EULER HERMES
Credit Insurance

EULER HERMES CREDIT INSURANCE AND THE BANK : SYNERGIES AT WORK

The co-operation between a commercial bank and a credit insurance company has developed quite naturally over the years in Western Europe. For us, banks are important intermediaries who can recommend credit insurance to their corporate clients. For the bank, credit insurance is a convenient way to maximize the quality of the collateral they get for their credit lines, or to take over the receivables without having to bear the credit risk.

THE KEY : THE ASSIGNMENT CLAUSE

An assignment clause is an addition to a credit insurance contract, through which the insured company (policyholder) instructs the insurance company to pay out any claim directly to the bank.

The background is usually as follows :

- The company asks for credit and offers its account receivables as security.
- The quality of the receivables has to be checked. This can best be achieved by imposing credit insurance.
- If a buyer defaults, the missing inflow is replaced by the claim that is paid out by the credit insurance company.

VARIATIONS

There are different types of assignment clauses, the choice depends on the agreement of the company and the bank.

- In its simplest form the bank is entitled to benefit from any claim paid out to the policyholder.
- The policyholder can restrict the benefit to the losses related to receivables that have been used as collateral. In this event we require a simple rule to divide the insurance contract in two parts : one that is assigned and one that isn't.

THE BANK AS JOINT INSURED

The bank can also be added as joint insured to the policy. This doesn't create any obligations to the bank, but it gives important rights :

- Right to be informed when the policy holder does not pay his insurance premium (as he then loses all rights for claims being paid out). The bank can then decide to pay the premium itself in order to preserve its rights.
- Right to be informed of any credit decision, in order to match the credit lines more precisely to the amount and the cover that has been granted by the insurance company.

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- Right to be informed of any overdue notifications received
- Right to introduce a claim in lieu of the policyholder. This is important when the policyholder himself becomes insolvent or is unable to manage his policy properly.

THE BANK AS POLICYHOLDER : INVOICE DISCOUNTING & FACTORING

- In both cases the bank's client offloads its balance sheet by selling its receivables to the bank. The credit risk is thus transferred to the bank.
- In the case of invoice discounting, the company remains in charge of the credit management. In the case of factoring the bank or factor handles everything.
- For the bank, the focus is on providing finance. Few banks are interested in keeping the credit risk on third parties they find difficult to assess.
- We can insure a portfolio of receivables that the bank or factor buys without recourse from one single supplier. Usually we screen the portfolio beforehand, so that the bank only purchases invoices of creditworthy companies. We cooperate in the debt collection, and insure up to 90% of the outstanding. We allow the bank to cede the remaining 10% to the company, so that the pure credit risk is nil.
- One premium rate per policy for all buyers.

LIMITATIONS

- The insurance does not cover the performance risk. If an invoice is disputed and hence not paid, we will wait until the court (or arbitration court) has confirmed the validity of the invoice before settling.
- The insurance company does not control the credit management of the policyholders. If the policyholder fails to respect the rules agreed in the policy, he may loose his rights.

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