What is trade credit insurance and should my company consider it?

Instability is the bane of business - choking opportunities, throttling investment, slowing down the smooth transactions required for growth and success. Here's how trade credit insurance can provide a stable trading environment in uncertain times.

The purpose of trade credit insurance is to protect your business from bad debts. In practice this means that any breakdown in your customers paying for goods or services can be covered by a credit insurance policy.

This provides a safety net keeping your company solvent, functional and allowing you to focus on the key areas of your own business rather than trying to identify the difficulties of your customer. Furthermore, insurers are able to point you in the direction of the better performing businesses in your sector. This allows you to increase sales safely in the knowledge that you have an unknown risk protected by a known cost.

Credit insurance cover is particularly useful in times of economic uncertainty such as we are seeing at the moment with insolvency levels rising greatly since the pandemic. It is also useful for companies moving into new markets and territories which may create a greater level of uncertainty.

How trade credit insurance works

Business credit insurance, also known as trade credit insurance or accounts receivable insurance, protects businesses when one of their customers is unable to pay a trade debt – usually due to insolvency or due to cash flow problems of their own, meaning they cannot pay within the terms of the contract. It can also be extended to cover the costs incurred for work in progress prior to raising an invoice which can be very beneficial to the management of your working capital requirements.

In trade credit insurance, a broker plays a highly active role. A specialist broker will research your market, business trends, and common risks. In Xenia's case, we not only advise our clients on the insurance market, but also on what we've seen in other businesses similar to theirs. We ensure we know who your competitors, peers and partner companies are and what the marketplace is doing. This advisory capacity means we gain a detailed view of how your company operates, allowing us to draw up bespoke, flexible insurance which provides exactly the right level of protection.

Benefits of trade credit insurance

The cover provided by trade credit insurance not only provides protection, but is also a clear sign your company takes risk management seriously. As such it can help secure improved financing terms from banks, helping your business grow more speedily and more prudently.

It also helps prepare for the possibility of customers not paying what they owe, providing a faster and more effective response across your business when the worst happens. Peace of mind for business owners is a priceless commodity. The complexities of running a business are stressful enough. If some of the plates you are spinning come crashing down, a safety net means you can rapidly pick up where you left off without ignoring other key areas of business.

Businesses with this kind of insurance can therefore grow with less risk as it puts them in a position to safely expose themselves to more customers. Furthermore, through using a specialist broker, companies can benefit from the expertise required to create a relevant policy, access to a team of credit risk experts and access to information on the financial health of your customers and business prospects.

Trade credit is a non-compulsory insurance product – unlike car insurance there is no legal requirement to have it. However, shrewd company owners know it is a vital tool in the risk management toolbox for maintaining stability and profitability.

For details of our specific credit insurance policies to protect businesses against the risk of defaults visit *here*.

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