

Trade credit policy solutions just in time



BOARD DISCUSSION

Getting the best from a trade credit policy is all about finding the right balance between the cost of the policy and the value of the debt portfolio it covers.



With the number of businesses entering into receivership on the rise, now's the time for all organisations to consider instruments that may help cover their bottom line.

Insolvencies have been front and centre since the start of 2016, with a number of high profile businesses entering into administration in Australia.

This is indicative of a broader trend and data shows the number of insolvencies in Australia has been on the rise. According to the Australian Securities and Investments Commission's latest figures, there were around 10,404 registered company insolvencies in Australia in 2015, a rise of 1610 entities compared to the 2014 figure of 8,794¹.

Additionally, The Reserve Bank of Australia (RBA) said in its *November Statement on Monetary Policy*² that it expects GDP growth of between 2% and 3% for the 2015/2016 year, with the growth in the economy not picking up to average levels until June 2017.

Typically, when the number of insolvencies is on the rise, businesses turn their attention to instruments that can help them to maintain their growth and earnings. One of these tools is trade credit cover. Getting the best from a trade credit policy is all about finding the right balance between the cost of the policy and the value of the debt portfolio it covers. For some insureds, the cost of this cover is the lowest it has been for five years.

Trade credit insurance can be a particularly important consideration when a business only has a small number of customers and is vulnerable should it lose one or more of these accounts. It can also be a good tool for early stage ventures that have not yet built up financial reserves.

¹ *Insolvency statistics - Series 1 Companies entering external administration*, accessed 08/01/16, <http://www.asic.gov.au/regulatory-resources/find-a-document/statistics/insolvency-statistics/insolvency-statistics-series-1-companies-entering-external-administration/>

² Reserve Bank of Australia, November 2015, *Statement on Monetary Policy*

Recently, there have been product improvements in some trade credit insurance products that offer businesses more flexible options when it comes to tailored cover. For instance, a business might be able to choose to protect the debts of a single customer, if the client operates in a sector that could suffer a substantial decline as a result of any significant downward economic trend. It may also be possible to cover a portion of all the business's outstanding debts.

Insurers are increasingly willing to be flexible when it comes to providing trade credit cover so it is worth engaging a broker to achieve the best solution possible for the business. It is likely insurers will introduce further policy innovations down the track.

Trade credit insurance can be complex and ensuring the right balance between cost and cover requires a special skill set. It's worth working with a specialist broker with extensive experience in this area to ensure the business receives competitive and comprehensive insurance cover.

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