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FAQ

All your Trade Credit Insurance questions answered.

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FAQ Contents

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Trade Credit Insurance: FAQ

1. Is Trade credit Insurance really worth the investment?

Trade Credit Insurance is indeed a valuable investment. Trade debts can constitute a significant portion, often 40% or more, of a business's assets. Even a few instances of non-payment can severely impact cash flow. The cost of such non-payment can be substantial, especially for businesses with thin profit margins. For instance, a debt of $100,000 with a 5% profit margin would necessitate sales of $2 million to recoup the lost profits. Beyond financial losses, bad debts can weaken a company's financial position, leading to reduced cash flow, higher interest charges from banks, and lower employee morale due to concerns about job security. Considering these effects, trade credit insurance becomes a valuable safeguard to protect businesses from such risks and losses.

2. What kind of business needs Trade Credit Insurance?

Every business can benefit from effective credit management, and Trade Credit Insurance is one of the most important tools for achieving that. If your business sells to other businesses on open account terms, trade credit insurance can offer numerous advantages. Even if you have different trading terms, there are specialized services that can support and strengthen your trading activities. Tailored trade credit insurance offers are available to suit various types of businesses and transactions, so feel free to contact us to discuss the most suitable option for your needs.

3. I work in a small business, is Trade Credit Insurance right for me?

Our Trade Credit Insurance is primarily designed for businesses with annual sales of at least $5million. If your sales are below this threshold, our insurance may not be the most suitable option for you. We recommend consulting your insurance broker or business bank manager, who can suggest other ways to protect your business that align better with your size and needs.

4. I've been dealing with the same buyers for years. Do I really need to worry?

Even when trading with longstanding, seemingly financially stable customers, it's essential to be mindful of potential risks. Economic cycles and commercial trends can impact even the most robust businesses. Monitoring customers' financial health and assessing the risk of non-payment requires substantial investment in data collection. Trade Credit Insurance providers like us undertake this investment on your behalf and provide valuable analysis, allowing you to trade with confidence across all phases of the economic cycle.

5. How can I get the most value from Trade Credit insurance?

To maximize the benefits of trade credit insurance, consider reviewing your processes and procedures if you're new to this type of insurance. We can provide advice on best practices to optimize your policy's value. Train your employees on using our systems effectively, utilize our information on limits and grades to enhance credit control, and protect against catastrophic bad-debt losses. Demonstrate the improved quality of your accounts receivable while negotiating with lenders for better terms. Incorporate our data into your sales planning to target financially sound new customers. Leverage our information to identify risks in new markets and opportunities for your business strategy and plans. Take advantage of our debt collection capabilities and network to accelerate payment speed. Aligning your processes with our systems can enhance efficiency and strengthen your cash flow by insuring invoices and obtaining indemnity for non-payment. Additionally, design your financial management and reporting to identify performance improvements effectively.

6. Does the Trade Credit Insurance solution adhere to Sharia principles?

Yes, our policy wording for Trade Credit Insurance is Sharia compliant.

7. What sets Allianz Trade apart from the competition?

Allianz Trade is an AA Rated Insurer, instilling confidence in our ability to settle claims and provide reliable account servicing both presently and in the long term. Our Policy Holders and partners consistently rate us highly, with our most recent Net Promoter Score (NPS) ranking us as the top performer in the GCC region market.

8. What are the benefits of granting permission for us to use your company's name when contacting your buyers?

Providing us with authorization to use your company's name facilitates the establishment of a relationship with buyers who may not have been familiar with us previously. Additionally, if required, we are more than willing to sign a Non-Disclosure Agreement (NDA) to ensure the utmost confidentiality in our communications.

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9. Why should I consider opting for a Trade Credit Insurance policy when my credit management has been robust, and bad debts have been minimal or non-existent in recent years?

Selecting a Trade Credit Insurance policy presents several advantages, such as promoting business growth, providing peace of mind, fortifying your business against the uncertainties of both local and global markets, and serving as a valuable partner to your existing credit management processes.

10. Why should I consider a Trade Credit Insurance (TCI) policy if I have managed to keep bad debts at the very least thanks to my strong credit management Over the last years?

Choosing a TCI policy offers you several advantages. These include fostering growth, providing peace of mind and security, preparing your business to navigate the unpredictable circumstances both locally and globally, and complementing your already robust credit management processes.

11.Why do we recommend insuring good graded buyers as well as the medium and weak graded buyers under the policy?

Having a diversified portfolio of buyers helps mitigate risk and enhances the flexibility of the policy. When all buyers are perceived as weak, it raises the risk associated with the policy, leading to potential limitations in flexibility and requiring pricing adjustments to align with the perceived risks covered. Therefore, by ensuring coverage for a range of buyer categories, you can create a more robust and resilient risk management strategy.

12.what is the interest of Trade Credit Insurance, if I have a very good acceptance rate on the good buyers but you don’t cover the less well graded buyers?

Trade Credit insurance product provides you several advantages and serve various purposes. Firstly, it enables you to confidently expand your business by engaging with new buyers and expanding into new markets or countries. Furthermore, it acts as a protective shield, safeguarding against unforeseen events and losses stemming from buyer defaults.

In addition to these core benefits, the coverage extends to a diverse portfolio of buyers, both well-graded and less well-graded buyers. This thoughtful approach ensures a balanced risk profile, reinforcing our clients' risk management strategy. Moreover, the inclusion of comprehensive risk information and expert guidance empowers our clients with relevant insights and valuable support throughout their business journey.

13. Why can you reduce / withdraw limits despite my payment of a yearly minimum premium?

While you do pay a yearly minimum premium, it is crucial to recognize that our premiums are tailored to reflect the level of risk associated with each buyer.

Factors such as financial deterioration of certain buyers may prompt us to reduce or withdraw limits as a precautionary measure.

Our foremost priority is to safeguard the best interests of our policyholders and ensure they are not exposed to excessive risk.

It is essential to understand that our credit limits are dynamic assessments that continuously evolve based on ongoing monitoring of buyers' financial health. As market conditions and buyers' creditworthiness fluctuate, we undertake periodic reviews and make necessary adjustments.

14. How does Allianz Trade gather information on companies/buyers?

Allianz Trade refers to a diverse array of reputable sources to obtain information on companies and buyers. These sources include information providers, state authorities, financial statements submitted by buyers to the insurer, and others.

At Allianz Trade, we hold privacy and confidentiality in the highest regard. We strictly adhere to data protection regulations and maintain the utmost integrity when handling such information. Our goal is to furnish policyholders with a comprehensive and trustworthy assessment of buyers' creditworthiness while upholding the trust and confidentiality of all parties involved.

15. Will Trade Credit Insurance help me if political events affect payments?

Yes, Trade Credit insurance can offer coverage for non-payment resulting directly from political events in the buyer's country. Events such as war, contract cancellations by local governments, restrictions on exports or imports, and regulations affecting hard currency transfers are examples where trade credit insurance can provide protection to exporters concerned about political risks.

TCI Coverage FAQ

1. Can I choose coverage for specific customers only?

Absolutely! We understand that your business needs may vary, and you have the flexibility to tailor the coverage to specific customers based on your preferences and requirements

2.Why is Political Risk cover not available to me?

Political Risk coverage is not available for domestic trades. As a result, if your trade activities are solely domestic, meaning all your buyers are located within the same country as your business, you would not be eligible for Political Risk coverage.

Additionally, there might be restrictions on offering Political Risk coverage in certain countries where we have observed a significant deterioration in the political environment. This cautionary measure is taken to ensure the soundness and sustainability of our coverage offerings.

3.Why is it not possible to provide coverage for government entities?

Our policy is designed to primarily cover Commercial Risks arising from Insolvency or Protracted Default of private companies. Government buyers, on the other hand, are not susceptible to insolvency, making them ineligible for coverage under our current policy structure.

Though delays in payments may occur from government buyers, such delays are typically not the result of financial distress that would render them incapable of honoring their payment obligations. As a result, we are unable to extend coverage to government entities under the current scope of our policy.

4. What falls under off-coverage (exclusions) under the Trade Credit Insurance Policy?

Off-coverage comprises the following scenarios:

- Goods delivered or services rendered in a country not specified in the special terms of the policy.
- Receivables owed by companies in which you have ownership or significant control.
- Receivables related to trades that do not fall within the defined trade terms stated in the special terms of the policy.
- Losses arising from receivables owed by Sanctioned Companies or Sanctioned Individuals.
- Receivables owed by Public Buyers or Government Entities.
- Receivables owed by individuals (i.e., not companies).

5. Why doesn't Trade Credit Insurance cover 100% of the receivables?

Our Trade Credit Insurance policy is designed with a fundamental principle in mind – the Insured must act as though they are uninsured. This means that there is a Shared Risk element in our coverage, ensuring that the Policy Holder actively pursues the debt owed by the buyer. As a result, the policy includes coverage for a portion of the receivables, typically 90%, leaving a 10% amount that the Policy Holder is responsible for chasing and managing independently.

By incorporating this Shared Risk approach, we encourage you to remain proactive in debt recovery, promoting responsible business practices and fostering a mutually beneficial partnership between the insured and the insurer.

6. Why do I need to declare my full turnover if I am given only a partial limit?

When we assign a partial limit, it indicates that we have identified reasons to advise our clients to exercise caution and limit their trade with that specific buyer. Overtrading with such buyers is not recommended, as it could potentially worsen the buyer's financial situation, leading to further deterioration due to excessive trade volumes that they are unable to sustain.

To address the higher risks associated with the partial limit, we charge based on the turnover specifically attributable to that buyer. This approach reflects an effective higher rate to account for the increased risk exposure.

We strongly advise all our clients to adhere to the Permitted Limits specified under the Policy for their own financial well-being and to ensure a balanced risk management strategy. Following these limits helps safeguard against potential losses and supports a stable and sustainable trade environment for your business.

7. Why do I need to declare the turnover with my customers graded 1 to 3?

Declaring the turnover with customers graded from 1 to 3 is an essential part of the coverage provided under the policy. For each buyer covered, there is an associated premium that ensures protection and risk coverage. By declaring the turnover with these specific buyers, you enable us to accurately assess the level of coverage needed and determine the appropriate premium to provide comprehensive protection for your business. This way, you can confidently conduct trade with these buyers, knowing that you have the necessary coverage in place to mitigate potential risks and losses.

8. I have some long-term deals (more than a year) in progress. Can I cover them?

Absolutely, we have experience in supporting longer-term transactions, including multi-year contracts. Feel free to reach out to us and let us know your requirements; we will be glad to offer suitable recommendations.

TCI Pricing FAQ

1.What factors determine the pricing of the policy?

The pricing under our policy varies according to several key factors, including:

- The trade sector in which the prospect operates.
- The prospect's historical bad debt record.
- The effectiveness of the prospect's credit management practices.
- The overall strength and creditworthiness of the portfolio of buyers to be covered under the policy.
- The countries that would fall under the coverage of the policy.
- These elements collectively shape the pricing structure, allowing us to tailor the cost of the policy to align with the specific risk profile and needs of each individual client.

2.Why is the cost higher for our business in the UAE compared to our European operations?

As a global company with operating entities in various markets, we have comprehensive visibility into different regions. Our observations indicate that trading in UAE involves a higher level of risk compared to many markets in Europe, particularly those within the European Union. The UAE's market presents distinct challenges, and there is a higher degree of risk exposure in this region.

Moreover, markets with more robust legal frameworks, such as those found in Europe and the European Union, often result in lower risk profiles for trade activities. As a consequence, the pricing for policies in these regions tends to be comparatively more favorable.

It's essential to note that our pricing approach is responsive to the risk assessments of the markets in which we operate. Policies for other high-risk markets beyond the UAE may also carry higher pricing to align with the level of risk exposure associated with those specific regions. Rest assured, our pricing strategy is designed to reflect accurate risk evaluations and provide tailored coverage that best addresses the unique needs of each market we serve.

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3. Why is there a credit limit fee (CLF) even if credit limits are rejected?

Our credit limit fee is applied whenever we assess a limit, regardless of the outcome. This means that even if we decide not to grant coverage and reject the limit, the same costs are incurred during the review process. In fact, a refusal decision may require a more thorough and meticulous review to ensure accurate and fair evaluations.

The CLF fee is a necessary component of our risk assessment process, which involves detailed analysis and evaluation of various factors to make informed decisions. Whether a credit limit is granted or denied, our commitment to conducting comprehensive reviews remains unchanged, ensuring that we provide reliable and accurate risk assessments for the benefit of our valued clients.

4. Why do I need to pay credit limit fees?

Our credit limit fees are the costs associated with reviewing the buyers that are covered under your policy. We have dedicated Risk Analyst and Risk Underwriting teams who continuously review buyers and underwrite credit limits for our buyers. There are costs associated with this work that sits outside the policy premium which amongst other things is associated with risks of claims arising under the policy.

5. Why is there a minimum premium included in the policy?

The minimum premium is an integral component of the policy structure. When we offer the policy to our policyholders, we request them to estimate the turnover that would be covered under the policy for the upcoming 12 months. This estimation allows us to calculate the appropriate pricing for the policy and allocate the necessary exposure for the coverage.

The minimum premium is also essential to maintain sufficient capital reserves to support the coverage provided by the policy. These reserves play a crucial role in ensuring that we can fulfill our commitment to safeguarding our policyholders against potential risks and losses.

6.The costs of TCI may appear significant, and you might wonder what happens if you don't have any claims.

However, it's important to consider that a loss-free policy indicates the effectiveness of our guidance in helping you trade with financially stable buyers who can support your business and foster growth. In essence, avoiding claims reflects the successful risk management and careful selection of buyers, ensuring a stable and prosperous trading environment for your business.

7.Why am I required to pay premiums on limits that I'm not using? I'm only using these limits for prospecting purpose.

At the end of a policy, each Policy Holder must provide a Turnover Declaration, which shows the business conducted with the buyers covered under the policy. If a Policy Holder hasn't engaged in any trade with a buyer for whom they have a Permitted Limit, they won't have any turnover associated with that buyer, and consequently, no premium will be charged.

We encourage our policy holders to ensure that they have utilized the exposure covered under their Permitted Limits through us. Additionally, any exposure on buyers with whom they are not conducting business should be removed to avoid unnecessary premium payments. Our aim is to tailor the coverage to the actual trading activities and reduce costs associated with unused limits.

TCI Claims FAQ

1. What is needed to file a claim?

In order for your claim to be processed immediately without delay, please make sure that you submit us the following documents:

- Claims & Collection form
- Statement of account
- Outstanding invoices
- Proof of delivery of goods and/or provision of services
- Sale order and/or sales contract or similar documents

Please note that the above list is not exhaustive and we may require additional documents on a case by case basis. In case you do not have any of the documents in your possession, please provide your written clarifications to us with your good justification and we will provide you with our feedback.

2. When am I eligible to submit a claim?

You can file a claim if the buyer fails to make the payment on the original due date of the invoice. In such a case, you have the option to extend the due date up to the Maximum Extension period (MEP) stated in your Policy. If the buyer still does not honor the payment by the extended due date, you have 90 days after the MEP expiration to submit a claim to us.

3. How much will I be indemnified if I file a claim?

The level of indemnity provided by our policies can range from 80% to 100% of the debt amount. The specific percentage depends on the type of policy you choose, how you handle credit terms, the condition of your accounts receivable portfolio, and your premium target. We assure you that we will provide clear information upfront and avoid any unexpected surprises. When setting up your policy, we will provide examples to guide you through the process.

4. Why do I need to wait 6 months to get my claim paid?

In case your buyer is insolvent, you will get a claim payment within 30 days from the day the buyer is insolvent provided that you submit all of the required documents to us.

However, if the buyer is not insolvent then the Policy covers the occurrence of a Protracted Default of a buyer. Protracted default refers to a non-payment of a buyer after a waiting period of usually 5-6 months, which starts from the day of your Claim filing date. In this case, the Claim Payment will t be made within 30 days from the Protracted Default date.

5. Can I file a claim online?

Yes, you can file a claim and monitor progress on your current claims via our online portal EOLIS, available 24/7.

6. What occurs with the remaining 10% after we receive claim reimbursement?

The Claim Payment is limited to an Insured Percentage, which is usually up to 90% of the Insured Loss. Once we process the Claim Payment to you, we will be subrogated for the amount of the Claim Payment. If you subsequently manage to recover the entire debt amount, you are entitled to retain the 10% related to the self-retention portion, and you will only need to refund our portion, which is up to 90% of the total claim amount.

7. If I sold for an amount that exceed the approved limit and raised a claim, will you assign a lawyer to claim the entire amount I sold for or only the limit you approved?

We will be subrogated for the amount of the Claim Payment; however, it is more effective to pursue the full debt amount without being limited to only the amount of our Claim payment. In such cases, we will work towards recovering the entire outstanding debt, not just the portion covered by our Claim payment.

8. If I submit a claim, but I get reimbursed through a repayment plan, will you restore the credit limits?

We conduct regular reviews of buyers, keeping track of their updated financial information. If a buyer's debt repayment indicates a resolution of their financial issues, it is possible that we may upgrade the buyer's status, which could lead to the approval of your request for a reinstatement of the credit limit.

Debt Collection FAQ

1. Is it necessary for me to hire a debt collection agency?

No, it is not necessary. When you obtain a trade credit insurance policy with us, you gain access to our professional debt collection service. This service operates globally and handles debts of all sizes. To learn more about our debt collection service, please visit the relevant information page.

2. What occurs when we handle debts collection for you?

We initiate the process with phone calls and letters that clearly convey the request, leveraging our name and reputation in the market. If needed, we can engage in negotiations with your customer on your behalf.

Should these initial steps not yield results within an acceptable timeframe, we can offer a legal service that encompasses everything from obtaining a judgment to enforcing action. Before taking any legal action, we will have a discussion with you to ensure transparency and alignment with your preferences.

3. How long does it take to collect the debt and when can I expect payment?

The duration of debt collection varies based on the specific case and country involved. Economic, political, and cultural factors can significantly influence customer behavior. Our primary goal is to reach an agreement with the debtor as swiftly as possible, avoiding the need for legal action, which can lead to prolonged delays. When you collaborate with our collection teams, they will have detailed discussions with you about what to anticipate and provide an estimation of the expected timeframe. If you are entering into trade with new countries, you may find our debt collection app helpful, which can be downloaded for useful information and assistance.

4. What happens if you can't collect my debt for me?

Sometimes we follow all the usual steps (before legal action) without success. At that stage we'll discuss the situation with you and explain what options are available. If decide to stop the collection activity at that point and we'll close the case. Alternatively, you might want to take legal action. If it's appropriate, we'll let you know the chances of success, how long it could take and what it might cost so that you can decide whether to proceed.

5. Can I trust your collection service will not damage my customer relationships?

Absolutely. We are committed to protecting your customer portfolio. As a third party with a global reputation, local knowledge and deep insight into customer finances, we can often negotiate more effectively to make sure you receive payments when they are due.

6. Can you offer a truly global collections service?

Your guarantee of a global service is our network of offices in 50 countries, including all the major economies in the world. That presence on the ground is backed by close partnerships with lawyers and collection agents in many more territories. In total we can reach into over 130 countries.

7. Do you have enough collectors to give me the service levels I need?

Yes. Around the world we employ more than 600 dedicated commercial debt collectors. We constantly invest in their training and the development of their skills. The team is closely coordinated, working with systems and processes that define best practice in debt collection. Our collectors don't just work for us, they work for you. They are ambassadors for your organization when they focus on collecting the payments owed to you.

TCI Terms Glossary

1. Covered Events with a TCI policy

- Protracted Default Cover
- Insolvency Cover

2. Estimated Insured Turnover

is the total amount of your company's turnover being insured

3. Minimum Premium

In the event that at the end of the policy period, your company's turnover is less than the Estimated Insured Turnover stated in the policy, you are applicable for a refund on the premium, up to the minimum premium amount.

4. Policy Maximum Liability

This is the maximum payable amount in claims that would be paid by us during the policy period

5. Malus

Is an additional premium charged if the loss ratio of the policy exceeds the percentage mentioned in the policy.

6. Each and Every First Loss (EEFL)

Is a Deductible that is applicable on each & every claim

7. Maximum Terms of Payment

This is the maximum credit period to be offered to your buyers, however the timeline will still be as per the agreed payment terms with the buyer.

8. Maximum Extension Period (MEP)

Grace period offered after the payment terms/original due date, in case a buyer does not pay on time, you can extend the due date for a certain period from original due date without informing us.

9. Discretionary Credit Limit (DCL)

DCL enables you to be covered without an underwritten limit. There are no credit limit fees, and streamlines the process of having your smaller buyers covered.

10. Declaration period

We request that you declare your turnover to us, as stated in the declaration period section.

11. Credit limit Fees

Credit limit fees are applied on each buyer you are requesting a credit limit on. It applies for any buyer that is above the discretionary limit amount.

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