

Press release

Euler Hermes: Financial instrument strategy can unlock working capital for UK plc

LONDON – 15 MAY 2014 - Euler Hermes estimates that UK businesses have the potential to unlock significant working and investment capital currently reserved for traditional bank sourced letters of credit by using deductible guarantees.

“The economic recovery is encouraging UK plc to consider domestic and international investment, but many firms remain unaware of the potential strategic financing alternatives,” said Andrew Potts, head of Euler Hermes Bonding in the UK. “Letters of credit, for example, often require ring-fencing working capital facilities for potential future drawdown, reducing available company funds whether the letters are used or not.

“Alternative financial instruments, such as deductible guarantees, could help unlock billions of pounds worth of funding lines for working capital and investment in growth. Furthermore, often on significant infrastructure or other capital intensive projects, letters of credit or bank guarantees can be required for tens or even hundreds of millions of pounds. Using a recognized and proven alternative, many companies can provide the guarantees required while still retaining access to their existing working capital facilities.”

How it works

Traditional letters of credit are basically a guarantee and a promise to pay. Banks and other financial institutions issue them on behalf of companies to ensure that sellers are paid, providing specified works are completed or defined conditions are met.

In order to secure the letters, the buyer often has to agree to the bank ring-fencing a portion of existing working capital facilities – locking it away from other business uses.

Alternatively, a deductible guarantee can be utilized in place of a letter of credit. It can free up working capital lines as the issuing insurer acts as a guarantor for the delivery of goods or a service. Additional company benefits can include an enhanced security profile, an expansion of financing lines, and a diversified security portfolio for insurance companies accepting the guarantees as an alternative to letters of credit.

Potts added: “In a recent report (1) Euler Hermes predicted that the UK economy would grow by 2.3 per cent in 2014 and by 2.5 per cent in 2015. As companies start to benefit from this growth, freeing up working capital is more important than ever.

“Given the prevalence of traditional letters of credit among UK businesses, deductible guarantees and similar products, could represent a significant untapped resource for financial managers. For many companies the funds involved could be a game changer as they compete to make the most of growth opportunities.”

Notes to editors

Euler Hermes has underwritten surety business in the UK for over 40 years and is one of few insurers to provide deductible guarantees. In addition to acceptance by many major fronting insurers, the Euler Hermes deductible guarantee recently earned the Innovation award at the 2014 Commercial Insurance Awards.



(1)Source: [Top Ten Game Changers in 2014 - Getting back in the game](#)

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Euler Hermes UK

Founded in 1918, Euler Hermes is the UK's largest provider of trade credit insurance and accounts receivable management solutions. The company protects and insures around £60 billion of trade transactions annually, serving small, medium and multinational clients across a range of sectors. The company employs 450 people with regional offices across the UK in London, Manchester and Birmingham.

Euler Hermes is the global leader in trade credit insurance and a recognized specialist in the areas of bonding, guarantees and collections. With more than 100 years of experience, the company offers business-to-business (B2B) clients financial services to support cash and trade receivables management. Its proprietary intelligence network tracks and analyzes daily changes in corporate solvency among small, medium and multinational companies active in markets representing 92% of global GDP. Headquartered in Paris, the company is present in over 50 countries with 6,000+ employees. Euler Hermes is a subsidiary of Allianz, listed on Euronext Paris (ELE.PA) and rated AA- by Standard & Poor's and Dagong. The company posted a consolidated turnover of €2.5 billion in 2013 and insured global business transactions for €789 billion in exposure at the end of 2013. Further information: www.eulerhermes.com, [LinkedIn](#) or Twitter [@eulerhermes](#).

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