

Export Credit Insurance: An Alternative to Letters of Credit

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Providing attractive payment terms is essential for any company that is looking to begin or expand its international sales program.

Unfortunately, many of the sales opportunities that exist for Canadian companies cannot be realized because of the high risk involved in providing open credit terms and the restrictive nature of letters of credit (LC). Searching for a way to provide open credit terms without risking accounts receivable loss has led many companies to purchase export credit insurance.

Letters of credit

In an attempt to secure some sort of credit assurance, most Canadian companies automatically turn to letters of credit. But as anyone who has ever gone through this approach may know, it could cost the sale. The reason is simple. Letters of credit put the burden on the buyer or potential customer to secure the transaction. Foreign buyers must arrange the LC with the bank and pay for it. The cost can be significant, and buyers may not be willing to commit their credit lines to back them, not to mention the risk of offending buyers used to dealing on open account terms.

Export credit insurance

Export credit insurance removes the burden placed on the buyer by eliminating the need for a letter of credit. As a sales tool, export credit insurance goes far beyond this. It offers a competitive advantage by enabling companies to extend credit to a customer that might not normally be considered for open account. It also allows a company to offer larger credit limits to potential customers and to increase credit limits to existing ones. By removing the onus put on the buyer to purchase the letter of credit, the relationship between buyer and seller is greatly improved. As far as buyers are concerned, they are being sold on open credit terms and may not even be aware that their accounts are secured with insurance.

The ability to offer open credit terms and extend more credit while reducing the risk of non-payment enables Canadian companies to safely promote sales expansion. The affordable premium will typically be more than offset by higher net profits realized by the ability to increase lines of credit to current customers and to safely extend credit to new, unknown accounts.

Export credit insurance coverage is offered by a number of insurers, including EDC (Export Development Corporation). In addition, these policies can be custom tailored to meet the specific needs of your company.