TEXEL OVERVIEW

Credit Risk Insurance for Corporates

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Protecting balance sheet assets through insurance is a normal part of risk management for a corporate entity and this behaviour extends beyond covering exposures such as property and buildings, to covering a company's receivables through comprehensive non-payment insurance ('NPI').

A corporate will often look to protect an entire portfolio of receivables via a 'whole-turnover' insurance policy. The corporate will work in conjunction with the insurer and broker to establish the appropriate parameters of the policy, such as the policy limit, a deductible and pricing, in order for the entire portfolio of receivables to be protected under one policy.

It is also possible to cover only a selection of a company's receivables via a NPI policy. This selection could be limited to receivables in foreign markets or even the largest buyers of a company's products, where the company has a concentration of credit exposure.

A company can therefore cover anywhere from just a few to thousands of buyers, depending on their requirements. When putting a NPI policy together, the insurers will want to understand the track record of the company's receivable portfolio and where there may have been payment delays or losses in the past. The expected volume of sales to be covered by the insurance policy is also an important aspect to inform the insurers of, because along with the payment experience this can help determine where the deductible or risk sharing level is to be set.

The insurers will also look for an insight into a company's internal practices and procedures for handling credit risk. This aspect is especially important when a corporate insured may look to have a discretionary credit limit ('DCL') in place under the policy. A DCL gives the ability for the corporate insured to approve its own insured counterparty limits in a portfolio, under a certain value, by following its own internal credit procedures. A DCL will usually be set where the size of the portfolio of buyers is large.

The trigger for a loss under the policy will be non-payment by a buyer for any reason on the contractual due date.

There are roughly 15 different insurers providing portfolio cover for a corporates' receivables with each insurer having a slightly different approach and capability. While the number of insurers providing this cover is not as large as for single-transaction cover, it can be a competitive market to the benefit of insureds looking for NPI cover on a large pool of receivables.

Corporates also look to use insurance to protect their equity investments and fixed and moving assets through political risk insurance (PRI).

PRI typically provides cover against losses of assets caused by events such as confiscation, expropriation, nationalisation, forced abandonment, currency inconvertibility or political violence when located in a country of risk.

Insurance policies can cover assets owned by an insured only in higher risk countries or a global program is often bought by multinational firms, whether on fixed investments or stocks.

ABOUT TEXEL

The Texel Group is a market-leading specialist insurance broker, primarily focused on the development, structuring and execution of NPI policies for our clients. With over 20 years' experience at the forefront of the international insurance markets, we are staffed by individuals with skills and experience to help our clients understand the product and ensure that it is correctly structured to obtain the maximum capital and limit relief possible for each transaction.

KEY POINTS

- Global insurance market of A- or higher-rated insurers
- Capacity of USD2.5bn–3.5bn for tenors of up to 20 years across NPI markets for 2020
- Payment certainty for valid claims under a NPI policy when appropriately structured
- Partnership across many product lines
- Non-competitive and silent distribution option