

Discretionary credit limits by payment experience

In your policy you have the possibility to use the discretionary credit limit facility on the basis of payment experience. This allows you to establish a credit limit on a buyer yourself using your own payment experience subject to certain conditions, without having to apply for a credit limit decision with Atradius. But how does establishing a discretionary credit limit by payment experience work in practice? We would like to explain it to you by using a few examples.

But first let's go through the terms, as they are stated in your policy:

Module 13600.02 Discretionary credit limits by payment experience

For Buyers in countries highlighted in the Schedule of Countries, you may establish a Credit Limit yourself using your own payment experience.

The following conditions shall apply:

- a) the Credit Limit shall be equal to the total payments received from the Buyer before the expiry of the 'maximum extension period' in the period 12 months before the date of Commencement of Cover;
- b) you must not have suffered any previous loss on the Buyer in the twelve months before the date of Commencement of Cover and
- c) any Credit Limit Decision (including zero limits) shall with effect from the date of the Credit Limit Decision override any Discretionary Credit Limit you may establish on the same Buyer. However, where we have issued a zero limit, you may again establish a Credit Limit yourself, but such a Discretionary Credit Limit shall only apply where cover commences no earlier than 12 months after the effective date of the most recent zero limit.

A Credit Limit based on payment experience

- a) can only be used for trade on terms, which are not more favourable to the Buyer or less secure than the terms of trade on which you have based your payment experience and
- b) cannot exceed the amount of the 'maximum discretionary credit limit' specified in the Policy Schedule.

When using this module, please pay attention to the following:

- Please check the 'maximum discretionary credit limit' amount applicable to your policy in the Policy Schedule.
- Before you use a discretionary credit limit (DCL), please check if the country where the buyer is located is mentioned in your policy – under Schedule of Countries. For some countries, restrictions apply.
- To establish a DCL you have to add up all receivables for

which payment has been received within the maximum extension period (MEP). Example: You have received 5 payments of EUR 2,000 within the MEP and you have received 3 payments of EUR 2,000 after the MEP. You have established yourself a DCL of 5 x EUR 2,000 = EUR 10,000.

- It is a condition that in the past 12 months before cover has commenced you have not suffered a loss on the buyer.
- In case you have applied for a credit limit and Atradius has issued a credit limit decision, this decision will replace the DCL you may have established yourself on the same buyer.
- Please keep in mind that a zero credit limit decision or a negative credit check will also overrule the DCL you have established yourself. However, you are free to continue to do business, although this is not covered by Atradius. This decision will expire 12 months after the effective date of the zero credit limit decision or negative credit check you obtained. After these 12 months you can establish a DCL yourself again. You may even use the positive payment experience from the previous 12 months.
- The MEP is the period stretching 60 days from the due date (if the MEP in your policy is 60 days). The MEP expires 60 days after the original due date mentioned on the invoice and cover will automatically stop.
- A credit limit based on payment experience can only be used for trade on terms, which are not more favourable to the buyer or less secure than the terms of trade on which you have based your payment experience. In other words, if your payment experience is based on credit terms of 30 days, you cannot use this to establish a DCL for receivables where you have used longer credit terms (for instance 60 days). This also means that if you have payment experience based on cash or advance payment (which actually is a payment condition of 0 days), you cannot use this payment experience for establishing a DCL at a later stage for receivables where payment terms are on open account.

Discretionary credit limits by payment experience

Example 1: Covered percentage 90%

	Shipment 1: € 2,000.-	Shipment 2: € 2,000.-	Shipment 3: € 4,000.-
1 January	Due date: 1 January Payment terms: 30 days		
1 February	Paid on 1 February		
1 March	Cover for the next transaction is now € 2,000.-	Due date: 15 February Payment terms: 30 days	
1 April		Paid on 1 April	
1 May		Cover for the next transaction is € 4,000.- (sum of the two shipments)	Due date: 1 May Payment terms: 30 days. The invoice is not paid. the buyer is bankrupt.
1 June			The claim payment is 90% from € 4,000.- = € 3,600.-

Example 2: Covered percentage 90%

	Shipment 1: € 2,000.-	Shipment 2: € 3,000.-
1 January	Due date: 1 January Payment terms: 30 days	
1 February	Paid on 1 February	
1 March	Cover for the next transaction is now € 2,000.-	Due date: 15 February Payment terms: 30 days. The invoice is not paid. the buyer is bankrupt.
1 April		The claim payment is 90% from € 2,000.- (cover based on the first shipment)

Example 3: Covered percentage 90%

	Shipment 1: € 2,000.-	Shipment 2: € 2,000.-
1 January	Due date: 1 January Payment terms: 30 days	
1 February		
1 March		
1 April		
1 May	Paid on 1 May	
1 June	Cover is 0, as the payment has been received after the expiry of MEP.	Due date: 15 May Payment terms: 30 days. The invoice is not paid. the buyer is bankrupt.
1 July		The claim payment is € 0.-

Discretionary credit limits by payment experience

Example 4: Covered percentage 90%

	Shipment 1: € 10,000.-	Shipment 2: € 10,000.-	Shipment 3: € 20,000.-
1 January	Due date: 1 January Payment terms: 30 days		
1 February	Paid on 1 February		
1 March	Cover for the next transaction is now € 10,000.-	Due date: 15 February Payment terms: 30 days	
1 April		Paid on 1 April	
1 May		Cover for the next transaction is € 15,000.- (sum of the two shipments, with the maximum DCL in the policy being € 15,000.-)	Due date: 1 May Payment terms: 30 days. The invoice is not paid, the buyer is bankrupt
1 June			The claim payment is 90% from € 15,000.- = € 13,500.-

Example 5: Covered percentage 90%

	Shipment 1: € 2,000.-	Shipment 2: € 2,000.-	Shipment 3: € 4,000.-
1 January	Due date: 1 January (one year ago) Payment terms: 30 days		
1 February	Paid on 1 February (one year ago)		
1 March		Due date: 15 February (this year) Payment terms: 30 days	
1 April		Paid on 1 April (this year)	
1 May		Cover for the next transaction is now € 2,000.-	Due date: 1 May (this year) Payment terms: 30 days. The invoice is not paid, the buyer is bankrupt
1 June			The claim payment is 90% from € 2,000.- = € 1,800.- (the payment experience from shipment 1 doesn't count as it is older than 12 months. The date of payment receipt is leading).
1 July			

Example 6: Covered percentage 90%

	Shipment 1: € 2,000.-	Shipment 2: € 2,000.-
1 January	Due date: 1 January Payment terms: 15 days	
1 February		
1 March	Paid on 15 February Cover for next shipment is € 2,000.- (based on the payment terms of 15 days)	Due date: 15 February Payment terms: 30 days. The invoice is not paid, the buyer is bankrupt
1 April		The claim payment € 0.- (the payment terms of shipment 1 are 15 days, and the payment terms of shipment 2 are 30 days. Therefore, the payment experience does not count.
1 May		