How can professional service firms protect against client non-payments?

Trade Credit Insurance can help firms strengthen their balance sheets

Across the world, businesses are operating amid a global economic downturn, geopolitical instability, trade embargos and sanctions and rapidly changing commercial demands. Accelerated by the ongoing impacts of the COVID-19 pandemic, debts now represent 40% of current assets on the average balance sheet[1]. Industries are challenged in different ways and the risk of non-payment is rising rapidly.

Senior managers, directors and partners are tasked with managing rapidly evolving threats, exposures and risks to the sustainability of their firm. Amid the complex challenges of managing a business, it is imperative that the impact of a bad debt on the firm is not overlooked.

For professional service firms, clients' risks of delinquencies, bankruptcy and liquidation can have immediate and long-term financial impacts.

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What is Trade Credit Insurance?

Trade Credit Insurance offers a broad policy wording tailored to the needs of professional service firms to protect financial assets from the impact of debts caused by a client insolvency or an inability to pay.

Insurers underwrite an agreed portion of the firm's client portfolio and in the event of a non-payment, the policy is triggered after a set waiting period after the invoice's due date has passed. In the case of client insolvency, there is no waiting period and the claim will be paid within 30 days subject to policy conditions.

How can Trade Credit Insurance Benefit Professional Service Firms?

Trade Credit Insurance offers various competitive benefits to professional firms. With access to key credit risk analysis from insurers on company, sector and political risks, valuable insights can be gained to assist in avoiding loss. Additionally, as potential losses are covered, firms can reallocate bad debt provisions as working capital.

1 https://qbeeurope.com/products/trade-credit/

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Facilitates access to finance: maintaining credit insurance can increase a firm's credit rating, which enables firms to access improved rates and levels of finance.

Cost-effective security: Trade Credit Insurance can act as a cost-effective replacement for expensive bank guarantees and letters of credit.

Access to credit risk expertise and analysis: support is available for setting credit limits and in the event of a claim, the management of recoveries.

Protection from client debts: Trade Credit Insurance transfers the credit risk to the insurer's balance sheet which improves professional service firms' margins.

Reinforces credit management processes: language within a Trade Credit policy supports best practices and robust credit management processes within a firm, reinforcing and enhancing the firm's existing procedures.

If you would like to discuss any of the topics raised in this article, please contact **Erin Kenney**.