



WHOLE TURNOVER POLICY

PURPOSE

The contract covers the insured (policyholder) against the risk of not being paid by clients (buyers). The contract specifies which risks are covered and excludes, typically, secured transactions, consumer credit, inter-company transactions and long-term risk. In case an insured buyer has not paid after a certain period (“waiting period”) we pay up to 90% of the insured debt to the policyholder.

CONTRACT STRUCTURE

There are 4 parts :

✦ **General Conditions :**

This part does not vary. It describes in detail how the insurance works and duties and obligations of both parties. The most important elements are mentioned below.

✦ **The Schedule :**

The specific features of the contract, describing the transactions insured, the nature of the cover and any specific agreement between the parties.

✦ **The Proposal Form :**

This is the document that is completed and signed by the policyholder, with an analysis of sales and the result of credit management. The premium and structure of the insurance contract are based on this information and the policyholder herewith confirms that these figures were correct.

✦ **The Credit Management Rules :**

This is a description of the way the policyholder will handle the receivables and overdues after the contract is signed. The formal procedure and other relevant documents can also be added to the contract.

THE RISK COVERED

✦ **Commercial**

Insolvency (liquidation, official insolvency and the equivalent concepts)

Protracted Default

The mere fact that a buyer has not paid at the end of a “*waiting period*” (usually 6 months after due date).



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THE RISK COVERED

- ✦ **Political Risk**
Public buyers (governmental bodies and institutions that are not registered as private legal entities)

War, riots etc.

Transfer risk (non-payment caused by a governmental action, e.g. restrictions on payments in hard currency or import restrictions)

These are risks that can be covered under the policy. The extent to which they are valid in a specific contract is detailed in the schedule.

Performance risk (non-payment due to the failure of the policyholder to meet his obligations) and non-acceptance are not covered.

EXTENSIONS

Further to the above, we have additional clauses to cover :

- ✦ **Work in Progress (“Pre-Dispatch Cover”)**
The policyholder is covered for expenditure to produce the goods, even in the case that default occurs before the goods have been dispatched and invoiced.

- ✦ **Consignment Stock**
The policyholder is covered for the value of the goods left in consignment with the defaulted buyer, even if the goods have not been sold and invoiced.

- ✦ **Binding Contract**
The policyholder is covered during a certain period following cancellation of the credit limit, provided that there is a binding contract that makes it difficult to stop deliveries.

COVER & DEDUCTIBLES

- ✦ The cover is described in the schedule of the policy. Typically we will cover 90% of the insured debt if the credit decision was taken by the underwriter or where the credit decision was taken by the policyholder in accordance with the “*discretionary limit*” clause.



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COVER & FIRST LOSS

- ✦ The term “*first loss*” applies to any part of a loss (individual or cumulative) that has to be borne by the policyholder. Several types of “*first loss*” are applied and some can be combined.
- ✦ They can be set either to reduce the premium or to limit the cover to protect against “*catastrophe scenarios*” only. The “*non qualifying loss*” means that losses below a certain amount are not covered, is usually meant to avoid the administration of small claims.

ASSIGNMENT CLAUSE

A policyholder can cede his rights under the policy to a bank, usually in return for credit facilities. This will increase the value of the account receivables offered to the bank as a collateral for loans or credit lines. The assignment clause can relate to the whole policy or be restricted to a number of buyers. In its simplest form EULER HERMES Credit Insurance is instructed to pay out any claim directly to the bank. In the more sophisticated version the bank is informed about the credit decisions.

PREMIUM

The premium rate is stated in the schedule. The premium is calculated by multiplying the premium rate by the insurable turnover. The insurable turnover is the total turnover of the company or the part of the business that is offered for insurance, according to the schedule. Excluded from insurance (and thus from the premium) are: all transactions that do not include any credit risk, all inter-company transactions and all transactions for which cover was refused.

At commencement a provisional premium is calculated, based on the expected turnover. This premium is paid in regular installments and a debit or credit note is issued at the end of the year, following the final turnover declaration.

CREDIT DECISIONS

In order to be covered, the policyholder asks for a credit limit that is equal to the maximum outstanding, at any one time, on a particular buyer. This request is assessed by the underwriter and results in a credit decision that will state the amount of cover granted – the credit limit. Occasionally conditions are added in order for the limit to be valid. This limit can be changed at any time, depending on new information available to the underwriter. Any restrictive decision applies to future exposure, additionally any limit increase is retroactive.



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CREDIT DECISIONS

When a discretionary limit is given to the policyholder (stated in the schedule), he can decide alone on the credit limit as long as the exposure remains below the discretionary limit and the decision taken is along the rules that are set in the schedule, the credit management form or on other part of the contract.

OVERDUES & CLAIMS HANDLING

Whenever a payment becomes overdue, the contract describes which action needs to be taken. If it is specified in the Schedule, the policyholder can have the right to extend the original due date without informing the underwriter.

If the debt was not paid in full at the extended due date, the underwriter must be informed. In the case of protracted default this communication is also the start of a waiting period. Before the end of the waiting period the policyholder has to provide a full documentation about the claim. The claim will then be paid out within 30 days after the waiting period.

COMMERCIAL DISPUTES

If an invoice is disputed, it is not covered. If the policyholder recognizes that there is a dispute, new shipments can be made that will be covered – only the disputed invoices are off cover.

A disputed invoice will be paid out as a claim only if the dispute has been settled by a court or arbitration procedure, the policyholder has won the case and the buyer does not pay.

DEBT COLLECTION

The policyholder is supposed to act with the same diligence as if he were uninsured.

The policyholder can decide to solely collect the debt, use a third party, or ask the underwriter to act on his behalf. If the policyholder organizes the collection, prior approval must be sought for the expenses. If these are reasonable, the expenses are added to the insured debt and paid back in the same proportion as the principal debt.