RECEIVABLES INSURANCE
CANADA

**15th February 2016**

**BUDGET PROPOSAL FROM THE RECEIVABLES INSURANCE ASSOCIATION OF CANADA**

***The following proposal for a simple amendment to a Bank Act Regulation can, almost immediately and at no cost to the federal treasury, enable small and medium sized businesses to reduce their financial risk in challenging economic times and access more working capital that they can use to grow their operations and invest in their employees***

**National Public Policy Challenge**

<u>The Credit Insurance Landscape</u>

When a company sells their product to another company on credit terms (take now and pay later), the selling company purchases credit insurance to protect against the possibility that the purchasing company will not be able to pay the seller when the payment becomes due. Credit insurance mitigates credit risk and provides banks and borrowers with the confidence to continue offering credit to Canadian companies that are effectively the heart of our economy.

Canadian companies are able to utilize credit insurance in a number of ways to strengthen their businesses. They are able to reduce financial risk by converting bad debts into claim payments, thereby conserving the value of their assets. They are also able to improve their cash flow by enhancing their accounts receivable, which encourages banks to increase their working capital loans. Credit insurance is particularly useful for SMEs who do not have the resources to self-insure, to aggressively pursue bad debt collection when companies fail to pay them, or to pre-screen a potential customer's creditworthiness.

With the challenges currently facing the economy, Canadian companies are very likely to become less creditworthy. This will result in the contraction of credit by banks, and in turn by borrowers to their customers, impacting the growth potential of Canadian businesses.

<u>The *Bank Act* Restrictions</u>

Canadian companies are constrained by a *Bank Act* regulation that states that only "export credit insurance" is considered an "authorized type of insurance." As a result, banks cannot direct their customers to credit insurance if the company's business is domestic. Given that Canada's GDP is 70% domestic, this constraint has a significant impact on the ability of domestic-facing Canadian SMEs to grow.

SMEs generally tend to develop domestic business first. If successful, these companies leverage that experience to pursue export opportunities. However, many will not reach the export stage if they are not provided the best supports possible to first grow domestically. SMEs would benefit significantly from credit insurance to help with growth, but the regulation under the Bank Act is biased against them: companies focused on domestic trade in other OECD countries do not face the same hurdle of accessing credit insurance; and Canadian companies that engage in exports are often made aware of the value of credit insurance by their bank, whereas companies focused on the domestic market are not made aware.

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**National Public Policy Solution**

All that is required to rectify this situation is to strike the word “export” from section 2(f) of SOR/92-330. This simple regulatory change can be implemented immediately by the federal government at no cost to the public. As banks and credit insurance companies already have the services in place, Canadian SMEs could benefit from the economic impact of this change immediately. The Receivables Insurance Association of Canada (RIAC) stands ready to support implementation of this change that can benefit so many Canadian companies.

**Benefits Resulting From Our Proposed Solution**

| Reduced Financial Risk | Improved Cash Flow | Support Credit Management | Improved Sales |
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| Protection against bad debt losses and export credit risk<br><br>Protection against excess concentrations<br><br>Bad debt losses converted to cash flow | Maximized borrowing power<br><br>Additional working capital<br><br>Enhanced earnings by reducing bad debt reserves | Credit procedures are enhanced and positioned for evolution into a larger company<br><br>Access to highly specialized industry/sector expertise<br><br>Objective back-up opinion for credit decisions | Safely increased open credit sales<br><br>Existing/potential client relations improved through better sales terms<br><br>Reduced need for letters of credit<br><br>Safe expansion into new and emerging markets |

**About the Receivables Insurance Association of Canada**

RIAC is an association of people and businesses that are interested in the promotion of Receivables Insurance and all aspects of the products to the Canadian business community. RIAC is invested in educating companies, banks and other third party influencers of the breadth and scope of the industry in Canada and the value of the benefits of the products and services offered by the industry. RIAC does not in any way promote one member’s products over another and is focused on growing the industry as a whole. Our member companies represent over 85% of the global credit insurance marketplace. Export Development Canada is an important member of RIAC but, in its capacity as a crown corporation, has recused itself from and has declined comment on this public policy advocacy.

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