Articles

Credit Insurance: A Tool for Brazilian Companies to Protect themselves Against Default

Written by: Horiens - 24/02/2025

The increase in defaults, insolvencies, and bankruptcy filings has led many companies in Brazil to seek information about credit insurance. In January of the last year, 6.7 million CNPJs in the country were registered “in the red” with an average of 7.1 overdue accounts, as shown by the Serasa Experian Business Default Indicator.

From smaller cases to bigger ones, it is important to prepare in order to avoid unpleasant surprises. In this sense, credit insurance is a way to protect oneself. But before contracting the service, it is necessary to learn more about it, as stated by Henrique Martins, Risk and Insurance Manager at Horiens:

“Credit insurance is a very specific and specialized type of insurance. The more you know about it, the greater the chances of securing adequate coverage for your company.”

In short, credit insurance is an important risk management tool in analyzing the insured company’s customer portfolio and offers protection against financial losses in case of default or insolvency. When the client does not fulfill their part, the insurance is triggered, and according to the terms and conditions of the policy, the compensation process begins.

How does it work?

This insurance guarantees the receivable from sales of products and/or services within the national territory, products sent abroad, or services provided outside the country. For example, a company that sells goods and/or services on credit (issues an invoice to be paid at a future date) can take out a credit insurance policy to guarantee the risk of non-payment of the receivable from these sales.

Additionally, for international transactions, coverage for political risks can be contracted.

Why is credit insurance important for companies?

Credit insurance is fundamentally important at various stages of the commercial flow of companies. In addition to covering defaults on credit sales, it helps providing greater stability and predictability for cash flow, especially in cases of unexpected bankruptcies – which are becoming increasingly common.

It is also an important tool for boosting sales, as well as enabling safe growth and expansion.

When this type of protection needs to be triggered, whether due to default or insolvency (bankruptcy or judicial recovery), it prevents losses from having a significant financial impact on the company’s cash flow.

To give you an idea, the Brazilian market has an annual premium (the amount paid for insurance) of approximately R$ 1 billion. According to insurance sector data, it is estimated that between R$ 2 billion and R$ 3 billion were compensated just for suppliers who took out credit insurance, impactful figures on a global level.

"*This case highlighted and reinforced the importance of credit insurance for everyone. Companies are becoming aware of how important it is to contract it to avoid greater losses in the future,"* comments Caio Lhano, Senior Manager of Surety & Credit at Horiens.

Since then, the demand for this type of product has grown. Data from the Superintendence of Private Insurance (Susep), published in an article by Revista Apólice, show that the issuance of premiums (contracting new credit insurance) has grown by more than double digits in recent years.

"This is insurance that ensures stability to the company's cash flow. In the process of contracting insurance, ensuring transparency and quality of information makes a difference," says Henrique Martins.

Important agents involved in the contracting process, insurers act proactively, monitoring the credit risk of clients to identify potential exposures before default/insolvency occurs. Caroline Guimarães, Risk and Claims Specialist at Horiens, emphasizes:

"The insurer actively participates in the entire risk analysis process, ensuring that limits are adjusted based on the buyer's performance and financial information."

How to activate credit insurance?

There are a few steps to follow, such as:

1. **Identifying default:** The company needs to ensure that the client has not paid within the agreed timeframe;
2. **Communication to the broker/insurer:** Next, the payment delay must be reported within the deadlines established in the policy;
3. **Insurer intervention:** This is when the negotiation process directly with the client to collect the debt begins, including sending notifications and other attempts at agreements (not applicable in cases of insolvency/judicial recovery, moving directly to the next step);
4. **Indemnification:** If the default persists, the insurer indemnifies the insured and subrogates the debt as provided in the policy.

What are the differentiators of credit insurance managed by Horiens?

The Horiens team closely and continuously monitors the policy's performance with the insured and the entire process of understanding the client's business, seeking the best customization with the insurance market in the initial structuring of the credit insurance program. This close relationship ensures that the policies meet the specific needs of each business.

"We have clients with highly customized policies, with clauses developed specifically for them," Caroline reinforces.

Horiens also has the capability to structure insurance programs for subsidiaries of Brazilian companies abroad, managing the entire contracting process in Brazil. This simplifies the process for organizations, which will not need brokers in each country where they operate, ensuring efficient and integrated risk coverage.

In order to know more about credit insurance and how to protect your company, schedule a conversation with one of our specialists: www.horiens.com/contato