

A GUIDE TO TRADE CREDIT INSURANCE

FOR SALES OF GOODS AND SERVICES IN DOMESTIC MARKETS

Trade Credit Insurance provides indemnity where a debtor (Buyer) fails to pay due to Insolvency. A claim may also be made in cases of Protracted Default, subject to a Waiting Period.

The Insured will normally retain 10% or more of each loss, to encourage sound credit management. An excess is used to eliminate small losses. Catastrophic losses only may be covered with the use of higher deductibles.

Premium is calculated according to turnover, industry, loss record, terms of payment, strength of Buyers, quality of credit management and policy structure. A Limit Administration Charge is payable to cover the costs of Buyer assessment. A level is agreed (the Discretionary Limit) above which the Insurer approves Buyer credit limits. Below that level the Insured maintains responsibility for approvals.

The Insured keeps the Insurer informed of overdues and serious problems within the Debtors Ledger, on a regular basis. The Insured has an ongoing obligation to employ sound credit management practices. Variation of payment terms or credit procedures, rescheduling of debt or other material variations require approval from the Insurer.

FOR EXPORT SALES

Export cover extends to include Contract Repudiation and Political Risks where applicable. Contract Repudiation refers to situations where the Buyer refuses to accept goods shipped by an exporter. Disputed items or breaches of conditions by the exporter are not covered. The normal underlying cause of repudiation is either Buyer financial difficulty or a downward shift in product value in the time between order and delivery.

Political Risk coverage includes non-payment due to Government action such as cancellation of import licence, war, currency transfer restriction, or default by a Public Buyer. Political Risk claim payments are made after a defined Waiting Period.

Export Policies may be issued in defined, pre-selected currencies.

TRADE FINANCE

Trade Credit Insurance supports the realisable value of Trade debtors (export or domestic), and where the value of those debtors is an asset against which trade finance is advanced, insurance cover maximises the collateral value of receivables and allows lenders to provide improved facilities. Properly structured, a trade finance facility should provide both risk transfer and working capital support, the ultimate benefit being maximisation of sales potential accompanied by reduced risk. To the extent that payment default risk is eliminated, recourse is limited. In most cases the Policy proceeds are assigned to the Bank.

Notes

This document is for general guidance only - refer to the Policy document for terms, conditions and definitions.

Payment terms are defined at the outset and a Maximum Extension Period is also set to give the flexibility required to cater for short payment delays.

Don't confuse Trade Credit cover with factoring. Trade Credit cover is a risk-transfer product, whereas factoring is a "cash acceleration" product. However, lenders commonly require Trade Credit cover to be in place before they will advance money against the value of receivables.

Cover is only available for commercial transactions where the Buyers are engaged in business activities. Sales to individuals are excluded.

Insureds are most likely to breach Policy conditions by failing to observe the time and money limitations specified in the Policy. The time limit is expressed as Maximum Terms of Payment and Maximum Extension Period. The money limit is the amount approved as a Buyer Limit, or the Discretionary Limit.

Mahony & Co Ltd