toughest problems solved

TRADE CREDIT INSURANCE

www.howdengroup.com

WHAT IS A TRADE CREDIT INSURANCE?

WHY SHOULD YOU CONSIDER CREDIT INSURANCE?

INSURANCE PAYS IF YOUR CLIENT DOESN'T

This is the essence of credit insurance.

IMPROVE YOUR CREDIT MANAGEMENT

Credit insurance keeps the credit managers alert. They know that if they don't follow up properly, or become too lenient towards a debtor, their entitlement to indemnity could be endangered. Thus they have to remain strict in the application of their own rules and they will make sure that any exception is duly approved at the adequate level. This is the single principal motivation for companies to renew their credit insurance, even if they had negligible losses over the years.

HAVE ACCESS TO THE REINSURANCE MARKET

One of the advantages of an insurance company (compared to factoring) is that it can give away a part of the risk to reinsurance companies. That way, insurers can take up bigger risk exposures on large multinationals without threatening their financial stability if one collapses.

ENTER NEW MARKETS WITH CONFIDENCE

You will have access to the best information sources that often include trading experiences and claims history. Even if you do not know the market, the law or your client, you know that your risk is minimised – and that at a minimal cost.

PROTECT YOUR COMPANY AGAINST CATASTROPHIC LOSSES

The default of one of its biggest clients is one of the most frequent reasons for a company's insolvency. Sometimes such an event can be predicted, provided one has the right information sources. Credit Insurance acts as a credit risk mitigation solution.

COLLECT DEBTS MORE EFFICIENTLY

Credit insurance companies have collection experiences in most markets, and sometimes they have their own local people on the spot and with the volume they can negotiate the best conditions with local agencies and lawyers. In any case they can identify the best way to collect a debt, depending on the local law, the way the law can be enforced, the cost and all other factors.

BALANCE COMMERCIAL AGGRESSIVENESS & FINANCIAL PRUDENCE

Commercial Credibility of an organisation is often quite difficult to establish. It is very useful to have a neutral expert opinion, one that stays out of a debate and gives an assessment of the credit worthiness of a client without being emotionally involved. One thus avoids emotional factors that could affect the risk position of the company.

AVOID THE COST & HASSLE OF LETTERS OF CREDIT (L/Cs)

L/Cs are definitely the best way to enter unsecured markets but they have a number of drawbacks. They are expensive both for the buyer and for you. They require a lot of tedious work and the frequency of discrepancies makes the security it provides disputable.

BE LESS DEPENDENT ON KEY INDIVIDUALS

Where the credit management is the main task of one person, there is always the risk that the whole service will be disturbed if this person is moved or leaves the company. By outsourcing a part of this work, you have continuity and a partner who knows your business.

DECREASE THE EXPENSES OF YOUR CREDIT MANAGEMENT ADMINISTRATION

Expenses for purchase of information, monitoring of existing clients, study of new markets and debt collection will be reduced. Internally, you will probably save time spent on co-ordination meetings and debates with the commercial department. Sales people will spend less time on credit issues.

INCREASE YOUR CREDIT WORTHINESS WITH YOUR BANK ADMINISTRATION

Banks value your company by assessing your assets, irrespective of the book-value. If a bank knows that your account receivables are insured by a top rated insurance company it will definitely have a positive impact on the way they value them.

HOW CREDIT INSURANCE WORKS?

Under Credit Insurance:

- Insurer analyses the creditworthiness of all your clients
- Insurer will set a credit limit for each client, i.e. the maximum amount outstanding the Insurer is prepared to insure
- You can then trade with this buyer without having to report anything as long as you are paid as per credit terms agreed
- Meanwhile Insurer monitors the buyer's creditworthiness
- You report all debts that are seriously overdue, beyond the agreed maximum extension period
- Insurer can organise the debt collection together
- If Insurer does not succeed to collect 100% of the debt you file a claim
- Insurer could pay up to 90% of the insured debt and collection expenses

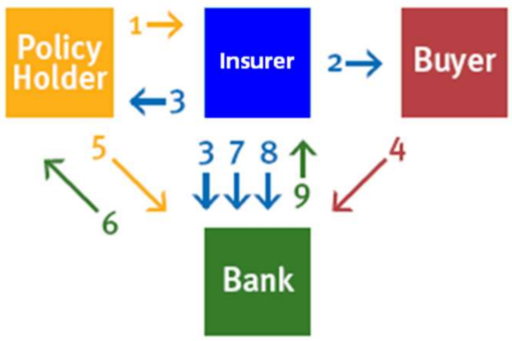
CREDIT INSURANCE AND THE BANK: SYNERGIES AT WORK, ENHANCING TRADE FINANCING

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 evaluated. The value can be best enhanced 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



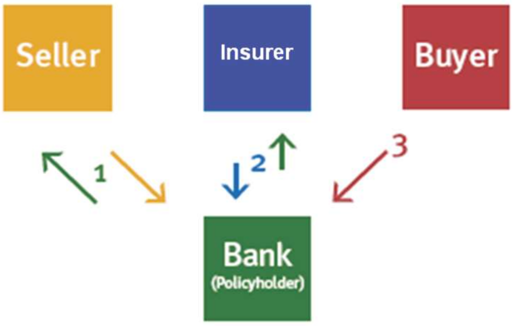
A. THE BANK AS JOINT INSURED : ACCOUNTS RECEIVABLE FINANCE

1. Policyholder asks for credit limit
2. INSURER makes an assessment of the buyer
3. INSURER issues a credit limit
4. Buyer is instructed to pay to the bank.
5. Policyholder pledges the receivables to the bank
6. Bank extends credit
7. In case of buyer default, INSURER pays the claim to the bank
8. INSURER informs the bank in case premium wasn't paid
9. Bank can file a claim

The bank as joint insured to the policy 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.
- Right to be informed of any overdue notifications received
- Right to introduce a claim in lieu of the policyholder. This is important

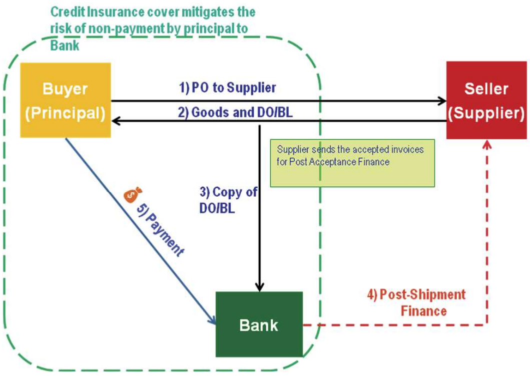
when the policyholder himself becomes insolvent or is unable to manage his policy properly



B. THE BANK AS POLICY HOLDER : INVOICE DISCOUNTING & FACTORING

1. The seller sells invoices to the bank. The bank buys the invoices without recourse and pays the seller cash
2. The bank (policyholder) insures the invoices with INSURER. INSURER issues credit limits for each buyer
3. The buyer is instructed to pay the invoices directly to the bank

- 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 arrange insurance for 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 arrange insurance of 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



C. THE BANK AS POLICY HOLDER : SUPPLIER CHAIN FINANCE

1. The Buyer (Principal) sends PO to Supplier
2. The Goods are dispatched to the Buyer by the Seller
3. Copy of the Delivery Order (DO) / Bill of Lading (BL) is sent to Bank with invoice
4. The bank remits payment to the Supplier based on the Invoice, DO / BL
5. Buyer (Principal) makes repayment back to Bank upon Invoice Maturity Due Date

- The risk of non-payment by the Buyer (Principal) is insured under a Credit Insurance Policy with Bank as the Loss Payee Beneficiary.

Who We Are And What We Do

PT. Howden Insurance Brokers Indonesia is part of the Howden Broking Group. We are able to offer our customers a truly global reach in expertise and know-how supported by over 300 colleagues in the region and 1500 around the world.

Through our worldwide network of Howden Broking Group, we have available a depth and diversity of experience that is unmatched by others. Our global outlook and worldwide alliances with international insurers and Lloyds of London enables us to combine local knowledge with international perspective.

As an independent broker, we are free to source and select the best possible solutions for your particular needs.

Our office in Jakarta can service all areas of the Indonesian Archipelago.

We assist our clients with the design, negotiation and implementation of the most effective and competitive insurance coverage available. Unlike insurance company sales staff, Howden only acts on behalf of our clients. In case of a claim, our dedicated claims executives will assist you in the management and negotiation of your claim to ensure that the settlement is expedient, fair and in accordance with the applicable insurance coverage.

How May We Serve You

As an integral part of Asian life, rice is both a daily essential and a sign of wealth. Like your assets, it has to be cultivated, nurtured and harvested. Protecting what is most important to you becomes a crucial task.

PT. Howden Insurance Brokers Indonesia invites you to consider a partnership that would work to your greatest advantage.

CONTACT US

For more information and an initial discussion free of charge to find out how Howden can help you. We look forward to the pleasure of serving you.

PT. Howden Insurance Brokers Indonesia
Millennium Centennial Center, 33rd Floor,
Jl. Jend Sudirman Kav.25,
Jakarta 12920, Indonesia
Tel: +62 21 2939 4900
Fax: +62 21 2939 4999
general@id.howdengroup.com

howdengroup.com
howdenindonesia.com