

Credit Insurance-Dispelling the Myths Putting the Misconceptions about Credit Insurance to Rest

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Every day your largest asset goes out the door. Accounts receivable, which typically represent more than 40% of a company's assets, are not only your largest asset, but also the most vulnerable to unexpected loss and business cycles. There is an inherent risk associated with extending credit to your customers and trusting them to pay you for goods or services. In reality, you may have thousands, maybe even millions of dollars in receivables outstanding at any one time without something to protect your company in the event you're unable to collect. While there is a relatively clear-cut answer to this all-too-common problem, credit insurance (accounts receivable insurance) has relatively modest market penetration among United States businesses, despite being a well-established product in the global insurance market. While this product enjoys more than 70% market penetration in Europe, there are many misconceptions that keep this valuable and useful product sidelined in North America. To convey a better understanding of this useful product and its benefits, presented here are answers to the top misconceptions about credit insurance:

10. "It's too expensive."

Have you looked at it in the past six months? While credit insurance doesn't come cheap, the influx of additional insurers into the U.S. credit insurance market and relatively strong economic conditions have driven prices down considerably in the past five years. Credit insurance is priced very subjectively, and as a result, users of this product have enjoyed tremendous savings over the past few years due to considerable rate reductions.

9. "We don't have any bad debt."

You've never taken a loss in the history of your company? If that's true, let me be the first to congratulate you. But let me ask you this: *Is your company achieving the levels of success that it should be?* Lack of losses, while the sign of prudent credit management, is also the sign of a company that is relatively conservative with customer credit. Perhaps you are restricting or turning away customers because you're not comfortable with extending larger credit limits for fear of suffering a larger loss if your buyer is unable to pay. You may be turning away millions of dollars a year in business because you're not comfortable taking the risk.

Credit insurance is as much about growing your sales and profits as it is about protecting your current outstanding receivables. By insuring your accounts receivable, you can extend larger credit limits, or more competitive terms of sale, giving you the leg up on your competition while actually *reducing or eliminating* your risk. Credit insurance is an operational tool that provides you with a blanket of protection that allows you to grow sales and profits, reduce bad-debt reserves, increase bank financing, stabilize your cash flow, and virtually eliminate bad-debt losses. This coverage can pay for itself due to the increase in sales you can generate as a result of insuring your A/R.

8. "Our Credit Manager does a good job."

So does your Plant Manager, but you still have fire insurance, don't you? You offer great products and services, but you've got liability coverage as well. Like all insurance products, credit insurance is designed to protect you from the financial loss caused by unforeseen events.

Many have the misguided notion that credit insurance is designed to *replace* seasoned credit managers, which is not the case; there is *no substitute* for sensible credit management, and a good Credit Manager can help your company make or break financial goals year after year. By providing information, credit support, and payment assurance, credit insurance *helps* Credit Managers do their job better by improving their ability to make wise choices regarding customer credit.

7. "It's too much extra work for me to handle."

Unlike your auto or homeowners insurance, credit insurance is not a policy that you shove in a drawer and forget about until you have a potential claim. There are responsibilities associated with having a credit insurance policy, such as reporting past due accounts and updating the customers who are covered under your policy; these tasks are easily handled by any member of your staff. Today, credit insurance policies come with online policy management systems, allowing you to research new customers, file claims, report past dues, and other various tasks at the click of your mouse. If anything, the tasks associated with your credit insurance policy will keep you on top of your customers' accounts, without weighing you down.