

Protecting Against Client Non-Payment

By Edgar W. Armstrong

THE VOLATILITY AND uncertainty of today's business environment makes credit risk or the risk of non-payment more worrisome than ever. No business wants to suffer the fate of the creditors of Enron, MCI/Worldcom, Lehman Brothers and IndyMac, among others.

Our industry is particularly vulnerable to credit risk given the relatively low margin nature of the industry, the increasing incidence of builders and suppliers declaring bankruptcies and the reluctance of some clients to continue to make payments once the project is completed. This

vulnerability is compounded by the fact that accounts receivable amount to a significant segment of the total assets of the typical DHI member. Non-payment of even a small portion of its receivables could be devastating to many member firms. A firm with a 5% net margin would need an additional \$2 million in revenue to make up for a \$100,000 A/R default!

ISN'T CREDIT RISK JUST AN UNAVOIDABLE COST OF DOING BUSINESS? THE SIMPLE ANSWER IS NO.

What can you do to prevent or at least mitigate bad debt losses? One solution is an insurance-based

management program. In response to this problem, DHI has developed The DHI Credit Risk Management Program specifically designed for its member companies. The core benefit of the Program is cost-effective credit insurance. For only 10 to 30 basis points (1/10 to 3/10 of one percent) of revenue, you can insure your accounts receivable against credit loss. For a firm with \$5 million in annual revenue, the typical premium would be between \$5,000 and \$15,000. In addition to the insurance component, the credit insurance carriers make available a variety of other tools and resources designed to reduce the incidence of non-payment. These resources include access to expert evaluation and proprietary databases that allow ready evaluation by management of the creditworthiness of both existing and potential clients.

The Program provides members with a comprehensive risk management and insurance approach to receivables:

■ **Security for the DHI Member's Most Important Asset—**

Assurance that your accounts receivable will be paid. If the client does not pay a valid account receivable, a




financially sound insurer will (subject to co-pays or deductibles, as applicable).

- **Cash Flow Protection**—Avoid potentially devastating disruption of your company's cash flow.
- **Risk management and Improved Operational Efficiency**—As an insured, you will have access to services such as expert credit analyses of potential clients and ongoing monitoring of key accounts.
- **Expand Sales Opportunities**—With your policy in place and the underwriter's approval, you have the ability to offer credit terms to new and high-risk clients without assuming all of the risk. Too often companies forego

new business opportunities because of concerns over creditworthiness. As long as the potential client is approved by the insurer, you can pursue business opportunities without shouldering all of the risk.

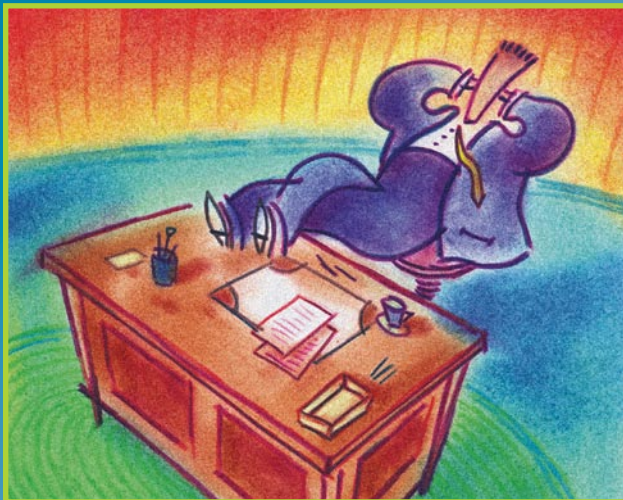
- **Command More Favorable Borrowing Terms from Lenders**—By reducing the risk you will not be paid, you become a more attractive borrower. You can use your enhanced creditworthiness to command more favorable credit terms from your lenders.
- **Political Risk Protection**—For companies that operate internationally, credit insurance can protect against non-payment due to governmental action.

For many companies, credit management has historically entailed checking a D&B report, a "seat of the pants" decision and hoping for the best. With the new DHI Credit Risk Management Program, you can apply a risk management and insurance solution to this most critical area—ensuring you get paid.

To learn more about the DHI Credit Risk Management Program and its benefits, please call Bonnie Guerke at 800-222-4664 ext.1635 or e-mail to blg@telcominsgrp.com. 

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We Know Insurance Details!



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With the new **DHI-Sponsored Insurance Program** available in the fall of 2007, we can provide you ways to **lower your risk** through **customized insurance policies** and **risk education**.

The **DHI Board of Governors** approved the formation of a **DHI-sponsored comprehensive business insurance program** in conjunction **with** its strategic partner, **TISC** (Telcom Insurance Services Corporation).

This new program offers:

Knowledge. We know you and your business. This program offers detailed, customized coverage specific to the needs of the openings professional that will afford you better coverage and savings in annual premiums.

