



Trade Credit Insurance in Pakistan

Protection from financial loss (client receivables) – Suppliers that deliver goods and/or services on credit, have to manage this credit risk, to ensure that payment is received on time. Outstanding receivables are usually the largest or second largest item on a trading company's balance sheet. Bad debt losses affect liquidity and profits. Even worse, they can cause a company's ultimate financial ruin. By insuring these receivables against non-payment or late payments, the company ensures its cash flow and its profit. The value of Trade Credit Insurance cover was demonstrated during the recent financial crisis, when insured manufacturers and traders saw their losses on defaulting buyers reimbursed. In 2008 and 2009 the industry paid out claims exceeding 9 bio EUR to its insured policyholders. Many of them would not have survived without the Trade Credit Insurance compensation.

- **Meeting precautionary obligations**, managing credit and hedging risks - Using Trade Credit Insurance is in line with the legal obligations incumbent on a company's executives. Trade Credit Insurance is a first rate financial instrument for hedging risks, preventing also the risk of class claims.
- **Leveraging Trade Credit Insurance for financing needs** - Banks lend more capital against insured receivables and in better financing terms. It also offers release for inter company credit facilities.
- **Increasing revenues and profitability** - Trade Credit Insurance often contributes to increased sales to existing customers as well as new ones, or new markets that would not necessarily happen in the absence of Trade Credit Insurance. Without Trade Credit Insurance many trade transactions have to be concluded on a pre-paid or cash basis, or not at all.
- **Cost saving** - By using Trade Credit Insurance, companies save expenses such as: information, analysts, collection expenses, provisions for bad debt etc.
- **Taxation and Accounting benefit** - In IFRS Trade Credit Insurance premiums are a tax-deductible expense, whereas general provisions for doubtful debts are not. Trade Credit Insurance also helps in the process for gaining recognition of revenues, as required by accounting regulations.
- **Improving the policyholder's rating** - Trade Credit Insurance is an important factor taken into account by the Rating Agencies when assessing companies. Measures taken to mitigate credit risk weigh positively when considered by Rating Agencies.



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*EFT EksportCredit is committed to providing essential information about your customers to help you **assess, predict and manage risk.***

"Creating a Culture of Risk Awareness"

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