

Understanding credit limits

Our job is to work with you to protect your business and aid its growth. That means managing your cover and your exposure to risk. As part of this process, you will need to set credit limits. How does this work?

In order to be covered by your policy, you must have a valid credit limit in place with each individual customer. You can choose either an Approved Limit or a Discretionary Limit. Find out more below.

1

Setting your credit limit

Step 1: decide the maximum amount of credit you wish to grant to your customer.

First, you need to calculate the maximum outstanding amount. This is the highest amount owing by a customer for sales you have made to them and which hasn't yet been paid.

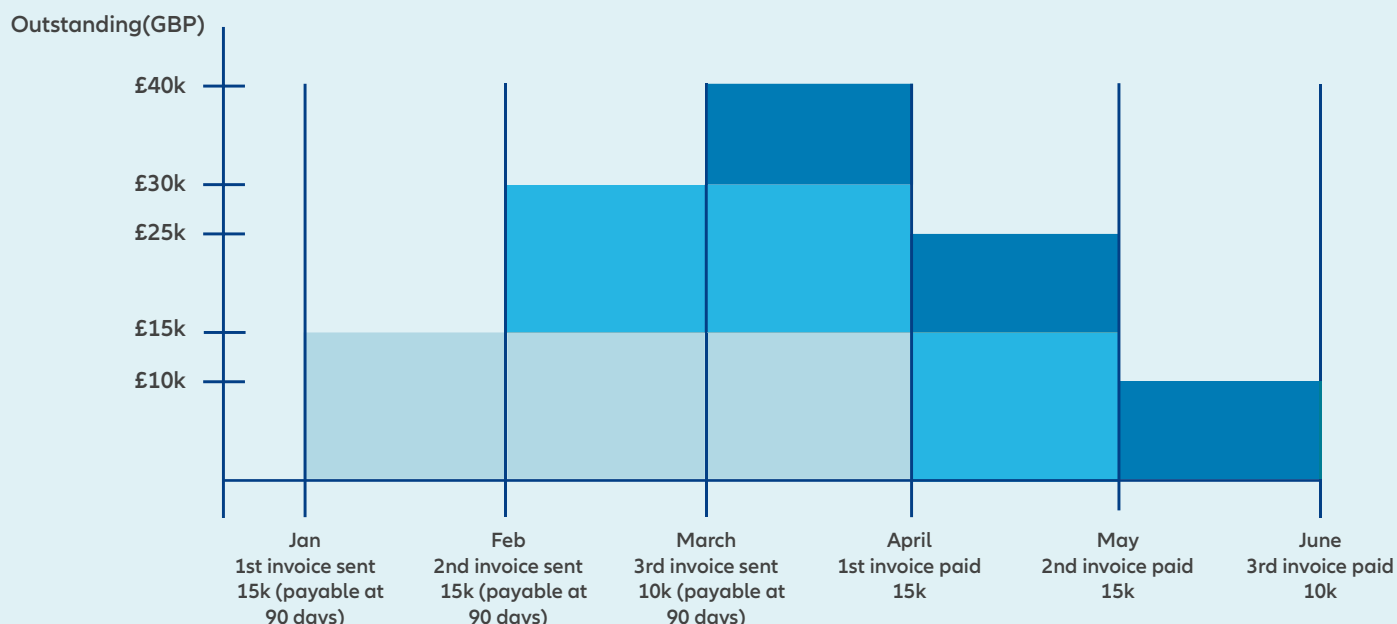


Let's take this example: You are trading with company XYZ Ltd.

- You have quoted for three deliveries: Two for an amount of £15k and one for £10k.
- The deliveries are spaced 30 days apart and the terms of payment are 90 days.
- Every 30 days, you deliver and XYZ pays you on schedule within the 90 days.

The outstanding amount is represented in the graph below.

XYZ Ltd example



In this case, the outstanding amount will be £15k in January, £30k in February and £40k in March. The maximum outstanding is £40k. You should set your credit limit at £40k. If there are further orders, then you will need to reassess this maximum amount.

You should consider a few things when setting your credit limit:

- **Does your customer regularly pay you on time?**
Adding additional unpaid invoices will increase the amount outstanding. Your credit limit should be higher.
- **Is your business cyclical?**
If your orders are higher over Christmas for instance, you may need to increase your credit limit and your cover temporarily.
- **Are your sales regular over the year?**
Here's a trick for calculating your average outstanding per month:
[annual sales / 360] x terms of payment, or [monthly sales / 30] x terms of payment



Example of average outstanding calculation for regular sales. You are trading with company ABC Ltd. Your yearly sales to them are £60k, you invoice regularly and your terms of payment are 30 days. Following the above calculation, your average outstanding amount is $(£60k / 360) \times 30 = £5k$.

Step 2: choose between Approved Limit and Discretionary Limit

To ensure you are fully covered, check if the maximum outstanding is less than, or more than, the Discretionary Limit specified for the country of your customer. You can find this information in your Policy.

- If the credit you want to extend is more than this figure, then you must obtain an Approved Limit.
- If the value of the credit you want to extend is the same or less than this figure, you may set a limit up to the amount of your Discretionary Limit.

Step 3: what to do if your customer requests special payment terms

If your customer requests terms of payment which are either less secure or longer than those specified in your Policy Schedule then you may not set a Discretionary Limit. To be covered under your Policy you must apply to us for an Approved Limit, state in your application the details of the new terms of payment requested and receive confirmation back from us that those terms are covered.

Important

In the event of a claim, the maximum we would pay is the Insured Percentage of either your Approved or Discretionary Limit. Credit limits are net of Value Added Tax (VAT). Or equivalent local taxes in your country of operation.

We don't pay the VAT as this is reclaimable from HM Revenue & Customs in the UK or equivalent government tax bodies in other countries.

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How to use your Discretionary Limit



We'll be using the ABC Ltd example throughout this section. You are trading with ABC Ltd (£5k outstanding on average) and your Discretionary Limit is £10k. When you compare the £5k to the £10k, you may trade using your Discretionary Limit.

Important

Regardless of the justification method you choose, you must have obtained the justification within the Justification Period specified to your Policy and prior to your trading.

Useful tip

For more information on your Discretionary Limit, why you should use it and how it works, read our guide: [Understanding Discretionary Limits](#).

How does it work? There are three different ways to justify a Discretionary Limit:

1. Credit option

A Credit Intelligence Opinion (CIO) enables you to be covered for trade at a level below your Discretionary Limit. With this credit opinion, we will provide an assessment on your customer's creditworthiness in the form of an amount of cover. You may request opinions on your domestic customers and on customers in 22 export markets:

Australia, Austria, Belgium, Canada, Czechia, Denmark, Finland, France	(including DOM TOM), Germany, Greece, Italy, Luxembourg, Morocco, Netherlands,	New Zealand, Norway, Portugal, Slovakia, Spain, Sweden, Switzerland and USA.
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CIOs are valid for 12 months provided you haven't had your Discretionary Limit withdrawn and include a free positive monitoring service. This means that if we can increase cover, we will notify you automatically.

To request a CIO, log in to our [online portal](#), identify your customers and we will tell you the maximum value we can insure.

The CIO service incurs a fee. Please check your Credit Intelligence Services Schedule of Fees.

You can also refer to our [Terms and Conditions of Business for your Credit Intelligence Services](#) for more information.



ABC LTD.

You're just starting to trade with ABC Ltd so you'd like to have a credit opinion before confirming the first order. You go online and ask for a CIO. Our answer will come instantly (in most cases). In this example: £7k. Now you know you're able to trade with ABC Ltd up to £7k and be covered up to that amount.

2. Reports, opinions or products from a credit information agency

In certain cases, you may also use information from a specific Approved Source to justify your trading with a customer.

For your customers in the United Kingdom, Republic of Ireland, Channel Islands and Isle of Man, you may use a specific credit information agency and their permissible report types if they are noted in your policy schedule. Here is a list of the [Approved Sources](#) which can be requested to be added to your policy.

For customers in all other countries where your policy allows you to use your discretionary limit, we accept justification from any credit information agency providing evidence of the creditworthiness of your customers.

This justification must have been requested prior to trading and include an amount. It is only valid for a limited amount of time, please check your policy.



ABC LTD.

You've already obtained a credit agency report on ABC Ltd prior to giving your quote. It is recent (within the Justification Period allowed in your Policy) and states an amount of £25k. Provided the report is an approved type of report from an agency noted in your Policy, you will be covered for £10k (the value of your Discretionary Limit).

3. Trading experience

If you have been supplying a customer for a while, you may be able to justify trading under your Discretionary Limit based on your trading experience with this customer. This refers to all past transactions on credit terms.

The amount you will be covered for is the highest amount outstanding that was paid within the payment terms + Maximum Extension Period (MEP) and within the Justification Period specified in your Policy. See your Policy for the MEP applicable to your customer's country.



ABC LTD.

You have traded with ABC Ltd for several years now. Over the last 6 months, they have always paid monthly orders within 30 days. If you can demonstrate this experience, then you will be covered for the highest level outstanding: £5k. If ABC Ltd had paid late by more than the MEP, then you would be unable to use that payment as trading experience and would need to find more recent payments to use as justification.

Please refer to the credit limits section of your Policy for further information on how to use trading experience.

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How to apply for an Approved Limit

If the maximum outstanding amount is going to be above your Discretionary Limit, you must apply for an Approved Limit in order to be covered.

You can apply for an Approved Limit online. Read our guide: [How to apply for a credit limit.](#)

In many cases, we will approve the limit online immediately. We will confirm the limit by email within a matter of hours. Once you receive the Approved Limit endorsement, please check the details to ensure that the customer is correct.

Where we have issued an Approved Limit, you may not use a Discretionary Limit justification.

4

Monitoring Approved Limits

We constantly monitor customers on which you have an Approved Limit:

- If we receive positive information about your customer, we may ask you if you wish to submit a request for an increased Approved Limit.
- If we receive negative information, we may ask you to complete a Buyer Review Form. This is a request for details of amounts owed to you by your customer together with any orders in hand.

Many reviews result in no change to your Approved Limits. However, in some cases we will reduce or remove cover after receiving negative information. Any reduction or withdrawal will take effect in accordance with the terms of your policy or as stated on the limit endorsement. The granted grace period (when applicable) gives you time to obtain any new information from your customer that could help us review our decision.

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What happens after the withdrawal of an Approved Limit or Discretionary Limit

When we withdraw an Approved Limit or Discretionary Limit (including when we endorse a nil Approved Limit), it is because we consider the risk has increased significantly.

The withdrawal becomes effective and your cover ceases after the expiry of your Delayed Effect Period, usually 30 days unless specified otherwise. You will be covered for any goods or services you supplied under the Approved Limit or Discretionary Limit (provided you have appropriate justification) during the Delayed Effect Period.

We will put in place a shorter withdrawal period at times depending on the information we have. When that happens, it will be noted on the credit limit under Special Conditions.

Once cover has been withdrawn, you may no longer use your Approved Limit or Discretionary Limit even if you have the appropriate justification.

Any questions?



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This guide is merely for guidance and should be read in conjunction with the Policy documents issued to you. It does not constitute or form part of the terms and conditions on which Euler Hermes would insure you ("Policy T&Cs"). This guide is not legally binding and does not amend, change or override in any way the Policy T&Cs. Capitalised terms indicate that there is a full definition of this word or phrase in the Policy T&Cs. The Policy T&Cs alone govern the relationship between the respective parties and if there is any conflict between this guide and the Policy T&Cs, the Policy T&Cs will prevail and determine rights, duties and obligations of the parties under your Policy with Euler Hermes. This guide may be subject to change at any time and at our sole discretion.

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