Capture the Tangible Advantages of Trade Credit Insurance

Value of Trade Credit Insurance

The benefits of Trade Credit Insurance are substantial — and quantifiable. With some simple calculations, you can spotlight the tangible financial benefits that come from a smartly crafted program. The examples below show how benefits accrue in three key areas for a typical company.

Benefit #1:

Sales (and Profits) to Existing Customers

With Trade Credit Insurance in place, ABC company can potentially increase sales (and profits) by increasing credit limits to major customers. See the example below of how the increased account receivables, multiplied by an average of the number of annual receivable "turns," translates to potentially greater sales and profits for this company:

Customer/Country/Category	Current Credit Limit	Desired Credit Limit	Difference
Customer A	$2,000,000	$4,000,000	$2,000,000
Customer B	$500,000	$600,000	$100,000
Customer C	$250,000	$500,000	$250,000
		Potential Increase Limits/AR Average Annual AR Turns Potential Increased Sales Gross Margin Potential Gross Profit from Inc. Credit Cap.	$2,350,000 4 $9,400,000 10% $940,000

The Same Results — Just Another Way To Look At It

With Trade Credit Insurance in place, a company can potentially increase its overall sales, generating substantial additional gross profit.

	ABC Company
Annual sales	$200,000,000
Potential % increased sales with credit insurance	6.7%
Potential increased sales	$13,400,000
Gross margin	10.0%
Potential gross profit from increased sales	$1,340,000

Value of Trade Credit Insurance

When a large portion of a company's sales are focused on select customers, Trade Credit Insurance can mitigate the concentration risk.

Benefit #2:

Open New Markets

Trade Credit also supports your safe expansion into new countries and markets. It can allow you to increase sales in existing markets by moving customers from letters of credit to open account terms. That potentially means more sales for your company and lower-cost of trade finance for your customer — a win-win solution!

Calculation Formula
Potential Increased Limits
x Average Annual AR Turns
= Potential Increased Sales
x Gross Margin (%)
= Increased Gross Profit

Customer/Country/Category	Current Credit Limit	Desired Credit Limit	Difference
Country A – From Letter of Credit to Open Account	$500,000	$1,000,000	$500,000
Country B – New Market	$0	$500,000	$500,000
		Potential Increase Limits/AR Average Annual AR Turns Potential Increased Sales Gross Margin Potential Gross Profit from Inc. Credit Cap.	$1,000,000 4 $4,000,000 10% $400,000

Benefit #3:

More Attractive Bank Financing

With Trade Credit Insurance in place, a company can potentially attain more attractive bank financing and increase the working capital available from its same pool of receivables. For example:

Domestic AR	$40,000,000	
Foreign AR	$10,000,000	
Current availability to borrow on domestic AR	$24,000,000	60% Current Domestic Advance Rate
Current availability to borrow on foreign AR	$0	0% Current Foreign Advance Rate
Total availability without credit insurance	$24,000,000	
Availability with credit insurance for domestic AR	$36,000,000	90% Insurance Domestic Advance Rate
Availability with credit insurance for foreign AR	$7,000,000	70% Insurance Foreign Advance Rate
Total availability with credit insurance	$43,000,000	
Total increased borrowing base:	$19,000,000	Availability increases to $43 million from $24 million

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