



Jac Heale

Trade credit insurance specialist

Payment default and bad debt risk protection: trade credit cover for SMEs

Trade credit insurance protects a business from bad debts, safeguarding cash flow and providing financial stability.

Small businesses frequently face challenges with bad debts and cash flow fluctuations. Improvements in insurer technology have led to the development of cost-effective trade credit insurance for small-to-medium enterprises (SMEs) that is quick to arrange and easy to manage. Gallagher brokers can arrange tailored trade credit insurance solutions specifically designed for SMEs to help them operate with confidence.

What are the benefits of trade credit insurance?

Trade credit insurance protects you from losses if a customer fails to pay, providing assurance of payment. Any business offering goods or services on credit terms faces the risk of non-payment, even those with robust credit control processes.

Trade credit insurance policies help protect liquidity and cash flow. They enhance the ability to offer competitive credit terms and provide flexible coverage by enabling a policyholder to cover all or part of their portfolio. These policies are tax deductible and available at competitive premiums.

How does trade credit insurance for SMEs work?

If your business provides goods and services on a credit basis, you are carrying a loss exposure if your customer fails to pay. For example, a \$50,000 loss on 10% profit margins equates to an additional \$500,000 in sales needed to cover this shortfall. Many SMEs use personal assets as security for their business and one bad debt can put these at risk.

Payment defaults that trigger claims are insolvency (administration, liquidation, bankruptcy, receivership) and protracted default (from 120–180 days from due date). Money from a claim payment gives you timely access to replacement capital, protecting your cash flow and profits.

Trade credit cover can also strengthen your internal credit process by having your insurer assess your customers and alert you to high-risk accounts, helping you avoid losses. The costs of collecting an overdue debt, which can run into thousands of dollars, can be included in your trade credit insurance cover. The savings in these expenses alone may far outweigh the premium for the insurance policy.

Which industry sectors face greater trade credit risks?

Insolvencies can be unpredictable, but some industries are more vulnerable than others. Sectors that may strongly benefit from trade credit insurance protection include construction, food manufacturing, agriculture, transport and labour hire.



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A highly experienced insurance broker, Jac specialises in developing trade credit and liability insurance solutions for businesses across a range of sectors and industries. He has been recognised by the insurance industry for his specialist broking expertise.

EXAMPLE

Key client's business collapsed leaving \$100,000 debt unpaid

A small business supplying raw materials to clients on a credit basis financially relied on a few key accounts. When one of their major clients suddenly filed for bankruptcy and was unable to pay their outstanding invoices, they owed the supplier \$100,000.

Fortunately, the supplier had a trade credit insurance policy in place. The business immediately filed a claim with its insurer, which was assessed and approved. The payout for the outstanding debt helped cover the loss while protecting the supplier's cash flow. Without trade credit insurance the business would have struggled to recover from the loss.

How Gallagher can help

Trade credit insurance can be a valuable tool for SMEs, protecting them from the risks of bad debts and payment default. By having the right insurance cover in place, SMEs can recover credit losses, maintain their financial stability and continue their operations without significant disruptions.

Our Gallagher brokers have the experience to understand your risk exposures and can advise you about the cover best suited to your business protection needs.

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