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Accounts Receivable Insurance: A Great Investment

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What would happen to your bottom line and cash flow if one of your major customers went bankrupt and didn't pay their invoices? Does your financing facility limit your borrowing to only 50% - 65% of your accounts receivable balance, but in reality you need more cash availability to operate your business? If you said "yes" to either, or both, of these questions, you should consider accounts receivable (AR) insurance.

AR insurance is offered by a variety of specialized providers. It provides insurance coverage for the non-payment of invoices when your customer has been approved by the insurance provider. AR insurance policies can be set up for all customers or for only a few key customers. Since most insurers offer online credit approval as well as pre-approved discretionary credit approvals, it is a fairly simple process and is often much less time-consuming than internal credit approval processes.

> "Account receivable (AR) insurance provides insurance coverage for the non-payment of invoices when your customer has been approved by the insurance provider."

Most AR insurance providers can offer both domestic and international insurance (US, Europe, Asia, etc.). The Export Development Corporation (EDC) also provides excellent international insurance coverage and is an option that should be investigated before a decision on providers is finalized.

There are many benefits to AR insurance related to cash flow and financing:

- It's a cost effective way to lessen or eliminate the risk of non-payment of legitimate invoices; often the cost of the insurance is less than or equal to a company's normal bad debt expense.
- It can reduce or eliminate the worry of collections when customers/specific invoices form a substantial amount of your business' cash flow.
- It can increase the amount of working capital financing available on your domestic AR. For example: assuming you have $2M in domestic AR with a 75% advance rate, depending on the credit quality of your customer, AR insurance may enable the bank to increase this to 90%, thereby providing the company with an extra $300,000 in working capital.
- It can provide the company with the ability to get margining (financing) against international AR if your current lender excludes these types of AR from the company's borrowing base. For example: assuming you have international AR of $1M, with AR insurance the bank may give you an advance rate up to 90%, thereby providing the company with an additional $900,000 in working capital.

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In both cases, there is a major improvement in the amount lenders will advance based on your accounts receivable.

Operational benefits to AR insurance:

- The AR insurance company can provide knowledge of the credit worthiness of customers and will recommend appropriate credit limits for your customers.
- Using the AR insurance provider's online adjudication (approval) process may reduce your internal costs of doing credit checks and determining credit limits.
- The AR insurance provider will often provide recommendations for reducing or eliminating credit limits when they are aware that a customer is struggling to pay invoices on time.
- When there is customer concentration, AR insurance reduces the risk of the dependence on the customer(s).

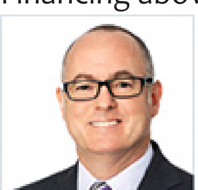
The cost of AR insurance will vary depending on a number of factors including, but not limited to, the type of customer, the size of deductible required, the number of customers included and your sales generated from those customers. With sales of $10M, you can likely expect an annual cost to be between $20,000 and $40,000.

While AR insurance may not be right for every company, it should be considered when assessing the tangible and intangible costs of bad debts and credit approval as well as cash availability levels.

Small Transaction Financing

Farber's Small Transaction Financing group specializes in arranging loans from $100K to $3M and leases from $5K and up. We arrange financing for businesses that are either experiencing growth, a bump in the road, or are in distress.

Financing above $500K, please contact:



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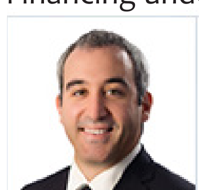
Financing under $500K, please contact:



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