

Bridging the gap with trade credit insurance

Many South African businesses have little or no trade credit insurance protection against the failure of a customer to pay for the goods or services they have received.



Frank Knight, CEO Debtsource

“There are approximately 4,500 policy holders in South Africa of a pool of 150,000 businesses that potentially sell goods or services on a trade credit basis and which could benefit from this type of insurance.

The commercial environment remains a challenging one for customers, suppliers and insurers yet the importance of trade credit insurance has never been greater – the survival of any business could be at risk without it. There is a significant protection gap with too many firms operating at the mercy of non-payment of debts. This gap needs to be closed with businesses encouraged to take this cover as a strategic driver of credit management and an essential part of every businesses’ contingency planning.

There are several reasons for debtors not paying: They may have become insolvent, may have critical cash flow issues or have simply failed to pay the creditor within an agreed credit period.

Company size or ‘blue chip’ status is no longer a guarantee of payment and past trading experience should not be seen as a reliable guide to the future.

“The risk of debtor insolvency is an inherent part of owning and growing a business. Sometimes your customers simply do not or cannot pay you — it is unavoidable, but not disastrous and in these instances a trade credit insurance policy can be a vital lifeline,” says Frank Knight, CEO of credit management firm, Debtsource,

Stats SA recorded 159 liquidations in September and 260 insolvencies in August, and while it can't be determined how many of those would have benefited from trade credit insurance, there is no doubt that even if a small percentage had been able to protect their cash flow when a customer was unable to pay them, the numbers would be different and jobs could have been saved.

“While the numbers of companies which are not covered for trade credit are considerable, there is a real opportunity. Rather than viewing trade credit insurance as a grudge purchase, businesses should see it as something that can prevent bankruptcies, help companies manage credit, and even present opportunities for business expansion,” Knight adds.

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