



ADVICE TO BUSINESSES REGARDING INFORMATION REQUESTS FROM TRADE CREDIT INSURERS

The ability to conduct timely and informed risk assessments is central to trade credit insurers. Insurers depend on access to both historic and forward-looking financial and non-financial information in order to provide accurate advice on the health of buyers, and to provide and price insurance cover on that basis.

In uncertain economic times, trade credit insurers will need more detailed and frequent financial information in order to carry out robust and up-to-date risk assessments. Many businesses will therefore be seeing increased requests for management and financial information from trade credit insurers. Failure to comply with reasonable information requests will tend to be interpreted negatively and may result in immediate cancellation of cover, especially when coupled with adverse information.

The kind of information that companies can reasonably expect to be asked to provide to insurers include:

- Management accounts – for recent trading periods showing actual to budget performance. The quality and accuracy of the information must be to a high level.
- Business plans – with detailed underlying assumptions for key figures such as sales and margins.
- Cash flow projections – showing available headroom within existing financing facilities.
- Sensitivity analysis.
- Details of funding or banking arrangements – including term, overdraft and revolving facilities, and applicable covenants. Projected covenant headroom on future testing dates should also be provided.
- Capital expenditure plans and details of funding.

This list is not exhaustive and individual trade credit insurers will decide upon their own specific information requirements which will themselves vary on a case by case basis.

The focus for any risk-assessment is to reflect the current trading position and be forward looking, so companies will need to provide management accounts and financial projections rather relying on the most recent set of filed (at Companies House) financial accounts which could be both historic and reflect a vastly different trading environment.

Trade credit insurers will:

- Provide a full explanation of why any additional information is required and how it fits into their risk assessment and decision-making process
- Provide companies with a reasonable period of time in which to respond to any additional information requests; and to not changing the level of cover available to the firm in this intervening period, unless credit insurers become aware of additional adverse information, such as overdues or notice of county court judgements, during that period.
- Treat any financial and management information provided to them as confidential, particularly in those instances where the information supplied is over and above that required to be publicly disclosed for listed companies

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ASSOCIATION OF BRITISH INSURERS
STATEMENT OF PRINCIPLES FOR TRADE CREDIT INSURANCE

1. Background

- 1.1 The primary objective of credit insurance is to protect policyholders against unexpected credit losses generally caused by the default or insolvency of their own customers (i.e. buyers).
- 1.2 This is achieved by setting a credit limit for the policyholder on its customers, and using expertise to actively manage that limit for the duration of the policy. In the event of an adverse event or information, preventative action is taken to reduce or stop cover for future trade.
- 1.3 Where a credit loss arises due to the unexpected default of the policyholder's customer, a claim is paid. It is in both the insurer's and its policyholder's interests to avoid a claim being paid since both parties share in the risk.
- 1.4 It is always in the interest of credit insurers and their customers to support trade on credit terms wherever reasonable and possible. As a matter of principle, it is only where prudent risk management dictates that cover must be reduced or stopped for the protection of policyholders that such action is taken.
- 1.5 Credit insurance is a risk management tool to help companies manage and reduce the risks involved in trade credit transactions through the provision of cover on insurable risks as well as risk prevention and debt collection services. Credit insurers change their view on insurable risks from time to time in line with financial and other developments. Credit insurers provide an indemnity against losses incurred by companies. Policyholders should act just as prudently as they would if they were uninsured and it is not an unconditional guarantee that companies can continue to trade irrespective of the risks involved. Unlike banks or other financial partners, they are normally unsecured creditors in any trade transaction.
- 1.6 In order to formalise and reinforce the position set out above, and to make transparent the procedures described, the ABI has produced this Statement of Principles. It should be noted that many insurers have already been following these principles for some time and in some cases insurers will go beyond this minimum standard.
- 1.7 In some instances credit insurers will be bound by duties of confidentiality which may limit their ability to share with companies all the background

reasons for their decisions. Credit insurers will always fully comply with their obligations under such agreements.

2. Scope

- 2.1 This statement of principles applies to credit insurance companies underwriting cancellable limits for whole turnover class policies in the UK. The whole turnover class, where companies include all of the insurable turnover within a policy, accounts for the majority of policies underwritten in the UK.
- 2.2 This document does not form part of any contract with any credit insurer. It is a statement of principles and is not legally binding. Customers should ensure that any contract they enter into satisfies their requirements. In the unlikely event of a conflict between this document and any insurance policy or regulatory or legal requirements, the latter will always take precedence.

3. Statement of Principles

Maintenance of Cover

- 3.1 UK credit insurers will continue to support the UK economy to the greatest extent possible, by maintaining levels of credit insurance, insofar as consistent with prudent trade credit risk management and their obligations to all stakeholders, including their shareholders and customers.

Fair Assessment of Risk

- 3.2 Like any insurer, individual UK credit insurers must retain absolute discretion to assess and underwrite risk. However, they will base decisions regarding appropriate levels of credit insurance cover to be granted to their insured customers in respect of any individual UK buyer on a robust underwriting analysis of the fullest relevant financial information relating to that entity. Decisions on individual credit limits will not normally be based solely on the situation of the particular trade sector in which the relevant entity operates. Decisions are based on various types of information, public and confidential, financial and non-financial, which constitute a credit insurer's unique source of value.
- 3.3 In order to perform an informed risk assessment, UK credit insurers may require, from time to time, that companies provide them with additional information in respect of their business. Whilst credit insurers recognise they have no direct contract relationships with the buyers they assess, they expect companies to provide them with the necessary level of disclosure and transparency.
- 3.4 To facilitate the provision of such information, credit insurers will – if necessary - enter into suitable confidentiality or non-disclosure agreements with the companies involved. A company's failure to provide

arrangements, including undertakings from credit insurers to maintain certain levels of cover in return for assurances or security provided by the company or its banks.

4. Participating Credit Insurers

4.1 The following UK credit insurers have agreed to follow this Statement of Principles:

AIG UK
Atradius Credit Insurance
Coface UK
Credit Indemnity & Financial Services (CIFS)
Euler Hermes UK
HCC International Insurance Company
QBE European Operations

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adequate transparency in its financial position may impair the ability of credit insurers to assess the risks they take on behalf of their clients and may lead to insurance cover being reduced or stopped to an extent that may not have been necessary had information that satisfied the insurer been provided.

Notice of Decisions

- 3.5 UK credit insurers will give as much notice as is reasonably possible to a customer of a decision to stop or substantially reduce credit insurance cover in respect of that entity. The purpose of the notice period is to enable the customer to make representations to the credit insurer and/or allow sufficient time for alternative supply arrangements to be made. However, credit insurers must retain the right to withdraw or reduce cover with immediate effect where necessary.

Reasons for Decisions

- 3.6 UK credit insurers will at the request of a customer provide reasons for their decision to stop or substantially reduce credit insurance cover in respect of a UK entity.
- 3.7 UK credit insurers will make an effort to provide explanations to companies where cover has been altered or stopped. However, credit insurers have no direct contractual obligation to these companies and will provide such explanations upon request and subject to compliance with existing confidentiality agreements.

Treating Customers Fairly

- 3.8 UK credit insurers will consider any appeal or representations made by an affected policyholder in response to an actual or intended withdrawal or substantial reduction of cover. Credit insurers will normally provide general guidance on the information needed to review decisions made. Taking into account the information provided by the trading entity, insurers will maintain, amend or rescind their decision when they believe such action to be justified. Any such appeal against a particular risk management decision will receive a formal response without undue delay.

Relations with Insured Customers

- 3.9 UK credit insurers will maintain open communications with their insured customers in relation to decisions relating to levels of cover, and will provide explanations for or enter into dialogue with their insured customers regarding such decisions.

Co-operation with Banks and other Trade Financiers

- 3.10 Credit insurers will work collaboratively with banks, companies or any other parties and take such steps as are prudent and practicable to maximise the potential for a UK entity to continue to trade as a viable business. Where appropriate, this may involve entering into suitable