

WHAT IS CREDIT INSURANCE AND WHY IS IT SO IMPORTANT?

In short, Credit Insurance is designed to protect your business if a customer does not pay, becomes insolvent or a supplier does not deliver or becomes insolvent. It can also keep an eye on your customers' credit to give advance warning and help reduce exposure to potential bad debt.

Are you at risk from your customers?

Jamie Coskry, Development Executive, Towergate Insurance Brokers, advised: "In these turbulent times, whether your supply chain and customers are local or international, your business is likely to be affected by the current economy. You may find your supplier is being affected by their own supply chain, impacting on your deliveries; or your customers may start to delay payment beyond the credit terms agreed.

Consider what happened with Debenhams, Made.com and Cath Kidston; all strong brands that called in the administrators. This is why you need to understand the protection Credit Insurance provides for the longevity of your business."

You may think that your business model and those of your customers mean you are 'safe'. It is worth acknowledging that the number of registered company insolvencies in May 2023 was 2,552, 40% higher than in the same month in the previous year (1,825 in May 2022). This was higher than levels seen while the Government support was in place for the coronavirus pandemic and also higher than pre-pandemic numbers.* Considering the impact of Brexit, the war in

Ukraine and inflation are still unpredictable, there has never been a more pertinent time to protect your business.

What does credit insurance do?

If you are not paid or a contract is not completed and you are out of pocket, the insurer will chase the debt on your behalf. If that debt is not recoverable, then the insurer will pay the loss (or more normally 90% of the loss). In addition, the insurer will monitor the credit status and stability of your supply chain and warn you if a business looks vulnerable, giving you the opportunity to act in advance. Having the knowledge that your credit risks are reduced allows you to operate with more confidence.

It's not all doom and gloom and looking for the bad debt, though: Credit Insurance can also be used as a tool to assist with increasing your sales and profit. How? Here's an example: a company's Finance Department had restricted a credit line to a customer to £100,000. They then purchased a Credit Insurance Policy and the insurer was able to approve a limit of £150,000 on that same customer. With a 15% margin and an average days sales outstanding of 45 days, the company was able to increase their sales to realise an incremental annual gross profit of £60,000 on just that one account.

For more information please contact Jamie Coskry at jamie.coskry@towergate.co.uk or call **07977 629674**

*<https://www.gov.uk/government/statistics/monthly-insolvency-statistics-may-2023>

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