Which credit insurance company is best for you?

AU GROUP CANADA

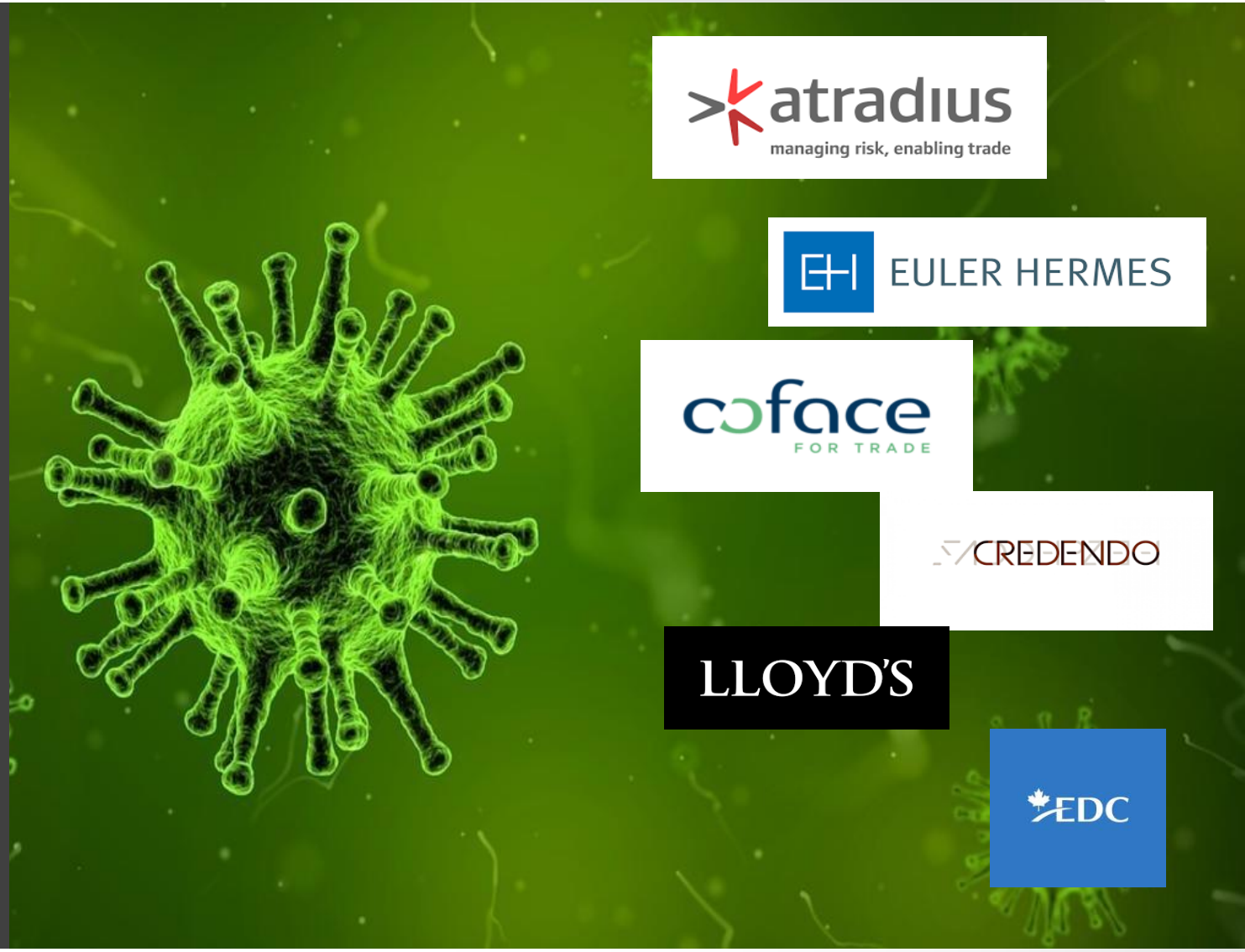
Credit insurance adds value

Covid-19 has finally convinced you to take a closer look at trade credit insurance.

You understand there is a higher risk that your clients will not pay you for the goods or services you sold them. Who knows what their financial situation will be like in 2 or 3 months from now?

With all the disruption to the supply chain, you're now convinced credit insurance adds significant value to your organization.

But which credit insurer should you bind coverage with?



Step 1 – Evaluate your needs?

Your needs should be evaluated carefully. Otherwise you may bind cover with the wrong insurer which could be quite damaging to your company.

Here are a few reasons why you'd want to buy credit insurance.

- ❑ Protection
- ❑ Financing
- ❑ Strategic selling
- ❑ Collection support

Your needs - Protection

The obvious reason to buy credit insurance is to protect you against the non-payment of your receivables.

Typically, insurers will cover 90% of this loss.

All insurers will indemnify your losses… if you abide by their policy terms and conditions.

How the terms and conditions are written is then very important. Read them carefully and understand how you are covered, what your obligations are, and which delays must be respected in order to be covered.

Question:

How easily will a claim get paid by the insurer?

Your needs - Financing

Your bank may suggest you buy credit insurance in order to increase the financing available on your accounts receivable (AR).

Typically, a bank will margin your Canadian AR at 70-75% and your USA receivables at 50%. As for foreign receivable they are margined at 0%.

With credit insurance, all your insured receivables can be margined up to 90%.

Imagine all the additional financing you can obtain with the same asset (your accounts receivable).

Question:

Is the insurer recognized by your bank?

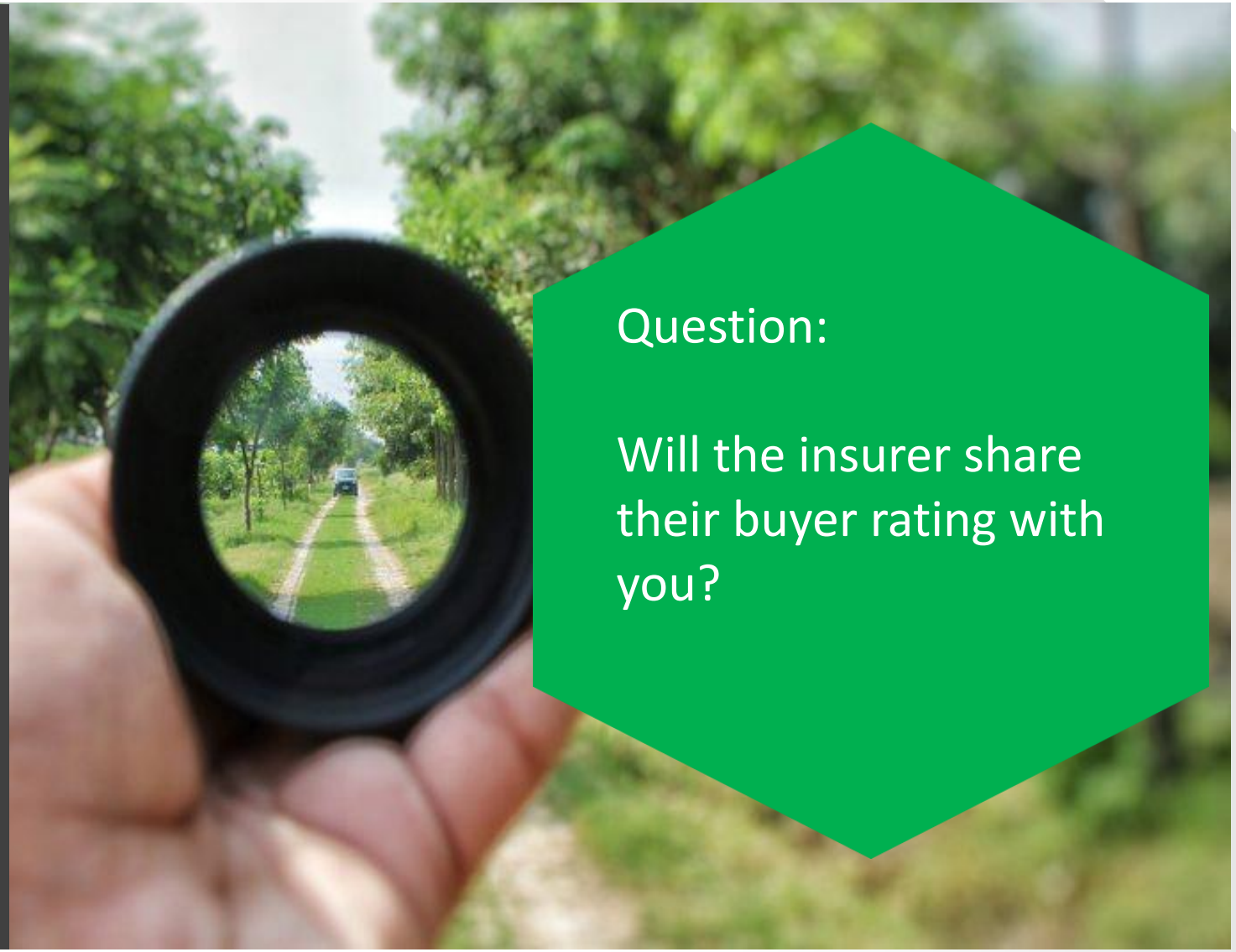
Your needs – Strategic selling

We understand you must grow your business. How can you grow sustainably when confronted to the Covid-19 volatility?

To ensure you are selling to a sound buyer, some insurers will share their buyer credit rating. You can then focus your salesforce efforts on positive profitable selling.

Why not provide competitive terms of payment to financially sound buyers? If all your competitors are offering net 30 days terms, you could increase them to net 60 days, with the support of the insurer.

Covid-19 pandemic makes strategic selling a key element of your development. Take advantage of it.



Question:

Will the insurer share their buyer rating with you?

Your needs – Collection support

Insurers will constantly monitor the probability of default of your buyer. Should they perceive an increase in the risk of default, insurers will help minimize your loss.

Some insurers will simply reduce or cancel existing coverage. Others will work with you to ensure proper risk mitigation efforts are taken.

Global insurers maintain collection services globally. This means a local collector, speaking the local language and versed in the local culture will contact your client. This has much greater impact then if the collector is located across the globe and does not even speak your buyer's language.

You then want an insurer that will work with you. Maintaining a good relationship with your client is key.

Question:

Does the insurer offer global collection support?

Step 2 – Choosing the right insurer?

Once you have defined your needs, who do you turn to?

Here are some of the key elements to consider.

- ❑ Are all insurers the same?
- ❑ Global insurers
- ❑ Niche insurers
- ❑ Risk appetite

Are all insurers the same?

All credit insurers will protect you in some form or another against the risk of non-payment. Typical insured perils are:

- insolvency of your client (your buyer),
- protracted default of your buyer (your client just simply does not pay you) or
- political risk preventing your buyer to pay you (inconvertibility, license cancellation, war, …)

Each insurer has its own business strategy. Some are global. Some are niche players. Some provide cancellable cover, some non-cancellable cover, some are privately owned and some countries have their own Export Credit Agency (ECA).

Global insurers

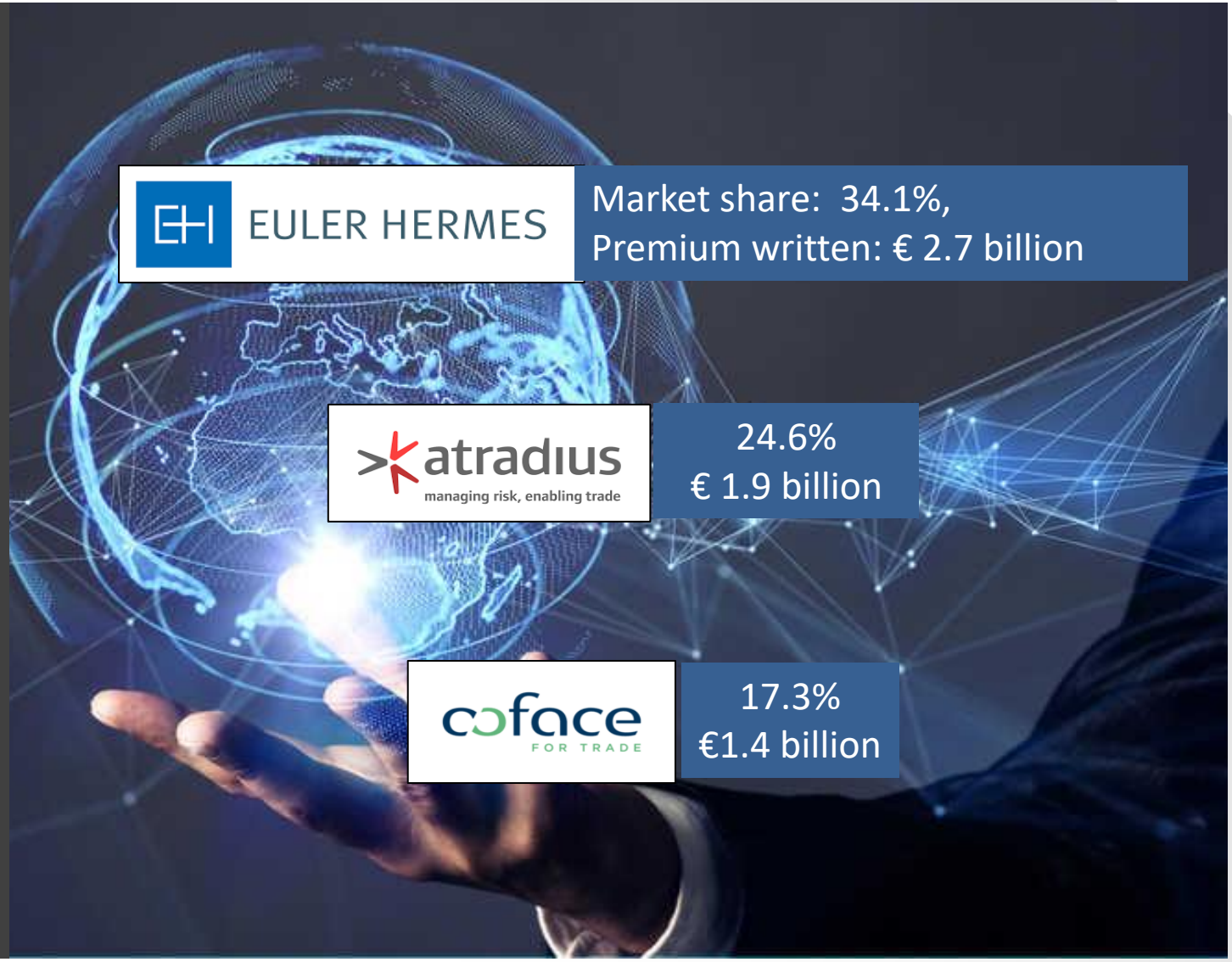
You sell in many countries?

You should consider a global insurer. They are characterized by:

- Strong international presence
- Detailed information on tens of millions of companies
- Global capabilities (collection, risk underwriting, “feel” of the local market)

According to the Berne Union, private insurers dominate the market with a 73% market share .

In 2018, ICISA estimates the market size to be around €6.7 billion in premium .



Boutique insurers

You would like to insure losses over a certain amount (excess of loss, top-up, …) or losses from a single buyer?

Look no further then a niche insurer (EH XoL, AIG, Chubb, Garant, Nexus, Lloyd's, Markel, QBE, to name a few).

Your clientele is in a specific geographical area, go for a carrier that is specialised in these countries (ATI, Cesce, Credendo, FCIA, …)

You only want to cover political risk, look no further then Garant, Beazley, Liberty Mutual, …

Risk appetite

Insurers will evaluate the risk of each buyer individually (a discretionary credit limit is normally granted). How liberal or conservative the insurer will grant credit limits is what we call their risk appetite.

You want an insurer that will share a risk appetite that will match your needs.

If the insurer will only approve a small portion of your clients, it may not be the best insurer for you.

If an insurer is reckless and approves highly risky accounts, you will be paying the cost of it by increased premium payment.

A fine balance needs to be reached. It is essential you find out what the risk appetite of your insurer will be.

Is there an easier way?

Conceptually, credit insurance is easy to understand.

However, as you can see, choosing the right insurer can be time consuming and, should you select the wrong insurer, damaging to your company.

Is there a better way to go about choosing an insurer?

A specialist credit insurance broker is the best way to go about it.

A good specialist broker will:

- Determine your needs
- Source the required information
- Negotiate terms with selected insurers
- Ensure specific terms are added to properly protect you
- Present findings to you and recommend best solution
- Assist in onboarding
- Facilitate management of the policy

The insurance broker gets paid a commission by the insurer. As such, their services are at no cost to you. In fact, **the specialist credit insurance broker will reduce your premium and increase your protection**. How? By having insurers compete for your business.

AU GROUP'S DNA

Focus On Customer

Long Term Strategy

Team Approach

Complete Independence

Strong Negotiating Power

Experienced People

Global Capability

Strong Finance Expertise

Honesty, Integrity & Trust

Know-How & Innovation

About A.U. Group

- Leading global broker specialised in trade credit insurance
- Since 1929
- 100% privately owned. We work for you
- 260 colleagues, 39 countries
- Honored to service 4,500 clients

Contact us. We can help.

Montréal: Roch Simard, simard@au-group.com

Toronto: Carl Pickett, pickett@au-group.com

Disclaimer

This document reflects the opinion of AU Group. The information and datas contained herein are based on our current hypotheses and viewpoints. They are not legal or other professional advice and shall not be relied as such. In this regard, A.U. Group does not warrant or assume any legal liability for any indirect damage, such as financial or commercial loss, loss of profits, disruption to business, shortfall in earnings, losses or any legal action brought by a third party against the reader, resulting from the use of this document or any information contained in this document. Moreover, the analyses are subject to modification at any time without prior notice.