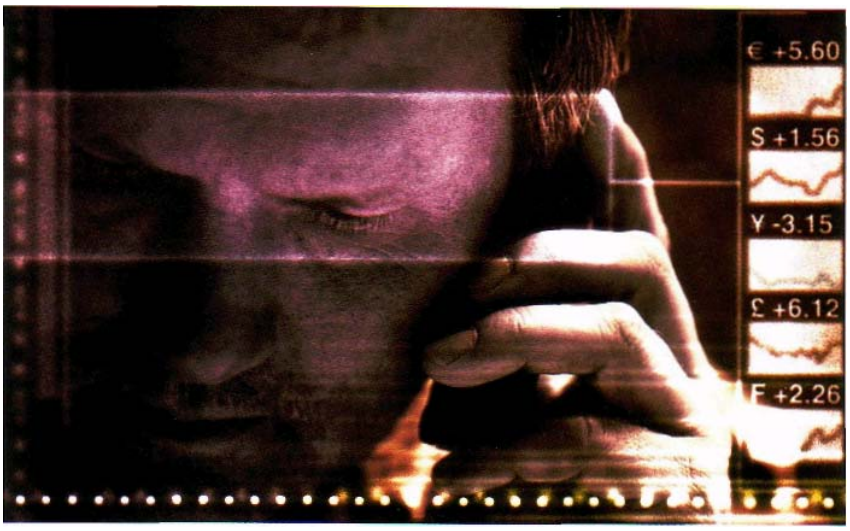

KEEPING your shareholders happy

Financial transparency is essential in today's corporate environment. Deborah Johnston writes that trade credit insurance could be one way of protecting your bottom line

Financial risk management is becoming an increasingly vital issue in the board room, with corporate governance playing a dominant role. High profile cases of financial distress in Australia and overseas have resulted in growing concerns about the effectiveness of corporate governance, company performance and stability of management. Inexorably linked with this are the demands for financial transparency, accurate auditing and the pressures of fulfilling statutory and moral obligations.

Shareholders today quite rightly are forcing companies to seriously consider the way they do business. The public expects any board of directors to represent fairness, transparency and accountability in all their business operations with a strong focus on protecting and enhancing the interests of their shareholders. Trade credit insurance can play a key role in protecting shareholders' assets and the value of an integrated credit insurance program is becoming well-recognised, particularly by long-term users.

The following reasons clarify how credit insurance contributes to keeping shareholders happy. It can

- improve bad debt levels and protect the company balance sheet
- prevent serious interruption to cash flow
- enable identification, minimisation and even prevention of previous unforeseen risks
- enforce tighter disciplines across a company's credit management systems
- enhance information and control across a company's group structure
- increase sales and marketing opportunities for new markets and supports further development with existing customers, and
- facilitate access to more efficient financing.

Some companies choose the option of a reserve for their losses, but what is an adequate reserve for bad debt? Other than being a 'buffer' for impact on profit, this financial tool offers no real protection.

Although what might be called 'working losses' should be carried and/or better managed by a business, there is always an additional level of unforeseen bad debt. The trade credit insurance industry is much more mature in Europe. A high percentage of corporations have realised that it is far more cost effective to purchase a level of bad debt cover from an insurance provider that is built into margins, planned for and substantially greater than an unfunded and potentially inadequate reserve retained on the balance sheet.

The application of this concept is certainly growing in Australia, but has a long way to go before reaching the level of common business practice that is already in existence and widely acceptable in most European countries.

Informed credit insurance advice and services are not commonly available from general insurance brokers though. Using a specialist and independent insurance broker provides clients with a thorough analysis of their particular credit risks and exposures, together with an assessment of their credit management and debt collection procedures.

There is also access provided to a valuable credit related database with quality and up-to-date information about the companies with which clients are doing business,

Credit insurance should be an essential and powerful financial risk management aid, which when structured properly will positively influence corporate governance by contributing to a company's framework of financial regulation, compliance reporting and cash flow control.

Traditionally, credit insurance was seen as simply a safeguard for businesses against the cost of bad debts.

But today directors are now also grasping the huge scope that credit insurance provides in unlocking added value, delivering credit risk management, outsourcing opportunities and, above all, making sure their shareholders' expectations are satisfied. •

Deborah Johnston is marketing manager for National Credit Insurance Brokers, part of the NCI Group