Introduction to Credit insurance

Providing protection against non-payment risk, enhancing business growth and facilitating access to finance
About Aon Credit International

Aon Credit International (ACI) is the leading international credit insurance broker offering solutions to protect against credit risk, enhance business growth and facilitate access to trade finance.

With teams in 57 countries, ACI brings distinct expertise, analytics and creativity to identify and propose the right solutions for businesses in any sector. As market leaders, ACI has tangible leverage in the market, optimising coverage and limit capacity whilst also delivering an all-encompassing, tailored service proposition.
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Introduction

Credit insurance is becoming increasingly important. Having the right payment terms with your customers is critical to your competitiveness and being able to grow your organisation with confidence. Ensuring that those terms of business are adhered to is not always in your control. Without protection that your invoices will be paid, your business decisions are based on faith and past experience alone, which may not be the best grounds for ensuring business profitability.

According to the recent Atradius survey results for B2B payment practices, over 40% of invoices remain unpaid past due date.

This is where credit insurance and robust credit management policies can help. Credit insurance is as much about protection against bad debt as a facilitator for growth and maximising your profitability.

This short guide aims to help you understand how credit insurance can support your business, assess whether you really need it and give insight into why it is of growing importance.
What is credit insurance?

Credit insurance primarily protects your business from the impact of bad debts or customer insolvency. If your customers fail to pay, the insurance kicks in to ensure your business is not left with a cash flow problem. However, it’s not just about risk transfer.

Credit insurance also facilitates growth. As part of your risk analysis process, it helps by giving you more detailed profiles of your customers, allowing you to develop an understanding of markets where growth is an option, underpinned by the confidence that your invoices will be paid.

The risks of customer insolvency, or protracted payment defaults, are covered, which may also enable you to negotiate more favourable terms with banks and financial institutions.
Who buys credit insurance?

Credit insurance is relevant to all businesses and all markets

Any company exposed to business to business credit risk, through the sale of goods and services on open account credit terms, can benefit from credit insurance. The product is suitable for companies of all sizes from the largest multinationals and corporates to start up SMEs. Organisations that export and / or avail themselves of trade finance facilities offered by banks are particularly likely to benefit.

Did you know..?

- For the first time since 2009, insolvencies are expected to increase globally (by 1%) in 2016.
- Globally, the days sales outstanding is 64 days (2016), but 1 out of 4 companies are paid after 90 days.
- The metal industry remains the most high risk sector, followed by Textiles, Construction and Energy.

Source: Euler Hermes

Do you need credit insurance?

Answer the following questions to find out

1. Do you sell goods or services on a business to business basis?

2. Do you provide credit terms to your customers or have you considered doing so?

3. Would you like to improve your cash flow?

4. Are your sales concentrated on a small number of key customers?

5. Would non-payment by a customer have a detrimental impact on your financial performance?

6. Do you plan to expand into new markets, sectors or countries?

If you have answered yes to any of the above questions then credit insurance could improve your cash flow, profitability and growth capacity.
Main types of credit insurance solutions

**Multi-Debtor**
A credit insurance policy that covers the insured's total credit sales

**Key buyer / named buyer**
Cover for the insured's largest or selected buyers only

**Contract Frustration**
Insuring the risk of the impossibility to perform a trade contract

**Specific Account**
Cover for all sales to one debtor or for a single contract with one debtor

**Excess of Loss**
Insurance, cover or indemnification in excess of an annual aggregate amount of first loss to be borne by the insured

**Bonds and Guarantees**
Bonding facilities to replace or sit in excess of existing bank bond facilities, Letters of Credit and guarantees

**Top Up**
Additional coverage in excess of primary credit limit on a single buyer or selected buyer basis
Benefits of credit insurance

Promotes sales growth whilst maintaining controls
The enhanced credit management processes reinforced by credit insurance allow you to safely extend payment terms to customers in existing and new or developing markets.

Directs and supports sales to higher margin markets
Top or key account cover is available to support sales to specific or high level margin markets.

Supports mergers and acquisitions
Credit insurance provides investee companies with protection against bad debt from acquired or merged customer portfolios.

Facilitates access to finance
Having credit insurance can increase your credit rating giving access to improved and more economical levels of finance.

Balance sheet engineering
You can use the debtor asset on your balance sheet to free up working capital by utilising invoice discounting or factoring.

Cost effective security provision
Credit insurance can act as a cost-effective replacement for expensive bank guarantees and letters of credit.
Enables companies to extend credit terms
As your shipments are covered, the fear of “not getting paid” is removed meaning you can offer extended payment terms to customers giving you a competitive edge in your market.

Reinforces credit management processes
Disciplines within a credit insurance policy support best practice and sound credit management processes, reinforcing and enhancing your existing procedures.

Access to credit risk expertise and analysis
Support is available for setting credit limits on your customers, collections, and, in the event of a claim, the management of recoveries and salvage.

Identifies potential losses
Access to key credit risk analysis from the insurers on company, sector, and political risk gives invaluable insight to assist in avoiding losses.

Greater insight into customers’ likelihood to fail
Valuable market intelligence from the insurer including trend analysis, payment performance, and economic and political challenges affecting your customers.

Transfers risk to insurer’s balance sheet
Credit insurance removes the credit risk from your balance sheet which improves your margin and bolsters your P&L.

Reduces bad debt provision
As potential losses are covered, you can reallocate excess bad debt provision as working capital.
Payment delay reasons

For over 50% of businesses, insufficient client funds is the primary reason for collection delays.

1. Insufficient availability of funds
2. Disputes over the quality of goods delivered or service provided
3. Goods delivered or service didn’t correspond with what was agreed in the contract
4. Complexity of the payment procedure
5. Inefficiencies of banking systems
6. Incorrect information on invoices
7. Buyer using outstanding debts/invoices as a form of financing
8. Formal insolvency of the buyer
9. Invoice was sent to the wrong person

Source: Atradius
Role of a credit insurance broker

Before engaging the insurance market we assess your total cost of risk (TCOR) by analysing data and developing a financial model. The diagram below outlines the key steps we follow to ensure that our proposed solutions are fully aligned to your risk profile and credit management strategy.

1. **Needs analysis**
   - In depth assessment of your business objectives and requirements, both in the short & longer term

2. **TCOR profiling & financial modelling**
   - Credit risk analysis of your receivable portfolio, focusing on the optimum level of risk transfer, risk retention & resource/capability

3. **Solution benchmarking & selection**
   - Full global insurer market review & identification and selection of appropriate solution(s)

4. **Solutions**
   - Full cost-benefit analysis of appropriate programme structures & solutions ranging from self-insurance to excess of loss structures

5. **Implementation**
   - Full implementation of your chosen solution(s) with credit insurance policy management training and support

6. **Servicing**
   - Performance against KPI's and service level agreement
In practice

After suffering several non-payment losses, a business services company wanted to ensure their ambitious growth could be confidently sustained.

Their largest client requested extended credit terms to 210 days (where payment for each invoice was made over 6 equal monthly installments). The typical payment terms for other customers were 30 days from invoice.

ACI worked with the insurer to help them understand this specific credit risk and apply special policy endorsement to ensure that all client credit term requirements could be met.

Given the client’s experience of losses, ACI also made sure that they were able to fully benefit from the insurer’s in-house collections operation.

A large pulp and paper company was negotiating a new multi-million, long term packaging supply contract with a prominent retailer.

The two parties were exploring solutions that could allow for a credit period on the supply, as well as securing the non-payment risk. The contractual arrangement was subject to appropriate credit insurance to be in place.

ACI worked with the pulp and paper company to develop a credit insurance solution covering both pre-delivery (work in progress) and post-delivery non-payment risk.

ACI coordinated financial and business presentations of the retailer to selected credit insurers.

Our solution empowered our client to provide credit terms to the retailer which helped to secure the multi-million dollar contract.
An international travel agency was contemplating how to best enable continued business growth in certain key (emerging) markets.

Their success over recent years has resulted in significant credit exposures across the world.

ACI developed a comprehensive insight strategy into key market trends that could impact the client’s ability to obtain credit capacity in key geographies such as China.

Shortly after our appointment, ACI successfully delivered on providing the company with access to additional capacity through an innovative excess lines facility that sits across the client’s global exposure gaps.

The client was looking to put in place a $90m off balance sheet receivables finance facility, financing trade debtors across their business in order to reduce their net debt burden as much as possible.

A credit insurance wrap was key to gaining auditor agreement that the finance facility was suitable for off balance sheet treatment and the asset could be de-recognised. The ACI team also arranged for a banking partner to provide an innovative financing facility.

The ACI team was able to structure a credit insurance wrap that transferred more than 95% of the trade debtor risk to the underwriter.

This provided sufficient comfort for the client’s auditors to agree that the finance facility could be de-recognised and they were able to reduce their net debt burden by $90m when cover incepted.
About Aon Credit International

ACI is a leading international credit insurance broker providing our clients with innovative solutions against non-payment risks, while facilitating their business growth and improving access to trade finance. Our local specialised teams are united and coordinated at a country, regional and global level by prominent, highly experienced market thought leaders.

At Aon, we are passionate about leveraging credit insurance to support our client’s business growth. Our objective is simple: creating long term partnerships with our clients by providing tailored, effective insurance and guarantee solutions with highly professional day-to-day service.
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About Aon Credit International

Aon Credit International is the world’s leading trade
credit broker*. We bring distinct expertise, analytics,
and creativity to build credit programmes and
solutions that truly meet our clients’ specific needs.

We pride ourselves on offering an exceptional level of service
with our performance measured through criteria set by you.

*Aon Market Analytics, June 2016. Based on international
premium placement figures and market share.
About Aon

Aon plc (NYSE:AON) is a leading global provider of risk management, insurance brokerage and reinsurance brokerage, and human resources solutions and outsourcing services. Through its more than 69,000 colleagues worldwide, Aon unites to empower results for clients in over 120 countries via innovative risk and people solutions. For further information on our capabilities and to learn how we empower results for clients, please visit: http://aon.mediaroom.com.

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