

Credit Insurance **Direct**

policy

**Guide**

**coface**  
FOR SAFER TRADE

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## **1. Credit Insurance Direct – Scope of Cover**

Credit Insurance Direct policies are currently only available to companies registered in the United Kingdom. The policies are arranged through Acumen Credit Insurance Brokers Ltd and underwritten by Coface. We set out below an overview of the policy coverage:

- The policy provides cover in respect of deliveries made and/or services rendered to buyers/customers in the UK and to customers in those countries listed in the policy schedule where you act as principal to contract.
- You are covered in respect of losses you incur as a result of non-payment. This is a broad definition covering the more obvious reasons for not getting paid, such as your customers' insolvency or default, provided that you have complied with your side of the sales contract with them.
- You are covered up to the value of the approved credit limit minus the uninsured percentage or the minimum retention (whichever is the greater).

### **1.1 What is NOT covered?**

- Sales to associate or subsidiary companies
- Sales to UK Government or local authorities
- Advance or cash with order payments
- Sales made where no credit limit has been agreed
- Sales to private individuals
- Sales where a NIL credit limit or X rating is issued on the buyer/customer or where Coface cancels a credit limit or @rating (see definition 3.1.1 on page 5)
- Sales secured by an Irrevocable Letter of Credit confirmed by a UK Bank
- Any exposure in excess of an approved credit limit
- Your failure to comply with a credit limit condition
- Losses below the minimum retention
- Sales made beyond the maximum credit period
- Sales made to a buyer known to be insolvent or where a notification of adverse information or an overdue account has or should have been given
- Disputed debts (until resolved)
- Your failure to fulfil contractual terms or to comply with any export/import regulation or law.

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## **2. Introduction to Cover**

### **2.1 The Cover**

The policy is designed to provide cover for losses incurred on a risks attaching basis where goods have been delivered, or services rendered, within the policy period. You are covered in respect of losses you incur as a result of non-payment, which could be due to the insolvency or protracted default of a buyer/customer or due to a political event which prevents payment.

### **2.2 The Policy Documentation**

The Policy comprises a set of General Provisions, which are the terms and conditions of cover, together with a set of Definitions. In addition, a set of policy Modules and a Schedule are provided, which tailor the policy and the cover provided to the exact requirements of the insured company / policy-holder. This document reflects the business practices of the insured company and sets out variations to the General Provisions. It should be noted that the completed application form itself does form part of the policy.

### **2.3 The Insured Risks and Indemnity**

The cover provided by the Policy can be broken down into two categories, namely Commercial Risks and Political Risks.

Commercial risks are the failure of the buyer to pay its debts by reason of Insolvency or Default. Insolvency is fairly straightforward and is defined in the definitions to the General Provisions. Default arises where the buyer/customer has accepted the goods (or services rendered) but fails to make payment on the due date.

Political Risks are events such as a delay in the transfer of Sterling from an overseas country, an import or an export embargo and war (except between “The Five Great Powers”).

Where a loss is incurred a claim is made under the policy, which is the Indemnity, otherwise known as the insured percentage. The Indemnity is either 80% or 90% of the insured loss (excluding VAT).

All Credit Insurance Direct policies incorporate an excess, called a Minimum Retention, and there is no cover for any losses below this excess. In the event of a loss exceeding the minimum retention, either the uninsured percentage, either 10% or 20%, or the amount of the minimum retention, will be deducted from the claim payment, whichever is the greater figure.

### **2.4 The Insured Risks and Indemnity, continued**

By way of example, on the basis of a Minimum Retention of £500, an Indemnity of 90% and a loss of £4000, the uninsured percentage represents 10% of the loss, being £400. This figure is less than the Minimum Retention of £500 so in this example the £500

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minimum retention would be deducted from the loss resulting in a claim payment of £3,500.

Alternatively, on the basis of a loss of £9000 the uninsured percentage would be £900. This figure is greater than the £500 Minimum Retention, so the uninsured percentage of £900 would be deducted from the loss, resulting in a claim payment of £8,100.

## **2.5 Policy Administration**

Having described the basis of the policy and the cover it provides, it is now appropriate to explain the policy administration that is required on a day to day basis. There are four main areas where there is an onus on the policy-holder to adhere to policy terms and conditions, namely:

### **2.5.1 Credit Limits & @ratings**

A credit limit or @rating must be established on every insurable buyer/customer ensuring the cover is obtained on the correct contractual buyer. If a credit limit or @rating is obtained on the wrong principal to the contract, liability for any subsequent loss will be declined. We provide a full explanation of '@rating' in the next section (see 3.1.1 on page 5).

### **2.5.2 Notification of Overdue Accounts**

Any overdue account which remains unpaid 30 days after payment was due should ideally be reported immediately but must in any case be reported no later than 150 days after delivery of goods/performance of services. However, where an account is known to be in financial difficulties or an event likely to lead to a loss arises, the obligation is to report the account immediately you become aware of the circumstances. You must notify Coface immediately as soon as you become aware of any customer that goes into insolvency.

### **2.5.3 Payment of Premium**

The payment of premium is essential and is a condition precedent to liability. Premium will be collected by Coface by Direct Debit mandate.

### **2.5.4 Claims**

Claims must be submitted no later than 6 months after the notification has been made to Coface.

A more detailed explanation of these policy requirements and others are given on the following pages.

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### 3. Policy Disciplines

#### 3.1 Credit Limits

A credit limit or @rating must be established on every insurable buyer/customer by written approval from Coface. Applications for @ratings and credit limits are submitted to Coface via their online system, 'Cofanet,' for specific written approval.

##### 3.1.1. @rating: a Definition

@rating is an alternative way of expressing a traditional credit limit. Coface's basic @rating certification measures a company's capacity to honour business commitments to customers and suppliers. The Coface @rating scale comprises several scoring levels, with each level reflecting the credit exposure that could be accepted on a particular company.

@rating levels	GB Pounds
R	£6,000
@	£15,000
@@	£35,000
@@@	£60,000
@@@@	£60,000 – denotes a higher level of creditworthiness

**Note:** 'NR' indicates that a rating has not been established for a particular company and a credit limit must be applied for. 'X' flags companies with an element of weakness and are not related i.e. no cover is provided.

##### @rating Credit Opinion

You can determine the credit worthiness of your buyers online and if a buyer is known to Coface you can obtain cover immediately by accepting the rating. If a company is not known to Coface then we will research the buyer with the aim of obtaining a rating. If you require a higher limit than the @rating provided, you can request a higher amount via Cofanet.

Credit Insurance Direct policies include 50 @ratings or credit limits within the price quoted for your policy. Above this number there is a cost, which is detailed in your policy, for each additional limit. It is therefore important to manage your portfolio, deleting, on a regular basis, those limits no longer required.

##### 3.1.2 The amount of the Credit Limit:

- will be in Sterling;
- should be for the highest amount owed by the buyer/customer at any one time;
- determines the maximum insured amount on any one buyer/customer, subject to the insured percentage or the excess;

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- is revolving to cover continuous business;
- will exclude taxes (e.g. Value Added Tax).

### **3.1.3 The approved limit:**

- is valid for the duration of the policy period unless withdrawn, cancelled or reduced by Coface;
- may be valid for a shorter period if specified. It will be necessary to reapply for cover at the expiry of a temporary limit to ensure continuity of cover;
- is effective from the date of application for goods sold and delivered/services rendered within the policy period, provided they are not overdue, unless there is a condition on the decision stating otherwise or there was a Nil credit limit previously in place prior to approval of the limit;
- must be established before an insured loss arises;
- is automatically renewed by Coface on renewal of your policy without the need for you to reapply, unless Coface advise otherwise.

### **3.2 Withdrawal or Cancellation of a Credit Limit or @rating**

Coface may find it necessary to vary, reduce or withdraw a credit limit or @rating on occasions. This will only be done for a good reason and normally it will be as a result of Coface receiving adverse information on the buyer.

If a credit limit or @rating is amended or withdrawn, you will not be covered for further deliveries/services to the buyer/customer after the effective date of the cancellation, unless you have entered into a non-cancellable contract with the buyer/customer, which is dated not more than 6 months prior to the cancellation and the goods or services are to be delivered/performed within 6 months after the date of the cancellation.

Coface may also review their commitments on buyers and countries from time to time and may request details of your own experience to assist them in assessing particular exposures. Be sure to respond to any such requests for information as you may lose your credit limit or @rating if you do not and it may not be possible to have cover reinstated.

### **3.3 Payment of Premium**

The amount of premium you pay for your policy will be determined when you apply for a quotation. The premium will be fixed for 12 months, and can be payable either monthly or in full on inception of the policy. The payment of premium is a condition precedent to liability and will be collected either monthly or at inception, whichever you prefer, via a direct debit mandate.

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### **3.4 Maximum Credit Period**

Under the policy it is essential that you do not grant credit terms to your buyer/customer beyond the **Maximum Credit Period** which is set out in the policy Schedule. If you are asked by a buyer/customer to extend the due date for payment beyond the **Maximum Credit Period** you must ask Coface for their written agreement before proceeding.

### **3.5 Notification of Overdue Accounts**

You are required to take all practical measures to effect payment and to prevent and minimise loss. Timely notification to Coface of potential bad debts is essential.

### **3.6 Time Limit for Notification.**

The **Time Limit for Notification** under the policy is the period following the original invoice date and is the period within which you may collect outstanding debts without the need to refer to Coface (save for instances referred to below). Accounts that remain unpaid at the **Time Limit for Notification**, including disputed debts, are reportable. You must also notify Coface of certain other accounts or circumstances which arise, including those which are:

- outstanding at the **Time Limit for Notification**, which is 150 days after the original invoice date;
- causing major concern or known to be in financial difficulty e.g. bounced cheques.
- the subject of legal action;
- in insolvency, as defined;
- subject to major re-scheduling of the debt beyond the **Maximum Credit Period**. Any repayment or rescheduling plans, which exceed the **Maximum Credit Period**, must have prior agreement from Coface.

#### **The period for notifying is:**

- immediately at the **Time Limit for Notification (TLN)**, which is 150 days from the invoice date.
- immediately in the event of insolvency, or similar, non-honouring of Bills of Exchange, notification of a bounced cheque, financial difficulties or the commencement of legal action, for example.

There is no cover for continued deliveries, or services rendered, if an amount is overdue at the **Time Limit for Notification (TLN)** or is otherwise reportable.

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### **3.7 Collections**

You are required to pass debts to Coface as soon as you become aware of any adverse information concerning a buyer/customer; as soon as you are aware of an Insolvency, or as soon as an account is unpaid 150 days after the original invoice date.

### **3.8 Disputed Accounts**

We recommend that disputed accounts are reported to Coface in line with the procedures outlined above, highlighting the disputed element, even though Coface will not have a liability for the debt while it remains in dispute. If the overdue is not reported, Coface could decline liability for any subsequent claim which may arise, should the buyer/customer fail to pay once the dispute is resolved.

### **3.9 Automatic Suspension of Cover**

Once an account reaches the 150 day Time Limit for Notification (TLN), cover under the credit limit is automatically suspended and any goods subsequently despatched (or services rendered) will not be insured, unless the overdue amounts are the subject of a documented dispute. In the event of a claim arising following a dispute, you will be required to provide a record of the dispute or queries and subsequent resolution in your favour.

### **3.10 Claims**

The contractual documentation required to support a claim must be submitted no later than 6 months from the date of notification.

#### **3.10.1 Supporting Information**

There are a number of important points to note regarding the submission of claims to ensure quick settlement. The following should be borne in mind:

- The Insolvency Notice must be attached to the claim form;
- Confirmation/Acknowledgement of Debt must be obtained from the Insolvency Practitioner or nominated official;
- The credit limit approval is paramount and will form part of the claim documents;
- 12 months prior trading experience of the account, if appropriate, is essential and will be reviewed to check prudent trading, the level of indebtedness, allocation of payments etc;
- In the event of an unwritten contract, sufficient commercial documents substantiating the buyer's contractual obligations will be required;
- Copy invoices, evidence of dispatch and acceptance of goods must be provided;
- Copies of correspondence evidencing attempts to minimise the loss;

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- Details of your attempts to enforce retention of title (if applicable).

### **3.10.2 Claim Waiting Periods**

Coface will pay valid claims as follows:

- within 30 days of receipt of evidence of the buyers Insolvency and any requested supporting documentation;
- for all other causes of loss, the claim payment is calculated at the end of a five-month period after we have received the notification provided Coface has all written evidence of the debt and the relevant supporting documentation (where requested by Coface).

### **3.11 Recoveries**

Recoveries are all sums, including uninsured amounts, received after the occurrence of an insured cause of loss. A recovery would include the following:

- Any security or guarantee realised;
- Any credit note that is raised;
- Any proceeds from goods recovered, kept or resold.

Following a claim payment all recoveries up to the value of the claim will be retained by Coface with any balance returned to you.

### **3.12 Collections & Legal Costs**

Your policy includes collection services. These may be pre-legal collection services and legal collection services via Coface's own legal partners.

Once Coface are notified of an overdue account, excluding disputed accounts, they will commence collection activity against the debtor, unless you request them not to do so, and will pursue the debtor in an attempt to secure payment of the overdue debt on your behalf.

These services are provided at no extra cost to you.

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#### 4. Points to Watch

Here are some useful tips to understanding the workings of your Credit Insurance Direct policy.

- This is a contract of insurance and as such you are under a continuing obligation to notify underwriters of any material change to the information supplied in any proposal form or of any other material facts affecting the policy. Failure to disclose material facts could result in your insurer voiding the policy and all claims made under it.
- When applying for a credit limit, it is your responsibility to identify the correct contractual principal. If you obtain a limit on the wrong company you will not be covered in the event of a loss.
- If you receive a restricted credit limit or are refused cover outright but have good reason to challenge the decision, let us know. Underwriters are commercial people and will review their decisions if they are provided with good reasons to look again at a particular risk.
- Companies' fortunes change. If you receive a restricted credit limit you can re-apply at a future date when the company's financial position may have improved.
- Always answer a credit limit review communication promptly as failure to do so could result in the limit being cancelled, particularly when there are capacity problems. It may not always be possible to reinstate the limit.
- If a credit limit is insufficient to cover your total exposure, do not assume that you can top up the protection with a Letter of Credit or Bank Guarantee etc as any securities realised can be treated as salvage to be shared with the Insurer. Any exposure above the credit limit will be for your own risk.
- Credit limits may be reduced or cancelled at any time. Please consult with us for advice on how this affects cover for future business.
- Bounced cheques are treated seriously by Coface and must be reported immediately to Coface. The same applies to dishonoured Bills of Exchange. Do not agree to any extensions without the prior agreement of Coface. Further business will not be insured.
- Disputed accounts exceeding the **Time Limit for Notification** must be reported to Coface. This is necessary as the dispute may be an attempt to avoid payment and may subsequently result in a claim.
- Once an account exceeds the **Time Limit for Notification** any goods subsequently despatched or services rendered will fall outside the scope of cover even though premium remains payable. Cover under the credit limit does not resume until the account is brought back in line with the trading terms.
- Coface will try to cover as much business as possible. They may put certain restrictions or otherwise vary the standard terms for a specific credit limit. Be sure to read the text of any credit limit approval to check any special conditions.

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