Trade Credit Insurance

Heritage Insurance Company
A member of LIBERTY
To facilitate trade between companies, a seller may offer deferred payment terms to its buyers. By offering beneficial payment conditions, the seller provides working capital to its buyers, allowing them to start processing or selling the goods before the payment is due. Although this is a widely accepted trade practice, it poses a risk to the seller as the buyer may fail to pay.

Currently in Kenya, the respective credit risk of buyer non-payment is typically assumed by the seller, if not covered by a letter of credit or collateral security or mitigated by means of advance payment.

Trade Credit Insurance is a very effective instrument that not only transfers the risk inherent in trade receivables, but also outsources the credit risk management process to a specialized partner, taking advantage of the necessary expertise and resources to effectively manage the portfolio of buyers.
Available Cover Options

Three options available under Trade Credit Insurance

1. **Whole Turnover Insurance** – Insurance on the entire debtor book.

2. **Top Tier cover** – Insurance on the top buyers of the company. This is based on the “Pareto Principle” that 20% of debtors account for 80% of turnover.

3. **Single debtor cover** – Insurance on a single debtor. In-depth assessment of the proposed buyer vis a vis the company operations is crucial to ensure no adverse selection against the insurer.

Benefits of Trade Credit Insurance

**Safer business growth**

Trade credit insurance gives its insured the confidence to develop their business and to explore new markets. Whether increasing credit line with existing customers, or extending credit terms to new clients, trade receivable protection provides a simple and efficient way to do so with security and peace of mind. Trade Credit insurance would enable a company to relax existing credit conditions bringing about competitiveness and eventually more trade.

**Increased borrowing**

With Trade credit insurance, businesses can gain access to better financing options as lenders are generally sensitive to the additional security that it provides. In some cases, lenders will even require trade credit insurance in place before agreeing to give a loan. Additionally, insured trade receivables can be pledged as collateral and assigned to the bank in order to achieve better borrowing conditions.

**Protecting the Balance Sheet**

Trade Credit Insurance serves the key role of protecting the company against bad debts. This has the ultimate effect of enhancing the bottom line as the losses emanating from bad debts written off are minimized. The credit risk, when borne by a non-specialized company constitutes a substantial risk to its balance sheet: trade receivables represent often up to 30% of the total assets of the non-financial companies and non-payment can therefore have drastic effects. Trade Credit Insurance protects against potential bad debt losses, which would affect the profit and financial strength of the seller/insured. The policy holder can then significantly reduce bad debt reserves, thus improving earnings, shareholder equity and financial ratios.

**Customer information**

Implementing a trade credit insurance program with a credit insurer, means more than protecting trade receivables. It means partnering with a credit risk management expert whose goal is to avoid credit losses and to support recoveries when they do happen. Trade credit insurance can provide valuable market intelligence on the financial viability of customers and, in the case of buyers in foreign countries, on any peculiar trading risks.
Frequently Asked Questions on Trade Credit Insurance

1. **Would the cover be applicable on loans from financial institutions?**
   Trade credit insurance is designed specifically for trade related receivables on commercial business to business (B2B) transactions. We do not offer insurance against default on lending facilities from banks and other financial institutions. This would fall under the wide scope of financial guarantees, which are excluded from the scope of our trade credit insurance.

2. **Would the cover be applicable on trade receivables from government agencies/bodies?**
   Government-related buyer involvement in trade transactions introduces a much complex political risk aspect which unfortunately forms an exclusion to most insurance policies, trade credit insurance not an exception. The political risk may arise as a result of confiscation, nationalization, expropriation, or due to the order of any government, public or local authority or by any restrictions on trading or the transfer of funds, or contract frustration due to political events or by Sovereign payment default. This type of cover is subject to more specialized trade insurance.

3. **Is the cover restricted to trade activity relating to specific goods and services?**
   Cover is offered to all contracts for the sale of goods and/or services made by the Insured in the course of its trade with Buyers in any of the Risk Countries specified in the policy. Cover begins when the Insured or its agent has delivered the goods or services to the Buyer during the Insurance Period. Other than domestic trade transactions, export transactions may also be covered, provided this information is relayed to the underwriter for due consideration. Of importance to note however is that cover is restricted to commercial business to business (B2B) receivables.

4. **What is the process of Procuring Trade Credit Insurance?**
   - Complete Proposal Form and Credit Procedures Questionnaire and Forward to Heritage
   - Heritage will arrange a meeting with the proposer to understand the company operations & the pertinent risk
   - Heritage will issue a Term Sheet showing indicative terms and conditions
   - The non-binding indication is reviewed by the proposer and discussed with Heritage
   - The draft policy document is sent by Heritage and terms and conditions reviewed by the proposer

5. **What are some of the factors that are considered in determining premium payable under Trade Credit Insurance?**
   - Insurable turnover
   - Quality of the risk/historical losses
   - Credit terms offered by the proposer
   - Quality of the credit management
   - Sector of the buyers
   - Countries covered
   - Spread of the risk
   - Level of Self Retention

6. **Who are the partners to Heritage Insurance on the trade credit insurance product?**
   1. Swiss Re is the reinsurer engaged in the product. Swiss Re, a renowned world class reinsurer, has granted Heritage capacity to underwrite risks domiciled in most of the Sub-Sahara African Countries.
   2. Underwriting Africa has been engaged by Heritage as a partner offering specialist underwriting skills on Trade Credit Insurance. The relationship ensures that Heritage taps into the vast experience of the Underwriting Africa Team in the structuring of trade credit insurance policies.