

## Trade Credit

### Increasing Sales, Borrowing Capability and Return on Capital

Accounts receivable constitute a large portion of your assets and are your main source of cash flow. Unfortunately, they are exposed to a number of risks. Customers may become unwilling or unable to pay you for many reasons. Sometimes, unforeseen economic or political events may even cause a whole group of your clients to default, thereby seriously impacting your company's bottom line, balance sheet and cash flow.

Generally, companies do not leave key productive assets completely exposed to a range of risks however unlikely they may seem. Accounts receivable often represent the largest unprotected asset class on the balance sheet. Many corporations have realized this and gained a competitive advantage by using insurance to manage the impact of unanticipated events on accounts receivable.

#### Key Benefits

In addition to protecting your company's financial statements, the hedging of accounts receivable presents a number of benefits:

- Increased sales opportunities: enter new markets, expand existing ones, accept larger orders, take more risks;
- Enhanced competitiveness: offer more competitive sales terms in your home market, in other OECD countries or even in emerging markets;
- Stronger borrowing capability: add security to your accounts receivable, enhance their margining by your bank, negotiate better interest rates; and
- Higher return on capital: make better use of your capital by "optioning" the insurer's capital base while benefiting from insurance's tax treatment.



#### Risks Covered

A number of insurance companies have entered the North American market over the last few years and they offer various insurance approaches and packages. Overall, the range of risks that can be covered is quite wide:

- Buyer insolvency
- Inability to transfer funds
- Non payment or default by the buyer
- War, revolution, insurrection, etc.
- Contract termination / cancellation
- Cancellation of export / import permits
- Non-conversion of currency
- Host government moratorium on debt

#### The GPL Expertise

Not all insurance companies cover the full spectrum of risks or offer the same approach to the management, sharing and transfer of trade credit risk. Therefore, one cannot simply compare their different premium rates/amounts and make easy decisions based solely on numbers.

Companies like yours need a specialist advisor and broker who will assess your needs and risk tolerance; seek the right markets and negotiate the best financial and non-financial terms for you; and finally, advise you all along during the life of your trade-credit hedging program.

GPL has this specialized expertise and is pleased to offer it to your company.

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