

How trade credit insurance helps small businesses grow

Michele Horner, Xenia's director of client services North East, on how Xenia helps the underdog businesses thrive in a challenging business environment

Small to medium sized enterprises (SMEs) face particular risks compared to their larger competitors. For example, they are particularly vulnerable to supply chain breakdowns, which can wreak havoc on their cashflow.

When a large company fails, it causes a domino effect throughout the supply chain. When it hits a small business, (where the failed company is crucial to the trade of the business), it can make them fail too. For some small businesses, just one customer failing to meet a payment obligation on time can be enough to topple them.

Yet despite their vulnerability, it's fair to say that not a lot of businesses in Britain know that there is a product that provides protection to these nightmare scenarios. Trade credit insurance is a product designed to compensate for bad debts, however it can also help them grow considerably faster than if they had to proceed with extreme caution all the way without the ability to offer credit.

Small business owners and leaders are likely to have the necessary cover for assets like machinery, buildings and fleets of vehicles, but they often don't realise they can get cover for their debtors book - for the non-payment of money customers owe them. Debtors should be considered one of the key assets in a business, as a debtor balance is the quickest asset to turn into cash.

Trade credit insurance cover gives peace of mind to small business owners as they know they can trade with new **customers** and if anything goes wrong, they can claim for the bad debt, ensuring it won't impact their cash flow and business.

We know that confidence is important to our clients because when SME owners come to us to ask about trade credit insurance, they often say: 'I had a massive bad debt last year, I cannot afford to have another one. I need this protection so I can actually sleep at night.'

Reducing small business risk

As well as helping businesses grow by empowering them to take on new and larger clients, it also reduces their risks by providing access to reliable data on customers.

Traditionally, when a Customer asks for a credit account, the process, (if you didn't have insurance), would be to subscribe to a status agent. A status agent would produce a report. You may assess the report and then make a decision to give your new customer credit. But in reality, this process just simply gives you a feel of the company's health. It doesn't actually give you protection if anything goes wrong.

Trade credit insurance puts you in a stronger position. You can justify selling to the client/customer to the amount you are insured for. For example, your Credit Insurer may give you a trading limit of £20,000. Where you might have previously been cautious and only opened an account up to £5,000, now you can extend to much higher levels, which facilitates growth.

We see this growth year-on-year through companies' turnovers. After they come to us, we can see that their accounts have grown because they have been able to offer higher credit to companies they previously would have limited to small amounts.

We often find smaller companies can be slower in getting used to this because caution is so ingrained in them. Then after a year or two they become comfortable with how credit insurance works and we see turnover growing.

Enabling funding

Finally, trade credit insurance can also help companies secure funding. Especially small businesses, which need to factor their invoices. Having credit insurance in place gives the investors/funders more comfort in knowing the ledger's covered.

In the current environment, having trade credit insurance is especially important. The cost of living crisis and rising interest rates will have an impact on many businesses' ability to manage costs and pay debts, so we expect to continue to see insolvencies rise. This is why we advise financial decision makers at small businesses to take out this cover to get ahead.

For information on the types of trade credit insurance which Xenia brokers, visit [here](#).