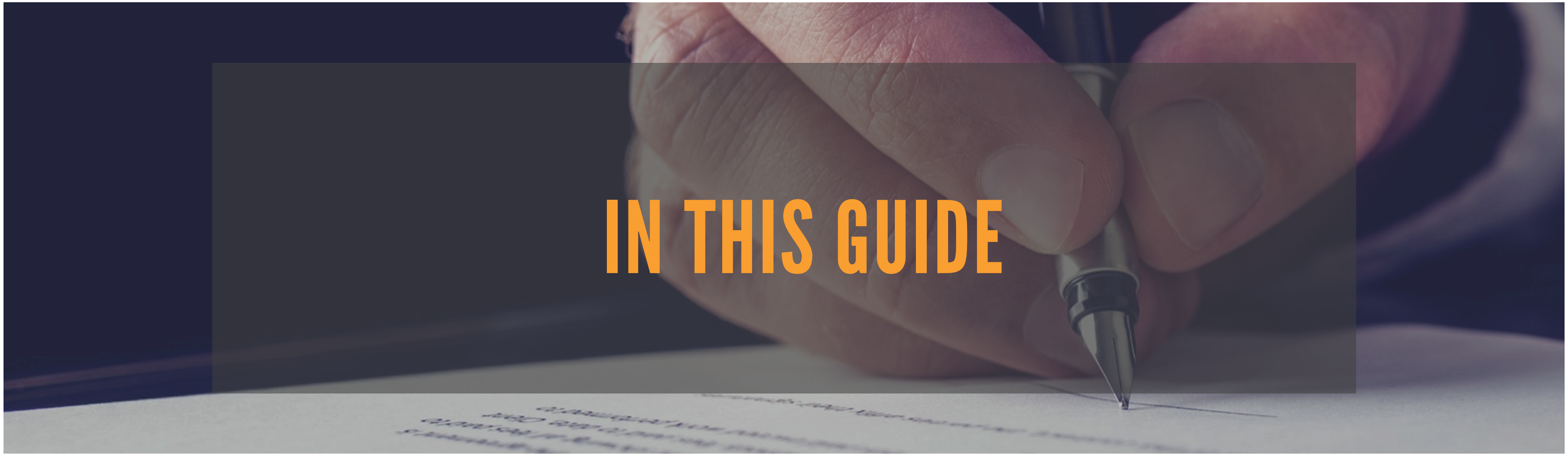

CREDIT
INSURANCE
What you need to know before
selecting your policy...
FGI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What is Credit Insurance?

When a business sells goods or services on credit, there is always a risk that the customer may not pay. Trade credit insurance provides coverage against this risk by insuring the receivables in the event the customer fails to pay due to problems with cash-flow, insolvency, or other reasons related to the financial ability of the customers to pay their debt.

Trade credit insurance can be useful for businesses that rely heavily on offering open terms. The insurance can help reduce the risk of bad debt, protect cash flow, provide more working capital, and give greater confidence when entering new markets or dealing with unfamiliar customers.

> "Trade credit insurance provides coverage…in the event the customer fails to pay due to problems with cash-flow, insolvency, or other reasons related to the financial ability of the customers to pay their debt.

What Are the Benefits of Credit Insurance?

7 Benefits to Having a Credit Insurance Policy in Place:

1. Ensures that your most valuable assets, your accounts receivables, are protected.
2. Provides you with the ability to take calculated risk to safely expand your sales both domestically and internationally.
3. Eliminates the need for bad debt reserves, freeing up more working capital.
4. Aggressively grow your sales by extending better terms to existing clients and prospects.
5. Provides protection against catastrophic loss.
6. Enhances balance sheet strength to potentially qualify for better lending programs.
7. Reduces the chances of cashflow interruption due to nonpayment.

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Types of Credit Insurance

The Different Types of Coverage

There are several types of credit insurance policies available, each designed to cover different risks.

Common types include Whole Turnover, Key Account, Excess of Loss, Political Risk, to name a few.

Most policy types include Named Coverage, where the insured can select which customers they want to insure, thus naming them to the policy.

Another common form of coverage, called Discretionary Coverage, allows the insured to qualify buyers for coverage up to a certain threshold without obtaining approval from the insurer.

Named Coverage

There are Two Types of Named Coverage.

Cancellable (also referred to as Traditional) and Non-cancellable coverage can both provide valuable protection for businesses against the risk of non-payment by buyers. The choice between the two types of coverage depends on the specific needs and risk tolerance of the business, as well as the terms and conditions of the policy.

CANCELLABLE

- Cancellable or Traditional coverage allows the insurer to reduce or cancel coverage on a buyer at any point. This typically occurs when the insurer has received adverse information on the buyer.
- The carrier is continuously monitoring the buyer's financial status and, if the buyer's financials take a turn for the worse, the carrier has the authority to cancel or reduce the coverage.
- The insurer is often aware of adverse information on a buyer before the policyholder. They may use this information to reduce or cancel the coverage as an indication to discontinue selling on terms to avoid a potential loss.
- Although coverage can be canceled, most carriers have a standard delayed effect endorsement which allows the policy holder to continue to ship and take new orders for a period of 30 or 60 days after the cancelation is issued. Once the stated time expires, all prior shipments will still be eligible for coverage, however future shipments are not.

NON-CANCELLABLE

- Non-cancellable coverage cannot be cancelled or adjusted by the insurer during the policy period.
- Specific limits can be imposed, such as coverage on buyers or country limits.
- Typically, this coverage option has some form of "cease shipment" clause.
- Overall, Non-cancellable coverage requires more robust credit management procedures due to its complexities.

Discretionary Credit Limit (DCL) Coverage

Discretionary credit limit does not come standard on all policies and must be specifically endorsed.

It essentially serves as "blind" coverage, allowing the insured to extend a set amount of coverage to their customers without notifying or requesting approval from the carrier (i.e.: named coverage).

- Typically, it benefits companies that have a large customer base with small balances and/or regularly take on new customers on terms.
- The endorsement will specify the maximum amount of coverage available for each customer and, once the receivables have exceeded this amount, it is recommended that named coverage be requested.
- The insured is required to qualify the account up to a specific DCL coverage amount outlined in the policy based on predefined criteria. This can include credit reports, trade references, or payment experience.
- It's solely managed by the insured; meaning the policyholder is not required to request coverage or notify the carrier. However, they may be required to show how the account was qualified in the event of a claim.
- While it provides the flexibility to extend coverage to smaller customers, it also requires stronger credit management procedures based on the following:
  - The insured's ability to provide appropriate documentation in the event of a claim. It is recommended that the insured request/gather this information prior to raising the invoices on terms to avoid scrambling for the documentation last minute.
  - If outstanding AR exceeds the maximum discretionary limit, the insured needs to either request a named limit to cover the balance or require alternative forms of payment for the customer.

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Defining Your Policy Requirements

As you begin shopping around for a credit insurance policy, it's critical to clearly define your current and future needs. By doing so, you will know which type of policy is right for you.

Questions to Consider While Defining Your Policy Requirements

- What are the pain points and areas for improvement in your current credit management process?
- What does your customer base look like (i.e.: size, concentration, location)?
- What is your growth/expansion strategy?
- How have losses (bankruptcies, slow pays) impacted your business?
- Have you ever had the need for additional captial that you were unsuccessful in attaining from your lender?
- Do you have a significant concentration of risk?
- Has the credit decision-making process become something you need more help with or want to outsource?

As you consider these questions, it may be beneficial to work with an advisor to help define your policy needs.

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Selecting Your Policy

What You Need to Know Before Signing on the Dotted Line

Once you've clearly defined your short-term and long-term needs, it's time to select your policy.

Ultimately, the decision of which type of credit insurance policy is right for your business will depend on a variety of factors and your ability to stay in compliance.

By carefully assessing your needs and working with a knowledgeable advisor, you can select a policy that provides the right level of protection and peace of mind.

Selecting Your Policy

Use the checklist to ensure you are considering all aspects of credit insurance before signing on the dotted line!

Carrier:

- ❑ Credit insurance policies are not standardized. Two carriers may offer the same type of policy but with different coverage.

Types of Coverage (Named or DCL):

- ❑ Ensure you understand the difference between named credit insurance (and the different types) and DCL. This will be instrumental in helping you decide which type of insurance is right for you.
- ❑ Consider whether it makes sense to name all customers individually to the policy. If not, discretionary coverage is a better option.

Risk

- ❑ If your industry and sector deals with high political or economic risk, look for a policy designed to cover losses that can result from government action, political unrest, and economic turmoil.
- ❑ If you have a significant concentration of risk, look for a policy that can help safeguard against catastrophic loses that pose the greatest risk to your business.

Cost:

- ❑ While you may be tempted to select a policy based on cost, don't do it! The most important factor in your decision-making process should be what best suits your business needs.

Compliance:

- ❑ The number one reason claims do not get paid is because of failure to stay in compliance. Therefore, an important part of your policy selection process should include selecting the carrier/policy that best fits your business's ability to stay in compliance with the policy.
- ❑ Since all policies are not made equal and obscure clauses may make it difficult for you to stay in compliance, you may want to consider working with a knowledgeable broker.

Software:

- ❑ Depending on the size and activity of your AR and industry sector, a policy management platform is a great way to enhance your current credit management practices and ensure your policy is always in compliance, both of which will help you run your business more efficiently.

FGI Risk

Credit insurance policies are unlike other types of insurance policies. They are dynamic and need to be managed in a different manner than other insurance products.

However, when managed properly, credit insurance is an extremely valuable tool that can help improve the overall risk of your customer portfolio.

At FGI, we have a dedicated team of credit insurance experts. Not only can we help you select the policy that is right for you, but we can also help you manage compliance through **FGI T.R.U.S.T.™**, a proprietary platform that automates policy compliance management to ensure your claims get paid. Reach out to us for help on your credit insurance journey.

FGI Risk specializes in all aspects of credit risk mitigation.

Our expertise ensures that our customers receive the proper and complete coverage they need to protect their bottom line. We offer the highest quality credit insurance products on the market and cater to our clients' needs with tailored solutions.

Why FGI?

Experience

- Tier-one broker.
- Over 20 years of experience in structuring and creating complex credit insurance programs.

Communication

- Provision of FGI's licensed brokers to work closely with designated teams within each carrier.
- Development of specialized credit insurance agreements and riders for all needs.

Optimization

- Our credit insurance management platform, T.R.U.S.T.™, provides the latest technology to monitor and collect on credit insurance policies.
- Tasks of managing the nuances of each policy are outsourced.

T.R.U.S.T.™

Credit Insurance

International Receivables Protection

Political Risk Protection

Credit Puts & Swaps

Receivables Management (S.M.A.R.T.™)

Credit Information

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