Trade Credit Insurance Policy (Commercial) - Prospectus

INTRODUCTION

Trade credit insurance protects businesses against the risk of non-payment for goods and services by buyers. It usually covers a portfolio of buyers and indemnifies an agreed percentage of an invoice or invoices that remain unpaid as a result of protracted default, insolvency / bankruptcy. It contributes to the economic growth of a country by facilitating trade and helps in improving economic stability by addressing the trade losses due to payment risks

SCOPE OF COVERAGE

The scope of cover under trade credit insurance policy shall be the credit risk that has a direct link with an underlying trade transaction, i.e. the delivery of goods or services. If no such direct link exists, the outstanding amount is not insurable under a trade credit insurance policy. The cover may include but not be limited to the following risks.

I. **Commercial Risks:**

   a. Insolvency or Protracted Default of
      (i) the buyer;
      (ii) bank/'s responsible for payment in case of Letter of Credit transactions;
      (iii) stock holding agent in case of consignment transactions;

   b. Rejection by
      (i) the buyer after delivery subject to conditions of contract;
      (ii) the buyer before shipment, where the goods are manufactured or being manufactured exclusively as per the requirements of the buyer and cannot be sold elsewhere;

   c. Non-receipt of payment on account of collecting Bank's failure;

II. **Political Risks**

Political risk cover is available only in case of buyers outside India and in respect of those countries agreed upon. Political risks include the following.

   a. Operation of a law or of an order, decree or regulation having the force of law which, in circumstances outside the control of the insured and/or the buyer, prevents, restricts or controls the transfer of payment from the buyer's country to India;

   b. Occurrence of war between the buyer's country and India;

   c. Occurrence of war, hostilities, civil war, rebellion, revolution, insurrection or other disturbances in the buyer's country;

   d. Imposition of any law or order, decree or regulation having the force of law which, in circumstances outside the control of the insured and/or of the buyer, prevents the import of the goods into the buyer's country;

   e. Cancellation, in circumstances outside the control of the insured and/or of the buyer, of a previously issued and currently valid authority to import the goods;

   f. Incurring, in respect of goods shipped from India, of any additional handling, transport or insurance charges which are occasioned by interruption or diversion of voyage outside India and which is impracticable to be recovered from the buyer;

   g. Any other cause, save and except in the case of merchanting exports in which case this risk will stand excluded, which arises from an event occurring outside India but not being a cause inherent in the nature of the goods or that is within the control of the insured and/or the buyer or that is specifically excluded from the purview of cover under the policy.

A trade credit insurance policy may be issued to the following:

a) Seller / Supplier of goods or services.

b) Factoring company as defined in The Factoring Regulation Act 2011 & amendments thereof.

c) Bank / Financial Institution, engaged in Trade Finance, licensed and regulated by respective Statutory Bodies which have better quality appraisal and effective risk management system.

A trade credit insurance for Banks / Financial Institutions and Factoring Companies shall cover the loss on account of non-receipt of payment from a buyer, due to commercial or political risks, against the bills / invoices purchased or discounted.

A trade credit insurance policy shall not cover:

a) Reverse Factoring;

b) Government Buyers as defined under definitions above except for political risks in overseas under export transaction.

c) Financial Guarantee in any form

d) Any other risk cover that may be specified by the Authority from time to time.

A Trade Credit Policy may be issued for covering trade related transactions other than loan default of seller. A trade credit insurance policy shall not cover any receivable arising from transactions made other than trade credit transaction.

A trade credit insurance policy shall be sold as

i) A Whole turnover basis to cover all buyers of that particular segment or product or country.

ii) Cover for individual buyer only for: a) Micro & Small Enterprises b) Project covers

iii) Single Invoice Covers through bill discounting / factoring shall be allowed only on Invoice Discounting e-Platforms such as TReDS.

A trade credit policy shall specify the indemnity limit as mentioned in the policy schedule and the maximum indemnity limit that is offered.

POLICY STRUCTURE:

Policy Schedule:

Policy schedule will capture the details of Insured, Modules that are applicable to the insured. Maximum indemnity limit. Buyer wise credit limit decisions will be shared by the Information company to the Insured.

WHAT IS NOT COVERED?

- Radioactive Contamination
- Disputes with the buyer resulting withholding of partial or full payment.
- Cost incurred in resolving disputes between the insured and the buyer
- Any penalties or damages buyer entitled to pay.
- Any interest accruing after the original due date of payment.
- Banking cost, unless contractually agreed to be part of the amount owing from the buyer
- Buyers under direct or indirect control.
- Sales contract made with the private individuals.
- Amount owed by State or governmental department, institution or organization which cannot be declared insolvent.

WHAT ARE THE BENEFITS OF TRADE CREDIT INSURANCE?

- Protects the company's P&L and Balance Sheet against bad debt
- Potentially reduce and quantify bad debt provisions
- Better borrowing and financing options
- Increase profitability
- Grow sales with confidence
- Prevent losses before they occur
- Maintain cash flow, profitability and protect budgets and business plans
- Information, screening of clients.
- Improve credit decisions
- Protects investors and stakeholders

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HOW A CREDIT INSURANCE POLICY WORK?

Protecting businesses against non-payment for goods and services they have provided

With packaging supplied by company A, manufacturer B provides dinnerware to a wholesaler.

Manufacturer B offers the wholesaler 30 days payment terms

The wholesaler has been a good customer, but as the recession bites, its own customers have been hit as retail sales slump.

Several of its retail customers have closed and uninsured, the wholesaler starts to suffer from increasing bad debts and now has cash flow problems of its own.

With real time risk assessment, HDFC ERGO is aware of the wholesaler's growing problems. They become uninsurable and, as a last resort, HDFC ERGO alerts manufacturer B that cover is to be withdrawn.

The wholesaler goes bust, leaving creditors with little chance of being paid anything.

Manufacturer B claims on its Credit Insurance policy with HDFC ERGO for business carried out with the wholesaler up until cover was withdrawn. HDFC ERGO pays the claim, covering up to 85% of the outstanding debt and enabling the manufacturer to meet its own commitments to company A.

By acting in manufacturer B's best interests HDFC ERGO helps to prevent a 'domino effect' of bad debt which would have hit the manufacturer's own suppliers and in turn their suppliers

By withdrawing cover, HDFC ERGO helps to stabilize the flow of trade, guiding manufacturer B away from unacceptable risk and helping them to trade safely. HDFC ERGO approaches the wholesaler to recover the money they owe manufacturer B.

HDFC ERGO agrees to cover a new customer that the manufacturer has found in America using its information database to access the new customer's credit- worthiness

CANCELLATION

The Insured can cancel the policy at any time during the policy term, by informing the Company. The Company can cancel the policy only on the grounds of established fraud, by giving minimum notice of 7 days to the Insured. The Company shall refund proportion premium for unexpired policy period subject to no claim(s) made during the policy period.

CLAIM PROCESS:

- **Notification of non payment** (NNP) to be lodged within 90 days of a debt becoming overdue
- **Formal claim to be lodged** within 3 months from MEP
- **Documents to be enclosed**
- On receipt of all documents **Claim Assessment** will be done within the next 2 months

Case is assessed based on following

1) Limits are in place & invoices are declared.
2) Invoices are within policy period.
3) We draw up reconciliation & check whether there is MEP breach.
4) Disallow unacceptable debt if any e.g. Bank charges, interest etc.
5) Claim amount is greater than NQL (Non Qualifying Loss)
6) Apply indemnity % of loss.

Application of deductibles if any

1) Deduct excess
2) Annual First Loss (AFL) – positive balance after deducting AFL then the claim is paid or else adjusted against AFL.

- **Once claim has been assessed the following is required**
    - Authority letter for appointment of debt collection agency (case to case basis)
    - CA certified ledger account of debtor - after claim is approved.
    - Post claims assessment we will require letter of subrogation
    - Letter of subrogation – needs to be signed by 2 directors or 1 director and have a company seal

Documentation Required

- Claim Form Duly Signed and Stamped.
- Copies of defaulted Invoices acknowledged by buyer.
    - Evidence of Payment Terms if is it not showing in Commercial Invoices. (Example. contract copy)
- Debtor's ledger for the 12 months prior to the oldest outstanding invoice in excel format.
- Evidence of Credit Limit / DCL buyer.
    - If DCL buyer evidence of DCL condition being fulfilled.
- Proof of Delivery - LR(Domestic), Bill of Lading. (Export) etc.
- Evidence of Debt.
- If PDC is available, then
    - Copy of dishonored-cheque , Bank Advice, Notice under Sec-138 with acknowledgment of receipt by buyer, Petition under Sec-138 with court case number
    - Any other legal case papers
    - Correspondence exchanged with Debtor for recovery

Any other document as may be required as per nature of claim.

DISCLAIMER: THE ABOVE INFORMATION IS FOR DESCRIPTIVE PURPOSE ONLY. PLEASE REFER YOUR POLICY DOCUMENT OR OUR WEBSITE WWW.HDFCERGO.COM FOR THE ACTUAL TERMS AND CONDITIONS. INSUREDS ARE ADVISED TO READ THE POLICY DOCUMENT COMPLETELY FOR A FULL DESCRIPTION OF THE TERMS AND CONDITIONS OF COVERAGE AND THE EXCLUSIONS RELATING THERETO.

GRIEVANCE REDRESSAL PROCEDURE

If you have a grievance that you wish us to redress, you may contact us with the details of your grievance through:

Our Grievance Redressal Officer

- Contact us - 022 6158 2020/ 022 6234 6234
- **Emails** – grievance@hdfcergo.com
- **Contact Details for Senior Citizens**: 022 6242 6226
- **Email ID**: seniorcitizen@hdfcergo.com
- Designated Grievance Officer in each branch.
- **Company Website** – www.hdfcergo.com
- **Courier** - Any of our Branch office or corporate office

You may also approach the Complaint & Grievance (C&G) Redressal Cell at any of our branches with the details of your grievance during our working hours from Monday to Friday.

If you are not satisfied with our redressal of your grievance through one of the above methods, you may contact our Head of Customer Service at

The Complaint & Grievance Redressal Cell,
HDFC ERGO General Insurance The Company Limited
D-301, 3rd Floor, Eastern Business District (Magnet Mall),
LBS Marg, Bhandup (West),
Mumbai – 400078, Maharashtra

In case you are not satisfied with the response / resolution given / offered by the C&G cell, then you can write to the Chief Grievance Officer of the Company at the following address

To the Chief Grievance Officer
HDFC ERGO General Insurance The Company Limited
D-301, 3rd Floor, Eastern Business District (Magnet Mall),
LBS Marg, Bhandup (West),
Mumbai - 400078, Maharashtra
e-mail: cgo@hdfcergo.com

HDFC ERGO General Insurance Company Limited. IRDAI Reg. No. 146. CIN: U66030MH2007PLC177117. Registered & Corporate Office: 6th Floor, Leela Business Park, Andheri-Kurla Road, Andheri (East), Mumbai – 400 059. For more details on the risk factors, terms and conditions, please read the policy document carefully before concluding a sale. UIN: Trade Credit Insurance Policy (Commercial) - IRDAN125CP0004V01202122.

Grievance may also be lodged at IRDAI Integrated Grievance Management system- https://bimabharosa.irdai.gov.in

You may also approach the nearest Insurance Ombudsman for resolution, if your grievance is not redressed by the Company. The contact details of Ombudsman offices are below if your grievance pertains to:

- Insurance claim that has been rejected or dispute of a claim on legal construction of the policy
- Delay in settlement of claim
- Dispute with regard to premium
- Non-receipt of your insurance document

You may also refer Our website www.hdfcergo.com https://www.hdfcergo.com/customer-voice/grievances for detailed grievance redressal procedure.

ABOUT OUR COMPANY

Name of the company – HDFC ERGO General Insurance Company Limited (IRDAI Reg No 146)

Registered & Corporate Office: 6th Floor, Leela Business Park, Andheri-Kurla Road, Andheri (East), Mumbai – 400 059.

Website – www.hdfcergo.com
Contact number – 022 6158 2020/ 022 6234 6234
Email – **care@hdfcergo.com**

PROHIBITION OF REBATES

Section 41 of the Insurance Act 1938 as amended

No person shall allow or offer to allow, either directly or indirectly as an inducement to any person to take out or renew or continue an insurance in respect of any kind or risk relating to lives or property in India, any rebate of the whole or part of the commission payable or any rebate of the premium shown on the policy, nor shall any person taking out or renewing or continuing a policy accept any rebate, except such rebate as may be allowed in accordance with the prospectus or tables of the Insurer.

Any person making default in complying with the provisions of this section shall be punishable with fine, which may extend to Rs.Ten lakh rupees.