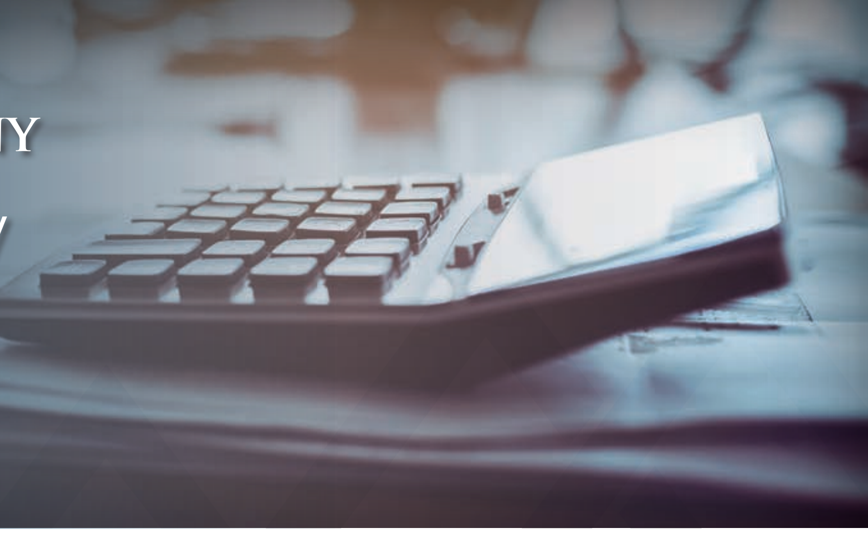
MORETON & COMPANY

Property & Casualty Newsletter



October 2021: Trade Credit Insurance

Is Your Company's Largest Asset Exposed?

Many companies do not protect their largest asset with insurance, mainly because they don't know about the products available to them.

Companies purchase insurance to protect their assets and to protect their liabilities, the most common of which are company properties, inventories, liabilities, employee injuries, cyber-related incidents, etc.

Many companies, however, do not protect their largest asset with insurance, mainly because they don't know about the products available to them. What is that large asset often left exposed? A company's accounts receivable.

With trade credit insurance, business owners can protect their company accounts receivable (AR) from the bad debt typically accumulated when customers are slow to pay or default on payments.

Every business can benefit from good credit management. Trade credit insurance is one of the most important tools for that purpose. If you are selling on open account terms to other businesses, trade credit insurance can bring many benefits.

Below are five ways accounts receivable insurance helps with bad debt expenses:

- **Protect against non-payment:** If a customer covered by your policy fails to pay, you can submit a claim and receive payment under the terms of your policy.
- **Identify potential losses:** AR insurance provides key credit risk analysis to help avoid losses – this is especially critical for companies in volatile or low-margin industries.
- **Transfer risk to insurer's balance sheet:** Trade credit insurance removes the credit risk from your balance sheet, improving margins and boosting P&L.
- **Reduce bad debt reserves:** Accounts receivable insurance allows companies to reallocate reserves into working capital.
- **Collect commercial debts:** International commercial debt collection is covered by accounts receivable policies, and collectors work with debtors on your behalf.

Trade Credit Insurance is not only purchased for AR protection; companies invest in Trade Credit Insurance for a variety of other reasons, including:

- **Sales expansion:** If receivables are insured, a company can safely sell more to existing customers or pursue new customers that may have been perceived as too risky.
- **Increase in sales and profits:** A credit insurance policy can typically offset its own cost many times over - even if the policyholder never makes a claim - by increasing a company's sales and profits without additional risk.
- **Increased customer information and data:** Most trade credit insurance companies have business information databases that are larger and provide more data than Dun & Bradstreet. You can eliminate your Dun & Bradstreet expenses and receive more timely and accurate company information through your insurance company.
- **Improved lender relationship:** Trade credit insurance can improve a company's relationship with their lender. In many cases the bank will require trade credit insurance to qualify for an asset-based loan.

- **Better financing terms:** Banks will typically lend more capital against insured receivables and may also reduce the cost of funds.
- **Expansion into new international markets:** Trade credit insurance protects against unique export risks and delivers market knowledge to help you make more informed growth decisions.

The Best Offense is a Good Defense

The relationship between a company's sales force and credit department often resembles that of rival teams; one usually blocks the progress of the other. Ideally, they should operate like the offense and defense of the same team, one fending off the biggest obstacles on the field to help the other gain enough ground to score. The team wins when a profitable new customer relationship has been established.

The core of trade credit insurance is enabling companies' credit teams to support business growth alongside the sales force. When an insurer covers a sale, the customer can use credit as a differentiator and be more aggressive. Companies with this type of coverage can also offer longer payment terms or a higher credit limit.

We have had many clients utilize their trade credit insurance as a sales growth tool. These clients have covered their insurance premiums with the growth achieved by utilizing their trade credit policy and have grown 15%-20% year over year as a result.

Over the past 6 years, many long-standing American giants have filed for bankruptcy, such as Sears, Shopko, Big K, Radio Shack, Circuit City, Neiman Marcus, J.C. Penney, Toys R Us, GNC, Stein Mart, Pier 1 Imports, Sports Authority, and many more. Many of our clients have filed claims on bad debts resulting from some of these companies filing for bankruptcy. Because they had that protection in place, they were able to confidently move forward even as bigger companies were closing their doors.

References: https://www.eulerhermes.com/en_global/our-solutions/trade-credit-insurance.html

Please contact your Moreton & Company consultant with any questions.

Please visit www.moreton.com/news-events/ for more information and to view other newsletters. For additional questions, please contact your Moreton & Company representative.

Moreton & Company - Idaho
2501 East State Avenue, Suite 200,
Meridian, ID 83642
208-321-9300

Moreton & Company - Utah
101 South 200 East, Suite 300,
Salt Lake City, UT 84111
801-531-1234
www.moreton.com

Moreton & Company - Colorado
4600 South Ulster Street, Suite 610,
Denver, CO 80237
303-385-2100