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Trade Credit insurance

# The Ultimate Guide to Protecting Against Client Insolvency

Business failures are growing increasingly common, with the number of companies going bust in 2023 being on track to be the highest since the depths of the 2009 financial crisis.

It is now, more than ever, essential that you protect your business against the prospect of your clients becoming insolvent and leaving bad debts behind.

## But how can you protect against client insolvency?

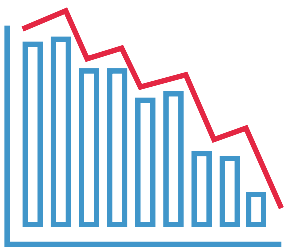
In this guide, we'll run through the common causes for insolvency, how you can monitor your clients' businesses, and what you can do to protect your business against bad debts and unpaid invoices.

# 10 Common causes of business insolvency

There are many ways that businesses find their way into insolvency, and some are a little more obvious than others. Here are 10 common ways that businesses become insolvent:

**01.** **Poor cash flow management**
Many businesses that become insolvent failed to maintain healthy cash reserves or overspent on unnecessary investments.

**02.** **Excessive debt**
Debt is, naturally, one of the most common causes of insolvency. If a business relies too heavily on short-term, high-interest loans, then their chances of insolvency rise significantly.



**03.** **Declining revenue & profit**
Another more obvious cause, businesses who fail to turn a profit will eventually become insolvent.

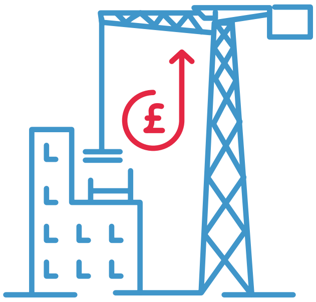
**04.** **Economic downturns**
Businesses that are overly sensitive to economic cycles are increasingly at risk of insolvency. Appropriate risk management is necessary for most businesses looking to survive an economic downturn, such as a recession.

**05.** **Inadequate business planning**
Businesses without a long-term plan or vision for the future are destined to fail, as they'll struggle to adapt to changing market conditions.

**06.** **Legal issues**
Non-compliance with tax obligations, permits or licences can quickly kill a business.

**07.** **Competition**
Strong, unanswered competition will likely lead to a slow decline and eventual insolvency.

**08.** **Industry-specific factors**
Factors unique to the industry, such as technological disruptions, supply chain issues, or environmental regulations can also lead to insolvency.



**09.** **Overexpansion**
Rapid expansion without adequate financing or infrastructure is an unnecessary risk, and almost always causes issues down the line.

**10.** **Supply chain issues**
There are a variety of things that can go wrong in the supply chain. Failure to address them promptly often leads to insolvency

Want to learn more about what happens to a business when it becomes insolvent?

**Find out more here**

# What can you do to protect your business from potential client insolvency?

Right now, if one of your clients became insolvent, what would happen to your business? Could you absorb the lost income, or would it be serious?

Proactivity is key when looking to protect your business from unexpected client insolvency. If you're well prepared, you should not feel a substantial impact of a client becoming insolvent.

Here are steps you can take to help protect your business from the worst fallout.


## Don't delay on invoices

Delayed invoices mean delayed payments. You want to ensure that your invoices are out regularly and on time; never give clients the excuse that an invoice was late.

**The sooner you get your invoice over, the more likely that they'll pay you before others.**

## Foster a good relationship with your clients

Many business owners and directors will be embarrassed about their financial difficulties.

If you foster an honest, open relationship with your clients, they're far more likely to let you know when times are tough. Often, a customer will alert suppliers they trust well in advance, allowing you to properly prepare and find a solution that works for both parties.

At the end of the day, we're all human; if you can find an amicable solution that leaves everyone happy and successful, it's a win-win.

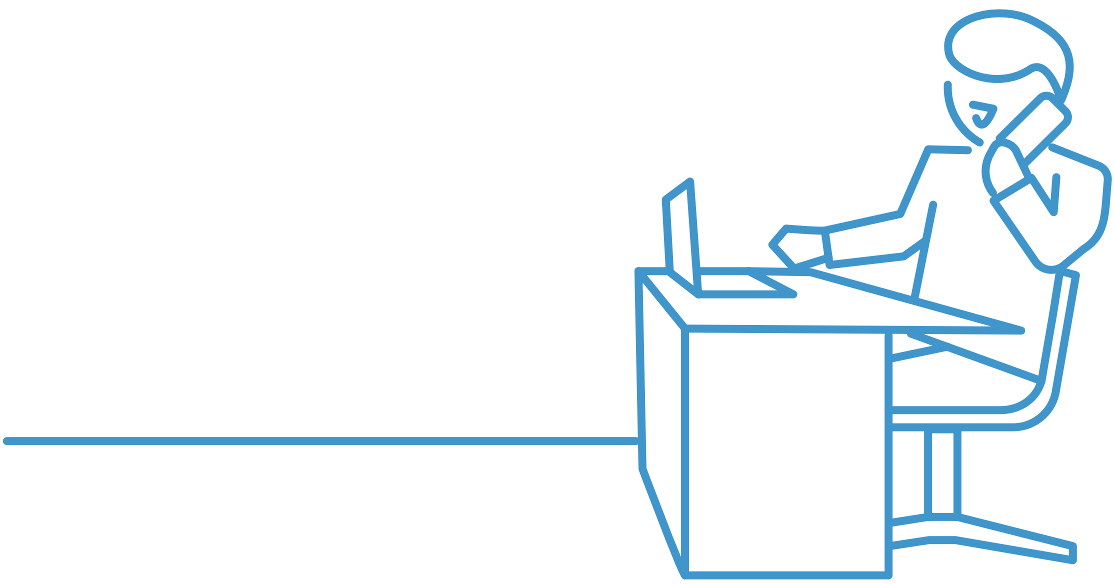

## Invoice factoring and discounting

Invoice factoring and invoice discounting are both financial solutions that allow businesses to access the cash tied up in their accounts receivable (unpaid invoices) before customers pay them. While they serve a similar purpose, they work differently:

Invoice factoring is where you 'sell' some of your outstanding invoices to a lender, who then conducts credit control procedures and pursues all debts. You get paid immediately, and the credit control company takes on your invoices.

Invoice discounting is a loan secured against your outstanding invoices. Your lender will provide your business with a percentage of money listed on your accounts receivable ledger. This acts like an overdraft, providing you immediate access to invoiced funds before the invoice is paid in full.

The difference between the two is that with factoring, you no longer have to pursue debts yourself. This can be a good thing, as it's one less thing for you to manage, but bear in mind that your customers will know that you're dealing with a third-party credit control company (unless you opt for confidential factoring, which costs more but keeps everything discreet).



# Implementing careful credit control measures is key

Credit control is your best friend - knowing that the credit you're extending to your customers is managed effectively means that you'll never lose control of the money you're lending.

- **Always assess for creditworthiness** - Before you ever extend credit to a customer, it's crucial that you conduct your due diligence and assess the borrower's creditworthiness. This involves evaluating their financial stability, credit history, and ability to repay debts. Credit checks and credit reports may be used in this process.
- **Check clients' credit reports** - As mentioned above, customer credit reports should be checked and monitored regularly. This can be done via third-party outlets such as Experian and Credit Safe.
- **Set responsible credit limits** - It's easy to let customers take out a substantial amount of credit - more business is better, right? We recommend going easy on how much credit you allow, especially for new customers. Even if they're creditworthy, you should only offer substantial credit to trusted, proven customers.
- **Define fair terms and conditions** - All good credit control includes well-defined terms and conditions. This should clearly state interest rates, repayment schedules and any collateral or guarantees required. It should also have an agreement in place that will be used if there's any disputes. Remember: if you're selling goods or services, you should have a 'all monies retention of title' clause in your T&Cs, one which states that, until money has been exchanged, the customer has no right to ownership over your products and you can lawfully reclaim them.
- **Either employ or use a credit control team** - Whether internal or external, a credit control team will proactively pursue debts, meaning that everything is kept on top of, and you're well aware of any overdue invoices before they become a serious issue.

# Trade credit insurance - a safety net to protect your business

Trade credit insurance is the safety net that ensures bad debts don’t have a significant impact on your cash flow.

If you’re offering credit to your customers, how are you mitigating against the financial risk of unexpected non-payment or delayed payments?

Trade credit insurance is a policy that is an add-on to your ongoing credit control. It safeguards businesses like yours against the financial risks of non-payment by your customers or clients. If you offer credit terms, trade credit insurance will ensure that you’re paid if a client becomes unexpectedly insolvent or cannot pay their debts for whatever reason.

A good option to protect your business could be Whole Turnover Insurance, as this covers, as the name suggests, your entire turnover - all clients in one policy. This is great, as it ensures that, no matter what happens, you’ll get paid.

One final thing - if you ever go to take out a trade credit insurance policy on a client, and your provider says no - take this as a strong signal that you should be cautious in dealing with this client, as it may indicate that they could cause you headaches in the long term.

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