



Understanding credit limits

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 an Approved Limit. Find out more below.

Setting your credit limit

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.

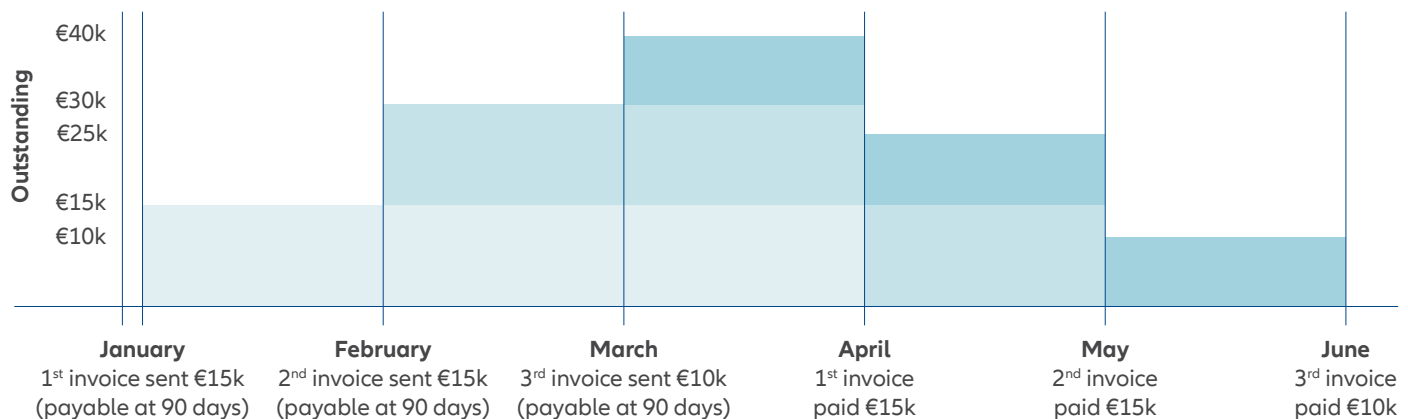
Let's take this example: You are trading with company XYZ Ltd.

- 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.



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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 $(€60k / 360) \times 30 = €5k$.

2 Choose Approved Limit

To ensure you are fully covered, check if the maximum outstanding is more than the Approved 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 updated Approved Limit.

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, you must apply to us for an Approved Limit in order to be covered under your Policy. State in your application the details of the new terms of payment requested and receive confirmation back from us that those terms are covered.

How to apply for an approved limit

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

You can apply for an updated Approved Limit on EOLIS.

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 updated Approved Limit endorsement, please check the details to ensure that the customer is correct.

UNDERSTANDING CREDIT LIMITS

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.

What happens after the withdrawal of an approved limit

When we withdraw an Approved 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 (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 even if you have the appropriate justification.



We'd love to help! Just give us a call or send us an email if you have any questions, and we'll be happy to find a solution together.

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