

know more

grow more

# One unpaid bill. That's all it can take to kill a business.

Why credit insurance is more important than ever before



coface

# Introduction

Across England and Wales, a total of 4,308 companies entered insolvency in Q3 of 2018, an increase of 19.3% when compared with the same period last year

Construction was one of the worst hit sectors, with the liquidation of Carillion at the start of the year sending a shockwave through its network of contractors, sub-contractors and sub-sub-contractors.

At Coface, we know all too well that for every business that fails, an average of ten other businesses suffer from bad debt as a result. Failure leads to late payments, which lead to more failures. This domino effect means over the same period, more than 39,000 UK businesses are likely to have been affected by bad debt.

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## Who gets paid first when a company goes bust and how much is left for unsecured creditors?

When a company goes into administration or liquidation, its remaining assets are sold to clear as many of its obligations as possible.

1. The first payment goes to the insolvency practitioner, to pay their fees for overseeing the process.
2. Next to receive payment are the secured creditors, such as banks, asset based lenders, finance and agreement providers.
3. Third in line are the preferential creditors, such as employee claims, which are subject to limits set by the government.
4. After that, come the unsecured creditors such as HMRC, suppliers, contractors, landlords and customers.
5. Shareholders will only get paid if all the above creditors are paid in full.

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## So how can you protect your business?

Cash flow is a powerful tool, but it is also vulnerable and needs to be protected. It's often tempting to think "I know the people I deal with, they're in no danger of insolvency", but the truth is that no company is immune from the risk of a bad debt, and one insolvency can cascade through a business network. You may know your customer, but you do not necessarily know their customer.

The solution – Credit Insurance. A credit insurance policy will allow you to manage your cash flow safe in the knowledge that you are protected against unpaid invoices, as well as insolvencies.

## Why Coface?

We monitor 80 million businesses in the UK and worldwide so when you Coface it first you'll have:

- Customer and supplier credit checks on demand
- Up-to-the-minute business and economic trends at your fingertips
- All the knowledge you need to make informed decisions
- The confidence to offer better terms and win more business

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**If you want to know more about the “know more, grow more” effect a credit insurance policy can bring to your business, talk to the experts at Coface on **0800 0856 848**.**

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**Here, Russell Davis, UK Commercial Director for Coface, answers some of the most common questions that business owners ask when looking to protect themselves against bad debt:**

#### **What costs are involved?**

The price of Coface Credit Insurance is set according to the turnover of a business and its profile, including industry sector, number of customers and previous loss history. It costs upwards of £3,500 depending on these factors.

#### **Can I pick and choose the customers I want to insure?**

You don't have to insure all your customers. Coface will work with you to structure a solution which meets your requirements.

#### **Will there be lots of extra work involved in running the policy?**

Historically you would almost have had to employ someone to manage a credit insurance policy, but in the last 10 years or so this isn't the case. A policy is designed to support and underpin a business' existing credit management procedures and once a policy is up and running your involvement would be minimal.

#### **Is it true that credit insurers will not want to write limits on my riskier customers?**

Coface works hard to support its clients in writing the credit limits they require. However, in certain circumstances the cover requested cannot be supported. In such cases the team provides as much information as possible to explain the reasons behind the decision.

#### **Does the policy have a debt collection service?**

Yes. Debt collection can often be very difficult and we support all clients by giving them access to our debt collection services. This is an essential facet of the risk management that Coface offers its clients. Coface has a team of experienced collectors who can often sort out an overdue payment without damaging a business's relationship with its customer. It can also optimise risk management and provide you with access to local enforcement facilities.

#### **Does the policy only provide cover in the event of an insolvency?**

A credit insurance policy from Coface protects you against unpaid invoices and insolvencies, giving you peace of mind. In addition to this with our TradeLiner policy, disputes are also covered (subject to policy terms and conditions).

#### **How do we make a claim and how much will we get back?**

Claiming is straight forward and you can get back up to 90% of a net debt. Our dedicated client services team can guide you through the process. Once claims have been assessed and validated, they are paid within 30 days meaning you can plan for business growth.

#### **Will my bank mind if I use a third party for credit insurance?**

No, we work well alongside all banks and funders. Your bank will request some level of protection if they are investing in your business and credit insurance works the same. It's an added layer of protection for your company and if the bank has a vested interest in your business, it will need you to have adequate risk management solutions in place.

#### **Key reasons to choose credit insurance:**

- Grow your business
- Minimise risk
- Protect against insolvency
- Support business strategy and development
- Secure favourable financial terms and support
- Build supplier relationships
- Enhanced credit management

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### **Does this remove the need for bank letters of credit? Is it cheaper?**

Credit insurance is a different solution and is invariably more flexible and more cost effective than letters of credit.

### **Does it cover all amounts owing to me from the date I take out the policy?**

All goods sold and delivered and/or invoices raised during the policy period will be covered subject to terms and conditions, so the sooner you have a policy in place the better.

### **If I trade with a customer that Coface is not willing to provide cover on will it invalidate the policy?**

No. Credit insurance is there to protect your business. With Coface Credit Insurance your bad debt disputes are covered (according to policy terms and conditions). We work to support your business by identifying risky customers and assisting you in securing unpaid invoices from them.

### **What is the difference between invoice discounting and credit insurance and can they work alongside each other?**

Invoice discounting is a funding solution, credit insurance is not. We work alongside invoice discounting providers and funders to provide additional security for all parties, and preferred rates.

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In turbulent times, Coface Credit Insurance is a particularly valuable tool in your credit management armoury. It gives you access to analysts to help you avoid risk, collects debts on your behalf and, should the worst happen, replaces vital cashflow.

Your future revenue is your most valuable asset, so it makes sense to talk to the experts at Coface about safeguarding your business today.

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