
EFT

CATALOGUE OF CREDIT INSURANCE TERMINOLOGY

English edition

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Claims / indemnity

Adverse information

Events or circumstances that have led or may lead to a deterioration in the financial situation or creditworthiness of a buyer or a country of a buyer.

Aggregate first loss (AFL, Policy deductible)

The total amount of approved claims during an insurance period, which are to be borne by the insured for their own account prior to indemnification by the insurer.

Claim (Notice of claim)

An application by the insured for indemnification of a loss under the policy.

Claims made policy

A policy, which covers applications for indemnification made during the policy term.

See also: Losses occurring policies and Risk attaching policies.

Claims threshold

(Non qualifying loss, Threshold)

The amount below which losses do not qualify for indemnification and are to be kept by the insured for their own account.

Claims waiting period

(Claim filing waiting period, Waiting period)

The period, usually starting from the due date of payment or intervention order, after the expiry of which a claim may be submitted and the loss is assessed.

Costs for work in progress

(Pre-invoicing expenses, Costs incurred but not billed)

Expenses incurred for uncompleted rendered services or product construction.

Date of ascertainment of loss (Date of loss)

1. Date on which the insured loss will be assessed by the insurer;
2. date on which the insured loss is deemed to have occurred.

Datum line

An amount below which buyers are not to be included in the insurance policy.

Default (Payment default)

The failure of the buyer to meet its contractual (payment) obligations. A default is an event that can lead to a loss for the credit insurer, such as bankruptcy, Chapter 11 (or any other failure of the buyer to pay) which is covered under the insured's policy.

Imminent loss

Any events or circumstances that have led or may lead to a high possibility of a claim.

Indemnification

Compensation for a loss.

Minimum retention

The minimum amount of each loss that the insured has to bear for their own account.

Non payment risk

The risk that a buyer will default on their obligation to pay an invoice.

Non qualifying loss (Claims threshold, NQL, Threshold)

The amount below which losses do not qualify for indemnification and are to be kept by the insured for their own account.

Notice of claim (Claim)

An application by the insured for indemnification of a loss under the policy.

Repudiation (of cover)

The decision of the insurer not to accept a specific claim made by the insured due to:

1. a breach of obligation by the insured;
2. the underlying risk being outside the scope of coverage under the respective policy.

Rescheduling

Amending the credit terms of a debt by setting one or more new due dates.

Subrogation

Upon payment or indemnification of a claim to the insured caused by a failure of the buyer, the insurer steps into the insured's position and assumes all the rights and remedies of the insured against the buyer. By executing these rights and remedies the insurer can:

1. possibly recover the indemnified amount from the buyer;
2. avoid overcompensation to the insured.

Subrogation occurs without any agreement between the insurer and the insured.



Credit assessment / limits

Aggregate limit (Policy limit, Insurer's maximum liability, Maximum Sum Insured)

The maximum amount that the insurer is liable to pay in respect of all losses during a policy period.

Blind cover

A policy feature that provides (a reduced percentage of) cover when no credit limit has been established on the Buyer and no adverse information is known.

See also under First sale clause / First order cover.

Credit assessment fee (Credit rating fee)

Contribution to the costs of credit information gathered for the assessment of the buyer's risk.

Credit limit

The maximum exposure specifically approved or otherwise authorised by the insurer in respect of a buyer.

Credit underwriting (Limit underwriting)

Assessment by the credit insurer of the financial condition of buyers, before setting a credit limit.

Discretionary limit (DL, Discretionary credit limit, DCL, Non-vetting limit)

The amount up to which, according to given guidelines, the insured may set a credit limit without specific review by the insurer.

First order cover (First sale clause)

A policy feature that provides cover for risks commencing before a credit limit has been established, for buyers with whom the insured has not traded before.

Grace period

In general, a length of time during which rules, actions, obligations or penalties are deferred. In short term turnover credit insurance typically used to describe a period

between the announcement and actual effective date of credit limit reductions or withdrawals.

Non-cancellable limits

Credit limits which remain valid for the duration of the policy period and cannot be cancelled by the insurer. Cover, however, may be automatically deactivated on the occurrence of certain defined events, e.g. rating downgrade, overdue payments etc.

Partial acceptance of a limit

The decision of an underwriter not to grant in full the credit limit amount applied for by the insured.



Financial and export terms

Discharge of debt

Relief of a party from a financial commitment.

Irrevocable (documentary) letter of credit

1. Unalterable obligation of a bank authorising a person or company to draw money up to a specified amount, usually a third party bank, subject to documentary compliance;
2. as per definition in UPC.

Factoring

Factoring is a financial transaction whereby a business transfers all or a large part of its accounts receivable to a third party (called the factor) at a discount in exchange for immediate cash.

Factoring is typically suitable for open account sales with short-term (up to 180 days) credit periods, for both domestic and international trade.

Factoring may be done on a recourse or a non-recourse basis.

Forfaiting

Forfaiting is a financial transaction whereby a business sells a single or a series of single account receivables to a third party (called the forfaitor) at a discount in exchange for immediate cash.

Forfaiting is typically oriented at sales involving negotiable instruments (bills of exchange or promissory notes) with long credit periods (more than 180 days) and for export business only.

Forfaiting is done on a non-recourse basis.

IV

General terms

Assignee (Loss payee)

A party to whom (by authorisation of the insured) the legal rights to a claim payment under a policy is transferred.

Broker (Agent)

The party via whom an application for insurance is presented from prospective insured to the insurer.

Buyer (Debtor)

The business entity to which an insured sells its goods or services.

Client (Insured, Policyholder)

Party that purchases the insurance policy and assumes responsibilities and obligations under that policy.

Commission

Remuneration of a party (e.g. a broker for services rendered).

Commissioning

Quality control process to ensure that a contract or project is performed, completed and fully operational in accordance with the agreed requirements, design, plan or specifications, e.g. in the building industry, shipbuilding industry, machine construction sector.

Concessional loan

A loan granted on terms more generous than prevailing market terms (e.g. lower interest rate, longer repayment period, longer grace period).

Credit insurance

Credit insurance or trade credit insurance covers the payment risk resulting from the delivery of goods and services on credit terms.

Customer (Buyer, Debtor, Insured, Policyholder)

‘Customer’ may refer to both the Buyer and the Insured.

See under these terms.

Endorsement (Policy clause)

An addendum or enhancement to the policy conditions.

Facultative (re)insurance (FAC)

(Re)insurance in respect of a particular risk instead of a portfolio of risks.

Financial Guarantee

A Financial Guarantee is understood as comprising any bond, guarantee, indemnity or insurance, covering financial obligations in respect of any type of loan, personal loan and leasing facility, granted by a bank/ credit institution, financial institution or financier or issued or executed in favour of any person or legal entity in respect of the payment or repayment of borrowed money or any contract transaction or arrangement – the primary purpose of which is to raise finance or secure sums due in respect of borrowed money.

By way of explanation, the purpose of this definition is the avoidance of insurance cover for any financial obligation which does not arise from or relates to a trade transaction defined as the supply of goods and/or rendering of services.

Insured

(Policyholder, Client, Named insured, Primary insured)

The party that purchases the insurance policy and assumes responsibilities and obligations under the policy.

Insured transaction

(Insured obligation, Insured buyer obligation)

An obligation owing from a specific buyer to the insured and falling within the scope of the insurance contract.

Insurer

The party offering insurance policies for premiums; an underwriter.

Joint insurance

Insurance offered by more than one insurer for their combined account.

Joint insured

(Additional named insured, Co-insured)

A party, which together with the insured, purchases the insurance policy and assumes specified responsibilities and obligations.

Joint insurer

An insurer offering insurance policies in cooperation with one or more other insurers for their combined account.

Lien

The broadest term for any sort of charge or encumbrance against or a security interest granted over an item of property that secures the payment of a debt or performance of some other obligation. The owner of the property, who grants the lien, is referred to as the lienee and the person who has the benefit of the lien is referred to as the lienor.

Main insured

The leading insured acting on behalf of a group of joint-insured.

Main insurer

The leading insurer acting on behalf of a group of joint insurers.

Non binding indication

(NBI, Quotation non-binding, Quote non-binding)

An insurer's written offer of policy terms and conditions, subject to change by the insurer.

Offer of cover

An indication of conditions for cover based on information given on an application form.

Open account

An open account transaction is a sale where the goods are shipped and delivered before payment is due, which is usually in 30 to 90 days. Obviously, this option is advantageous to the buyer in terms of cash flow and cost, but it contains consequently a non-payment risk for the supplier

Policy currency

The currency in which all financial transactions or amounts under the policy are denominated (credit limits, indemnifications, costs, premium, deductibles etc.).

Policyholder (Insured client)

The party that purchases the insurance policy and assumes responsibilities and obligations under the policy.

Probable Maximum Loss (PML)

The anticipated maximum loss potential in the total exposure. In credit insurance, this is impacted by the credit

insurer's ability to work down their exposure before the buyer default and their risk management and recovery technique after the buyer default. To calculate the PML, the following data are used: credit limit one year before the buyer default, credit limit at time of buyer default, ultimate loss amount

Renewal

The prolongation of a policy or a credit limit after expiry of their validity or after a specified period of time.

V

Insurable debtors

Guarantor

An individual or company that gives a promise or assurance that an obligation owing from the buyer to the insured will be paid.

Key debtor or cover for key debtor

(Key buyer, key customer, Major Debtor Cover)

(Cover for) the insured's largest buyers only (as opposed to whole turnover cover or single risk cover).

Private buyer (Private debtor)

The business entity to which an insured sells its goods or services and that is:

1. not a public buyer;
2. not majority-owned by a government.

Private individual

A person who buys goods or services for a purpose other than the purpose of their professional activity or business.

Public buyer

(Government buyers, Government debtors)

The entity to which an insured sells its goods or services and that is:

1. authorised to enter into commitments in the name or on behalf of the government of its country, including the government itself, government agencies or any public sector institutions;
2. majority-owned by a government;
3. an entity whose commitments are guaranteed by the government.

VI

Insurable debtors / credit assessment

Unspecified customer

(DCL buyer / debtor, Unnamed buyer / debtor)

A buyer for which, according to given guidelines, the insured may set a credit limit without specific review by the insurer.

VII

Insurance cover

Binding order (Binding contracts)

An order from which the insured cannot be released if the buyer's financial soundness is deteriorating. Under pre-defined conditions, credit insurance may be offered for such contracts even after withdrawal of the credit limit.

Co-insurance (uninsured percentage, Self insured percentage, Retention, Retained risk)

The percentage of each insured loss that is not indemnified by the insurer and that the insured has to bear for their own account.

Commencement of cover (Transaction date)

The date on which the insurance begins to take effect (at date of order or transaction, delivery or shipment,

completion or performance of services) for each individual trade transaction covered under the policy.

Commercial risk

The risk of a deterioration in the financial situation or creditworthiness of a private buyer, resulting in payment default by or the insolvency of the buyer, not caused by circumstances or occurrences defined as political risk.

Comprehensive cover

1. Insurance covering the entire sales turnover of the insured (opp. Single risk cover);
2. insurance for both commercial and political risks.

Consignment

Possession of goods by a consignee with the obligation to pay the supplier after the sale to a third party or when using the goods.

Covered percentage (Insured percentage, Percentage of cover, Guaranteed percentage, Indemnity amount, Percentage of indemnification)

The percentage of each insured loss that is indemnified by the insurer.

Deductible

The amount of loss that must be absorbed by the insured before indemnification under the policy.

Delivery

Making the goods available to the buyer or any person acting on their behalf at the place and on the terms specified in the sales contract.

Each and every first loss

The amount to be deducted from each claim payment to be kept for the account of the insured.

Effective date (of the policy)

The date on which the policy comes into force.

Export credit insurance

Insurance against the credit risk related to the sale of goods to buyers in another country.

Losses occurring policy

A policy under which cover is conditional on the date of the cause of loss occurring within the policy period.

See also Risk Attaching policy, Claims Made policy.

Manufacturing period

The period between the date of order and the delivery or shipment of the goods.

Maximum liability (Policy limit, Aggregate limit, Insurer's maximum liability, Maximum Sum Insured)

The maximum amount that the insurer is liable to pay in respect of all losses during a policy period.

Percentage of cover (Insured percentage, Guaranteed percentage, Covered percentage, Percentage of indemnification, Indemnity amount)

The percentage of each insured loss that is indemnified by the insurer.

Policy limit (Aggregate limit, Annual maximum liability, Maximum Sum Insured)

The maximum amount that the insurer is liable to pay in respect of all losses during a policy period.

Retained risk

The part of a loss which is not indemnified by the insurer and for which the insured must bear the loss without recourse to any other party.

Retention of title (ROT, Reservation of title)

A condition in a sales contract which reserves the seller's right of product ownership until the seller has received full payment.

Risks Attaching policy

A policy under which cover attaches based on shipment dates and where the shipment date (but not necessarily the loss) must occur within the policy period.

See also Claims Made policy, Losses occurring policy.

Run off cover

Continuation of cover of risks, where the cover commenced before withdrawal of a credit limit or the expiry of a policy until payment or until the occurrence of a covered cause of loss.

Run-in cover

Inclusion of cover of amounts outstanding on buyers at the effective date of the policy or at the date when a credit limit was applied for or established.

Single buyer cover (Single debtor / Single risk cover, Transactional cover, Specific Account)

Cover for all sales to one debtor or for a single contract

with one debtor (as opposed to whole turnover and key buyer).

Third country risk

Exposure to economic and political risks in a country other than the country of the insured or of the buyer; usually a country through which shipments may pass or where the goods are to be delivered, or the services to be performed.

Top-up cover (Excess insurance)

Additional coverage over a credit limit established by the same or another insurer.

Uninsured percentage (Co-insurance, Retained risk, Retention, Self-insured percentage)

The percentage of each insured loss that is not indemnified by the insurer and that the insured has to bear for their own account.

Whole turnover policy

A credit insurance policy that covers the insured's total credit sales (as opposed to Key buyer cover and Single risk cover).

VIII

Insurance cover / financial and export terms

Shipment

The placement en route to the buyer of the goods ordered by the buyer.

IX

Insured debts / turnover

Accounts payable

Amounts owed by a company from the purchase of goods and services on credit terms.

Accounts receivable

Amounts due to a company from the sale of goods and services on credit terms.

Credit term (Credit period, Payment term)

1. The period after delivery or shipment of goods or after rendering of services at the expiry of which invoices are due to be paid;
2. the period of time provided by the insured to the buyer for repayment of delivered goods or services.

Delivery period

The period between date of order and delivery or shipment of goods.

Domestic business

Transactions with buyers domiciled in the same country as the insured.

Due date

Date by which the buyer must pay their debt according to the sales contract or invoice.

Extension of due date

(Due date extension, Deferral of payment)

Granting of a credit term longer than originally agreed upon in the sales contract.

Extension period (Maximum extension period)

The maximum due date extension allowed under a policy.

Maximum credit terms (Maximum payment terms)

The longest credit period approved for a buyer under the policy.

Maximum pre-credit risk period

The maximum insured period between contract date and shipment of goods or provision of services.

Mean delivery date

Average period between date of order and date of delivery or shipment of goods or completion of services.

Mean length of credit

Average period between delivery or shipment of goods and due date of invoice.

Medium-term business

Transactions under which the insured provides the buyer with a credit period between 1 and 3 to 5 years in length, usually characterised by a down payment followed by equal instalment of payments.

Payment term (Credit period, Credit term)

1. The period after delivery or shipment of goods or after rendering of services at the expiry of which invoices are due to be paid;
2. the period of time provided by the insured to the buyer for payment for delivered goods or services.

Short-term business

Transactions under which the insured provides the buyer with a credit period up to two years.

Tenor

Length of the risk period (the period that the credit insurer is on risk)

X

Insured risks

Act of State

A law, decision or action by a sovereign state that cannot be questioned or redressed by the courts of another state. An Act of State may prevent or frustrate the performance or completion of a credit-insured trade contract or transaction.

Contract frustration

Impossibility to perform a trade contract.

Contract repudiation

An arbitrary withdrawal of a party from its duties and responsibilities imposed by a contract.

Contract risk

(Pre-credit risk, Pre-shipment risk, Work in process)

The commercial risk of insolvency of a buyer before delivery

or shipment of the goods or performance of a service, and/or the political risk of any interruption of the manufacturing of the goods or performance of a service.

Conversion and transfer risk (Transfer risk)

1. The risk of revocation by the buyer's government of the buyer's pre-existing legal right to make payment in an invoiced currency other than the currency of the buyer country, at any rate of exchange;
2. political risk resulting from an event outside the insured's country preventing or delaying the transfer of funds paid by the debtor to a local bank.

Country cover conditions

Terms of coverage imposed by the insurer for their acceptance of cover on (buyers in) a particular country.

Country limit

The maximum exposure specifically approved or otherwise authorised by the insurer in respect of a particular country.

Country rating

(Country rank, Country risk classification)

An indication of creditworthiness of a country.

Exchange risk

Fluctuation in the buyer's currency against another currency, which may affect the buyer's financial ability to pay its obligations.

Expropriation

The act of a government taking property away from its owner(s).

Fait du Prince

French term to describe an action taken unilaterally by the government of a country. A Fait du Prince may prevent or frustrate the performance or completion of a credit-insured trade contract or transaction.

Insolvency (Bankruptcy)

A judicial or administrative procedure whereby the assets and affairs of the buyer are made subject to control or supervision by the court or a person or body appointed by the court or by law, for the purpose of reorganisation or liquidation of the buyer or of the rescheduling, settlement or suspension of payment of its debts.

Moratorium

A cessation of payments, usually by a government, to all or a class of creditors.

Natural disasters (Acts of God)

The manifestation of a natural force that is beyond the control of the insured, buyer, guarantor or government.

See also: Political risk.

Non acceptance of goods

The refusal or failure of the buyer to take possession of products shipped by the insured.

Payment default (Default)

The failure by a buyer to make payment for delivered goods or services by the due date specified in the invoice or sales contract. A default is an event that could lead to a loss for the credit insurer such as bankruptcy, Chapter 11 (or any other failure to pay of the buyer) which is covered under the insured's policy.

Political risk (Country risk)

1. The risk that a government buyer or country prevents the fulfilment of a transaction or fails to meet payment obligations in time;
2. a risk that is beyond the scope of an individual buyer or falls outside the individual buyer's responsibility;
3. the risk that a country prevents the performance of a transaction;
4. the risk that a country remains in default to transfer to the country of the insured the moneys paid by buyers domiciled in that country.

Post-shipment risk

The risk of non-payment arising after the delivery of shipment of the goods or completion of the performance of services.

Pre-credit risk

(Contract risk, Pre-shipment risk, Work in process)

The commercial risk of insolvency of a buyer before delivery or shipment of the goods or performance of a service, and/ or the political risk of any interruption of the manufacturing of the goods or performance of a service.

Protracted default (Default)

The failure by a buyer to pay the contractual debt within a pre-defined period calculated from the due date or extended due date of the debt.

Transfer delay

The period of time between a foreign buyer applying for foreign exchange to repay their obligation to an insured and the insured receiving the funds.

Waiting period (Claim filing waiting period)

The period, usually starting from the due date of payment or intervention order, after the expiry of which a claim may be submitted and the loss is assessed.

War

A declared military conflict between nations.

XI

Obligations

Arrears

Alternative term for Overdue account.

The term 'in arrears' is also used to refer to premium payments to be made at the end of a period (typically on the basis of the policyholder's declaration of invoiced turnover or outstanding balances for that period), as opposed to premium payments 'in advance', i.e. at the start of the relevant period.

Duty to notify

Obligation of the insured to notify the insurer of changes of insurable turnover as indicated on the applications form for the policy, adverse information or overdue accounts.

Overdue account (Past due account, Defaulted account)

A buyer's obligation that has not been paid by its due date.

XII

Premium / fees

Declaration of outstanding balances

The specification of outstanding balances (typically at end of the month) on the buyers covered under the policy for the purpose of premium calculation.

Declaration of turnover

(Shipment report, Insured transactions report)

The specification of the invoiced turnover on the buyers covered under the policy for the purpose of premium calculation.

Deposit premium

(Instalments of) premium paid in advance, to be adjusted on receipt of the declaration of turnover or outstanding balances.

Minimum premium

The agreed minimum amount of premium to be paid for a specified period regardless of the volume of declared turnover or outstanding balances.

No claims bonus (No claims credit, Low claims bonus)

An amount or percentage provided to the insured as a reduction of premium owed, depending on the claims ratio of the policy.

Premium

The sum of money paid to buy an insurance product.

Profit share

1. An arrangement whereby the insured can receive back a portion of premiums paid according to certain conditions (usually dependent on the claim ratio of the policy).
2. The distribution of a percentage of the profits of the policy back to the insured according to certain conditions (usually dependent on the claim ratio of the policy).

XIII

Recovery / debt collection

Collateral

Assets, rights or guarantees pledged as security by the buyer or by a third party on behalf of the buyer for the extension of credit by the insured to the buyer.

Collections costs

The costs incurred in preventing or minimising the loss or in collection of the amount owing by the buyer.

Recoveries (Salvage)

Proceeds received from the buyer or a third party, whether before or after a claim has been indemnified.

Salvage (Recoveries)

Proceeds received from the buyer or a third party, whether before or after a claim has been indemnified.

XIV

Reinsurance / neighbouring terms

Asset-backed securities

Financing of companies by the capital market through commercial papers (securities), sold by a Special Purpose Vehicle to investors, backed by the debts (assets) sold to a Special Purpose Vehicle.

Excess of loss (XL, XoL)

Insurance, cover or indemnification in excess of an amount of first loss to be borne by the insured.

Quota-share treaty

Reinsurance in respect of a portfolio of risks insured by a primary insurer and under which the risk is shared on a percentage basis between the insurer and reinsurer, i.e. not on an excess-of-loss basis.

XV

Reporting terms

Claims ratio

Claims payments and expenses divided by gross earned premium and premium related revenue.

Combined ratio

1. The sum of claims payments, claims expenses and underwriting expenses, including the cost of credit information, divided by the sum of earned premium and premium related revenue;
2. the sum of claims ratio and underwriting expense ratio.

Contingent liability

A conditional obligation of one party to another, triggered by specified events.

Cost ratio (Underwriting ratio, Expense ratio)

The sum of underwriting expenses, including the cost of credit information, divided by the sum of earned premium, including premium-related revenue.

Exposure

The total amount underwritten by the insurer as cover on a buyer, a country or under a policy or all policies.

