-- Speaker 0 00:03 Welcome to the trade securely podcast. Finding new customers in new markets can open up great business opportunities, but entering new foreign markets brings in new challenges and a wealth of unknowns. I'm Janet Eastman and in this trade security podcast we're going to discuss how businesses can use receivables insurance to gain insight on the credit worthiness of their potential customers and find a policy that suits their trading needs and their budget for exporting. I'm pleased to have Mark Hall, associate broker and credit insurance specialist of Dan Lowry insurance as my guest. He's also a member of the receivables insurance association of Canada. He's been helping Canadian businesses trade securely for over 20 years and he has a wealth of knowledge to share. So Mark, it's really nice to speak to you again. Thanks for joining us.
Speaker 1 00:51 It's great to be on with you. Janet,
Speaker 0 00:53 you know you've had 20 years in this industry and I know that, uh, in the past, I believe you, uh, were on the side of the purchaser of credit insurance, so you have a broad depth of experience. Let's just gain a little bit of perspective as far as exporting goes. How many of your clients are doing business outside of Canada?
Speaker 1 01:14 I took a look at my, uh, at my client list and, uh, approximately 70% of my clients export either just across the border to the U S or around the world. And that's probably, you know, it probably totals up to several hundred million dollars worth of, uh, upsales.
Speaker 0 01:34 Wow. Wow. So what impact has moving into exports had on your clients? Like that's, I mean, that's a big dollar figure. So, um, you know, how has their businesses grown with that, that move in tech, sporting
Speaker 1 01:48 well, exports are an important part of Canada's economic growth. Um, so it provides more employment, more research and development opportunities, um, and expertise that is, it's markable marketable all over the world. So it's had some great positive effects, uh, for most of my clients.
Speaker 0 02:11 So what are some of the biggest misconceptions about doing business outside of Canada? Because I'm sure you've run into Canadian businesses that have a product that they want, like that would be valuable outside of the country, but they're just, you know, fearful or they just, they just don't want to make that jump. So what are those biggest misconceptions?
Speaker 1 02:31 For a lot of people, they see the risk of selling outside of Canada's as too high and the investment required is too costly. But you know, in most cases, um, they find that they really, you know, I find that they, the risk has really not been identified properly and that it could be a lot less than what they had expected.
Speaker 0 02:54 <inaudible> so when, when you say the risk hasn't been identified properly and just in general terms, how to most people look at it and then how do you actually frame it differently for them?
Speaker 1 03:07 Well, you know, the risks are many. Uh, when you, when you're, you're selling the out of country, um, you know, whether you have a product that can be consumed in other parts of the world, you know, and what would prevent you from supplying that demand, um, are big issues. Um, and whether it's regulatory and other countries, uh, you know, whether our lead, there are legal requirements that you can or cannot meet. And, uh, and it's whether or not you need a corporate presence out there. That's part of it. And then accounts receivable insurance is a methodology to, um, reduce some of the risk in that whole package by actually identifying good customers to sell to
Speaker 0 03:54 <inaudible> <inaudible>. So what are some of the questions business leaders should ask to get started on at the ex boarding side of their business? So if they've decided, you know, let's look at this, what are those questions that they should typically ask themselves?
Speaker 1 04:09 Well, the questions to be asked are whether or not their product can be shipped to other parts of the world without, uh, changing it to meet, uh, the needs of that particular country. And if so, what is the cost? Um, you know, and then there are other questions with respect to how you can get your product to that country, whether it's by boat or air or however, and who do you employ as partners to get it there. And then the n --

-- ext question is, you know, whether you actually need to have an office there and who's going to be there. If you do

Speaker 0 04:49 <inaudible> and these are costly questions, aren't they? Absolutely. Yeah. Like setting up an office in another country. That's a, that's a costly proposition. So, yeah. And let, just briefly, can you touch on some of the partners that you, you might think about, like you said, shipping partners, et cetera, but I'm sure there's a load of others.

Speaker 1 05:11 Well, you need to have an accounting partner that is knowledgeable in the country that you are shipped, are potentially shipping to. You need to have lawyers that are partners with you that uh, can help identify what the issues are in that country legally. And, uh, you know, others like myself as a credit insurance, uh, specialist, you know, we bring a knowledge of what's required in that country from a collections standpoint of invoices, what, what requirements on invoices are, are necessary to get something paid. Those are the types of, uh, partners that are important to the whole challenge of getting set up in another country.

Speaker 0 06:00 <inaudible> <inaudible> so, um, there are challenges and there are risks. Let's talk a little bit about some of the risks. One of the risks is not getting paid. Um, there are things like political risk and, and things like that, but what other risks are people mostly concerned about?

Speaker 1 06:19 Well, I think one thing is actually knowing who your client potential client is in a country and distance, uh, to that country is a big factor in collecting data. Uh, and chances are, um, an individual company won't be able to, uh, accumulate much in the way of credit data on a potential client. So that can be, um, an issue at where credit insurance steps in and has a database of information in most countries, uh, on, on companies. And you can gather that information and make good credit decisions, uh, for people that are halfway across the world.

Speaker 0 07:05 <inaudible> so let's frame this a little bit, uh, even more clearly. So let's say I'm a business and I decide I, I'm going to export my products, good to get out there and export. And my biggest concern is, you know, the company over wherever that wants to purchase my product. I really don't know anything about them. So I contact a credit insurance or receivables insurance provider. What kind of information can they access to tell me about that potential customer?

Speaker 1 07:36 Well, most insurers won't disclose, um, information that they have received confidentially as it's obviously confidential. Um, but the underwriters can tell you whether or not a company is good for a certain insured credit limit. And from that you can read between the lines as to whether or not, um, they would be a good customer to ship to or not. Um, in some cases an insurer may not have information on a company because it's either too new or they won't disclose certain amounts of information. And if that's the case, you know, perhaps you want to change the way you are intending to do business with that customer and move it instead of giving terms to requiring, you know, progress payments or cash in advance, that sort of thing. So it really, you know, the insurance, the accounts receivable insurer provides you with a methodology to approach a certain customer.

Speaker 0 08:49 So, Mark, can you actually share some stories about the challenges or opportunities some of your clients have had doing business beyond our borders?

Speaker 1 08:57 Well, if I look at some of the claims that have happened over the years, I think the one that sticks out as being most, uh, interesting lately is the fact that I have a client who ships all over the world and they had a client in South America who their system was hacked and a large payment was redirected from, from going to my client to another bank account, which was then emptied and closed.

Speaker 0 09:32 Oh.

Speaker 1 09:33 Uh, before anybody knew what was happening.

Speaker 0 09:36 You're kidding.

Speaker 1 09:39 Because it was a large amount of money. It nearly bankrupted the, uh, the company and my client couldn't get paid. So they had to file a claim for that, which the insurer paid out because it was a financial issue. Ultimately, that caused them not able to be, not be able to pay, be paid. And now my client makes it a p --

-- oint to ask that, uh, all of their clients, you know, do they have cyber insurance, which, you know, what helped them in a situation like this, recover their money and actually prevent it from happening in the future. And these are some of the, you know, some of the issues that you get when you ship around the world is, you know, the fact that, um, what may be, uh, appropriate in Canada may not be happening in the rest of the world or parts of the other world as far as what protection is in place.

Speaker 0 10:43 <inaudible> and cyber insurance and, and the concerns about cyber hacking and things like that, that is becoming more and more prevalent and people really need to start paying attention to that. I had never, I had no idea something like that could happen. That's crazy.

Speaker 1 11:00 Well, you never know until you actually hear about it or experience it. And believe me, my client doesn't ever want to experience that again.

Speaker 0 11:10 Yeah. Wow. It's a crazy world out there. Okay. So what's going on, um, with the insurer, once a policy is set up, so you decide you're going to export, you get your policy in place. Um, this is never, um, a sign and done. The, the, uh, broker is always there to help. What's, what's the, what's the process, what happens and what can that, that value be potentially for, for the client on the other end when they have that policy and that insurer and that broker behind them?

Speaker 1 11:43 Right? Well, once the policy is set up and then that's after you've determined, you know, which one of the insurers you're going to go with. Um, customers are added for coverage onto the policy and it's continually evaluated by the insurers, um, all of the time. So continually, and then when they start to see information that is negative, um, they ask all of their policy holders who have that customer on their policies to report in on what they are seeing and hearing, you know, whether or not payment history is, is getting longer. Um, whether they're hearing rumors, you know, about decreased sales, things of that nature. And it may come to the point where, um, the insurer decides that the risk is getting too high and they may start to reduce, uh, the exposure that they B they have on that customer. So depending on if the policy is made and whether or dependent, depending on whether the policy, uh, allows for our claim on this customer, you'll get a percentage of what is owed, usually up to 90% of what is owed. But what they would rather have you see, uh, is, is that if you can get advanced notice of a decline in the financial stability of that customer, that you can try and get 100% of your money out yourself and move on. So there's value that the insurer provides by giving you advanced warning of a potential problem and you can do what you can to get all of your money out before you're faced with a deductible on your policy or you have to make a claim.

Speaker 0 13:40 <inaudible> <inaudible> let's talk a little bit about the spread of risk because I think people are going to say, okay, I want to do business in this one country. With this one client, I'm going to test the waters and you know, see if it works for me and then maybe I'll decide to expand. Um, but T just explain this sort of situation with the spread of risks. So you get the best premium or value on your policy.

Speaker 1 14:06 Well, every insurer would like to get a portfolio of accounts, uh, to ensure on each policy. Um, they really don't like to have just a one customer policy basically, unless it's a very large one and it's important and there are other investment grade or better. Uh, so, you know, really the, the more clients that you have insured on the policy, the wider the spread of risk and hopefully the less, you know, claims that come their way, uh, on, on this potential portfolio.

Speaker 0 14:51 Okay.

Speaker 1 14:52 So given that the information, let's talk a little bit about, um, the views and objectives that you've received when discussing credit insurance with business leaders and owners. Um, you know,

Speaker 0 15:03 what, what are, what are they looking for?

Speaker 1 15:08 Well, some of the, they're looking for protection, um, against losses. They don't want to pay too much in the way of premium and they don't want the insurer to interfere with their ongoing business decisions. So that's, you know, in an, in a nutshell, that's wh --

-- at it is. Each company has their own, uh, level of risk that they're willing to take on. The question is how is what that bad amount really is? And that's what somebody like myself has to sit down and interview these companies and discuss in detail what kind of risks they really want to take. Some of the other objections that they come up with though are, you know, that they know their customers too well. And if there was ever a problem, they would be the first to get paid. And that is, you know, unless you're sitting in their management meetings and reviewing their financial statements regularly, you know, you never really know what's going on at your customer.

Speaker 1 16:20 Um, you know, they could be the greatest people when it, when it comes to money, you're the last person on their list. One of the other, you know, objections to buying it is, is that it's too expensive. Um, but generally speaking, um, the cost of credit insurance is less than what they're accruing for bad debts anyhow, and it may improve their financing at their bank and it may reduce some of the costs or some of the guarantees that the shareholders put up and it, you know, essentially can prevent large losses, which protect sure. Balance sheet. And a lot of my clients say, you know what, this just allows me to sleep at night cause I don't have to worry about getting paid.

Speaker 0 17:16 And I guess ultimately it never costs you anything to make that initial call and just inquire about what an, what the insurance can do for you and, and how it can actually help you grow your businesses. Right. So it doesn't hurt to make that call.

Speaker 1 17:31 Absolutely. You know, it's, uh, it's something that, uh, that people really don't know unless they've experienced, you know, a real quote for the product. <inaudible>

Speaker 0 17:44 well, businesses aren't likely to consider exporting. Ultimately if the payback isn't going to that initial investment. The cost of the time and the money to investigate the opportunity and once shipping a product begins, even more money is going to be on the line. So how do you actually frame that cost to your clients so they understand what their risk is because it's not just that invoice that you send out, it's all that time you've spent prior to that, that has cost you money. How do you frame overall what protecting that risk cost is?

Speaker 1 18:14 Well, there's a, there's a number of different, uh, costs involved in protecting it, but you know, the number one is, um, the amount of premium that you have to pay for this policy and then actually deciding on whether the coverage, uh, you know, provides you with value, uh, to grow your business. Um, you know, outside of of Canada. So, you know, um, the, there are many, there are many ways to go about looking at what the risk is. But if for the most part it's very cost effective to transfer risk going to insurer rather than take it on yourself, especially when you don't know all of the intimate details of the clients that you're shipping to because of the distance that they are from your operation.

Speaker 0 19:13 <inaudible> and as you said before, the insurer is always talking to all of their insured and they're sharing information about particular customers that are out there. So you are going to get a notice based on how everybody is experiencing that customer, whether or not there is a problem there. Right. Got all that insight. Yeah.

Speaker 1 19:36 Yeah. And you and you can never get that yourself.

Speaker 0 19:39 No. Yeah. There's no way to do that. Even if you called them every day, you wouldn't know what the landscape really looked like. Right. So can you share some, some final key takeaways or stories that, uh, can help people understand the whole value here for protecting your assets when you export?

Speaker 1 19:58 Well, a credit insurance policies has, like I say, has many different value-adds, uh, that come to mind. One is protecting you against the large loss, um, or, uh, caused by the bankruptcy, bankruptcy of a customer or their inability to just pay. Um, you can also a, for most, for the most part for exporters' add to your margining capability, the export receivables, which are usually excluded by the banks. Uh, if you don't have receivables insurance, so you actually have more money that you can use to help invest in your business and grow your business. And then the knowledge t --

-- hat you get as we discussed in the past, uh, about all of the clients is something that you can't, you can't accumulate from anywhere else. So having, making sure that your clients are safe to ship to and knowing that you'll probably get paid by either that customer or the insurer is a value that you can take home every night. Like I say, it's a, it's like sleep at night insurance.

Speaker 0 21:19 I just want to touch on some just final numbers. So basically if you have, um, if you have to make a claim, these are general numbers, you'll get back 90% of your invoice value

Speaker 1 21:31 up to 90%. It really depends. It really depends on how the policy is set up. It could have a deductible, uh, on the policy as well as the 10% coinsurance. So it really depends on each policy how much you would get back.

Speaker 0 21:48 Right. Okay. And then the actual cost of having this insurance, like I've heard all kinds of different percentages, what it actually costs you overall. Do you have a, um, a percentage on that

Speaker 1 22:02 for a company who, um, is insuring probably more than $5 million in sales, the rates, the rates, uh, sort of average between 0.2, 5% of sales and 0.7, 5% of sales, um, with the higher percentage for, uh, low, the lower amount of sales. A lot of people think that, that it's, you know, one or 2%, but that's not the case.

Speaker 0 22:35 Mark. Um, thank you for sharing some stories. You particularly scared me with the cyber risk one. Um, that's, that's a fascinating story but a really great insights on um, helping people get ideas on how they can move forward if they decide they want to do some export in, which is basically we're an exporting country so Canadian businesses need to understand all the ins and outs of how it works. So thank you very much.

Speaker 1 23:00 It's been my pleasure.

Speaker 0 23:01 Mark Hall is with the Dan Lowry insurance. He is an associate broker and a credit <inaudible> specialist. Their trade security podcast is brought to you by the receivables insurance association of Canada whose member, brokers and insurers are helping Canadian businesses succeed and grow by enabling them to trade securely at home and abroad. And that is our show for this month. For more information to help you grow your business, check out our Twitter and LinkedIn feeds and subscribe and share this podcast with your friends and colleagues through iTunes, Google play, Spotify, or download the trade securely podcast streaming app. Until next time, I'm Janet Cheesman. Thanks for listening to the trade security podcast.

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Speaker 0 23:51 and grow securely.

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