GLOBAL CRISIS MANAGEMENT

IS YOUR CLIENT'S CFO AWARE OF ACCOUNTS RECEIVABLE INSURANCE?

NORTH AMERICA

CFOs rely on their credit managers to make the correct decision but in cases where they are looking at dated financial statements and credit reports to predict the future there can be unexpected losses. CFOs that use Accounts Receivable Insurance come from companies of all sizes—from a revenue base of $5 million to $100 billion—and they all see this product as an investment rather than an expense.

By some estimates, only 7% to 8% of North American companies utilize Accounts Receivable Insurance.[1] Yet, there are many benefits of Accounts Receivable Insurance and more companies should use it.

Why do some CFOs use Accounts Receivable Insurance?

- CFOs use it as a strategic tool because it pays for itself without having to file a claim.
- Accounts Receivable Insurance is a key way to safely grow sales.
  - CFOs look to grow sales to customers in countries where they want to exceed their internal credit limit, or to customers where they have large exposures/concentration concerns, and in both cases want to transfer the additional risk from their balance sheet to the insurance companies balance sheet.
  - CFOs see Accounts Receivable Insurance as an investment to improve financing levels and as a risk mitigation strategy, to help their company be in sync to support cash flow.
- CFOs use Accounts Receivable Insurance to complete the sales cycle with travel/accident cover for their sales people, property insurance to cover their buildings, workers comp insurance to cover their employees and marine/cargo to ship products to their customers. The last part of the sales cycle uses Accounts Receivable Insurance as a second source of repayment if the customer does not pay.
- CFOs can benefit from Accounts Receivable Insurance in the event of unforeseen geopolitical issues that arise. Here are some of examples of how:
  - During the Euro Zone Banking Crisis, many U.S. companies exporting to European customers were not paid when their customers' banks had liquidity issues. Further, when the line of credit on their borrowers was pulled, it caused many of these companies to default on invoices owed to the U.S. exporters.
  - U.S. exporters also faced issues when selling to Ukraine during its crisis with Russia as its currency devalued against the U.S. dollar. The exporters' customers could not afford to pay the higher amount in U.S. dollars and defaulted on their balances owed to U.S. companies.
- CFOs have a better opportunity to get a higher advance rate on their Asset Based Loans than those who self-insure. Various Asset Based Loan officers have said in certain circumstances they will raise the advance rates by 5% to 10% which means more liquidity for your client.
- CFOs use Accounts Receivable Insurance to maintain or reduce their Allowance for Bad Expense. Having a policy in place can provide your clients' auditors to be comfortable that the Bad Debt Reserve can be capped at the policies deductible, while sales and accounts receivable balances increase year after year.

[1] Green, Paula, *Global Finance Magazine*, "Risk Management: Insuring Trade Credit," (February 05, 2014), https://www.gfmag.com/magazine/february-2014/risk-management-insuring-trade-credit.

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Rated "A (Excellent)" by A.M. Best Company
Rated "A (Strong)" by Standard & Poor's
Rated "A2" by Moody's

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