Energy Markets Benefiting From Credit Insurance

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- Catastrophic loss protection: Receivables are one of the largest and most at-risk assets. They are prone to unexpected losses that can rob working capital and devastate the bottom line. It only makes sense to insure the largest credit exposures that can do the most damage should a loss occur. While larger accounts may seem to be "good as gold," consider the impact of a sudden unexpected loss. Unfortunately, these are more frequent and increasingly unpredictable.
- Safe sales expansion: Whether trying to expand credit lines with existing customers or extend competitive open credit terms to new accounts, using credit insurance to reduce or eliminate risk is a great way to safely grow a business. Credit insurance can allow the offering of terms and credit limits customers need. Typically, the addition of just one or two new accounts will more than repay the cost to insure an entire portfolio.
- Borrowing enhancement: Cost effective access to working capital can help a business grow and avoid cash flow crunches. A credit insurance policy can help maximize working capital availability from receivables pledged to a lender. With properly structured coverage in place, advance rates can be maximized, and the eligibility window can increase to longer than the normal 60 or 90 days. By insuring the risk, the lender's concentration concerns can be addressed, and the business can secure more working capital to invest.
- Decision support: A credit insurance program is not just coverage on receivables. It provides a partner in credit risk management whose goal is to avoid losses before they happen as well as provide a backup when they do. Most debtors are current on payments at the time they file for bankruptcy, so timely payments can be deceiving. A credit insurance program provides access to industry specific underwriting analysts, offering tremendous decision support assistance.

Basic Policy Guidelines

- A typical credit insurance policy runs for 12 months.
- Credit insurance programs protect against a range of defined insolvency events as well as past due default.
The policies will have deductibles and/or coinsurance included as risk sharing elements of the program. Deductibles are typically set at a level comparable to the last three year's average historical bad debt experience, and there is some room to move these up and down with corresponding changes in the premium. A typical policy deductible is a one-time annual first-loss position.

- Coinsurance is a percentage of the covered loss that the policy holder retains as risk and is typically set at a level between 10% and 20%. Most clients select a coinsurance level at or below their gross margins, so they are not paying additional premium to insure profits but focusing the coverage on reimbursing costs.
- Premiums can be calculated based on either a projection of annual sales volume to the covered accounts or based on the total amount of approved coverage limits in the policy. An average domestic credit insurance policy typically runs between .15% to .4% of covered annual sales, while export policies are at the higher end of this scale up to .6%.