Allianz Trade

Trade credit insurance: Finding the right provider

Trade credit, where a supplier of goods or services accepts a deferred payment from its client, is a commercial weapon that must be handled with care in order to protect your cash flow. Taking out a trade credit insurance policy remains the most efficient way to manage your trade credit risk. It is not always easy to choose the right provider and find a reliable partner with the necessary experience to manage risky situations and support your commercial development in the long term.

What is trade credit insurance?

A strong trade credit insurance remains the most reliable way to deal with the risk of bad debts. It guarantees an efficient protection of your cash flow in case of unforeseeable events.

If your customer fails to pay you, the insurer indemnifies a proportion of your receivable.

Trade credit insurance – also called accounts receivable insurance – can basically be seen as a 'bad debt insurance'.

What is included in a trade credit insurance policy

The words trade credit insurance cover a wide range of services. Make sure you have a clear view of what is and is not included in your trade credit insurance policy, especially in terms of the covered risks.

Predictive protection

Your insurer usually analyses and keeps you informed of the financial situation and creditworthiness of your new and existing customers, in order to help you assess how likely they are to pay their invoices on time and avoid potentially risky customers.

Your insurer will let you know the credit limit they are prepared to insure for each customer, meaning the maximum amount they will indemnify if that customer fails to pay.

This way, you can anticipate the risk of bad debt and adjust your credit control policy in real time.

This dimension is key: your insurer should not be a simple service provider, but an actual partner who accompanies you over the long term and advises you on a daily basis for the sake of your commercial development.

In the UK, SMEs agree up to 45-day payment terms from completion of work or delivery of goods. Despite this, almost 40% of invoices issued in 2019 were paid late

(Source: MarketFinance Business Insights)

Debt collection
In the event of unpaid invoices, you inform your insurer. If your policy includes debt collection, your insurer will start the debt collection procedures by investigating and trying to collect payment: after all, your customer might just need more time to pay you. If your customer has gone bankrupt, your insurer will deal with the receiver or liquidator on your behalf.

This service allows you to optimise your organisation by outsourcing a task that is potentially very costly and time-consuming.

Indeed, debt collection requires a great deal of expertise that some companies – especially SMEs – do not have. Commercial law is often complex and varies greatly from one country to another. An in-depth knowledge of local situations and current legislation is necessary to manage these potentially long recovery processes effectively. Allianz Trade country risk reports give you clues to manage these local risks and practices effectively.

The nature of the risk is also increasingly political between Brexit, the Chinese-American trade war, growing geopolitical tensions and monetary policy reversals. Your insurer needs a strong macroeconomic and geopolitical expertise to assess credit risks properly.

Some insurers offer political risk insurance for certain specific cases: civil or external conflicts, iniquitous acts of government, monetary crises...

Indemnification
If collection is unsuccessful, regardless of your client's legal situation, you are indemnified for the insured amount according to the terms of your policy, often up to 90% of the debt. Whether through debt collection or indemnification, you should get all or most of the money owed to you.

The trust factor is essential here: your insurer must offer you extremely clear terms of compensation.

A service of this nature also requires an insurer with enough financial strength to deal with difficult economic situations – especially with the Covid-19 epidemic, as trade credit risk has rarely been so strong.

> In Q3 2020, the cumulative turnover of insolvent major companies recorded an increase by +26% year on year to EUR64.9bn, following a surge in Q2 (+125% year on year to EUR101.2bn).
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> (Source: Allianz Trade 2020)

How much does trade credit insurance cost?

Generally, the premium for your bad debt insurance is calculated depending on your sector of activity and your turnover. For example, a company with an annual turnover of €10 million in a low-risk market (such as an EU country) will pay around €2,300 in monthly premiums for a standard trade credit insurance policy. However, this amount varies depending on the chosen type of coverage and sector.

It is important that your insurer offer you transparent rates, allowing you to accurately assess your potential return on investment.

In your ROI calculation, remember to include all costs inherent to an internal credit risk management: the cost of information (credit checks, credit reports), debt collection, staff, the financing of your working capital, commercial opportunity costs...

Why choose Allianz Trade as your trade credit insurance provider

With more than a century of experience, we are part of the Allianz Group and a renowned and longstanding specialist in trade credit insurance.

Our strength lies in **our cross-functional offer**, which covers all the essential guarantees of credit risk insurance. It adapts to companies of all sizes, across many different sectors of activity.

To that effect, you will benefit from:

- **Our financial analysis capabilities** to constantly evaluate the credit risk and solvency of your partners, with tools such as our customer platform Allianz Trade Online.
- **Our legal expertise** to carry out debt collection procedures in the best way possible, with in-depth knowledge of the playing field.
- **Our financial strength** to guarantee your indemnification and risk coverage, as evidenced by our AA financial rating from Standard & Poor's.

Moreover, thanks to our data collected in the field and our Economic Research Team, we are a **privileged observer and analyser of current and future micro-and macro-economic trends.** Check out our country reports and sector reports, as well as our coverage of the Covid-19 economic repercussions. With a comprehensive analysis and intervention capacity, covering all needs in connection with trade credit risk, our trade credit insurance solutions allow you to implement a credit control policy that is both efficient and safe. Contact our local teams to start insuring your future growth.

Contact us

If you have any questions, please fill in the request form and a colleague will be in touch with you.

With more than 6,000 employees in over 50 countries, we advise and support more than 55,000 clients.

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