
# Protect and Grow Your Business With Confidence

Why Trade Credit Insurance Matters

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# Section One
# Introduction

If you're a business owner, financial manager or chief financial officer, it's important for you to understand **what** trade credit insurance is, **why** it matters and **how** it works.

Put simply, trade credit insurance is a service that monitors creditors and protects businesses, offering a cost-effective and simple way of insuring against the risk of not getting paid by your clients. In addition, it can support business growth at home and internationally, improve your business' cash flow and potentially make it easier for you to obtain bank loans.

This whitepaper will help you learn more about the benefits of having trade credit insurance and why forgoing it isn't a risk worth taking.

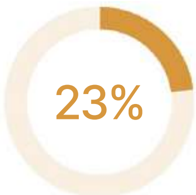
We use the words 'client' and 'customer' interchangeably throughout to refer to a business' contract/account/the person it's doing business with

# Trade credit insurance: What the numbers say

Demand for trade credit insurance is being driven by increasing recognition of the growing risk of credit default

Year-on-year (2023-24), most industries have seen a significant increase in the percentage of companies in financial danger


Increase in annual UK business insolvencies compared to pre-pandemic levels




Increase in insurance payouts to help businesses survive bad debts in the first half of 2023

For sources, see Appendix

# Section Two
# The role of trade credit insurance in business growth

Trade credit insurance plays a crucial role in business growth. It mitigates the risks, supports expansion, safeguards cash flow, enhances your finance options and provides valuable market insights. You can use it to empower your business to pursue new opportunities with confidence, fostering long-term success and stability. Let's take a closer look at some of trade credit insurance's roles in business growth.

## Risk mitigation

Trade credit insurance helps companies manage the risks that come with extending credit to customers. One of its primary benefits is **protection against non-payment due to client insolvency or default.** When businesses extend credit to customers, there's always the risk that those customers could fail to pay, whether due to bankruptcy or financial instability. Trade credit insurance helps mitigate this risk by covering a significant portion of the unpaid debts, ensuring that businesses can maintain steady cash flow even if a key client defaults. This layer of financial protection allows companies to focus on growing their operations without worrying as much about the risks of unpaid invoices. Likewise, by reducing the risks associated with global trade, **trade credit insurance gives businesses the confidence to explore growth opportunities**, expand into new regions and develop relationships with new clients.

## Financial flexibility

Trade credit insurance **significantly enhances a company's financial flexibility**, starting with its impact on working capital. By **protecting accounts receivable**, it helps secure one of the most critical assets on a company's balance sheet. If a customer defaults or delays payment, businesses are still able to recover a portion of the receivable through insurance. This means companies can **operate with greater confidence**, using their insured receivables as a form of security. As a result, firms can reinvest that capital back into the business, whether for growth, operations or innovation, without fearing cash flow disruptions due to unpaid invoices.

It also enables businesses to **offer more attractive payment terms to clients.** With the safety net of trade credit insurance, companies can extend longer payment windows to clients, which can make their offering **more appealing in competitive markets.** In turn, this can lead to **increased sales volume and market share**, as clients prefer flexible terms. Additionally, the assurance that cash flow will remain stable even if customers face financial difficulties gives companies the freedom to focus on scaling up, taking on larger contracts or entering new markets without excessive risk. Altogether, it supports business growth by **ensuring financial security and promoting more dynamic, customer-friendly payment strategies.**

## Market intelligence

Trade credit insurance's valuable **market intelligence** supports informed growth strategies. Insurers typically maintain **vast databases on the creditworthiness** of companies across various industries. By accessing this data, businesses can gain a clearer **understanding of their clients' financial health,** helping them identify which clients present the lowest risk and which may require stricter credit terms. This insight allows businesses to extend credit more confidently and protect themselves against potential payment defaults, especially when engaging with new or less familiar clients.

Beyond credit evaluations, trade credit insurance can offer **real-time risk assessments of global markets,** highlighting regions or industries that look promising for expansion. This market intelligence can guide companies in strategically targeting areas for growth where risks are minimal and opportunities are strong. By leveraging this data, businesses can **explore new markets with confidence,** knowing they have reliable information on both customer creditworthiness and external economic factors. Overall, trade credit insurance **enhances strategic decision-making,** as businesses can balance opportunity with risk using the detailed market analysis and financial insights provided by their insurers. This data-driven approach helps firms expand sustainably while protecting against unforeseen market shifts.

## Strengthened business relationships

Trade credit insurance can **strengthen business relationships,** both with new and existing clients. By providing a safety net for unpaid invoices, it **instils trust** in credit agreements, **boosting confidence** when entering into new partnerships and offering existing clients **more flexible credit terms** without the fear of non-payment. Having the ability to confidently extend credit helps businesses **develop a reputation for reliability,** making them more attractive partners.

It also **allows for smoother trade negotiations.** With the backing of trade credit insurance, businesses can negotiate credit terms from a stronger position, knowing their revenue is protected even if a deal doesn't go to plan. This **reduces the friction** that can accompany credit discussions, **facilitating long-term partnerships** built on mutual security (as clients are more likely to return if offered stable, dependable terms).

## Enhanced financing options

Trade credit insurance can significantly enhance a business' access to financing as it **improves its credibility with lenders and investors.** Since trade credit insurance guarantees payment even if customers default, it effectively reduces the risk tied to accounts receivable. Lenders often view insured receivables as a safer and more reliable asset, which can improve a company's credit profile. This makes businesses more attractive to financial institutions, as they are seen as lower-risk borrowers. The credibility that comes with trade credit insurance can lead to **better loan terms,** including lower interest rates or higher credit limits, **making capital more accessible and affordable** for growth initiatives.

With insured receivables, businesses can secure working capital financing or lines of credit more easily, knowing their revenue streams are protected. This ensures that businesses **have the liquidity needed to pursue new opportunities,** such as entering new markets, increasing production or investing in new technologies.

Ultimately, trade credit insurance not only protects businesses from financial losses, but also provides the financial flexibility required to fund ambitious growth strategies.

# Section Three
# Financial benefits of trade credit insurance

## Facilitating access to financing

Trade credit insurance can significantly boost a company's creditworthiness, which in turn enhances its access to capital. By ensuring that a business' receivables are protected against non-payment, it reduces the risk lenders and/or investors might associate with offering credit or capital.

Accounts receivable represent a key asset on the balance sheet. When they are insured, it assures financial institutions that the business has a reliable source of revenue, even if some clients default, because the insurance guarantees that a portion of the receivables will be paid. This reduction in risk often translates into better loan terms and increased access to financing options.

This reassurance for lenders allows businesses to secure larger loans or credit facilities, which can be crucial for growth initiatives like expanding into new markets or investing in equipment.

## Analysing the cost of trade credit insurance versus its benefits

While trade credit insurance comes with a cost, the financial benefits often far outweigh the expense, especially when it comes to fostering business growth. The premiums for trade credit insurance are typically calculated based on a company's turnover and the risk profile of its customer base. While this might seem like an additional expense, it's a small price to pay when considering the protection it offers. For many businesses, unpaid invoices represent a significant threat to cash flow and overall financial health. Trade credit insurance ensures that, even if a client defaults, the company will recover the majority of the owed amount, protecting the business from catastrophic losses.

The cost of trade credit insurance is also balanced by the opportunities it creates. Businesses with insured receivables can confidently extend more favourable payment terms to clients, improving their competitiveness in the marketplace. These flexible credit terms can attract more clients and drive higher sales volumes, leading to increased revenue. In addition, as previously discussed, having insured receivables improves the company's creditworthiness, which can result in better financing terms from lenders and more potential to grow.

Remember that trade credit insurance can provide more than just insurance. It often comes with access to market intelligence, risk assessment tools and credit monitoring services. These features enable businesses to make more informed decisions about which clients to extend credit to and which markets to enter. It's an added layer of strategic insight that can prevent costly mistakes and allow companies to capitalise on new opportunities more effectively.

In the long run, the benefits of trade credit insurance far exceed the cost of the premiums. For companies looking to grow sustainably while managing risk, it is a valuable investment that protects both the bottom line and future business opportunities.

# Section Four
# Competitive advantages

## Leveraging credit to grow sales

You can use trade credit insurance to extend credit terms for clients as a competitive advantage, turning credit into a powerful tool for growth. Typically, offering longer payment periods makes your products or services more attractive to buyers, especially in competitive markets. However, doing so can expose you to the risk of unpaid invoices. Trade credit insurance mitigates this risk by insuring the receivables, allowing businesses to extend credit without worrying about non-payment.

By extending credit terms with the security of trade credit insurance, companies can differentiate themselves from competitors who may not offer the same flexibility. Customers often prefer suppliers that provide favourable payment options as it helps them manage their own cash flow better. This can directly lead to increased sales, as more customers are likely to choose your business over those that require immediate or shorter-term payment. Longer credit terms also foster stronger relationships with customers, building loyalty and encouraging repeat business.

## Building stronger customer relationships

One of the key benefits of offering insured credit terms through trade credit insurance is the trust and confidence it fosters in client relationships. When a business extends credit to a customer with trade credit insurance in place, it signals that the company not only believes in the customer's creditworthiness but is also prepared for any financial uncertainty. This dual assurance helps build a foundation of trust between businesses and their clients.

Offering insured credit terms reassures customers that the relationship is built on stability and security. Clients understand that businesses are taking responsible steps to manage risk, which reflects positively on their professionalism and long-term planning. This can be particularly important for newer clients or those in industries prone to economic fluctuations. Knowing that their supplier has a safety net through trade credit insurance can encourage more clients to engage in business, creating an atmosphere of mutual confidence and reliability.

Insured credit terms can also lead to longer-term partnerships. When customers know that their supplier offers flexible insured payment terms, they are more likely to view that business as a trusted partner capable of supporting their own growth. Trade credit insurance enables businesses to offer payment plans that better align with their clients' cash flow needs, further strengthening the relationship by reducing financial pressure on both sides.

This trust factor also extends to entering new markets. When expanding into unfamiliar regions, offering insured credit terms can make potential customers more willing to engage in trade, knowing that risks on both sides are minimised. As a result, trade credit insurance doesn't just protect the business; it enhances its reputation as a trustworthy, customer-oriented partner, fostering deeper, more secure client relationships that contribute to long-term business growth.

# Section Five
# Understanding trade credit insurance

## What is trade credit insurance?

Trade credit insurance helps businesses manage the risk of unpaid invoices by monitoring customer creditworthiness and providing payment if clients fail to pay. It offers a straightforward and cost-effective solution for companies that want to protect their cash flow, particularly those that extend credit to their customers. This type of insurance ensures businesses can maintain financial stability even when payment defaults occur, safeguarding against significant losses and allowing owners to focus on growth rather than risk.

Beyond protecting against unpaid debts, trade credit insurance can be a valuable tool for business expansion. With guaranteed income and tailored policies that take into account different currencies and languages, it supports companies entering new markets. This coverage often comes with added benefits like market analysis and customer insights, helping businesses make informed decisions.

By combining financial protection with strategic insight, trade credit insurance is a practical way for businesses to manage risks while pursuing growth opportunities.

## Our trade credit insurance policies and products

We offer a range of trade credit insurance policies and products to suit your business needs. They include:

### Whole turnover cover

- A broad type of coverage that insures your client accounts against non-payment
- Ideal if your business has a lot of clients; in the case that any of them fail to pay, you (and your cash flow) are covered

### Principle customer cover

- A way to shield your business from big losses if something happens to your key client
- Particularly useful if you have one major client who makes up a significant part of your revenue

### Catastrophe cover

- Protects you from extreme events where multiple clients default all at once, such as during an economic crisis
- Comes into play in the event of larger-scale, unexpected financial hits

### Single or specific account cover

- Offers tailored protection that covers one specific client or a selection of your customers
- Worth considering if you're entering into a somewhat risky deal or working with a new partner

### Trade finance

- A financial service that helps businesses get funding by securing payment for goods in transit
- Often linked with trade credit insurance because having insured invoices makes it easier to get financing

### Credit reports

- Detailed profiles of your clients' financial health
- Used before you extend credit to help you assess how likely a client is to pay on time, thus reducing risk

Speak to a member of our team to find out more about which products might best suit your circumstances and ambitions.

# Section Six
# Types of trade credit insurance cover

We've touched on different types of trade credit insurance throughout this whitepaper, but let's take a closer look at four of the main cover types.

## Whole turnover policies

Whole turnover policies are the most common form of trade credit insurance. They are designed to **cover an entire portfolio of customer receivables.** Instead of insuring individual clients, this policy offers broad coverage, protecting businesses against the risk of non-payment from any client in their portfolio. This simplifies risk management and allows businesses to extend credit with confidence across their entire client base. It's especially beneficial for companies with multiple clients, as it provides comprehensive protection and often comes with lower premiums per customer due to the broader scope. Whole turnover policies ensure consistent cash flow and are ideal for businesses looking to safeguard their revenue without needing to assess individual buyers.

## Single buyer or selective policies

Single buyer or selective policies are tailored for businesses that wish to **insure specific customers or contracts only.** This type of policy is typically used when a business has one or a few key clients that make up a large portion of its revenue. In these cases, a company may choose to insure just those high risk or high value customers. It's a more targeted form of trade credit insurance, providing focused protection where it's needed most. This type of coverage is ideal for companies that have concentrated exposure to a few buyers or for those entering into a large, high value deal with a new or unfamiliar customer.

## Excess of loss coverage

Excess of loss coverage is designed for larger businesses with strong credit control processes that are primarily focused on **covering catastrophic or high-level risks.** This policy kicks in only when losses exceed a pre-agreed amount, meaning it protects against unusually large defaults or multiple smaller defaults that surpass the set threshold. This type of policy can be more cost-effective than full coverage because the business is absorbing some of the smaller risks themselves. It is ideal for companies with established risk management processes that are looking for additional protection against worst-case scenarios.

## Export credit insurance

Export credit insurance is specifically designed for businesses trading internationally. It **covers the unique risks associated with cross-border transactions**, such as political instability, currency inconvertibility or government actions that might prevent payment. Export credit insurance is especially important for businesses entering unfamiliar or high-risk markets. It provides not only financial protection but also helps businesses expand confidently into global markets by mitigating the uncertainty and risks of dealing with international buyers. With this coverage, companies can secure new contracts abroad without fearing the volatility often seen in global trade.

# Section Seven
# Conclusion

As you've read, trade credit insurance can be a powerful, strategic tool for business growth. Let's recap on some of the main ways it can benefit your business now and in the future.

**It can protect against bad debts,** shielding you from financial loss due to customer insolvency or non-payment, ensuring steady cash flow

**It can boost creditworthiness,** improving your company's profile with lenders/investors, making it easier to secure better financing terms and capital

**It can enhance sales** by allowing you to confidently offer longer payment terms to customers, increasing competitiveness and driving higher sales volumes

**It can support international expansion** by mitigating risks associated with global trade, enabling you to explore new markets safely

**It can offer market intelligence**, providing access to valuable data on your clients' creditworthiness and market conditions to guide better decision-making

**It can strengthen customer relationships** by helping you to build trust through offering insured credit terms, fostering long-term and repeat business

**It can facilitate better financing** as your insured receivables act as collateral, improving terms for loans and credit facilities that can be used for growth

**It can offer customisable coverage**, with flexible policies tailored to your specific business needs

**It can mitigate catastrophic risks**, protecting you against large, unexpected financial hits and providing peace of mind

Trade credit insurance supports not only risk management but also strategic growth, making it an essential tool for expanding companies.

If you wish to find out more about having trade credit insurance for your business, contact us today on:

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credit@thomas-carroll.co.uk

With over 50 years of experience in protecting businesses against risk, we have the resources you need to protect your business against the everyday and the unexpected.

# Appendix:
# Resources and further reading

**ABI (Association of British Insurers)**
'Trade Credit Insurance payouts up 23%...' (web article, 2023)

**Allianz Trade**
'Inflation and insolvencies cloud UK outlook' (web article, 2023)

**Company Watch**
UK Financial Risk Indicators (web article, 2024)

**Marsh**
Credit Specialties market update: Q3 2023 (2023)

**Thomas Carroll**
Trade Credit Insurance (web page, 2024)

thomas carroll

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