



बीमा विनियामक और विकास प्राधिकरण
**INSURANCE REGULATORY AND
DEVELOPMENT AUTHORITY**

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Press Release

Trade Credit insurance is closely tied to the real economy facilitating domestic and international commerce. It indemnifies policyholder when its buyers fail to pay for goods and services. In order to ensure orderly growth of this sector on sound insurance principles, the Authority issues the following guidelines whose salient features are as under:

1. The guidelines define various terms associated with trade credit insurance such as buyer, maximum liability, credit limit, insolvency, factoring, etc. It also gives the scope of cover under trade credit insurance policy.
2. Any trade credit insurance policies to be issued by the insurer will be subject to the File & Use and the credit insurance guidelines.
3. The guidelines specify basic requirements of a trade credit insurance product which includes that policyholder should necessarily be a supplier of goods and services and his loss is for non-receipt of trade receivables.
4. The guidelines also specify conditions on trade credit insurance from insurer's perspective and policyholder perspective. The significant ones are:-
 - i) This policy cannot be issued to banks/ financiers/ lenders or where they are a beneficiary of the claim or where the proceeds of the claim are assigned to them.
 - ii) A Trade Credit Insurance policy can be sold to a seller on a whole turn over basis. There shall be pre-credit limits for each buyer fixed by the insurer and also an overall limit under the policy.
 - iii) The insurer shall necessarily assess credit risk of buyers who contribute more than 2% of the total turnover.
 - iv) Every trade credit insurance policy shall carry subrogation condition.
 - v) An insurer shall appoint a credit management agency for assessing credit worthiness of the policyholder. The agency shall have no conflict of interest with the policyholder.
 - vi) No single specific trade credit insurance policy can be sold to a prospect.

vii) A trade credit insurance shall not offer indemnity which is more than 80% of the trade receivable of the buyer or 90% of the cost incurred by seller for previous year whichever is lower.

- 5) An insurer will have well defined internal underwriting, risk management and claims settlement guidelines approved by the Board of Directors for writing this class of business.
- 6) These guidelines also specify the creation of premium, claims, IBNR and IBNER reserves on actuarial basis.
- 7) The net retention of the insurer for trade credit shall not exceed 2% of his net worth.
- 8) These guidelines also specify insurer to have qualified, experienced and trained employees dealing with trade credit insurance.
- 9) The Authority has specified reporting requirements to monitor the performance of this line of business.
- 10) The new guidelines will come into force with immediate effect and will require insurers to file revised product in line with File & Use guidelines and these guidelines.


(M Ramaprasad) 13/12/10
Member (Non-Life)