RECEIVABLES INSURANCE
CANADA

Millennium CreditRisk Management grows revenues 40% over three years with receivables insurance

90%-PLUS CLIENT RETENTION RATE AND LARGER PREMIUMS FOR RECEIVABLES INSURANCE COMPARES TO 65% RATE FOR PROPERTY & CASUALTY BROKERS, RECEIVING LESS PREMIUMS

John Middleton sells receivables insurance as a strategic business tool for his clients. The President of Millennium CreditRisk Management Ltd., a specialist receivables insurance brokerage with offices in Ottawa, Toronto, Cambridge, Montreal and Calgary, states Millennium clients use receivables insurance to benefit from enhanced bank financing and as a sales expansion tool. The increased sales afforded by receivables insurance normally generate sufficient gross profit to offset the cost of the insurance. And, an additional benefit includes peace of mind for the owner or manager of the business, who is able to sleep at night knowing the cash associated with the company's accounts receivable will be collected without fail.

Receivables insurance protects a company's accounts receivable from direct financial loss (bad debts) resulting from the insolvency or non-payment from a customer/buyer. Receivables insurance operates as a financial tool to enhance cash flow, bank financing, and sales performance, while also protecting the balance sheet and the security of assets. Security against risk and mitigating the loss of sales revenue also creates peace of mind for properly insured companies.

At Millennium, Middleton and his team serve companies across Canada and enjoy a client retention level in excess of 90%. Millennium's receivables insurance product solutions are responsible for growing its revenues by 40% over the last three years and expanding the brokerage from three to five offices across Canada.

Millennium is a founding member company with the Receivables Insurance Association of Canada, an organization committed to advancing receivables insurance industry innovation and product integrity as well as solving any business problems related to government legislation for its members. The association champions receivables insurance as the best way to protect a corporate balance sheet, as accounts receivable are often the largest uninsured asset on that sheet.

Middleton and his team sell receivables insurance to small, mid-size and publicly traded entities, typically working with Credit Managers, Chief Financial Officers (CFOs) and Enterprise Risk Managers. Receivables insurance can provide solutions for the following problems:

- Is your company limiting sales opportunities in order to manage credit risk?
- Can your business accept the risk of a catastrophic bad debt loss?
- Has your company maximized its lending power at the bank?
- Would your company benefit from a second opinion from an experienced, industry-oriented team of credit professionals?

122 Bagot Street,
Cobourg, ON, Canada, K9A 3G1
(613) 794-6683

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www.receivablesinsurancecanada.com
info@receivablesinsurancecanada.com

- Are there opportunities in other markets that your company could aggressively pursue, if receivables insurance was in place as a back stop?

"A receivables insurance policy can insure a business for up to 90% of its accounts receivable – that's what protection against bad debt risk means," says Middleton, "In turn, this protection offers a company the ability to enter new markets aggressively and preserves equity on the balance sheet. A properly structured credit and risk management system achieves these objectives while offering owners and managers peace of mind."

A tangible example of how receivables insurance allows for better cash flow: A company with annual sales of $20 million and estimated accounts receivable of $2.5 million has a current accounts receivable bank line margining of 75%. The company's maximum borrowing base available is $2,500,000 x 75% = $1,875,000. With the purchase of receivables insurance, this company's total margining improves to 90% and its access to operating cash flow increases by 15%. The company may now be able to access $375,000 in additional funds (before the cost of the insurance is factored in) from its bank.

Receivables insurance premiums start at approximately $15,000 annually and can rise to $500,000 per client. The 2012 insurers year-end financial information, reported by the Office of the Superintendent of Financial Institutions Canada (OSFI), indicates that the average premium per policy is approximately $32,000. Brokers can earn as much as a 15% commission in this segment, and receivables insurance premiums are on average larger than property & casualty (P&C) premiums.

Traditionally behind other industries with regards to client experience, P&C insurers are trying to improve retention rates and client experience. The 2013 Temkin Experience Ratings shows steady improvement from an average experience rating of 59% in 2011 to 65% in 2013 among the top 14 U.S. P&C insurance carriers. "Yet, receivables insurance provides more benefits and options for business clients of all sizes and Millennium continues to maintain a 90% client retention rate year over year. With receivables insurance as our top policy offering, Millennium's clients are very satisfied," says Middleton.

SHARING THE WEALTH: GROWING THE MARKET FOR RECEIVABLES INSURANCE

The Receivables Insurance Association of Canada believes the market for its members' products can grow from $200 million to $350 million within five years. Because receivables insurance is more of a comprehensive financial tool than other forms of insurance, Canadian brokers are still educating themselves and their clients on its benefits. The new association is contributing to this education process, and is encouraging brokers across Canada to become members. Accounts receivable insurance underwriting experts, all members of Receivables Insurance Association, can help brokers leverage strong client relationships, enhance the services they provide and develop new, stable revenue streams.

As does the team at the Receivables Insurance Association of Canada, so does John Middleton. He attracts new broker partners for Millennium based on educating them on the strength of selling receivables insurance and by providing support materials. In the first six months of Millennium's outreach, several policies from new broker partners have been sold, in which Millennium shares the commission with the originating broker as long as the policy remains active.

Middleton explains, "Millennium is actively engaging brokers across Canada to work in partnership to propel the growth of the Canadian receivables insurance market. Partnering with Millennium helps brokers grow their revenues, and the evidence is in – Millennium's team has grown from 8 to 13 staff members in three years and the company is one of the top producing receivables insurance brokerages in Canada."

The Receivables Insurance Association of Canada promotes the business opportunity for receivables insurance to Canadian insurance brokers, the banking industry and businesses engaged in domestic trade and exporting. Brokers take note: receivables insurance represents a major untapped market and an excellent source of recurring high-value premium income. That too provides peace of mind.

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