

Credit Insurance

Insuring a company's assets is fundamental. Whether this is machinery, property, stock or the like, most businesses would not think twice about insuring these assets and minimising the potential of a significant loss.

Unfortunately, one of a businesses' most valuable assets is often overlooked – its' debtors. Typically, 30% of a businesses' sales on credit terms represents total assets¹

In general, most organisations have a large portion of their current assets tied up in trade debtors. The simple act of transferring finished goods to a debtor's (buyer's) premises, may take the goods from a fully insured position as stock, to a totally unsecured position as debtors. In the event that a debtor (buyer) becomes insolvent and is unable to meet its obligations, there is a high likelihood of loss. Insolvency appointments this year to August 2006 have reached 8,380.²

The question then should be asked, how would your business be effected if one of your largest debtors failed? A bad debt could result in the insolvency of you own business or at the very least require extra sales to offset a loss. The effects can be seen below:

\$ Loss	Pre-tax Profit Margin			
	5%	10%	20%	33.3%
5,000	100,000	50,000	25,000	15,000
10,000	200,000	100,000	50,000	30,000
25,000	500,000	250,000	125,000	75,000
50,000	1,000,000	500,000	250,000	150,000
100,000	2,000,000	1,000,000	500,000	300,000

The aim of a Credit Insurance policy (both Domestic and Export) is to protect a business from the risk of buyer insolvency or protracted default. Risk is transferred to the Insurer and can prevent the Insured themselves from suffering the same fate as the debtors they are insuring against.

Export Trade Credit policies cover commercial risk and can include political risk cover such as contract repudiation, currency inconvertibility and cancellation of a license. These policies are also beneficial where the financial strength of the debtor (buyer) is not known to the insured and the credit assessment of the debtor (buyer) can be left to the expertise of the underwriter. .

There are numerous other benefits which include:

- Insured businesses have access to specialised credit risk expertise, information and advice resulting in enhanced credit management and less likelihood of a loss.
- The great majority of the risk can be transferred to an insurer. This also means that bad debt reserves can be reduced significantly creating a less volatile balance sheet.

¹ Swiss re, sigma, No 6/2006

² Australian Securities and Investments Commission

- Borrowing capacity with banks and financial institutions is strengthened and policy holders can usually expect to receive enhanced credit/finance terms.
- Credit can be extended to customers where cash payment or security has been required in the past, resulting in the growth of the business. As credit is necessary in some sectors to be competitive, a policy will assist where a prospective customer is not known or there is some uncertainty.

Due to the recent growth of the Credit Insurance market with the introduction of the three largest global underwriters into Australia, policies are now much more affordable than they have been in the past. With the increased competition we have seen significant falls in premium rates and increases in the scope of cover available.

Through JLT'S Trade Credit Division Qinserv offers its clients a means of insuring against bad debts. This value added service can help ensure the continued stability of your organisation.

We specialise in the blending of traditional insurance broking methods with up to date risk management and loss control techniques. This not only ensures that our clients have a properly designed insurance programme at a competitive premium cost but that they also receive professional assistance in identifying and analysing potential areas of loss.

JLT has a demonstrated ability in the field of Trade Credit insurance and we would welcome the opportunity to discuss your needs with you further.

If you would like further information on Trade Credit Insurance, please contact: