Credit Insurance or Letters of Credit?

The use of Letters of Credit can be expensive, complicated and an unwelcome administrative burden, but thankfully there is an alternative. Securing your receivables with credit insurance can eliminate the need to ask future or existing customers for Letters of Credit and/or Advance Payments. Credit Insurance offers more flexibility to securely expand sales and at the same time be able to offer less restrictive terms - allowing you to gain a competitive advantage, while still protecting your exposure.

HOW DO THEY COMPARE?

CREDIT INSURANCE	LETTERS OF CREDIT
BUYER AND SELLER OBLIGATIONS	
The policyholder bears the much lower expense of the credit insured receivable, with no impact on the buyer 's bank lines. This enables the policyholder to offer competitive and flexible open account terms.	The burden and cost is placed on the buyer to open the Letter of Credit and their credit line with their bank must be able to accommodate the value of the Letter of Credit. This could restrict opportunities to trade with prospective buyers accustomed to transacting on open account terms or where they have no more headroom with their bank.
USER FRIENDLINESS	
The goods are shipped or service provided and the relevant invoice is sent to the buyer with payment due on the agreed credit terms.	Each shipment made under the Letter of Credit involves preparation and presentation of numerous documents, some of which may need to be consularised. The documents must be presented to the nominated bank for examination, which can be tedious and time-consuming as the smallest discrepancy can cause unwanted delays.
COST	
As most Credit Insurance policies are incepted to cover all insurable sales, the cost per shipment is significantly lower when compared to a Letter of Credit. In fact, even the cost of Credit Insurance on a single buyer is significantly less expensive. Other inherent benefits for the policyholder include safe sales growth through market intelligence on prospective buyers, increased financing capabilities and removal of the need for bad debt provisions.	There can be very significant transactional costs for both the seller and buyer associated with each shipment under a Letter of Credit, including opening, documentation examination, negotiation and confirmation fees.
PAYMENT	
Under an open account transaction payment is due in compliance with the contract of sale with payment terms that are generally less constraining than under a Letter of Credit which can enable the buyer to receive the goods or services weeks or even months before having to pay.	100% compliance with all the terms of the Letter of Credit is required before payment can be made and even the slightest discrepancy can cause lengthy delays in payment.

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