CREDIT MANAGEMENT INSTITUTE OF IRELAND

FACT SHEET

CREDIT INSURANCE

Credit insurance is not just about having claims settled when it comes to trade receivables not being paid.

Credit insurance indemnifies sellers when trade receivables are not paid for by buyers (debtors).

In other words, the insurance policy covers the risk of loss caused by a buyer's insolvency or by their defaulting on an agreed debt (credit sale).

That said, credit insurance is not just about having claims paid

- When it comes to the risk of loss from bad debts, informed decisions can be made on levels of credit provided based on the insurers review of that buyer.

- The information held by a credit insurer tends to be more than publicly available financial information or filed accounts. They also have management accounts, detail of payment patterns and records of previous defaults.

- Some insurers have their own debt collections & legal team to assist with the recovery of monies owed. Depending on the insurer this can be included as part of the policy or fees are heavily discounted for the policy holder.

- When insured, the policy holder is usually informed about any negative information relating to their buyer, whether it is updated financials or poor payment performance to another insured buyer. This information is considered by most to be the second reason for obtaining and keeping a policy.

Credit insurance policies can cover one buyer, known as a single risk policy, 6/7 buyers being a multi-buyer policy or a whole turnover policy which cover all credit sales above a predetermined excess level.

The level of credit sales expected in the policy period (estimated insurable turnover) is the main driver for pricing the premium but the level of bad debts in recent years, the main risks (the buyers and their credit limits) impact the cost also. For an exporter the countries sold to are also considered, especially if they are outside the OECD. Political risk cover can be sought in many countries if required.

There are a number of credit insurers operating in Ireland, with Atradius, Coface & Allianz Trade (formally Euler Hermes) being the main three but there are others like Tokio Marine HCC, AIG, Credendo, Chubb, QBE, Nexus. Each offer different options but in general a policy can be tailored to the client's trade with the addition of varying modules to a basic policy structure, whether they are in Construction, Wholesale, Recruitment etc.

Obtaining terms for a policy is easy, a simple one-page questionnaire is populated and given to an insurer who assesses their risk appetite for the main buyers and then they provide an offer of terms. Using a specialist broker for this can streamline the process and returns a full market response.

A credit insurance policy can be assigned to an invoice discounter provider so that claims can be paid to them if they have funded against the debt. Some lenders insist on there being a policy in place before providing support for funding.

Credit Insurance by its nature is designed to provide peace of mind, information, and bad debt protection but it can also provide structure and guidance to a credit function **resulting in reduced debtor days.**

Our thanks to James Riordan of Credit Risk Brokers for producing this fact sheet. Credit Risk Brokers (CRB) is one of Ireland's leading specialists in Credit Insurance and Surety Bonds. They are also a founding member of Farosol, a global alliance of leading brokers. CRB have offices in Dublin and Belfast. Website www.creditriskbrokers.com and telephone James Riordan at +353 86 6019200. If you have any questions at all you are invited to contact the authors directly or the Credit Management Institute of Ireland through our website www.cmii.ie or email info@cmii.ie

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