Types of Trade Credit Insurance

Trade credit insurance: The different types and how to manage trade credit risk

While it's hugely important to understand TCI as a whole, it's also critical for businesses to know what goes into selecting the right type of **trade credit insurance policy**, as well as some of the other ways that trading risks can be managed and reduced.

That's where Coface **credit insurance** can help. With a variety of different types of **trade credit insurance**, our team can recommend the very best policy for a particular business. If there's not already a clear solution within our existing products and services, we can also create bespoke, one-off solutions that ensure every base is covered.

Choosing the right type of trade credit insurance

When selecting a TCI policy, businesses should start by identifying a provider with the track record, expertise and international reach necessary to meet their needs. This is particularly true within the **Asia-Pacific region (APAC**), where differences in language and culture can make even the smoothest of trade dealings a stressful process.

Here at Coface, we pride ourselves on having the skills and contacts needed to succeed in the APAC region, with over 20 years of experience working within the area. In addition, we have offices in 13 different APAC markets, including:

- Australia
- China
- Hong Kong
- India
- Indonesia
- Japan

- Korea
- Malaysia
- Philippines
- Singapore
- Taiwan
- Thailand
- Vietnam

This experience and scope make us the perfect team for businesses looking to tap into everything the Asia-Pacific region has to offer.

What to consider with a TCI policy

Once you've identified the right TCI provider for your company, several factors should be considered before selecting a **trade credit policy**. These all relate to the overall level of risk faced by businesses, including where they operate and on what scale. For example, the financial risk held by a multinational supplier of IT services with millions in annual turnover is likely to be very different from a small business exporting a few thousand dollars worth of agricultural products.

Some of the most important elements to consider are:

- <u>Annual turnover:</u> The higher a business's annual turnover, the more comprehensive a TCI policy needs to be, to cover potentially large sums going unpaid. Despite this, it's perhaps more important for SMEs to have some form of trade credit insurance, as their cash flows are more likely to be interrupted by unpaid accounts receivable.
- <u>Trade partners:</u> While all forms of international trade carry some form of risk for businesses, there is more danger associated with exporting to certain parts of the world. For example, political instability is far more likely to affect a country in the Middle East or Africa than somewhere like Japan or New Zealand.

- Business operations: Many businesses seeking TCI will be exporting goods, but if a company's operations are slightly more complex, such as services that involve labour costs rather than just products, a TCI policy (and the set **trade credit terms**) should reflect that.

Most of these categories relate to the size and scope of a business's trade dealings, which is why Coface services break down its most common forms of TCI into three distinct categories. These are:

- TradeLiner: For businesses with diverse international interests and an annual turnover of over SG $7 million.
- Coface Global Solutions (CGS): For multinationals with multiple large clients across the world countries and very high annual turnovers.

Set TCI policies are a great starting point, but there are often situations where a more tailored form of **trade finance insurance** is required. Examples of these include large one-off transactions and dealings with businesses in particularly unstable circumstances. In these cases, Coface can provide a **Single Risk solution** that protects against the specific risks faced by an ad hoc project. These policies can be customised to account for a wide variety of different circumstances, including everything from political instability to dealings within a higher-risk industry.

- The flexibility provided by a Single Risk TCI solution allows businesses to enjoy complete, fully scalable cover for their international trade dealings, reducing risk and preventing any disruptions to cash flow caused by a lack of payment.

Minimizing credit risk beyond trade credit insurance

While TCI is a firm line of defence against non-payment, it's not the only way businesses can protect themselves when trading internationally. It's arguably just as important to go into any deal with an overseas buyer having a firm understanding of not only their credit history, but also any other factors that may affect trade credit terms and repayments.

A great example of this is political and geographic risks, such as the possibility of war breaking out or a natural disaster occurring. These sorts of events are outside of any trading partner’s control, but may still affect their ability to pay off any debts. Regardless of the various risks associated with any sort of trade partner, the Coface team can provide insights into whether or not businesses should commit to a deal or look elsewhere. This information, in combination with the right **trade credit insurance policy**, is the very best way for exporters to protect themselves and ensure their overseas operations are both profitable and stable.

To find out more, contact Coface today.