-- Speaker 1 00:00:07 There are many different kinds of insurance and as a product, it can be confusing. The train securely podcast is brought to you by react to the receivables insurance association of Canada. And as a product receivables insurance is not widely understood by many Canadian businesses, bankers and even insurance brokers. So today we're going to do something a bit different by having someone outside the receivables insurance industry, ask the questions. Greg rose diva is the president of Dundess life, and he is going to be asking the questions of John Middleton, who is the chair of react. And he's also vice-president complex risk trade credit at hub international. I'm Janet Eastman. I normally host, I'm just going to sit back and watch and learn gentlemen. So thanks so much for joining me today.

Speaker 0 00:00:57 Thanks for having me nice to have the day off

Speaker 1 00:01:02 A half hour or so. Right. Okay. So Greg quickly, um, just give us an idea how long you've been in insurance.

Speaker 0 00:01:10 I've been in insurance for, I think we're coming on seven years now. Uh, so most of my professional life has been spent in insurance. Uh, prior to that I spent about two and a half years strictly in technology. So it was over a Hewlett Packard enterprise. And then I shifted over into insurance software. So this has been a gradual transition, all things considered.

Speaker 1 00:01:31 Okay. And John, I know that you've been in the receivables insurance industry for quite some time. Can you just give people a quick background on yourself and then just an overview of what receivables insurance is? So people who are generalist brokers can kind of get an understanding of what we're going to be talking about here.

Speaker 2 00:01:50 Absolutely. So I think he, Janet, uh, I've been in trade credit for over 25 years. I initially started as an underwriter and, uh, worked my way into the role of a broker, um, about 15 years ago or maybe 20 years ago now. Yeah. Time flies anyway. Um, uh, yeah, it's, it's been a good run and, uh, we we've really grown in this industry in the last 25 years. It's really changed quite a bit. And there's certainly a lot more interesting at, uh, than there was when I started my career in trade credit. So, uh, you know, what does this product cover? There's, uh, a number of elements. There's a commercial risk of, uh, an invoice not being paid. So if you have a buyer that you're selling to and the buyer goes bankrupt, uh, that would be an insured risk that would be covered. Sometimes companies don't formally go bankrupt, they just don't have the cashflow to pay their bills on time.

Speaker 2 00:02:38 And so the insurers will offer, uh, we'll also cover that type of a risk. Uh, so we call that a protracted default situation. And then we also have what we call political risks, which is wrapped in the trade credit policy. So if there's an event like, um, a loss resulting from inability of a buyer to convert their local currency, to us dollars in order to, uh, to pay their bills, or there's a cancellation of import or export permits by either the Canadian government or foreign governments. And that causes a transaction not to be completed. Those types of risks are also, um, covered by trade credit insurance. But most of the losses that we see are a result of insolvency or just pure buyer. Non-payment in fact, probably buyer non-payment is perhaps even at the highest end of that scale. Okay,

Speaker 1 00:03:22 Greg, it's over to you buddy.

Speaker 0 00:03:26 Oh, wonderful. Oh, none fell here. No, this is great because I feel like coming from a generalist capacity, we deal with quite a few people over here. And I'm talking about, you know, your local mom and pop shop somewhere in some small town, you know, your average family unit in a larger city, but also quite a few business owners. And in this kind of situation, we do have quite a few referral arrangements. I mean, quite a few referral arrangements. If someone is looking for a wealth product, we have something in place. If someone is looking for a group benefits, we have something in place. If someone's looking for property and casualty insurance, home auto, that sort of thing. We have people sitting with more complicated commercial insurance. Uh, so when, when we're talking about this specific category of insurance, uh, especially coming from a generalist, the first question --

-- I would ask is what types of, what types of businesses do you deal with predominantly, like who comes across your plate the most often, or just as importantly, what are the best types of clients for you?

Speaker 2 00:04:25 Yeah, so it's quite interesting in our industry because there's, it's, it's, um, it, it, basically the company has accounts receivable on their balance sheet. Then they're pretty much eligible for, uh, applying for this coverage. And then they need to determine if, if that's what they want. And, and there is also, uh, an issue with regard to size of company because, um, there is a minimum premium with the private sector. And so there needs to be a certain quantum of sales in order to generate enough, um, um, receivables to warrant the expense of the premium. So the first thing is that I would say, you've got to have a company that's got revenue of at least a million dollars to really start looking at this product. Um, that's kind of the threshold. Uh, we can see stuff below that, but generally speaking, a million dollars in revenue.

Speaker 2 00:05:08 And the reason I say revenue as opposed to receivables is because the premium is calculated as a percentage of the revenue. So essentially any commercial account that has revenue and excess a million would be a good candidate for trade credit. Now, as it relates to what kind of companies do we see doing and using trade credit? Uh, it's quite diversified actually. Um, there, there is, um, you know, a number of industries that perhaps use it a little bit more and traditionally have used it a little bit more. I would just say things like the commodity sector. So steel, steel traders, uh, lumber, traders, uh, food traders, those types of guys, they're typically using trick rather than MBE have been used in that for a long period of time. And generally what's, what's conditional, or what's maybe similar amongst those. And what makes straight credit important to them is that they're companies that typically don't have a large gross margin.

Speaker 2 00:06:03 So when you don't have large gross margin, you don't generate enough gross profit to offset any potential, bad debt loss. And so if you're an entity with a lower gross margin, then this is a more attractive product for you because it does protect your balance sheet. You might not have that excess cashflow. Like if perhaps you are a software company where you bet really enormous gross margin, maybe you're not quite as likely to use trade credit, but if you're a trader, you know, maybe you're operating on 6%, 5% gross margin, this is the kind of product you need, because if you take a bad hit, it's gonna, it's gonna hurt. So that's the first thing that comes to mind. Um, and then there's also concentration risks. So as we're seeing in the economy, there's a lot of consolidation happening. And so companies might just by the natural process of who they're selling to there may actually be increases in their credit exposure because their customers are amalgamating.

Speaker 2 00:06:54 And so sometimes we just do a sort of catastrophic type programs where we look at a company's top 10 exposures or exposures above a certain dollar value where they sort of feel like there's a threshold to their balance sheet, that they might not be able to, to absorb the full hit. And so we'll, we'll design a program just to help them manage concentration risks. So, so that can be a, a big thing moving forward. And, and, and really like at the end of the day, uh, there's a lot of companies that are using this product to help them with financing. So if you look at a traditional banking relationship where you have a line of credit and, and their margining against receivables and inventory, typically the bank will be margining the AR at a rate of 75%. So that means for every dollar a day, are you going out there? They're going to lend you 75 cents. If you buy trade credit, you can get that ratio increased to 90 cents. So, um, we probably have about half of our clients that are using trade credit just to enhance their financing. They're probably high growth type companies or looking for ways to try and leverage their balance sheet to, to be more beneficial to their growth of their business. And they'll use this trade credit policy for that purpose. Okay,

Speaker 0 00:08:06 Perfect. No, that's really good context. I think that's an excellent introduction. And while, while you were explaining a --

-- lot of these items, the first thought I had was, you know, there's probably a lot of, we know quite a few commercial brokers, the commercial insurance brokers, as well as group benefits, brokers that are probably dealing with this sort of clientele that would find trade credits useful. If let's, let's say for example, they're doing their quarterly or annual check-in and they want to talk to their clients about trade credits or at least get the conversation going. What would you require? What information would you require outside of revenue numbers from that specific company in order to have a meaningful conversation we can get on the phone with them.
Speaker 2 00:08:46 Yeah. So we would be looking at first off at the revenue numbers and then what other trading terms. So are they, are they offering that seven day terms? Are they net 30 net 90? What is it that their typical businesses? So we need to understand that we'd like to understand which countries they're doing business are, you know, are they importers or the exporters' has all their exposure within Canada, or are they, are they, um, branching out to different markets around the globe? Can we help them expand into new markets? So those are the types of questions that we're going to ask. Uh, we're going to want to know who are their largest customers and what kind of credit limit do they require on those large customers? Um, do they do transactions on what we call cash against documents? So sometimes on export transactions, they will sell cash against documents.
Speaker 2 00:09:27 It's a little bit more secure process because they keep title until the payment is received. So we want to understand if that's happening. Um, we want to understand their historical sales and bad debt information, because that has an impact on the way the policy might be underwritten. So we need to have a bit of a vision on what that looked like for the last three years. And, um, and then just kind of understand most importantly, what is their objective, because we want to make sure that we tailor the policy to meet their objective, right? We need to understand what's driving their decision process about why they want to use trade credit insurance. Because if we know that, then we can make sure that they're not spending money on something they don't require.
Speaker 0 00:10:07 Right. And I think that's an interesting segue into the next question, because if you're looking at life insurance specifically, there are trigger events that get people thinking about life insurance, the death of a loved one, or the birth of a child or the purchase of the home. Those tend to be the three big trigger events holding autos trigger events is the purchase because oftentimes, or at least on the auto side, it's definitely mandated by government to have, I mean, in your experience, what are some of the trigger events that you've seen that have prompted a lot of these firms to think, you know what I think I do need this kind of coverage? What have you seen historically?
Speaker 2 00:10:39 Yeah. Yeah. So, uh, there's probably about four things I can think of immediately. So first and foremost is that has the company just recently taken a bad debt loss and not had insurance and then thought found out after the fact that, Hey, this Sherman's is out there, right? So there's that. And then, and, and a corollary to that is sometimes you see in the marketplace, uh, that there'll be a high-profile insolvency that occurs. So like, as an example, when target Canada went bankrupt, that's a high profile thing. Everybody hears about it. Everybody knows there's a target store in their neighborhood. I mean, granted, this was a several years ago now, but that's the kind of event that when you have those trigger events that also creates some buzz in the marketplace. So those, those events for sure. Um, I would say, um, maybe not quite so obvious, but when a company is, this is back to the financing, but when a company is looking at, you know, negotiating new financing, or perhaps looking to change lenders, uh, trade credit insurance might come up as a way to further enhance the lending arrangement.
Speaker 2 00:11:35 And so that's the time when people might start thinking about it. And then, uh, for exporters I think is really important as they start to develop their export strategy and look at opportunities around the globe, uh, that trade credit is going to come into play because --

-- they can't be on the ground in the same country all the time that they're selling to. So having this backstop and having a second professional credit opinion on the customer that you're doing business with is really, really important. It just gives you a level of comfort that enables you to take that step into the new market.

Speaker 0 00:12:05 And yeah. And I know that earlier on in the interview, you mentioned that there've been quite a few changes in the last 25 years. Could you elaborate that on that a little bit and talk about some of the trends in trade credits today?

Speaker 2 00:12:17 Yeah, I think it's just more the, the, the, the breadth of opera options out there. So, uh, you know, we've had EDC in the market for, for, well, since world war two, right? It's been, it's been around and it's, it's gradually morphed into a bigger organization and, and have been more prominent in the marketplace. And it probably has about two thirds of market share on the pure export side of trade credit. Uh, but because Canada is a market that looks outward hand does do a lot of exporting, uh, that has garnered a lot of interest from the private sector in terms of looking at perhaps offering trade credit, indicating market. And there's three underwriters in the market that just do trade credit insurance. So they're global players, uh, a company called the tradie as a company called fast and the company called EULAR. And so these guys, uh, they're in the marketplace, they've got, you know, 75, 80% market share globally.

Speaker 2 00:13:09 And they have a big presence here in Canada, both for export and domestic. And then we have other underwriters in the market. We're also interested in trade credit that are doing business now in this market space. So as an example, intact allied world, great American insurance company, some of these AIG, so these guys have big market, they have big customers and those customers need these products, right? And so they want to be able to offer that internally, uh, as well as, uh, you know, trying to take advantage of the growth of the market. So the market has grown tremendously in terms of premium. Like it's grown, it's grown 10 fold during the time of my career. So it's been a really up up thing. And so that would be the big difference is that there's a lot more choice. There's a lot more appetite. There's a lot more capacity and that's, what's changed in the, in the time of my career. So, uh, someone looking at trade credit now has got a lot more options available to them than they would have, uh, when I initially started in trade credit insurance,

Speaker 0 00:14:04 Good point. Well, it's interesting. And I know that when I chat with brokers around these sorts of arrangements where it's like, okay, think I have a client that could fit the fold of what's going on here. I mean, what in terms of, and this might be getting granular, but I know this is a question that brokers would typically ask. They have a client they're probably a good candidate. They don't currently have a vendor. Are there opportunities for commission splitting? Are there like, you know, fee rates, can someone be paid out a lump sum for a lead? Like how does that typically work with trade credits? Because I know in the life insurance side, in the property and casualty side, uh, these things are governed, you know, almost to a T it's outlined very specifically, what can and can't be done. Is there something in place like that for trade credits as well?

Speaker 2 00:14:47 Yeah. I mean, we're all regulated by Rebo within Ontario and not yet other than the other provincial regulation, regulatory bodies and the other provinces that we work in. So as you know, uh, insurance brokers can pay insurance brokers, commissions. And so we do have the ability to offer commission for referrals, uh, from brokers who need somebody in trade credit to be especially special, you know, help out in, in a circumstance where they maybe don't have the knowledge. And, and then it's just a matter of negotiating with that broker. Like how much does they want to be involved? How much do they want us to take role? Generally speaking, we want to be the broker of record because, um, we want to, we want them take the, you know, exposure here. We understand the product the best. Uh, we're happy to share the revenue back with the other broker who's referring, but we do want to have the broker record letter there.

Spea --

-- ker 2   00:15:34   So, um, you know, we want to develop a relationship with someone where we respect their customer relationship, and we're not gonna go after them and put any of their other business at risk, but we want to be able to come in and help them and help both parties, uh, earn some revenue and help their customer more importantly, uh, grow their, grow their business and, and be more successful and protect their balance sheet. So, yeah, there's ways of doing it. I know that we've had success, uh, sharing revenue, like sometimes it's 30% of the referring broker, 70% gets captain's house. The ratios can change. And, and from, uh, from, from, um, uh, a broker's perspective, a generalist brokers perspective, if I can create 30 or 35%, that's effectively gross margin, right. Uh, without having to take any risks other than introducing my client. And, and, and I'm further ring fencing my arrangement with that client because I'm bringing them something else that's valuable to them. So it's going to solidify my relationship. Um, and I'm, I'm just generating some pretty good gross profit off of that without having to take much risk. Uh, I think that's a good win for the broker, uh, on the, on the generalist side.
Speaker 0   00:16:36   Oh God, you brought that up. And I think on the Ribo side of things, it's good to know that it's governed by Ribo because I think people have a sense for what that generally looks like. I think when it comes to broker of record, at least historically from what I've seen, I mean, the general consensus I've come across is that, especially if you're going into specialty lines, you want the specialist to be the broker of record the person doing the servicing. I mean, it just strikes me as intuitive. I'm the last guy you would want as a broker of record for trade credits. I like there's too much that I don't know. And I think it's a bit humbling to say, but I think it does make sense. And I guess in terms of the size of these, and I know there's no average that you can give me, cause you'll probably tell me, it depends on the standard deviation is huge. Uh, but what types of policies are you seeing range wise? Like how big are these for your average broker? Usually?
Speaker 2   00:17:23   Well, if you're working with the private sector, the minimum premium varies by underwriter, but he can also alternate between 10 and 25,000 in premium. Right? So you're looking at the bottom and 10,000 and then you're looking at, you know, we, you know, we know there's companies out there that are playing in a million dollars in premium and trade credit, right. I'm going to say an average, uh, industry average, would it be 40 50? It's going to vary by underwriter. Right? So some of the Androids have a lot policies. Maybe they're closer to 30,000 in annual premium as an average. Whereas some of the other ones that are more looking at large corporates that their, their average could be over a hundred thousand. So, uh, when you're looking at it in the commission rates, 15% typically as sometimes the underwriters offer incentives at a higher rates, but let's just say for purposes of this conversation, it's 15%. So, you know, a $50,000 policy that 7,500 bucks, it's not, that's not bad revenue for a broker. Right. Right. And we're happy to split. Like we split that one third, two third or 30, 70, or whatever it is. We're still making enough money to make it worth our while to, to service that account. Right.
Speaker 0   00:18:25   I think that makes sense. Uh, cause I know with a lot of brokers, uh, when you, when you chat with them, they stumble across these sorts of opportunities on the off chance. They don't know what to do with it. Um, so I think that's an excellent thing to bring up. And when it comes to, uh, trade credits in particular, like, I mean, if you look at home and auto, cause I think that's the easiest way of comparison in this respect. If you're looking at an auto policy, a lot of it is just out of the box, you include like, okay, what kind of car do you have? The, what year is it that kind of stuff, a little bit of background on yourself when it comes to customization of these quotes, like how involved is underwriting and how much of it is out of the box? Just, you know, here's generally what we do for this industry. Like how involved of a process is the quoting process and really getting it out to the client.
Speaker 2   00:19:10   That's a great question in your comparison t --

-- o the auto policies is really appropriate because that's all regulated by the government, right? And with trade credit, all of the underwriters have their own policies and all the policy language is different. So the underwriting process for a new application can take two to three weeks with the underwriter. So there's a fair bit of time that's involved. And then when the broker gets the information, then they've got to try and do an apples-to-apples comparison. They've got to figure out what endorsements need to be added, to say a certain policy over, to make it more comparable to another policy. Um, you know, maybe there's certain like for as an example, some underwriters will offer non-cancelable credit limits. Others will offer only cancelable credit limits. So what does that mean for the customer during the course of the 12 month policy period?

Speaker 2 00:19:53 Um, especially for their high risk buyers, those types of things, you have to have a conversation with. Uh, another example is some underwriters that coverage kicks in from the moment that goods are delivered. There's underwriters, that's from the moment that gives their shit. That can be a big deal depending on where the product's going and the amount of time is spent in transit. So these are the sorts of things that you have to deal with dig into, uh, based on the way that underwriters are quoting the business and try and provide the client and understanding of the differences between the different offers so that they can determine what is the, how do they want to capture that risk relative to the cost, uh, and, and make the appropriate, uh, cost benefit, uh, decision.

Speaker 0 00:20:32 Okay. That makes sense. And I guess, uh, as, as the interview kind of winds down, if you're looking at life insurance brokers, we're governed by FINRA, not so much Ribo, but also, uh, home auto commercial type brokers that may come across these sorts of opportunities. If there's thing that you'd want to leave them off within this interview, what would it be? Not on the spot.

Speaker 2 00:20:53 Yeah. And you know, this is a, yeah, this is one I hadn't thought you were going to ask me. Um, I, uh, I would say that, you know, like the policy and the, the product is financial nature and it is fairly complex and there's a lot of nuances with regard to the coverage. So it's easy to say, you can sell this, but if you don't really understand how company aid compares to company B compares to company C and how their policy languages are different, I think you're opening yourself up to some, you know, at risk. And I think that utilizing the specialists, it's really going to help, especially in the event that claims are filed because we really know how to make sure the claims process happens. Satisfactorily. Um, I was on a conference call the other day with one of the underwriters who told us that their, um, claims denial rate was 11%. Now you think about that, that's extremely high, right? And that's not going to be the rate for specialist broker shop. So they're, they've got a lot of clients who are getting advice that maybe isn't the best advice. Right. And, uh, so I guess all in, all I'm going to say is that, uh, there's a reason there's a bunch of nice specialist brokers in this, in this sector. And it's because it is a very, uh, complex product when you really dig under it and figure out how it works and what the conditions are.

Speaker 0 00:22:14 Perfect. And I guess lastly, over here, like I have spoken to other brokers before about trade credits. It's never been as involved as, you know, everything that you've elaborated on here. John, if the brokers that we're dealing with here or any other brokers that are listening to this podcast, if they have an opportunity that they'd want you to vet, what's the best way to reach you here.

Speaker 2 00:22:34 I worked for hub international and, um, uh, working across Canada. So certainly happy to help out in any capacity in our front. And, uh, I'm, I'm the chair of the receivables insurance association of Canada currently. And also my contact information is available that way.

Speaker 1 00:22:49 And Greg you're at Dundess life. So people can find you via LinkedIn or through darnedest life as well, right?

Speaker 0 00:22:56 A hundred percent Donbass life.com. You can reach out for, uh, for a free life insurance quote to at least get a sense for what coverage is available. Uh, but --

-- if you're looking for something a little bit more specific, people can reach out to me directly by email@gregatdundalk.life, or shoot me a line through LinkedIn. I'm happy to help, but Janet, I have to say, I thought you would have jumped in at some point with the joke or something. I mean, you're quiet there the whole time what's going on.

Speaker 1 00:23:20 You were, you were doing a great job, Greg and John was, uh, hitting the questions. And I was just like, this is great. This is the information that I think the industry needs to get out. And it's much better if somebody who's in insurance is actually asking those questions of the receivable insurance broker, because then they can get those detailed answers, which I wouldn't have the right questions probably to ask. So I really appreciate you reaching out to offer your services on this, Greg and John. Thanks again, as always for participating in podcasts, you always do a great job for us. So thank you gentlemen. Thanks Greg. Appreciate you joining us today. Thanks Janet. Okay. Stay in touch Greg. Thanks, Jeff. Okay. Thanks John. So if you're a broker or a business owner and you have questions for either John or Greg, you can reach out to them by other websites.

Speaker 1 00:24:12 You can find them both on LinkedIn and also go to receivables insurance, canada.com to find more details. Or as Greg said, he's at Dunga S life. So, uh, that is our show for today. Thank you so much again to John and Greg John Middleton is the chair of react. He's also vice president of complex risk and trade credit at Hubud international. And Greg Roz diva is the president of Dundess life. And the trade securely podcast is here for you to help you trade and grow securely. So if you ever have any questions, reach out to us and we will be happy to help. Thanks so much for listening to trade securely. We'll see you next time.

--