

# Honan.

Insurance. Advice. Support.



## CREDIT MANAGEMENT: TRADE CREDIT AND SURETY



**Honan.**

One of a business' **biggest risks** is customers not paying their invoices.

# Credit management is critical to protecting the lifeblood of your business – **your cash flow**

## WHAT IS **TRADE CREDIT** AND **CREDIT MANAGEMENT**?

**Credit management** entails your company's approach to guarding against late &/or non-payments from customers, alongside the actions you take to secure your company's own creditworthiness – because you are only as strong as your client base. **Key to protecting cash flow, credit management is critical to the operation of any successful business.**

A major component of credit management, is **trade credit**, which involves the arrangement a company has with its customers who buy its goods or services on payment terms such as 30 or 60 days to pay an invoice.

## Trade credit: the **risks & insurance options?**

While offering existing clients payment on extended terms or expanding your activities to new horizons has the potential to engender positive outcomes like greater brand affinity or an increase in purchases, such terms also elevate non-payment risks for businesses.

Purchasing **trade credit insurance** is a way of mitigating this risk, protecting your business if customers don't pay their invoices.

Through trade credit insurance, **Honan** has successfully supported clients to generate **AU\$5 billion in turnover**, shoring up the critical cashflow businesses require to grow safely and sustainably.

### TRADE CREDIT: WHAT'S THE POINT?



**TRADE CREDIT CAN REPRESENT UP TO 40% OF A COMPANY'S TOTAL ASSETS**, depending on sector.



**ON AVERAGE 1 IN 10 INVOICES ARE PAID LATE** in businesses globally, with many eventuating to bad debt, adversely impacting company profitability.



**NON-PAYMENT OF A DEBT CAN CAUSE LIQUIDITY PROBLEMS**, creating a domino effect – especially if a company's receivables are concentrated to a small number of parties.

# What is happening in the economy?

Three key trends are heightening the need for businesses to **manage their credit risk.**

**01**

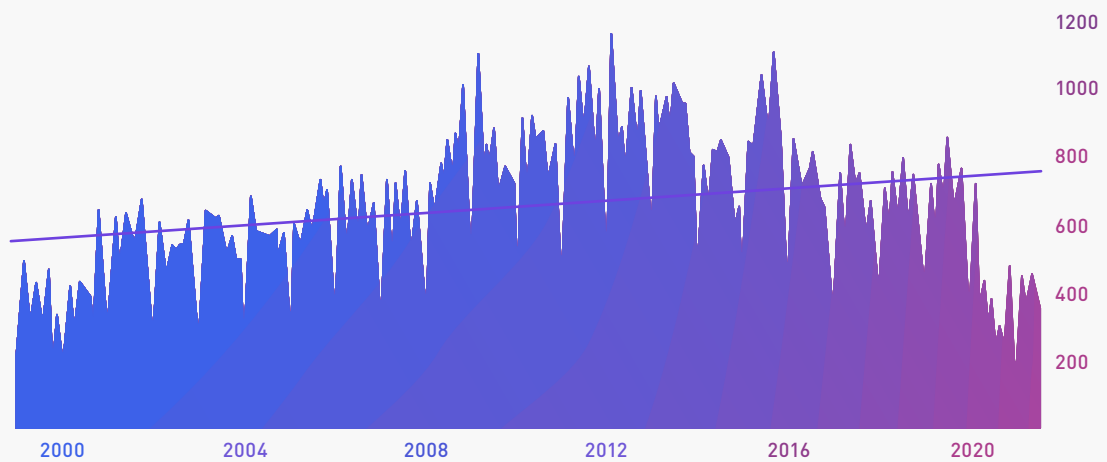
## INCREASING DEBT LEVELS ON A MACRO LEVEL

Whilst the unprecedented monetary and fiscal support to the Australian economy through the pandemic helped businesses to 'build a bridge' to the other side, the availability of cheap money has also fueled increased debt in the economy. According to the World Economic Forum Global Risks Report 2021, a debt crisis is the 6th top risk driving global concerns over the next 10 years.

**02**

## INCREASING INSOLVENCY

Australia fared better than many offshore markets through COVID-19, with insolvency statistics much lower than previous years thanks to government support. However with many government relief measures now ceased or ending soon, the business community is anticipating increased insolvency rates over the next 12 - 18 months, increasing the potential of bad debts.



Whilst government intervention has artificially reduced insolvencies in recent times, the Australian Bureau of Statistics data shows **the long-term insolvency trend is upwards.**

**03**

## TRADE CREDIT CONTINUES TO FUEL MANY UNPAID DEBTS FROM INSOLVENCY

Data from the Australian Financial Security Authority (AFSA) analysing businesses that entered into insolvency, shows trade credit debt is almost as high as bank debt. "This is significant because bank debt is frequently secured whereas trade credit is often not, increasing the risks for businesses, sole traders or individuals who provide goods or services on credit." AFSA

# How can Honan help?

Extensive local and International experience.

In the face of today's dynamic and rapidly changing business environment, businesses require top quality expertise, advice and support to both understand their risks, and mitigate against them. With extensive experience in credit management and trade credit insurance, Honan is ready to guide businesses with the robust support and prudent credit management advice they need in four key areas:



## 1. CREDIT REPORTS:

Information is the key for having a healthy and well managed portfolio of client credit accounts. Continuance of the success of the credit management system relies on regularly updating and monitoring your portfolio. Credit reports provide this information on your clients and can also give comfort to counter parties who do business with you.



## 2. TRADE CREDIT INSURANCE:

To manage the risk of outstanding customer invoices, Honan can help you to secure the right, tailor-made trade credit insurance coverage for your business.



## 3. SURETY BONDS:

Many projects and contracts require your business to provide a security in the form of a financial guarantee, often in the form of a bond. Our insurer partners can provide these bonds, with the identical characteristics as the ones issued by the banks, with numerous additional benefits.



## 4. ADVISORY:

There are many considerations to realise a sound credit management procedure and benchmark trade credit practice within an organisation. Honan have the experience and expertise to support you on this journey.





Data Point	Company Reports					Unincorporated Entity Reports		
	Commercial Bureau Enquiry	Late Payment Risk Report	Payment Analysis	Failure Risk Report	Comprehensive Report	Business Verification	Late Payment Risk Report	Failure Risk Report
PPSR								
A/C Details								
DOB								
Registration Details								
Company/Business Status								
Registered Business Name								
Registered Business Details								
Business Name Export Details								
Company/Principal ID								
Trading/Business Address								
Line of Business								
Industry Classification								
Shareholders								
Director Identification								
Adverse on Directors								
Directors Other Boards								
Company Details								
Company History								
Parent Company								
Global Ultimate Company								
Trading Date								
Companies Involved								
Commercial Details								
Court Actions								
Insolvency Notices								
Bank Enquiries								
Import/Export								
Salaries/Remuneration								
Net Worth								
Employee Size								
Late Payment Risk (LPR) Score								
LPR Industry Average								
LPR Industry Factors								
LPR Significant Trend								
LPR Payment History								
Trade Payment Analysis								
Trade Risk (TR) Score								
Failure Risk (FR) Score								
FR Industry Average								
FR Significant Trend								
FR Significant Factors								
Financial Summary								
Statement of Financial Position								
Statement of Financial Performance								
Statement of Cash Flows								
Key Financial Ratios								
Industry & Financial Ratios								
Bank Details								
Operational Activities								
Related Companies								
Branch Locations								
DSMS number linkage								
D&B Rating								
Medium/Company Name								

■ available via refreshed extract ■ available in reports (if on file)

01

# Credit Reports

Gain access to key customer insights to **make intelligent and informed risk-based decisions.**

Are you aware of the **invisible risks** you or your customers may be carrying?

Running a credit report across your customer base allows you to quickly pin-point financial risks and opportunities, critical to effective risk management and sustainable business growth.

Running a credit report on your own business ensures you are informed on how you are perceived from a risk perspective, and are in a position to proactively manage that if need be.

Honan is ready to support you with a range of **credit reports.**

From basic company identification to comprehensive reports on financial stability, payment patterns, failure risk, credit history, including related entities and directors, Honan can support you. We offer access to Illion's (D&B) credit reports -a comprehensive, constantly evolving database built on information gathered since 1841, and scoring companies since 2004.

02

# Trade credit insurance

Protect the **lifeblood** of your organisation.

Safeguarding cash flow, trade credit insurance serves to support the medium-long term success and growth of your business and provides you confidence when you on-board new clients. In the event a client/ buyer fails to meet the payment terms attached to your invoices, **trade credit insurance can remediate you up to the value of 95% of unpaid invoices.**

## HELPING YOU TRADE FASTER, SMARTER, SAFER, AND WITH MORE CONFIDENCE.

### Insights

- Provides information/insight about your buyer's financial strength and performance.
- Helps you to assess trade terms and conditions with new buyers.
- Monitors the performance of your buyers, warns you in a timely manner if things change.
- Assesses risk profile of your buyers, indicates a credit limit for each, carries the risk on your behalf.
- Helps you to establish more competitive terms.

### Communicate & Monitor

- Provides you a broader vision for the developments in your sector, and indicates growth areas.
- Confidentially communicates with your buyers when necessary in order to maximise your credit limits even when information is not readily available.
- Provides cash flow protection through claim payments in case of a non-payment of a covered invoice.
- Helps you to closely monitor your 'outstandings' with your 'Aged Trial Balance'.
- Improves your operational efficiency.

### Protection

- In case of a non-payment, the insurer undertakes the invoices and chases payment on your behalf.
- Negotiates payment plans with you or on your behalf.
- In case of unsuccessful collection, indemnifies the covered amount.
- Recovery allows you to avoid writing off a bad debt – keeps your balance sheet strong.
- Ensures the continuity of your cash flow.

### Support

- Having a trade credit insurance helps you to improve your financing costs and increase your loan facilities.
- Can be assigned to the financiers.
- The insurers support your seasonal/promotional sales – possible to have temporary limit coverage.
- Can be tailored based on your needs – such as cover only on certain markets, top clients or excess of loss.



ONBOARD NEW CLIENTS



COVER ON SEASONAL SALES



EXPAND TO NEW MARKETS



PROVIDE COMPETITIVE PAYMENT Ts & Cs



INCREASE CREDIT WORTHINESS / AVAILABLE CREDIT LINES



STRONG AND TRANSPARENT RELATIONS



MONITOR THE PAYMENTS



REDUCE FINANCING COSTS

## TAILORED SOLUTIONS

Understanding every organisation is unique, we'll comb our extensive range of trade credit insurance solutions to achieve the cover that's right for you.

### TRADE CREDIT INSURANCE SOLUTIONS

<b>SME Product</b>	Best fit for the companies with an insurable turnover below A\$10 million. Tailored for SMEs, with diversified client profiles.
<b>Whole Turnover Policy</b>	Insure your full term payment portfolio including monitoring. The cover can include both domestic and export.
<b>Selective Cover</b>	Insure a part of your portfolio. For example a certain buyer group, market (such as only export or only domestic), or a project.
<b>Key Buyers</b>	Best fit for companies that have a concentration risk on certain buyers; for when a failure of a buyer can result in a catastrophic event with a domino effect.
<b>Political Risk</b>	Insure a specific or complex structure. Mid-term or project specific covers can be classified here.

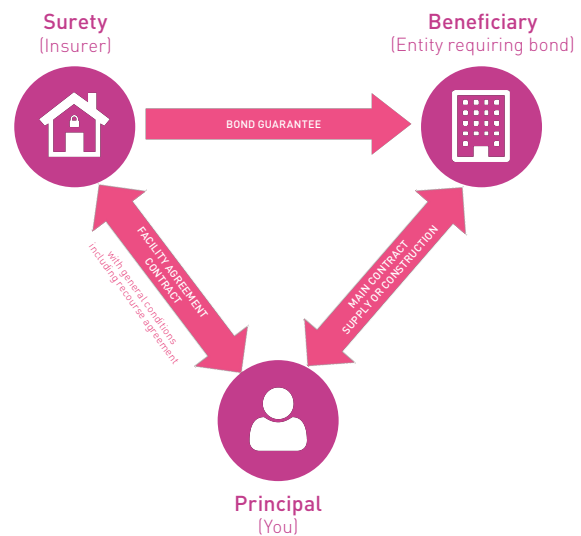
03

# Surety Bonds

Meet your **contractual obligations** with confidence.

A surety bond is a contract between three parties—the **principal** (you), the **surety** (the insurer) and the **beneficiary** (the entity requiring the bond). Via surety bond, the surety financially guarantees to a beneficiary that the principal will act in accordance with the terms established by the bond.

**Honan have extensive experience dealing with surety bonds** - working with clients to determine the most appropriate solutions, and in securing suitable surety bonds.



## SURETY BOND TYPES



### BID/TENDER BONDS

- Captures seriousness of the offer for a tender
- Generally short term



### ADVANCE PAYMENT BONDS

- Generally short term
- Guarantees the completion for the part matches the advance amount
- May convert to a performance bond



### PERFORMANCE/ MAINTENANCE BONDS

- Guarantees "well" execution of a project
- Mostly required in construction
- Performance bonds generally become maintenance bonds later after (completion of the project)



### COURT BONDS

- Generally a requirement a defendant is obligated to provide depending on the case



### PAYMENT GUARANTEES

- Highest risk profile
- Can be asked for any activity



### WARRANTY

- Similar to maintenance - guarantees the well functioning of the completed project

## SURETY BOND ISSUERS: INSURANCE COMPANY OR BANK?

Whilst many associate bonds with banks, insurers offer equal reliability and global S&P ratings (investment grade). Unlike banks, however, securing your surety bonds through an insurance company delivers the following benefits:

### No collateral/covenant – no cash back

Generally, when banks undertake a risk, they require many collaterals (such as pledge on bank accounts, mortgages, or personal guarantees). Whereas the insurers approve bond credit facilities on open basis, meaning they do not require any collateral, keeping your assets free.

### Free bank facilities

The banks approve a total credit limit (a facility), to be utilized as cash or non-cash. When you choose to get non-cash credit (surety) from an insurer, they do not consume their bank limits. The credit facilities in your bank remains free to be utilized as cash when needed.

### Insurers have lower premiums compared to banks

### More flexible on wording

Banks have more rigid rules on the wording of the terms of a bond. When you ask for a wording change from a bank, they rarely accept one. The insurers are more flexible, and can issue sureties in line with what is required by the beneficiary.

04

## Advisory

**Experienced & objective** - a partner to help you make safe and confident decisions on credit management for sustainable growth.

There is a lot to know about credit management and trade credit insurance. Having a trusted advisor provides key benefits that contribute to your businesses long-term success. Access to specific knowledge, expertise, ideas and advice from those with first-hand experience can help solve challenges, overcome obstacles, and position you ahead of your competition.

From assessing contract terms and conditions, to mapping out full credit management procedures, **Honan has the expertise to support your business today, and into the future.** In line with your company's needs, Honan's trade credit insurance advisor will work with you to:



**Determine overall quality of your existing term payment clients** via credit reports and a whole buyer book scan.



**Review the health of your existing credit management procedures**, with recommendations for improved practices.



**Issue insurance solution proposals as required** (i.e., whole turnover, smartcover, selective cover, transactional cover).



**Provide a new credit management procedure proposal.**



**Work on improving your financing conditions and credit score**, including the payment terms you are offered by your suppliers and financial institutions.



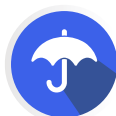
# What sets us apart?

Since 1964 we've put our clients' needs first. We are passionate about supporting people and organisations with the advice, insight and protection they need to grow and thrive with confidence.



## AUSTRALIAN FOUNDED INDUSTRY LEADER

With over 300 staff and growing, we're the largest independent broker in Australia. We understand the local market and legislative frameworks.



## CLAIMS SOLUTIONS

With our in-house claims division lead by industry and legal experts, we know how facilities management, services policies and coverages will respond.



## ESTABLISHED NETWORKS

Trade Credit Insurance history reaches back to the 1800s. Honan have broad opportunities for placement thanks to our strong insurer networks and relationships, locally and globally.



## FULLY INTEGRATED SOLUTIONS

Holistic risk and insurance solutions; from program placement and claims management, to risk consulting.



## CARRIER MARKET LEVERAGE

Placing over \$350 million in insurance premiums annually, and partnering with over 130 insurance companies globally, we bring exceptional buying power to every engagement.



## SPECIALIST KNOWLEDGE, DATA- DRIVEN DECISIONS

We're known for our placement of unique and complex risk profiles, and drawing on data to make timely, informed decisions.



## REGIONAL SOLUTIONS

With offices in Australia, New Zealand, Singapore and Malaysia, we're deeply rooted across Asia-Pacific.



## GLOBAL REACH & INSIGHTS

As the Asia Pacific member of the Worldwide Broker Network (WBN), we offer clients the gold standard in global insights, products and trends.

## OUR INSURER NETWORKS



**Atradius**  
Managing risk. enabling trade

HQ in Spain, rated A2 by Moody's

**coface**  
FOR TRADE

HQ in France, rated A2 by Moody's



**EULER HERMES**  
Our knowledge serving your success

Owned by Allianz Group, rated Aa3 by Moody's

**QBE**

HQ in Sydney, rated A1 by Moody's

THE **BOND&CREDIT** co.  
A MEMBER OF THE TOKIO MARINE GROUP

Owned by Tokio Marine. HQ in Japan, rated A1 by Moody's

**Honan.**

# Industry experience and expertise

**Find out more** - our trade credit specialists are working with clients across the globe to create credit management solutions.

**Dilek Izciler**

+61 490 400 028

Dilek.izciler@honan.com.au

MELBOURNE | SYDNEY | BRISBANE | PERTH | ADELAIDE | NEW ZEALAND | SINGAPORE | MALAYSIA

**honan.com.au**

Honan Insurance Group Pty Ltd ["Honan"] ABN 67 005 372 396, AFSL 246749.

Asia Pacific partner of the  
Worldwide Broker Network

**W B N**

Any advice in this brochure is general in nature and does not take into account the particular needs or circumstances of your business. Insurance cover is subject to policy terms, conditions, limits and exclusions.