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## Small and Medium Enterprise Cover (SMEC)

### Administration Guide

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Your credit insurance policy secures one of your most valuable assets: your debtor's book to derive the fullest benefit from your policy it is essential that it be properly used and administered.

In the form of questions and answers, we explain the day-to-day administration of your policy. It will help you but is, of course, not a substitute for the terms and conditions of the policy which you will find in the policy document.

We believe that this administration guide deals with most of the questions likely to arise in the administration of your policy.

If you have any further queries, please don't hesitate to call the contact person, referred to in your policy document's covering letter, or if you would prefer onsite training please contact our **Sales and Service Department on 011 889 7000** and we will gladly assist you.

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# Credit Insurance Terminology

**Insured Buyer:**

Any customer on whom Credit Guarantee has granted cover in writing.

**Insured Debt:**

The gross invoice value of the insurable transactions, excluding value added tax, which is owed to you by the insured buyer.

**Insolvency:**

Where your buyer has been placed under liquidation or sequestration.

**Protracted Default:**

Failure of an insured buyer to pay an insured debt within three months of due date of payment.

**Business Rescue:**

Where your buyer has been placed under supervision.

**Amount of Loss:**

The net amount of your claim that Credit Guarantee is at risk for, which will be indemnified.

**Insured Percentage:**

The percentage of the amount of loss that will be paid by Credit Guarantee.

**Individual First Loss:**

The fixed amount that will be subtracted from each and every claim.

**Maximum Liability:**

The maximum amount of collective claims that may be paid by Credit Guarantee in respect of insured debts during each insurance year.

**Salvage:**

Any recoveries that are made from the buyer after the occurrence of a cause of loss.

**Non-qualifying Loss:**

The amount which will be used to determine whether you qualify for a claim or not. You will not qualify for a claim where the insured debt falls below the non-qualifying loss amount.

**Premium:**

The monthly amount payable to Credit Guarantee.

**Credit Limit:**

Limits granted by Credit Guarantee on your individual buyers, which is the maximum insured amount for which you may supply goods / render services to them. Any deliveries or services made in excess of your credit limit are not covered by Credit Guarantee.

**Gross Exposure Limitation:**

The maximum amount of collective credit limits that may be issued on your policy.

**CregaLink:**

An online facility where clients can access Credit Guarantee's mainframe computer and obtain instant information on the state of their policies, credit limit applications, claims and buyer information.

# Credit Limits

## What is a credit limit?

It is the maximum amount of cover approved by Credit Guarantee on particular customer that are insured in terms of the policy.

## Why are credit limits required?

Since we are carrying the majority of the payment risk, it is not unreasonable that we should be able to exercise some control over the amount of credit we insure on your customers. It also protects your own interests because you carry the balance of the risk.

## How do I obtain a credit limit?

By submitting an application through CregalLink, our online interactive service.

When must I apply for a credit limit?

1. Upon the issue of your policy, application must be made for credit limits on all your existing customers who fall within the category of accounts which are covered under the policy; and
2. As soon as the first contact is made with new customer. In this way, you can obtain an early check on the creditworthiness of potential customers; and
3. Where an existing credit limit is too low to cover amounts owing to you by any customer, then you should apply to us for an increased credit limit as soon as possible.

Failure to offer all your customers for cover (other than government departments or associated companies) could impact on the payment of any indemnity which may become payable.

## What information do I need to apply for a credit limit?

You need the customer name, amount of cover needed, value of orders on hand and the outstanding balance of the account. All the required fields for your completion are displayed on the credit limit application on CregalLink.

The processing of your request for a credit limit may be delayed if your application does not contain all the information requested.

## What happens in response to a Credit Limit Application?

In most instances, you will receive an immediate response whether the credit limit has been approved or not. If you do not receive an immediate response, the application will be with your underwriter who will assess the credit limit application.

The value and terms on which we are prepared to offer cover is stipulated on a Credit Limit Annexure which will be sent to you. Alternatively, you may view the same information on CregalLink. Please have regard for any special conditions reflected on the Credit Limit Annexure as well as the comments. The description of the comment/s and special condition/s can be found on CregalLink and on the credit limit annexure.

### **What happens if I trade in excess of the value stipulated on the Credit Limit Annexure?**

You will only be covered up to the value of the credit limit. If you trade in excess of your credit limit, this will influence the calculation of the indemnity in the event of a claim.

### **What happens if I do not comply with the special conditions stipulated on a Credit Limit Annexure?**

This will influence the validity of a claim since the credit limit is only valid if the terms and conditions attached to a credit limit are complied with and where applicable, that any securities obtained by you are valid and enforceable in a court of law.

### **Are customers from the Public sector covered? (i.e. municipal, regional or central government departments)**

No.

### **Are deliveries to our own subsidiaries or associated business covered?**

No.

### **What is the Gross Exposure Limitation?**

It is the aggregate value of credit limits which can be approved under your policy.

### **What happens if I reach the Gross Exposure Limitation on my policy?**

Once this value is reached, no new credit limit applications will be processed until any unutilised cover has been removed or reduced to release capacity to within the stipulated value. Alternatively, a policy review or premium adjustment might be necessary to accommodate an increase in the value of the Gross Exposure Limitation amount.

# Premiums

## How are premiums charged?

The monthly premium reflected in the schedule to the policy must be paid upon acceptance of the policy, and thereafter premiums are payable at the beginning of each month. Payment by debit order authorisation is the preferred method of payment, however, on request, an alternative may be considered.

## Can my premium change?

One month prior to the end of the insurance year, you will be required to submit an updated debtor's age analysis to Credit Guarantee. A further analysis will be conducted based on that to be covered which may result in a change in the premium charged.

Your premium may also be adjusted on agreement should you wish to increase the Gross Exposure Limitation on your policy.

Credit Guarantee does however maintain the right to alter the conditions of cover by giving you at least one month's written notice.

## What could happen if I don't pay my premium?

You will have prejudiced your rights under the policy and we would be entitled to cancel your policy and reject any claims which may be lodged against us.

## How are premiums calculated?

Upon the commencement of the policy, Credit Guarantee conducts an analysis of your debtor's book to ascertain the percentage of your book that will be covered. In some instances Credit Guarantee may not be in a position to cover all your customers which will be taken into account in the analysis.

## What is a Continuity Bonus and how do I qualify?

A Continuity Bonus will become payable after the first 24 months of your policy. You could be rewarded with a bonus payment which is based on the age of the policy and its overall claims performance. The bonus will be 5%, 7.5% or 10% of your total premium paid during a twelve month period should the overall claims ratio on the policy be equal to or less than 25%

# Overdue Accounts

## **What must I do if an account is overdue for payment?**

You must send a final demand to your customer when:

1. The account becomes 45 days or more overdue; or
2. Immediately when you become aware of any dishonoured cheque or reversal of a payment that was made by electronic transfer; or
3. Immediately when you receive any indication from the customer that it is unable to pay its account.

## **What information must I include in the final demand?**

In order that the customer becomes aware of our involvement, it is essential to incorporate a paragraph along the following lines in your final demand:

"Unless payment is received within a period of 10 days from the date of this demand, we shall be obliged to report your default to Credit Guarantee in terms of our credit insurance policy where after legal action will be instituted against you without further notice."

A template of a final demand is available on CregaLink should you wish to make use of it.

## **What must I do if the customer ignores the final demand?**

If the amount still remains unpaid after the date stipulated in the final demand, you should complete and lodge a claim on CregaLink together with all the required supporting documentation.

## **What happens to the outstanding account once my claim is lodged with CGIC?**

On receipt of your claim we will institute the necessary collection proceedings in order to recover the outstanding debt. You will be kept informed of the pre-legal or legal process.

## **Should I take any action against the defaulting customer?**

Besides the Final Demand that is required to be sent by you in terms of the policy, you may not institute any legal action against the defaulting customer without Credit Guarantee's written approval. Any collection proceedings will be instituted by Credit Guarantee.

## **Who will take action for the recovery on the uninsured portion of the debt?**

The uninsured portion of the debt will be included in the recovery proceedings instituted by Credit Guarantee. Therefore we will proceed against the defaulting customer for the full amount of your claim. The larger the uninsured portion of the debt, the greater your pro-rata share of the costs and salvage.

## **What should I do if the customer offers payment after I have lodged my claim?**

You may accept the payment without prejudice and with reservation of all your rights. You must advise Credit Guarantee of the payment received.

## **What should I do if the customer asks for postponement of the original due date or if the customer submits a repayment plan?**

Provided that the request for an extension is received on or shortly before the original due date, you may grant a postponement of not more than 30 days without any reference to us. You are required to retain written proof of extensions granted.

Any request for a postponement of more than 30 days, or any repayment proposal, must be referred to us for our written approval.

### **Must I refer offers of compromise to you?**

Yes, all offers of compromise, whether formal or informal, must be referred to us before any acceptance or rejection. We shall then weigh up the merits of any offer and, in conjunction with you, decide upon its acceptability or otherwise.

### **Who is responsible for payment of the costs incurred in trying to recover the outstanding debt?**

Any costs incurred for the purpose of recovering an unpaid account will be shared between you and Credit Guarantee on a pro rata basis according to each party's respective interests in the amount handed over for collection.

### **What is your attitude with regards to trade disputes?**

We realise that disputes do occur in business, but you will appreciate that very often we do not have the technical knowledge needed to adjudicate on a trade dispute, particularly when it concerns the question of quality. For this reason, it remains your responsibility to resolve the dispute or to obtain a judgment in your favour before a claim will become due for payment.

### **What must I do in the event of a customer's insolvency or business rescue?**

1. The moment you become aware of the order being granted against the customer, immediately lodge a claim on CregalLink.
2. Send us copies of any correspondence or circulars received from the liquidator, business rescue practitioner or any other legal representative.
3. Proceed to have your claim lodged and admitted in the insolvent estate, provided that there is no danger of any contribution being levied. If you have any doubt in this regard, please contact us before lodging a claim against the insolvent estate. In the case of business rescue, proceed to lodge your claim with the business rescue practitioner.

### **Can I continue to make deliveries to a customer who is overdue for payment?**

No, except where the customer is in business rescue you may be given written approval by Credit Guarantee to make further deliveries in terms of the business rescue plan.

### **What could happen if I continue to make deliveries where the account is overdue for payment?**

If you continued to make deliveries:

1. When an amount was 30 days or more past due for payment, and/or
2. After you were advised that a payment has been dishonoured, and/or
3. When you became aware of any other information that the buyer is insolvent or in business rescue,

these deliveries would not be covered under your policy in the event of a claim.

# Lodging of Claims

## When must I lodge a claim?

In the case of insolvency: Upon receipt of advice of the provisional or final liquidation of the customer. In the case of protracted default: Upon the expiry of the period of the final demand if no response was received from the customer. In the case of business rescue: Within 21 days from the date the customer is placed under supervision.

## How must I lodge the claim?

Complete a claim on CregaLink and submit it together with all supporting documents. If you are not able to upload the supporting documentation upon submission of your claim, you may fax or email the documentation that is clearly marked with the relevant claim number as reference to the unit administering your policy.

## What documentation needs to be submitted with the claim form?

A copy of the final demand and proof of transmission, a copy of the customer's credit application form and copies of the relevant customer's account statements as stipulated on the claim form, should always accompany your claim.

## When will a claim become due for payment?

Your claim will be due for payment after a cause of loss has arisen in terms of the policy and where applicable, the imposed claims waiting period has expired.

A cause of loss could be the insured customer's insolvency, which is any one of the following events:

1. A provisional or final sequestration or liquidation order has been granted against the insured customer, or
2. The provisional acceptance by the court of a voluntary surrender of the customer's estate, or
3. A provisional or final winding-up order granted against the insured customer, or
4. A statutory compromise or scheme of arrangement has been made binding.

The claim as a result of insolvency will be payable after the occurrence of any of the events mentioned above.

Or, a cause of loss could be the insured customer's protracted default, which means:

1. The customer's failure to pay an undisputed insured debt within three months from the original or postponed due date.

The claim as a result of protracted default will be payable after a three month waiting period calculated from the cause of loss date.

Or, a cause of loss could be the insured customer being placed into business rescue, which is any of the following events:

2. The customer filing a resolution to be placed under supervision in terms of the Companies Act, or
3. A order of court placing the customer under supervision.

The claim as a result of business rescue will be payable three months after the occurrence of either the events mentioned above.

## Can I request earlier payment of my claim?

Yes, only when the cause of loss is protracted default. You may request that your claim be paid earlier than the imposed three months waiting period where your claim amount is equal to or less than R350,000. Please note however that an early claim settlement will be made at a lower insured percentage which will be reflected in your policy schedule.

## How long does it normally take before I receive payment of my claim?

Provided that we have all the information necessary for the processing of your claim, we endeavour to send you our proposed settlement within ten days from the claims due date. Complex claims, however, can sometimes take longer.

For all claims our indemnity payment will be made to you by EFT on receipt of your acceptance of the proposed settlement.

## How is the amount of the indemnity calculated?

### Example:

If the insured percentage under your policy is 75% and you are owed an amount of R28.500 by a customer on whom you only hold a credit limit of R20.000, then our indemnity would be calculated as follows:

Amount outstanding	R28 500
Less: Vat (not covered under the policy)	R3 500
Less: Portion not covered by a valid credit limit	R5 000
Insured debt	R20 000
Insured percentage	75%
Amount of indemnity	R15 000

## How does the non qualifying loss affect my claim?

If your policy incorporates a non qualifying loss, you can only submit a claim if the insured debt (amount exclusive of VAT) owing to you at the time the account became 30days or more overdue, is more than the non qualifying loss amount.

If the insured debt exceeds the non qualifying loss, the claim will be considered on the full amount outstanding.

## What is individual first loss, and how does it affect my claim?

If your policy incorporates an individual first loss, this amount is the amount which you retain for your own account each and every time a claim is paid.

This amount will be deducted from the insured debt on the proposed settlement and obviously therefore increases your share of the claim.

# Salvage and Claims

## What is salvage?

Salvage, in terms of the policy, is any recovery received from whatever source after the occurrence of a cause of loss, in respect of the amount claimed.

## Who is entitled to this salvage?

Salvage is shared between us in the same proportion in which we shared the actual loss. If the indemnity paid to you was equivalent to 75% of the amount claimed, and you carried the uninsured 25%, then any salvage would be shared between us on a 75:25 basis. You will then receive 25% of the salvage.

## How will we know what our share of salvage will be?

The calculation of your percentage share will be stated in the proposed settlement document.

## Does it make any difference who received the salvage?

No. Whichever one of us receives the salvage will account to the other for their proportionate share of it.

## From what sources can salvage be expected?

There are many, depending upon the circumstances. The main ones are:

1. Dividends from an insolvent estate or payment under a formal offer of compromise or in terms of a business rescue plan
2. Payments received from an insured customer (where the claim was based upon protracted default) or any guarantor, following the institution of legal proceedings.
3. The realisation of any security that you held in respect of the insured debt.

## Who must lodge claims against an insolvent estate?

You are obliged to lodge and prove your claim in the insolvent estate, or with the business rescue practitioner in the case of a company placed under supervision, provided that there is no danger of a contribution being levied against creditors.

If you had not done this by the time you lodged a claim against us in terms of your policy, our indemnity will be paid to you on condition that you eventually lodge and prove your claim either in the insolvent estate or with the business rescue practitioner, whichever is applicable.

## What will happen if I do not prove a claim in an insolvent estate?

The terms of your policy require you to refund the indemnity which we paid to you. However, the reason why you had not lodged and proved a claim will be taken into account when we decide whether or not to ask you to repay the indemnity, or to pay us our share of the dividends which you would have received had you in fact proved a claim.

