

Credit Insurance vs. Letters of Credit

Credit Insurance is an easier way to safely grow international sales

The use of letters of credit can be time consuming, expensive and complicated, but there is an alternative. Securing your receivables with credit insurance eliminates the need for letters of credit and payments in advance. It offers more flexibility to safely expand sales and be less restrictive in terms – allowing you to gain a competitive advantage while still protecting your shipments.

	Credit Insurance	Letters of Credit
Buyer Relationship	The seller bears the expenses to secure the transaction and there is no impact on the buyer's credit line through their bank. This allows sellers to safely offer open terms and more aggressive credit limits to their customers worldwide, increasing customer loyalty and sales.	The burden and cost is placed on the buyer to secure the transaction and their credit line is also blocked for the amount of the letter of credit. This could restrict opportunities for buyers accustomed to dealing on open account terms.
Ease of Use	No invoices or shipping documents need be presented to the insurer unless the buyer defaults and a claim is made. There are no strict standards of compliance for documents presented to file a claim, just evidence of the amount of the receivable(s).	Each shipment made under a letter of credit involves preparation and presentation of invoices and shipping documents, and requires interaction with the bank. This can be tedious and time-consuming as even minor errors on the documents can cause further delay.
Cost	The cost of credit insurance can be recaptured by its inherent benefits such as safe sales expansion and borrowing enhancements. Some companies choose to pass along the premium cost to the buyer which will make overall cost substantially less expensive than a letter of credit.	Receiving, negotiating, and other fees associated with the letter of credit can be expensive to the buyer.
Payment	Payment is based on compliance with the contract of sale. Payment terms are less constraining and allow the buyer to receive the goods or services weeks or months before having to pay.	Strict compliance is required for payment and discrepancies may cause delay or non-payment. Unless all the documents are 100% compliant with the terms and conditions of the letter of credit the bank will not issue payment.

Euler Hermes is the world's largest provider of trade credit insurance. We offer domestic and export credit insurance policies that insure against commercial and political risk in over 200 countries worldwide. Our team of 1,500 risk experts worldwide has a unique underwriting approach which allows for quick credit limit decisions and continuous monitoring of the creditworthiness of your customers. This enables you to safely expand your sales to new customers in new markets while protecting one of your company's largest assets – your accounts receivable.

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