Marsh

Trade Credit

Security of payment cannot be taken for granted. Any business that provides products or services on credit terms is potentially exposed to risk of non-payment.

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Application & Benefits

Within the complexities of the trade environment, a customer's payment history is no longer the only predictor of its reliability. Insolvency or default can be triggered by a range of issues, including:

- Loss of bank financing
- Bankruptcy as a business strategy
- Leveraged buyouts
- Global economic developments
- Changes in foreign government regulations

A well designed Trade Credit insurance policy can help protect your business from unexpected bad debts caused by insolvency, non-payment or political events, which can have significant impact on your cash flow and profitability. In the case study example on the next page, if ABC did not have this insurance in place at the time of their losses, they would be left to absorb such losses entirely with no relief from the insurer.

Benefits of an effective Trade Credit solution include:

- Cash flow protection
- Ability to make fast credit decisions
- "Safety net" to grow and expand the business
- Early warnings and detection for bad accounts
- Specialised debt collection services
- Exporting guidance and support
- Happy shareholders

Tailored Solutions

Our aim is to help companies operate through unpredictable economic environments. We build solutions to protect against receivables' risks and a wide range of other trade finance issues. We are committed to helping clients determine the commercial and political risks your business may face, by developing credit insurance programs which support and drive sales strategies and the provision of industry leading claims management support.

Case Study

Background of Claim

An Australian financial services client suffered a series of significant losses within a one month period. It caused serious financial turmoil for not only our client, but also the multiple partners invested in the business. A claim was made under ABC's Trade Credit insurance policy for full recovery of losses suffered by ABC as a result of nonpayment of fees from a number of customers who became insolvent, totaling approximately $800,000.

Insurer's Initial Position

The insurer initially denied the claim based on lack of supporting documentation from the client to prove there were payment breaches by its customers within the "maximum extension period", as per policy conditions. The insurer also questioned the client's internal credit management procedures, in particular, providing adequate documentation to evidence that the services charged were actually performed.

Specific Policy Conditions

The insurer was concerned that services were performed outside of the terms of the policy, in particular relevance to the following clause under the policy:

Automatic Stoppage of Cover
Cover shall not apply in respect of any loss you [or supplier] may sustain in relation to goods dispatched or, in the case of work or services, invoices submitted after the date of any of the following circumstances of Automatic Stoppage of Cover:

Payment of any receivable is still overdue from the Buyer at the expiry of the "maximum extension period" specified in the Policy Schedule. As soon as such receivable is paid, cover shall *be reinstated for goods dispatched or, in the case of work or services, invoices submitted after the date of payment, provided no other circumstance of Automatic Stoppage of Cover applies.*

Resolution

Following the initial claim denial by the insurer, Marsh conducted a detailed review of ABC's Operations Manual in order to obtain a better understanding of the business' internal credit management procedures. The outcome and findings from the review allowed ABC to demonstrate to the insurer that the services were indeed performed.

We also arranged and facilitated a series of meetings between our client and the insurer in an effort to provide the opportunity for ABC to display in person the comprehensive measures and strict internal loss prevention procedures the business followed. These meetings were critical in getting the insurer comfortable through very open dialogue.

The resolution was not a quick one and discussions progressed for several months. After persistent negotiations, the insurer eventually agreed to honour the claim for a settlement amount of approximately $800,000. This was an excellent turn-around result for our client, especially considering the initial position.

This really was a stressful time for our business. To have the assistance and guidance from Marsh was such a relief.

They really went above and beyond and guided us to a brilliant result.
Head of Credit & Risk, ABC

Myths & Misconceptions

Two of the biggest misconceptions around Trade Credit insurance are:

Myth 1: “It is expensive”

Reality

Premium rates for Trade Credit insurance typically range from 0.15% to 0.40%, which is considerably lower compared to other lines of insurance such as property and liability. In many cases, the low cost of Trade Credit insurance can be incorporated into the cost of goods or services so that the customer is effectively subsidising the policyholder for most, if not all, of the cost of the premium.

Myth 2: “You need to insure your entire book”

Reality

Generally, the structure of a Trade Credit insurance solution can be tailored to your business’s specific needs – whether it be insuring your entire ledger, or a select group of customers under a “specific accounts policy”. In short, whatever structure the company desires to suit their needs can generally be accommodated in today’s Trade Credit insurance market. Taking advantage of the flexibility in the market and zeroing in on where a company’s credit risk hot spots are is the key to obtaining cover for the unforeseen catastrophic non-payment events.

As companies extend their operations and reach nationally and internationally, many have found that using credit insurance to protect accounts receivables from unforeseen losses due to non-payment can be critical to the success of their business.

The risk of customer insolvency is perhaps one of the most unpredictable exposures to a business. In the above case study, we examined a recent real life example of how detrimental and immediate the effects of significant bad debts can have on the health of a business. We also looked at how having a sound credit insurance solution in place combined with good negotiation can turn an otherwise bleak situation around.

More Information

For more information about Trade Credit solutions and how they can potentially support or improve your business, please contact your Marsh representative.

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About Marsh

Marsh is the world's leading insurance broker and risk advisor. With around 40,000 colleagues operating in more than 130 countries, Marsh serves commercial and individual clients with data-driven risk solutions and advisory services. Marsh is a business of Marsh McLennan (NYSE: MMC), the world's leading professional services firm in the areas of risk, strategy and people. With annual revenue over $17 billion, Marsh McLennan helps clients navigate an increasingly dynamic and complex environment through four market-leading businesses: Marsh, Guy Carpenter, Mercer and Oliver Wyman. For more information, visit mmc.com, follow us on LinkedIn and Twitter or subscribe to BRINK.