

What is Accounts Receivable Insurance?

Businesses that offer credit arrangements to its customers can suffer huge financial losses and business interruptions if those customers default. Accounts receivable insurance protects against numerous potential risks, as well as, customers failing to pay their debt. Learn about accounts receivable insurance and decide whether it can help your business continue to operate reasonably in the event of unexpected circumstances.

Benefits Offered

Accounts receivable insurance provides coverage for unpaid credit balances from sales made to customers who unexpectedly default. Other policy options may allow you to choose what constitutes a late payment and what percentage of an unpaid balance to pay. Protection against other liabilities such as general economic climate issues, natural disasters and seasonal hardship encounters is also available. You can choose to insure specific customer accounts, portions of accounts or all accounts.

Covered Risks

Several types of coverage for numerous risks are available, which include coverage for lost or destroyed records and customers filing bankruptcy, defaulting or paying late. Accounts receivable insurance can cover increases to credit lines for existing customers, extending credit to new customers, expenses you incur to replace lost records, as well as, interest payments on the affected loans. This insurance generally only covers unpaid debt that is current and no debt incurred after you file a claim. Make sure you are familiar with the covered terms and conditions that your policy honors.

Premium Preferences

Accounts receivable insurance policy premiums are usually based on a company's sales, the amount of coverage a business chooses to purchase and customer's credit ratings. Typically the industry of a particular business also influences the cost. You can control policy costs by choosing how many customers to cover, the insurer and by using accounting software; keeping all your files online protects against the loss of physical files. Generally, a one or two-year renewable policy is common.

Considerations and Questions

There may be limits to the amount of accounts receivable insurance that you can purchase. Businesses with large amounts of assets tied up in accounts receivables and whose customers have unreliable credit histories may find the coverage an appropriate investment. The underwriters for your policy can monitor specific customers based on the amount of extended credit or late payment history, and quickly notify you if a customer encounters financial difficulty. If you consider purchasing accounts receivable insurance, ask if there is a waiting period before the coverage begins. Also, if you choose to cancel the insurance can you receive a refund?

