A GUIDE TO TRADE CREDIT INSURANCE

Learn how to leverage trade credit insurance to protect your business from bad debt, optimize credit management, enhance working capital, and accelerate growth.

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EULER HERMES

WELCOME

Every business needs guidance to navigate the trade credit insurance landscape effectively. From understanding policy terms and indemnity details to interpreting costs and use cases, there's a vast amount of knowledge to grasp to use trade credit insurance to help you make safe, confident decisions for your business.

Trade credit insurance (TCI) is a tool that can help protect your business from bad debt, provide you with predictive knowledge, enhance your working capital, and accelerate your growth. Its utility optimizes your business for credit management success, but you have to know how to use it correctly.

We created this guide to help you along the knowledge path. Get ready—the journey starts now.

THE JOURNEY THROUGH THE WORLD OF TRADE CREDIT INSURANCE

UNDERSTAND TRADE CREDIT INSURANCE

THE BENEFITS OF TRADE CREDIT INSURANCE

OPTIMIZE YOUR CREDIT MANAGEMENT STRATEGY

THE JOURNEY THROUGH THE WORLD OF TRADE CREDIT INSURANCE

UNDERSTAND TRADE CREDIT INSURANCE

UNDERSTAND TRADE CREDIT INSURANCE: COMMON TERMS

Before you begin your journey to understand trade credit insurance, it's best to master these key terms:

TRADE CREDIT INSURANCE (TCI) is a tool that **PROTECTS YOUR BUSINESS** from non-payment of commercial debt by insuring your business-to-business accounts receivable. **IF YOUR CLIENTS DON'T PAY** due to a buyer's bankruptcy, insolvency, or other issues, or if payment is very late, **A TRADE CREDIT INSURANCE POLICY WILL PAY OUT** a percentage of the outstanding debt.

Accounts Receivable: The money owed to your business for products sold or services rendered.

Accounts Receivable (A/R) Insurance: Also known as trade credit insurance, A/R Insurance insures your accounts receivables against bad debt loss due to customer insolvency or slow payment.

Bad Debt: Any receivables that have become uncollectible.

Bad Debt Protection: Also referred to as trade credit insurance, bad debt insurance insures your accounts receivables against bad debt loss due to customer insolvency or slow payment.

Cash Flow: The amount of cash generated (brought in) or consumed (paid out) by your business over a given period. It differs from profit, which is the amount of money left over when all the costs associated with creating and delivering a product or service are considered.

Credit Management: The actionable plan your business uses to guard against late payments or defaults.

Doubtful Debt: Any receivables you determine that may become bad debt in the future.

Open Account Terms: When your business provides goods and/or services before payment is due, typically in 30, 60, or 90 days.

Indemnity: Security or protection against a loss or other financial burden.

Working Capital: Money your business can safely spend.

UNDERSTAND TRADE CREDIT INSURANCE: WHAT IS TCI?

The first stop on the journey is to understand what trade credit insurance is, and what it isn't.

Globally, Trade Credit Insurance supports nearly **$3 TRILLION** in trade on open terms each year

An estimated **80 TO 90% OF GLOBAL TRADE** is supported by some type of trade credit insurance.

Trade credit insurance protects **$600 BILLION** in U.S. sales.

Trade credit insurance enables a company to **INCREASE SALES BY UP TO 20%**

On average, **BANKS LEND UP TO 80% MORE** on insured receivables

Trade credit insurance — sometimes called accounts receivable insurance — is different from "insurance" in the traditional sense. It is a credit management tool that helps monitor, prepare, and protect your business from bad debt. It delivers world-class knowledge and data intelligence that empowers your trading decisions. Best of all, it is a guarantee of payment on your receivables.

Businesses of all sizes that choose TCI benefit from accelerated safe sales expansion, elevated protection from bad debt, optimized credit management, and enhanced working capital.

"Trade credit insurance gives you the confidence to trade and get paid. It's an investment that protects you in the event of bad debt, and more importantly, helps you avoid bad debt in the first place. TCI is predictive protection backed by data science that takes the guesswork out of your credit process, enabling you to safely grow your business."

– **JAMES DALY**, PRESIDENT AND CEO OF EULER HERMES AMERICAS

As important as it is to know what trade credit insurance is, it is equally important to understand what it is not. It goes beyond insuring receivables—**it is a valuable, front-end risk management partnership that supports all credit professionals**. It allows organizations to increase overall sales turnover, reduce credit risk, and improve profitability.

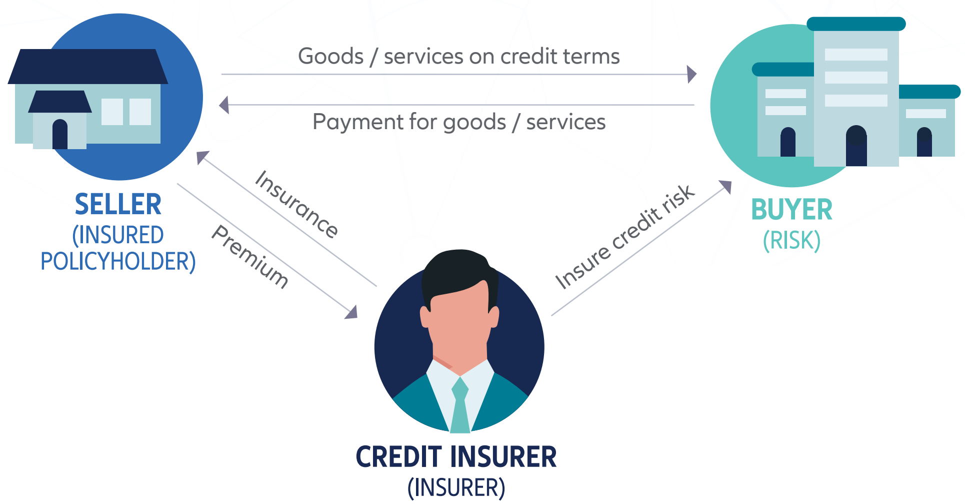
UNDERSTAND TRADE CREDIT INSURANCE: HOW DOES TCI WORK?

Now, let's recognize exactly how trade credit insurance can work for you and your business.

When you purchase trade credit insurance, your insurable customers' creditworthiness and financial stability are analyzed by the credit insurer. Then, a specific credit limit is assigned to each of your customer accounts. This is the amount that will be indemnified if that insured customer fails to pay.

Credit insurers continuously monitor the creditworthiness of the companies they insure by analyzing key factors including debt, liquidity, and country and sector risks. As economic parameters change, credit limits may be adjusted as a normal part of the credit-monitoring process.

When signs indicate a company is experiencing financial difficulty, the credit insurer notifies all policyholders that sell to that buyer about the increased risk and establishes an action plan to mitigate and avoid loss. If an unforeseeable loss occurs, policyholders file a claim with supporting documentation. The insurer would pay the policyholder the claim benefit, typically within 60 days from the date of loss on domestic claims.



UNDERSTAND TRADE CREDIT INSURANCE:
HOW DOES TCI WORK?

Unlike other types of business insurance, once a company purchases TCI coverage, the policy does not get filed away until next year's renewal—the relationship becomes dynamic. A trade credit insurance policy is consistently updated and optimized throughout the policy period.

The ultimate goal of trade credit insurance is to not only indemnify losses incurred from a default payment but also provide your business with the support and knowledge needed to avoid foreseeable losses from the start.

Here's a breakdown of how this dynamic process works:

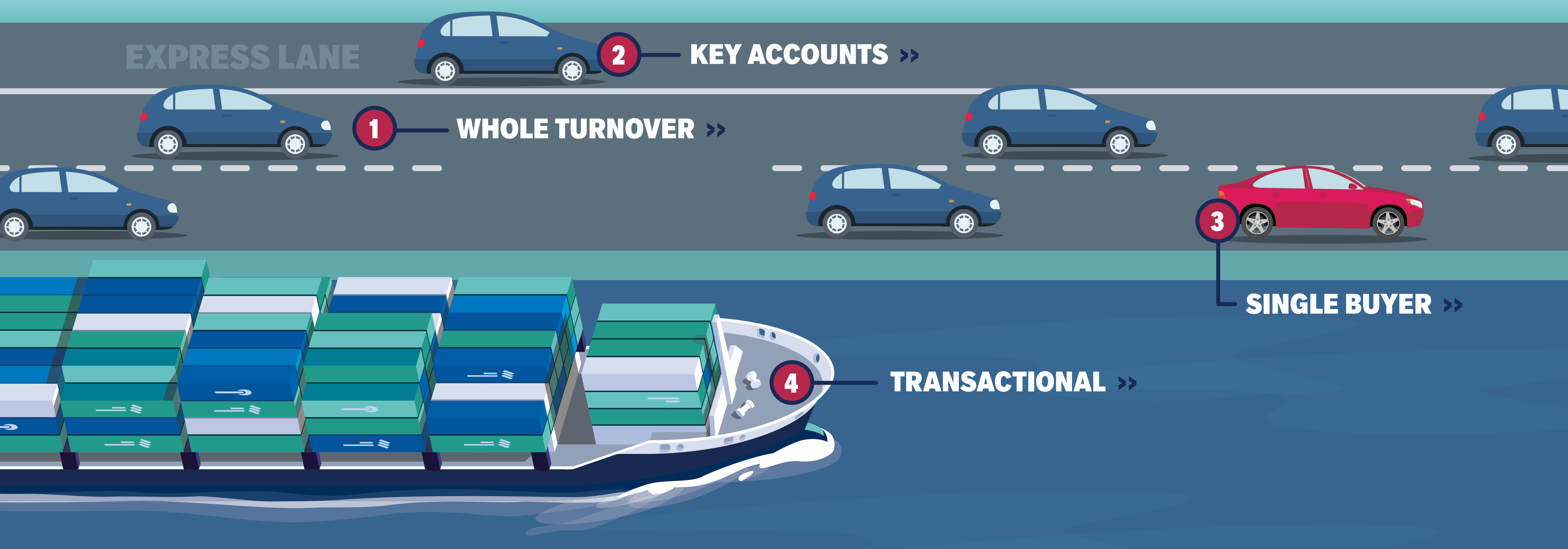
Customer Health Check:	Credit Limit Calculated:	Business As Usual:	Trading Limit Updates:	Business Growth:	Filing a Claim:
The credit insurer analyzes the creditworthiness and financial stability of your customers.	Covered customer account receives a limit, which is the maximum amount that the credit insurer will compensate you if that customer fails to pay you.	You do business with your existing customers as you wish, with the risk covered up to the limit.	The credit insurer keeps you informed of adjustments when conditions change.	You check the creditworthiness of potential new customers using the relevant and current credit information provided by your insurer. You submit the new client and trade credit details to your insurer for additions to your policy. The credit insurer confirms the agreement or explains if the request declines.	If a customer covered by your policy fails to pay, you give the credit insurer full information. They investigate and compensate you for the claim insured amount if policy terms have been met.

UNDERSTAND TRADE CREDIT INSURANCE:

TYPES OF TRADE CREDIT INSURANCE AND UNDERWRITING

Once you understand how TCI works, you need to learn about the types of coverage available through different underwriting. Underwriting is the insurance company's acceptance of liability for potential loss via non-payment of receivables.

Trade credit insurance coverages include the following types:
(hover mouse over to see definitions of each)



UNDERSTAND TRADE CREDIT INSURANCE: TYPES OF TRADE CREDIT INSURANCE AND UNDERWRITING

The trade credit insurance underwriting processes includes these two different types:

1 Cancellable Limits Trade Credit Insurance

Cancellable limits coverage is provided by limits underwriters. Limits underwriters individually review each of your customer accounts to be covered. They will research each customer to provide a suggested credit limit for that account, and they will continuously monitor those accounts for you.

As the policyholder, you are privy to that information and can use it to make decisions about extending credit or reducing credit. Each account receives its own policy coverage. Under a cancellable limits policy, the limits may be amended or withdrawn for future transactions with your covered customers.

2 Non-Cancellable Limits Trade Credit Insurance

Non-cancellable limits coverage is provided by excess of loss underwriters (also known as discretionary underwriters). Under a non-cancellable limits policy, the insurer establishes a credit limit for covered accounts, but you are responsible for monitoring the creditworthiness and payment behavior of your customers to determine if a credit risk or non-payment is likely.

While the approved credit limits cannot be withdrawn or reduced by your insurer, as a policyholder you must still attempt to avoid any potential payment loss to the best of your ability.

FEATURE	LIMITS UNDERWRITERS	DISCRETIONARY UNDERWRITERS
Full-Service »	Provides a full suite of services that add value beyond just risk transfer.	Pure risk transfer, no feedback on insurability is provided to policyholder on proactive basis.
Country Limits »	Typically uses aggregates to determine coverage, so there is no impact on your ability to gain desired coverage by country.	May use country limits, which can hamper desired coverage on exports.
Known Coverages »	Typically uses discretion on any cancellations.	Coverages will typically auto-cancel upon any lapse in a company's policy and procedures manual. Therefore, coverage eligibility is not known until the claim is processed.
Protection for Smaller Claims »	Deductibles are typically lower than those of discretionary underwriters, and more than 50% of policies have no deductible.	Often uses large deductibles to keep rates down, but this discourages claims on anything but huge losses.
Resources »	Have world-class expertise in-house for you to leverage and a physical presence in many countries for accurate, internationally consistent credit intelligence.	Many, but not all, are not mono-line carriers and don't specialize in trade credit insurance as a focus.
Size »	Many can provide cover for businesses of all sizes without syndication. Their size also means they have access to a more extensive knowledge base from global risk experts.	Many, but not all, are smaller outfits that rely on third-party intelligence for underwriting.

UNDERSTAND TRADE CREDIT INSURANCE: HOW DOES TCI HELP DIFFERENT ROLES & DIFFERENT-SIZED ORGANIZATIONS?

It doesn't matter your business's size—trade credit insurance can optimize and enhance your credit risk management. It also supports the goals of a variety of leaders in your organization. At this step in the journey, learn how TCI can benefit management roles and different-sized organizations.

> "Before trade credit insurance, I was not sleeping at night. This product is changing the way we do business."
>
> – MIKE LIBASCI, PRESIDENT OF IFS

HOW TCI SUPPORTS CORPORATE ROLES

	BUSINESS CONCERNS	HOW TRADE CREDIT INSURANCE PROVIDES SOLUTIONS
CEO, OWNER, FOUNDER, PRESIDENT		
The CEO, Owner, or Founder of an organization wears many hats and has an emotional investment in the health of the business. This leader is typically involved in decision-making for many business aspects, including operations, strategy, and finance. But, because they can't control everything, this is where trade credit insurance comes into play. TCI allows CEOs, Owners, or Founders to take smart business risks and make informed trade decisions.	• Uncontrollable risks. • Not able to weather adverse events as well as larger competitors. • Risk as a barrier to growth.	• Relieves the dread of the unknown and uncontrollable risks. • Delivers more control and confidence in decision-making. • Makes the enterprise more impervious to adverse events. • Supports informed risk-taking. • Increases capacity to compete.
CFO, VP OF FINANCE, FINANCIAL MANAGER		
Similarly, the roles of CFO, VP of Finance, and Financial Managers can be complex. They are busy with numbers, sometimes acting as accountants, controllers, and credit managers. They often wish they had more time to devote to their primary goal: providing strategic leadership to the business. Though they are generally more conservative about credit, TCI allows them to assess customer credit risk and make measured data-driven credit decisions.	• Unpaid invoices. • Catastrophic default. • Running out of cash. • Weak balance sheet.	• Helps safely ease overly conservative credit policies. • Reduces the time and cost burden of collecting and analyzing data to increase opportunities for strategic business discussions. • Delivers a host of options for theoretical scenario mapping. • Decreases reliance on bad debt reserves.
CONTROLLER, CHIEF ACCOUNTING OFFICER, FINANCE DIRECTOR		
Controllers and those with similar roles are asked to bridge rear-focused reporting with a forward-looking strategy. They must also think about downstream business impact while meeting legacy goals of accurate historical reporting and budgeting efficiency. Trade credit insurance appeals to this group because it bridges historical information with future growth strategy, deepening strategic participation.	• Low-quality information and inefficient tools. • Complexity in the regulatory and reporting environment. • Compliance violations.	• Increases the bottom line by immediately maximizing top-line opportunities. • Reports relevant and current customer credit information to support fast and informed decision-making.

continued...

UNDERSTAND TRADE CREDIT INSURANCE: HOW DOES TCI HELP DIFFERENT ROLES & DIFFERENT-SIZED ORGANIZATIONS?

HOW TCI SUPPORTS CORPORATE ROLES

	BUSINESS CONCERNS	HOW TRADE CREDIT INSURANCE PROVIDES SOLUTIONS
CREDIT MANAGER, DIRECTOR OF CREDIT		
Credit Managers and Directors of Credit act on known data points and are vulnerable to unknown risks. Sometimes, those in these roles can view external trade credit insurance as a threat to their function. However, once they experience how TCI works, they appreciate how it can screen out credit risks, limit exposure, and gather highly accurate data that allows them to comfortably say "yes" to trade deals. Also, TCI streamlines the credit manager's job, allowing them to spend more time on the underserved areas of the business.	• Delinquency and payment default. • Unknown risks.	• Increases the breadth and depth of information sources available to make credit decisions, turning unknown risks into known risks. • Delivers tactical insight and more time for higher-level strategic work. • Prevents missed credit opportunities. • Offloads the credit risk from marginal opportunities. • Increases job satisfaction.
VP OF OPERATIONS, OPERATIONS DIRECTOR, CHIEF OPERATING OFFICER		
The VP of Operations, Operations Director, or Chief Operating Officer cares about making things work, subjugating individual sales and financial metrics to the pragmatic goal of putting products in customers' hands. TCI can reduce credit risk and deliver increased access to capital to help achieve this goal and streamline effective operating procedures.	• Delinquency and payment default. • Unknown risks.	• Unites sales and financial goals under the banner of effectively moving product to customers • Offers potential new metrics that create structural alignment between teams
VP OF SALES, SALES EXECUTIVE, VP OF ACCOUNT DEVELOPMENT		
Sales leaders are likely to appreciate any tool and partnership that creates sales growth. They welcome any solution that puts them in front of more high-quality prospects. It is especially true for sales leaders who have lost sales opportunities due to strict credit policies. Trade credit insurance acts as a pipeline builder and gets deals finalized without worries of credit risk.	• Inaccurate forecasting. • Low-quality leads. • Unknown opportunities with current clients.	• More high-quality opportunities and leads. • Clear differentiation between leads that look risky because they've experienced credit pain from leads that are risky because of bad business management. • Helps focus upselling with current clients.

> "What we went in for was trade credit insurance. What we got was trade credit insurance and a partner with a wealth of knowledge throughout the industries that we sell to."
>
> - MIKE MORAN, FINANCIAL CONTROLLER AND CREDIT RISK MANAGER AT POLYQUEST

UNDERSTAND TRADE CREDIT INSURANCE: HOW DOES TCI HELP DIFFERENT ROLES & DIFFERENT-SIZED ORGANIZATIONS?

HOW TCI SUPPORTS BUSINESS

Small Businesses

Yearly revenue up to $25M

You may think that TCI is too complex or only suited for large or multinational companies. However, any small business can benefit from trade credit insurance. TCI can act as an essential tool to ensure a small business's continued success. TCI provides powerful information and support that might otherwise not be available.

The primary goal of a small business is to grow—but growth must be both safe and aggressive. The benefit of TCI is that it provides credit intelligence, information and monitoring to help businesses make the best possible credit and business decisions. Often, businesses hold back on giving credit that a customer wants because of concerns with risk. TCI delivers the insight necessary to increase confidence in credit decision-making.

TCI also helps small businesses secure bank financing to ensure cash flow. Banks will typically lend more capital to businesses with insured receivables. In addition, banks may be willing to lend at more favorable rates when insulated from risk exposure. This increased access to working capital helps businesses grow.

TCI also enhances efficiency in credit management and operations. By providing a structure for credit decision-making, TCI can support fast data-driven credit decisions that free up credit and operations managers to spend more time enhancing customer satisfaction and meeting corporate goals.

Mid-Size & Large Businesses

Yearly revenue exceeding $25M

TCI offers mid- and large-size businesses the same benefits as small businesses:

- Credit intelligence and monitoring to support credit decision-making.
- Support to make it easier for financial institutions to lend your enterprise money and increase liens of credit.
- Streamlined credit management efficiency to free up time for credit and operations managers.

For mid- to large-size businesses, TCI also helps with domestic or international market expansion and protects key accounts. TCI solutions are flexible and can be tailored to needs, particularly when customer base consolidation creates larger receivables from fewer customers or when new market opportunities present risk and reward.

Multinational Corporations

Yearly revenue exceeding $100M

Financial structures for multinational corporations are complex. Trade credit insurance effectively supports existing credit management infrastructures and can deliver multinational corporations a flexible solution for managing global trade risk, protecting against:

- Insolvency of a customer portfolio
- Delayed payment
- Political risk

In addition, TCI provides large exporters confidence to increase sales, particularly in emerging markets and to establish stronger market share in international markets. By leveraging the insurer's credit intelligence, multinational corporations gain knowledge of local conditions and associated risks and are better prepared when making decisions about what companies to trade with.

UNDERSTAND TRADE CREDIT INSURANCE:

WHAT DOES TCI COVER?

Trade credit insurance provides financial coverage for some or all of the losses that can happen when a customer does not pay for goods or services because of bankruptcy, insolvency, or other issues, or if payment is very late.

When accounts receivable are covered by trade credit insurance, the policy will reimburse you according to the terms of the policy. The percentage of reimbursement depends upon the type of policy. With TCI, you can reliably manage the commercial and political risks of trade that result in non-payment beyond your control.

However, TCI only covers the risk that directly connects to an underlying trade transaction. If no direct trade exists, outstanding debts cannot be covered. For example, if you purchase coverage today to cover accounts receivable for a customer, that customer's pre-existing and past-due accounts receivable are not eligible under the terms of the policy.

You may decide to invest in trade credit insurance if you want to achieve any of the following objectives:

- Expand sales with confidence, whether selling more to existing customers or pursuing new customers.
- Access better financing terms, as banks will typically lend more capital against insured receivables.
- Make your best personal business decisions by quickly accessing your trade credit insurer's information risk data.
- Protect against non-payment and catastrophic loss.
- Expand into new international markets, backed by protection from unique export risks and market knowledge to make accurate growth decisions.
- Reduce bad debt reserves to free up capital.

THE JOURNEY THROUGH THE WORLD OF TRADE CREDIT INSURANCE

THE BENEFITS OF TRADE CREDIT INSURANCE

THE BENEFITS OF TRADE CREDIT INSURANCE
GROWTH

Business development and safe growth go hand-in-hand with business management. Trade credit insurance helps deliver competitive advantage: It allows you to increase market share, boost market penetration, and expand into new markets without credit concerns.

With TCI, you can achieve the following benefits:

- **Develop Existing Customer Relationships:** Keeping current customers engaged and satisfied while exploring new ways to grow those established relationships can be challenging. Trade credit insurance can give you the confidence to overcome conservative credit limits for these customers, effectively solidifying and expanding your business relationships. Partnering with the right trade credit insurance provider can also result in access to valuable insight into those customers' financial health. This information can help you capture new growth opportunities.

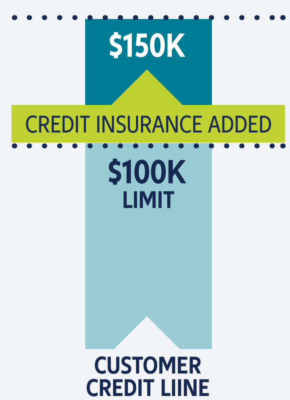
- **Safely Expand Sales:** A smooth-flowing sales pipeline is key to growth. Trade credit insurance can help you build a strong sales pipeline in several ways. You'll have confidence that you will get paid for what you sell, so you can offer better terms and raise credit limits to grow sales and enhance customer relationships. You can also more aggressively grow sales with a key customer without the worry of concentration risk.

- **Securely Delve into New International Markets:** Emerging markets can be a key opportunity for business growth. But unfamiliar foreign payment practices, the difficulty of resolving late payments at a distance, and the threat of non-payment can be a concern. TCI can help minimize these risks and help you gain a valuable presence in international markets. TCI protects your receivables against loss due to unique export risks, including political risks, economic downturns, and natural disasters—eliminating cash-in-advance terms or letters of credit. TCI also delivers market intelligence to help you make more informed growth decisions.

- **Effectively enhance your Borrowing Base:** Having access to increased capital through bank loans or lines of credit is an important part of effective cash flow management. Lenders look favorably on businesses that have insured their receivables because they know that their investment in your business is protected from loss caused by customer default or insolvency. This protection allows you to secure more financing at better rates and use that financing to further grow your business.

Example: Increasing sales and profits

A wholesale company's credit department had restricted a credit line to a customer to $100,000. They then purchased a trade credit insurance policy, and a limit of $150,000 was approved on that same customer. With a 15% margin and an average days sales outstanding (DSO) of 45 days, the wholesaler was able to increase their sales to realize an incremental annual gross profit of $60,000 on just one account.



$60K

Annual gross profit on one account*

*Eight shipments per year/DSO 45 days
15% profit margin

THE BENEFITS OF TRADE CREDIT INSURANCE

WORKING CAPITAL

Working capital is important in each stage of your business cycle, from the purchase of materials and production of goods or services to sales and receipt of payment.

If there is a problem at any stage in this cycle, such as a need to produce more inventory than planned or more invoices being paid later than 30 days, you will need more working capital.

A deficit in working capital can mean you lose out on growth and new business opportunities. But there are other methods businesses can use to improve how working capital is managed.

Trade credit insurance is an effective way to increase net working capital. TCI acts as a safety net to protect your business from non-payment of your accounts receivable. It frees you from maintaining bad debt reserves and helps you protect your capital, maintain your cash flow, and secure your earnings while extending competitive credit terms to your customers.

Trade credit insurance can also help companies secure working capital financing. Banks usually limit what you can borrow against your receivables because of the perceived risk. But banks consider receivables insured by trade credit insurance as secured collateral. It often means they will lend more money at a lower interest rate to companies that have trade credit insurance.

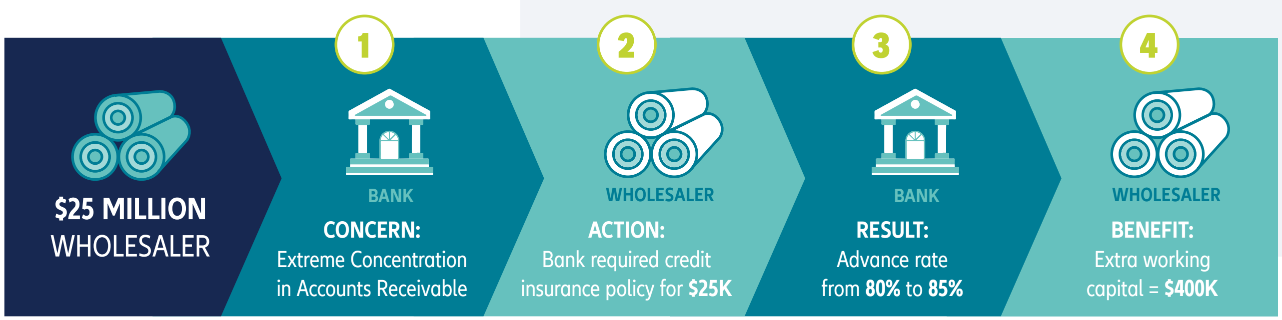
Trade credit insurance from Euler Hermes includes an additional feature that helps support healthy working capital: risk data. Accessing this data can help businesses increase their net working capital via improved credit control, avoiding bad debt and safely expanding sales to new and existing customers.

Example: Improving lender relationships

A $25 million lumber wholesaler had extreme concentration in their accounts receivable because they only had eight active accounts. The smallest of these customers had A/R balances in the low six-figure range, and the largest was in the low seven-figure range.

The company's bank was concerned about this concentration, and they required trade credit insurance to include their accounts receivables as collateral. The lumber company established a trade credit insurance policy that specifically named all of its buyers, providing the bank the comfort level it needed.

The bank increased the advance rate from 80% to 85%. The net result was that the lumber company could obtain an additional $400,000 in working capital because of their trade credit insurance coverage. The cost of the policy was $25,000, so the return on this investment was excellent, and the lumber company was able to use the additional cash to continue to fund its growth and expansion strategy.



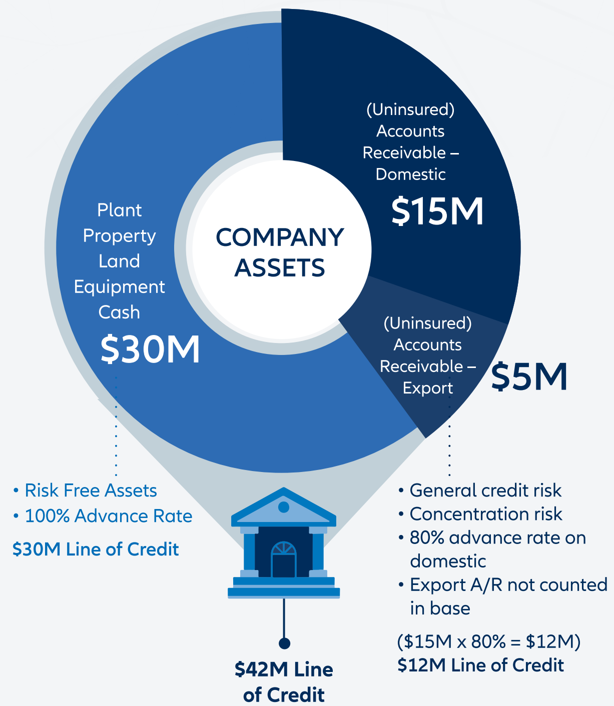
THE BENEFITS OF TRADE CREDIT INSURANCE

WORKING CAPITAL

A TOOL FOR BETTER BORROWING:

EXAMPLE

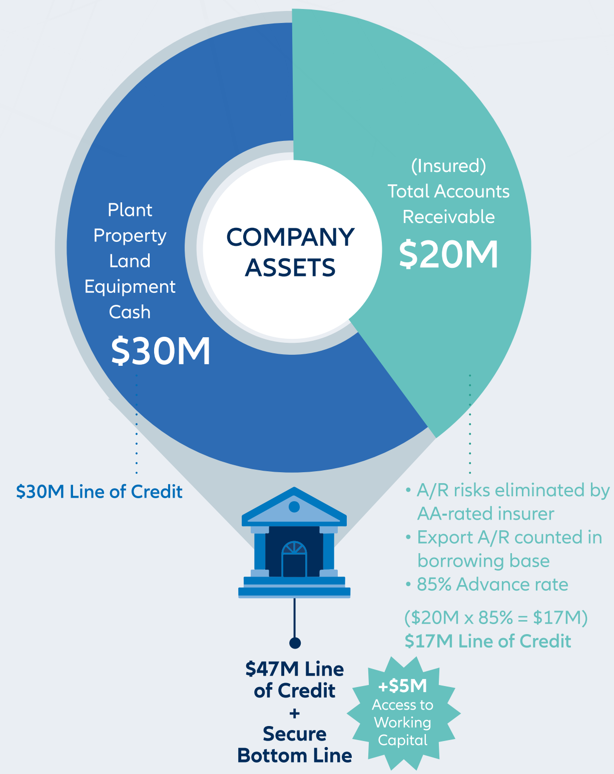
CURRENT LENDING SITUATION



VS.

EXAMPLE

WITH EULER HERMES PARTNERSHIP



THE BENEFITS OF TRADE CREDIT INSURANCE
BAD DEBT PROTECTION

Once payment from a customer is deemed uncollectible, it becomes a bad debt expense that is offset by a reduction to your accounts receivable.

Bad debt is considered a potential cost of doing business with any customer that you extend trade credit. However, large debts or several unpaid accounts may lead to significant loss and even increase a company's bankruptcy risk. Bad debts also make your company's accounting processes more complicated and, in addition to monetary losses, take up valuable staff time and resources as they unsuccessfully try to collect on the debts.

Bad debt protection is a key benefit of trade credit insurance. It allows you to remove the credit risk from your balance sheet, improving margins and strengthening your balance sheet. If a customer covered by the policy fails to pay you, you submit your claim and receive payment under the terms of your policy. This prevents disruptions to cash flow. It can also reduce the risk associated with having a few large customers that generate the majority of your business revenue.

The claims process

To make a claim on your TCI policy, follow the directions provided by your issuer. It is important to provide all documentation necessary to establish your claim and help the claim processor handle your claim promptly.

When you make a trade credit insurance claim with Euler Hermes, here's what you can expect:

Step 1

File Your Claim: Complete the Notification of Claim form. Mail, fax, or email that form along with requested supporting documentation (e.g., statements of account, A/R aging, purchase orders, invoices, or proofs of delivery/bills of lading), and any other documentation requested.

Step 2

Claim Acknowledgement: You will receive two notifications from Euler Hermes regarding your claim. The first will acknowledge the initial receipt of the claim. After we receive all supporting documentation and make the initial assessment, you will receive notice of the tentative scheduled payment date.

Step 3

Claim Assessment and Loss Settlement: Your claim is reviewed 14 days before the scheduled payment date. We will email you a settlement package describing the coverage analysis and the total loss, along with the payment that is due, which may be subject to various offsets, deductibles, and coinsurance.

Step 4

Assignment of Claim Form: Once you have reviewed the settlement package, you should execute the "Assignment of Claim" form and return it to us. If there is a beneficiary on the policy, the beneficiary needs to execute the "Beneficiary Release" form and/or release the right to receive the loss payment.

Step 5

Payment Receipt: Upon receipt of the executed documents, we will finalize the loss payment and mail a check to you or the beneficiary.

THE BENEFITS OF TRADE CREDIT INSURANCE

CREDIT DEPARTMENT EFFICIENCY

An efficient and effective credit department manages accounts receivable risk and helps the business sell more products or services. Whether centralized or decentralized, a credit department can become more efficient when receivables are insured with a TCI policy.

Risk Assessment: One of the most important roles of the credit department is assessing and managing accounts receivable portfolio risk. It includes evaluating prospects to determine creditworthiness and monitoring current clients for any downturns or warning signs about financial instability. Trade credit insurance issuers make risk management more efficient by providing deeper insight into customers, industries, and countries, plus active monitoring of insured clients.

Credit Policy Development: The credit department is also responsible for establishing the guidelines that set the company's expected payment and credit terms, which ensures consistency and control. This includes the parameters for limiting credit on outstanding accounts and the procedures necessary to manage delinquent accounts. Trade credit insurers can provide companies with access to trade credit professionals and data that will help to streamline the creation of a strong credit policy.

Credit Decision-Making: The credit department is responsible for granting credit to customers—determining the amount and terms of credit. The credit department is also responsible for determining if or when to tighten or relax credit terms for customers based on the potential for profitability. Much of this decision-making is based on the initial and on-going risk assessment. TCI coverage can help justify increasing or enhancing credit terms on a case-by-case basis and save the credit department time.

Mitigation of bad debt losses: By effectively managing credit policies and procedures, the credit department can mitigate bad debt losses. While no enterprise is immune from unpaid accounts, TCI coverage protects you from buyers who delay payment, are unable to pay, declare bankruptcy, or otherwise become insolvent.

TCI COVERAGE PROTECTS YOU FROM BUYERS WHO DELAY PAYMENT, REFUSE TO PAY, DECLARE BANKRUPTCY, OR OTHERWISE BECOME INSOLVENT.

THE BENEFITS OF TRADE CREDIT INSURANCE

CREDIT DEPARTMENT EFFICIENCY

SAFER, MORE DISCIPLINED CREDIT PROCESS

EXAMPLE TYPICAL CREDIT PROCESS

Sales Dept asks for credit limit for a new customer

Credit Dept pulls credit report and/or examines bank/ trade references
Turnaround: 3–5 days

Credit Manager makes educated guess on appropriate amount and terms of credit based on static report with limited data

OUTCOME
Company accepts risk of customer non-payment and top-line opportunity cost

VS.

EXAMPLE TYPICAL CREDIT PROCESS WITH EULER HERMES

Sales Dept asks for credit limit for a new customer

Credit Dept requests limit from EH via online portal
Turnaround: 24 hours

EH returns a decision based on fully up-to-date EH data, backed by insurance guarantee

OUTCOME
Non-payment risk covered, top line revenue maximized

EH provides ongoing monitoring of financial and payment performance.

THE JOURNEY THROUGH THE WORLD OF TRADE CREDIT INSURANCE

OPTIMIZE YOUR CREDIT MANAGEMENT STRATEGY

OPTIMIZE YOUR CREDIT MANAGEMENT STRATEGY

CREDIT RISK MANAGEMENT STRATEGIES

Of course, there are alternatives to using trade credit insurance:

SELF-INSURANCE

With this alternative type of trade credit insurance, you typically put a reserve on your balance sheet that covers any potential bad debt for the fiscal year. It is when a company trusts that its customers will pay. This bad debt reserve is typically not the most effective solution, because instead of investing excess capital into growth opportunities, you must put that capital in reserve in case of bad debt. For example, a $50K bad debt with a 6% profit margin means $833K of additional income is needed to break even.

LETTER OF CREDIT

A letter of credit is a guarantee from the buyer's bank that states the payment of a buyer's obligation will be received on time and in the correct amount. Letters of credit take many forms; a standby letter of credit is used for multiple transactions while a commercial letter of credit is used for just one. A letter of credit only provides debt protection for one customer and only covers international trade.

FACTORING

Factoring is an agreement with a third-party company to purchase accounts receivables at a reduced amount of the face value of the invoices. Some factoring services will assume the risk of non-payment of the invoices they purchase, while others do not. You will pay a fee ranging from 1% to 5% for the service, even if the receivable is paid in full within 60-90 days. The longer the receivable remains unpaid, the higher the fees. Payment guarantees aren't always available, and if they are, they can double factoring fees to as high as 10%.

OPTIMIZE YOUR CREDIT MANAGEMENT STRATEGY

CREDIT RISK MANAGEMENT STRATEGIES

When weighing the options for credit management, each option should be investigated carefully to determine the best fit for a specific company.

SELF-INSURANCE

\+ Minimal cost to the company in years with no losses

— Company bears burden and cost for internal credit management resources needed to mitigate risk

— Depending on risk tolerance, may result in overly conservative limits that reduce potential revenue

— Ties up working capital and impacts capital allocation of the balance sheet

— Typically does not protect from large and unexpected catastrophic loss

— Utilize unreliable third party data services

FACTORING

\+ Immediate access to cash

\+ Option to outsource invoicing, collections, and other bookkeeping activities

\+ No long-term contracts

\+ Doesn't require collateral

— Depending on contract structure, may not protect against non-payment events

— Loss of control of customer relationships

— Capacity constraints associated with line availability

— Cost range between 1% and 4% of a receivable plus interest on the cash advance that can equal up to 30% in annual interest

— Does not indemnify full invoice

LETTER OF CREDIT

\+ Security for both seller and buyer

\+ Financial standing of the buyer is replaced by the issuing bank

\+ Because of the guarantee, seller can borrow against the full receivables value from its lender

— May only cover a single transaction for a single buyer and can be tedious and time consuming

— Expensive, both in terms of absolute cost and in terms of credit line usage with the additional need for security

— Ties up working capital for the buyer

— Competitive disadvantage when competitors are offering open terms

— Lengthy and laborious claims process

CREDIT INSURANCE

\+ Empowers companies to confidently grow sales without credit concerns

\+ Guaranteed protection against non-payment or slow payment

\+ Enhances efficiency of a company's internal credit department with fast credit limit requests and ongoing buyer monitoring

\+ Allows exporters to offer safe, open terms overseas

\+ Expands a company's financing options by increasing its borrowing base with secure receivables

— Most cost-effective for businesses with $3M+ in B2B sales

— Not suited for companies with government or consumer sales

OPTIMIZE YOUR CREDIT MANAGEMENT STRATEGY

SEVEN REASONS TO INVEST IN TCI

At this part of the journey, we now have a basic understanding of everything TCI is and what it isn't. Now, let's learn about why trade credit insurance is an investment that goes beyond just protecting your accounts receivable. It's a tool that can transform your business across your entire operation:

1. **Risk Management:** Get access to unparalleled data, next-gen technology, and unrivaled expertise about your trading partners and markets for insights necessary to make accurate credit decisions at a lower cost.

2. **Market Penetration:** Gain protection against unique export risks and market knowledge that makes decision-making about expanding internationally more efficient and accurate.

3. **Financing:** Insuring your receivables alleviates concerns your bank may have about accounts receivables concentration. Banks will typically lend more capital against insured receivables and may also reduce the cost of borrowing.

4. **Cash Flow:** Gain peace of mind knowing your cash flow is protected against potential accounts receivable losses.

5. **Debt Management:** Reduce bad debt reserves to free up capital and enhance cash flow.

6. **Sales:** If receivables are insured, you can safely sell more to existing customers, or attract and retain new customers with more favorable credit terms, knowing you're protected from customer default.

7. **Customer Relations:** Trade credit insurance guarantees you'll be paid, so you can create more attractive payment agreements with customers.

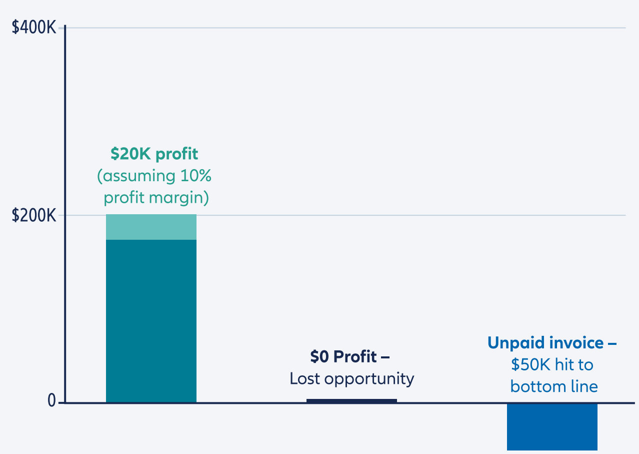
OPTIMIZE YOUR CREDIT MANAGEMENT STRATEGY

SEVEN REASONS TO INVEST IN TCI

Here's an example of how you can capture more top-line and bottom-line revenue with a trade credit insurance policy:

VS.

EXAMPLE
CURRENT CREDIT PROCESS

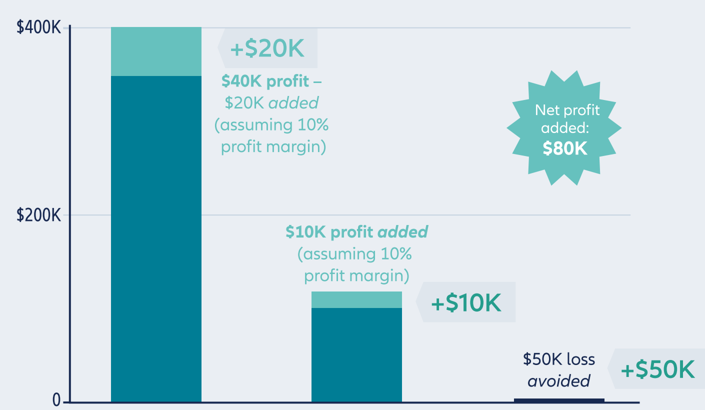


Customer 1
You grant $200K Limit but Sales could sell $400K if more credit approved

Customer 2
Customer wanted $100K limit, you declined based on lack of information

Customer 3
You approve $50K Limit - customer's financial troubles not reflected on mercantile reports

EXAMPLE
WITH EULER HERMES PARTNERSHIP



Customer 1
Euler Hermes approves full $400K limit

Customer 2
Euler Hermes approves $100K limit

Customer 3
Euler Hermes' world-class information warns you of the danger

OPTIMIZE YOUR CREDIT MANAGEMENT STRATEGY

HOW MUCH DOES TCI COST?

As you've learned, TCI is an important business tool that helps you take control of your cash flow and lowers the risk for bad debts and unpaid invoices.

As with any investment in your business, there are ways you can control costs and make a purchasing decision that helps to grow your business.

First among those ways is selecting the right type of insurance coverage for your business. There are several different types of trade credit insurance:

- **Whole Turnover:** This type of trade credit insurance protects against the non-payment of commercial debt from all customers. You can choose if this coverage applies to all domestic sales, international sales, or both, along with future sales.
- **Key Accounts:** With this type of insurance, you choose to insure your largest customers whose non-payment would pose the greatest risk to your business.
- **Single Buyer:** If most of your transactions are with one customer, you can choose a trade credit insurance policy that insures against potential default from just that customer.
- **Transactional:** This form of trade credit insurance protects against non-payment on a transaction-by-transaction basis and is best for companies with few sales or only one customer.
- **Excess of Loss:** This form of trade credit insurance covers the most catastrophic of losses.

The cost of your policy will vary depending on several details including the type of coverage you choose, your industry, your annual revenue that needs to be insured, your history of bad debts, your current internal credit procedures, and your customers' creditworthiness, among other factors.

In general, your premium is based on a percentage of your sales, conservatively around 0.25 cents on the dollar. If your sales were $20 million last year, and you want to cover that entire revenue, your premium would typically be less than $50,000.

A TCI policy can typically offset its own cost many times over, even if you never make a claim, by increasing your sales and profits without taking on additional risk. Could your company be leaving extra sales revenue on the table? Use our ROI Calculator to discover how an investment in TCI can add to your bottom line.

Interested in learning exactly how much the right trade credit insurance coverage would cost?

Get a free quote now.

OPTIMIZE YOUR CREDIT MANAGEMENT STRATEGY

WHY SELECT EULER HERMES AS YOUR TRADE CREDIT INSURANCE PROVIDER?

We have shown you some of the ins-and-outs of the world of trade credit insurance. Let's talk about why you should choose us as your TCI provider.

Partnering with Euler Hermes for trade credit insurance gives you an advantage over your industry competitors. We are a global leader and a recognized specialist in the areas of surety, collections, structured trade credit, and political risk.

With us by your side, you gain peace of mind knowing your trusted partner is there to protect against any unexpected defaults while helping you avoid them in the first place. Our excellent track record is why business leaders trust us in helping them extend more credit and share our confidence in tomorrow.

The result of these promises? Our customers know that they are dealing with a trusted partner that is constantly investing for tomorrow.

What additional competitive advantages do you gain when you partner with us?

UNPARALLELED DATA:
We have access to real-time payment information for 85 million+ companies and past-due claims reporting from our 58,000+ worldwide customers. This often means that we know country risks that can help inform business expansion decisions as well as insights into trading partners of all sizes—from small businesses to international enterprises.

85m+ Companies Monitored

58k+ Worldwide Customers

NEXT-GEN TECHNOLOGY:
We manage the largest database of companies and employ a team of 30 data scientists who apply groundbreaking investments in Big Data and AI techniques to improve our predictive models.

30 Data Scientists

UNRIVALED EXPERTISE:
We have direct contact with monitored buyers to request and analyze financial statements, with 1,700 sector-specific credit analysts.

1,700 Sector-specific Credit Analysts

STABILITY AND SHARED CONFIDENCE:
We are rated AA by Standard & Poor's and A+ by A.M. Best Company. It's not just about our customer's confidence; it's about their confidence in the market and us. We have a close relationship with not just our customers, but also with the market economy.

AA Standard & Poor's

A+ A.M. Best Company

TCI IS YOUR MAP

Now that we have reached the end, the true journey has just begun. Could trade credit insurance be right for your company? Here are some questions to ask yourself to arrive at the right decision:

- Do you want to expand sales with confidence, whether selling more to existing customers or pursuing new customers?
- Do you want better financing terms from your financial institution? Do you want up-to-date and well-documented trade credit risk data on customers and industries?
- Do you want to protect your bottom line from non-payment and catastrophic loss?
- Do you want more peace of mind in expanding into new international markets?
- Do you want to reduce bad debt reserves to free up capital?

If you answered "yes" to any of these questions, the next step in your journey is to contact Euler Hermes to learn how trade credit insurance can bring value to your organization.