

SECTION 12

INTERNAL TRADE INSURANCE

CHAPTER I INTERNAL TRADE INSURANCE

INTERNAL TRADE INSURANCE

This is the insurance of local sales for non-payment arising from insolvency and default.

The principles and philosophy in export credit insurance in regard to underwriting and claim will generally apply to domestic credit insurance.

We in ECICS, Singapore started domestic credit insurance in the late 70's, not long after we started export credit insurance in 1976, by insuring indirect exports i.e. local sales to companies who in turn export same or use the goods purchased to manufacture finished goods for exports.

In 1986 when we commenced factoring, both domestic and export sales, we also extended our facility to include domestic credit insurance. Therefore, for clients who do not want funding or factoring but only credit protection we were able to offer domestic credit insurance.

Our domestic credit insurance facility is as follows:

- | | | |
|-------|-------------------------|---|
| (i) | Contracts covered | Sale of goods or services with maximum terms of 180 days.
Contracts with a longer credit period is done on case by case basis. |
| (ii) | Risks covered | Insolvency
Protracted Default |
| (iii) | Percentage of Indemnity | 85% |

- (iv) Ascertainment of Loss
- 1) **Insolvency**
Immediately after acknowledgement of debt by liquidator, receiver or judicial manager.
 - 2) **Default**
180 days after due date provided there is no dispute.
- (v) Amount of Loss Payable - 85% of invoice value less any set-offs, counter-claims, etc.
- (vi) Documentation - We endorse our Comprehensive Policy to cover domestic credit insurance.
- (vii) Operations
- 1) **Credit Limit**
Every buyer must have a credit limit or be covered under a discretionary limit.
 - 2) **Declarations**
Usually monthly
 - 3) **Premium**
Payable monthly on issue of invoice.
 - 4) **Bills Maturity Report**
This gives a print out of all outstanding, which is sent monthly to the exporter for him to advise whether payment has been made or not.

Domestic Credit Insurance has enabled us to develop the followings:

- (i) a good credit information database of local companies.
- (ii) build information on local market and industry trends.
- (iii) develop a credit management system through:
 - (a) ageing record of local customers
 - (b) level of failures (defaults)
 - (c) level of bankruptcies
 - (d) (b) and (c) enabled us to identify symptoms of potential defaults for the local market and by industry sector.
 - (e) marketing tool to develop export credit insurance.

The above has enabled us to joint-venture with COFACE and EFIC in a company, Credit Singapore Pte. Ltd., to provide credit information on Singapore companies and businesses which will be extending its services for companies and businesses in South-East Asia.

Domestic Credit Insurance has also enabled us to have a better feel for:

- (i) small companies;
- (ii) exempt companies, are private companies which by law are not required to file their accounts;

(iii) shareholders and directors of (i) and (ii); and

(iv) ability and credibility of (iii) as guarantors.

The information we have built-up has enabled us to provide our fellow International Credit Insurance Association (ICIA) and Berne Union members information on local companies and individuals. As credit insurers we need to know not only our overseas markets but also our own and domestic credit insurance is an indispensable part of our business as credit insurers.