

Getting Paid ...when no one else is

I have lost count of the number of times contractors call me saying that their client has gone into administration, and asking "So is that it? Have I lost my money?"

Sadly in most instances the answer is yes. These guys will have to wait for the administrators to assess what can be paid out to unsecured creditors. But there is a small group of contractors who shrug it off and wait for their cheque.

These are the contractors with trade credit insurance. Although it has been around for over 40 years, too few contractors realise that you can actually take out an insurance policy to cover the value of your work to protect you if your client goes bust. When it happens, you simply get your policy to pay out.

I had a chat with Darren Hamilton from NCI ó National Credit Insurance, and asked him about the benefits of a trade credit insurance policy and how it all works.

Up to date information:

NCI has over 65% of the trade credit market. This means they have a wealth of the most important thing that helps you: information.

Every month NCI canvasses its policyholders asking who is late in paying. Over thousands of clients, this provides a picture of the industry and identifies companies that are not paying on time. This information is made available to NCI's clients who hold an active policy. This gives you vital "early warning" signs that there might be a disaster coming your way.

Flexibility:

You can insure your clients in many different ways to suit the kind of work you do, the typical values of the work you do, and the type of clients you work for. For example, you can;

Insure your work for just one major job with just one client

Insure all work you do over a set amount, say \$25 000.00

Insure only your top line clients

And many other combinations

The fact is there will be a way to cover the most important works you do, and a way to protect you from the risk of losing payments that could destroy your business.

Credit Checking

This is a great benefit. The most uncertainty you have is tendering on a new job for a client you know nothing about. If it's for a lot of money then you would be right to be a bit suspect. How do you know they have the capacity to pay for your work?

NCI can carry out credit checks on all your potential clients before you quote for the job. This way you can reduce the risk profile of your business and choose not to quote for some jobs. Again it all comes down to access to great quality information.

What does it cost?

This is perhaps the biggest surprise of all; this kind of insurance is pretty accessible: Most of the time it comes in about 0.5%-0.8% of your annual turnover. That's right...less than 1 %. And even then you can pay that in monthly instalments.

Work that one out now in your head.... it's not a huge price to pay for avoiding a major loss when a client goes under. Could you keep going if your client went down owing you \$50 000?

Like many insurance products you need to adopt an excess. Let's say you nominate \$5 000 or \$10 000. So if one of your clients does go under, you lose that amount. But the rest is insured to a value of 80% to 90%.

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Let's look at some real life examples:

A contractor was involved in a large project for a big builder. The contractor had an annual turnover of \$7 million and was owed about \$250 000 by the builder. The contractor had a policy in place covering the high risk clients, and the contractor had an excess of \$10 000.

The builder went into administration.

The policy paid out like this:

\$250 000 loss (excluding GST) - \$10 000 excess = \$240 000

Loss is paid out at 85% of its face value = \$204 000

Yeah that's right. The contractor gets a cheque for \$204 000! That beats waiting around for creditors meetings and waiting for your 0.01 cents in the dollar!

The cost of this policy was under \$30 000 for the year, or less than \$2500 per month to avoid the kind of disaster that brings many fine contracting businesses to an end.

Here's another one.

A plumbing company had a turnover of \$14 000 000 a year. Eighty percent of their business came from 20% of their clients. They decided to take out a policy to cover only those accounts over \$50 000. This meant that of the \$14 million turnover, about \$9 million was covered.

This allowed the business to take on new clients and have them checked out and grow the business by about 20% in the first year after the policy was implemented.

One account fell over owing them \$115 000.00 (excluding GST). But they got a cheque for \$93 500.00.

That is \$115 000 - \$5 000 (Excess) = \$110 000 x 85% = \$93 500

Now how good is that?

The problem

The problem is that too many contractors do not consider anything preventative as worth paying for. A contractor will not spend \$1000 to have their contract reviewed, but will spend \$20 000 in legal fees when it's all too late.

You must be prepared to pay for things that **minimise risk** to your business. Risk minimisation is a great benefit and is worth paying for.

Give it some thought. It may just save your business one day. And think about how many people in your life rely on your business. Contact us at our website if you have questions on how this all works. For more info go to www.nci.com.au. It's worth a look.

There's nothing like getting paid, when no one else is.