

UNDERSTANDING INDEMNIFICATION OF COLLECTION AND LEGAL COSTS

When you use our collection service, you will be charged a collection fee on the amount we recover. If the case proceeds to legal action, there will be additional legal costs.

If you have opted in for our collections service, we will contribute to the costs you pay when we make a collection for you. This is what we call the “indemnification” of collection and legal costs. Depending on your level of indemnification, which is usually around 90%, your final bill could be a lot smaller than you anticipate.

The best way to explain indemnification is with examples.



EXAMPLE 1: DEBT EQUAL TO OR LOWER THAN YOUR LIMIT

Let's say you have an agreed credit limit with a customer of £10,000 and you have an outstanding debt of £10,000.

We cover you for the full debt. When you place your collection case with us, we will try to recover the whole debt: **£10,000**.

At this stage, we will do a pre-assessment of the debt-covered percentage, which is the ratio between your cover and your total debt. For example, with a £10,000 limit and a £10,000 debt, your debt-covered percentage is 100%. If your debt is higher than your credit limit, then your debt-covered percentage reduces.

For collecting that £10,000, we charge a fee that covers our work and any legal costs. In this example, let's say no legal action is required so the fee is just the commission fee of **10%** or **£1,000**, and assume your Policy indemnity is **90%**.

The indemnification of the costs applies as follows: **Fee (legal and commission) x Debt covered % x Policy indemnity % = Euler Hermes indemnification.**

We will then indemnify you: **£1,000 x 100% debt coverage x 90% policy indemnity = £900**. In the end, the cost is reduced and instead of **£1,000**, you would only pay **£100 + full VAT** for the recovery of the **£10,000 debt (a cost of 1% of the amount collected)**.

If your terms and conditions with your customer allow you to recover collection costs, we would try to recover this amount as well and therefore you would have recovered the debt at no cost.

**EXAMPLE 2 : DEBT HIGHER THAN YOUR LIMIT (OVERTRADING)**

Let's say now you have an agreed credit limit with a customer of £10,000 and you have an outstanding debt of £12,000, higher than your limit. We cover you up to £10,000 of the debt but will try to recover the whole debt: **£12,000**.

As in the previous example, we'll charge a fee of **10% (£1,200)** and let's assume your Policy indemnity is **90%**. Your debt-covered percentage will be **£10,000/£12,000 = 83%**.

Following the same formula as in the first example, we will then indemnify you:
£1,200 x 83% debt coverage x 90% policy indemnity = £896.40.

In the end, the cost is reduced and instead of £1,200, you would only pay **£303.60 + full VAT** for the recovery of the **£12,000 debt (a cost of 2.5% of the amount collected)**.

For more information on how collection and legal costs are invoiced, read our guide: [Understanding your invoices](#).

Our tariffs vary depending on different circumstances, such as the country your customer operates in. These are agreed at the start of your Policy and outlined in your Policy documentation.

Please note we cannot contribute to your internal administrative costs and expenses.

Any questions?



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