

## Standard Domestic Cover Policy

### Administration Guide

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**Your credit insurance policy secures one of your most valuable assets: your debtor's book. To derive the maximum 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 that are most 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.

### What is a credit limit?

It is the maximum amount insured on a particular buyer that will be covered 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 for individual buyers. It also protects your own interests, because you carry the balance of the risk.

### How do I obtain a credit limit?

In one of three ways:

- By making use of *Cregalink* our online interactive service
- By establishing a limit under your limit of discretion
- By applying to us for a credit limit, using the credit limit application form

### What is a "limit of discretion"?

A limit of discretion is the maximum amount of credit that you may grant an individual buyer, under the cover of your policy, without first obtaining our approval. The limit of discretion that you enjoy is shown in the schedule to your policy.

### Why does a policy have a limit of discretion?

It would be very time-consuming, both for you and us, if in terms of the policy you had to apply to us for the approval of credit granted to each and every buyer, regardless of the level of credit required. The limit of discretion therefore reduces the administration required and enables you to reply promptly to an initial request for credit from a customer

### How can I approve a limit under the limit of discretion?

You will be able to do this provided that:

- You have a written bank report (not older than six months) on the buyer, giving a code A, B or C for an amount not less than the limit established by you and provided that the bank code does not evidence any previous cheques having been returned "refer to drawer". This code may be obtained by making a request to your commercial banker
- Or by your favourable trading experience with the Buyer over an immediately proceeding period of not less than twelve months, evidenced by a satisfactory payment record involving at least four separate month's purchases.

The limit under your limit of discretion must have been validly established in terms of the above before any new delivery is made.

### When must I apply for a credit limit?

- Upon the issue of your policy, when application must be made for credit limits on all your existing buyers who fall within the cover offered under the policy structure and who owe (or are likely to owe) more than your limit of discretion.
- As soon as the first contact is made with new buyers who fall within the category of accounts which are covered under the policy and who are likely to owe you more than the limit of discretion. In this way, you can obtain an early check on the creditworthiness of potential buyers.
- If an existing credit limit is too low to cover amounts owing to you by any buyer, then you should apply to us for an increased credit limit as soon as possible.

Failure to offer all qualifying buyers may impact on the payment of claims. If you are uncertain as to which buyers should be offered for cover or if you require a copy of the policy document, please contact us and this will be delivered to you at no charge.

**What amount should I ask for when I apply for a Credit Limit?**

The amount should reflect the approximate amount owing or likely to be owed by the debtor at any one time.

**How long does it take for a Credit Limit to be approved?**

About 80% of all Credit Limit Annexures (Approvals) are issued by us no later than one week after the application has been received. The remaining 20% are delayed due to factors beyond our direct control including lack of information or inadequate information.

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

All details requested on the credit limit application form are required for each application. The processing of your request for a credit limit may be delayed if your application form does not contain all the information requested.

**What happens in response to a 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 *Cregalink*. Please have regard for any special condition reflected on the Credit Limit Annexure as well as the comment. A key to the comment may be found on the reverse side of the Credit Limit Annexure.

**What happens when I need a credit limit decision very urgently?**

Use our rapid response system to obtain an urgent credit limit decision. The rapid response system can only work properly if you give us the full details (including trading styles) of the buyer and his bankers. Applications should be faxed to use, clearly marked "urgent". Unmarked applications will be treated as normal (i.e. non-urgent).

**What happens if we trade in excess of the value stipulated on the Credit Limit Annexure**

This will effect the calculation of the indemnity in the event of a claim.

**Are Credit Limits Necessary for Public Buyers (i.e. municipal regional or central government departments)?**

No because the cover under your policy does not extend to deliveries made to the government or government agencies.

**Are Credit Limits necessary for your own subsidiaries or associated business?**

No these are not insurable under your policy and are excluded from cover

## Declarations

### **What declarations must I submit in terms of the policy?**

A monthly declaration of insured balances outstanding or insured turnover. Depending on the policy structure alternative methods of declaration may be required. Declarations may also be submitted via *Cregalink*.

### **Why does Credit Guarantee require these declarations?**

The premium payable is charged on the value declared.

### **When must I submit declarations?**

Each declaration must be submitted before the 21st of each month.

### **Must I submit a return even if there are no amounts to be declared?**

Yes, a "nil" declaration must be submitted; otherwise our records will reflect that your declaration for that particular month is still outstanding.

### **What happens if I don't submit declarations?**

Declarations form the basis of your premium calculation. If the declarations are not submitted, we are unable to charge the premium and your rights under the policy will be severely prejudiced.

### **What information should this declaration contain?**

The declaration forms supplied to you are personalised and relate to the total of all outstanding per your schedule of debtors on your last accounting day of the month, less:

- Those buyers not insurable as per definition 2, i.e. government buyers, local authorities, associated and subsidiary companies and any buyer specifically excluded from the cover of the policy by endorsement or in terms of the schedule to the policy.
- Any amounts owing where a "nil" credit limit has been issued on a particular insured buyer.
- Any amount owing which is in excess of the credit limit approved.
- Any portion of the amount owing which is three months or more overdue.
- Any amount owing which does not exceed the franchise loss, if applicable to your policy.
- Any amount owing which represents overdue interest.

If alternative methods of declaration are agreed, then the declaration should be calculated in accordance with this requirement

### **Must I deduct VAT from my monthly declaration?**

Yes, as VAT is not covered in terms of your policy.

## Premiums

### **What happens if I pay a minimum premium on acceptance of my policy?**

It will be credited to your premium account and will be used to settle premiums and credit limit fees debited to you in terms of monthly declarations received. Once the minimum premium has been fully utilised, you will be required to pay the premium due to us in the normal way. Any unutilised portion of the minimum premium is non-refundable and in the event of the policy termination will be forfeited.

### **How are premiums calculated?**

Premium is charged on a monthly basis by applying the premium rate specified in your policy to the value which needs to be declared to us

### **When must I pay the premium?**

Once any deposit premium has been fully liquidated, the premium due to us should be paid upon receipt of our statement.

### **What could happen if I do not pay my premium?**

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

### **What is meant by the "minimum annual premium" mentioned in my policy?**

It is the minimum that you must pay us in premium each year. If the annual premium charged amounts to less than the minimum annual premium, you will be called upon to pay the shortfall.

### **What does "maximum liability" mean?**

It is the cumulative maximum sum for which we will be liable in respect claims arising during each insurance year.

It is very important that you check regularly whether the amount is sufficient to cover your outstanding at any time. Otherwise you could find that you are not adequately covered in the event of a cause of loss.

## Overdue Accounts

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

You should carry out your own credit control collection procedures without any reference to us prior to sending out a final demand.

### At what point should I send a final demand?

- Not later than 90 days after due date or any postponed due date, in respect of any amount owing on open account. You need not wait for the expiry of 90 days before sending the final demand - it can be sent at any time before the 90 days at your discretion.
- Immediately as you become aware of any dishonoured cheque, bill or other negotiable instrument.

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

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

“Unless payment is received within a period of ten days from date hereof, we shall be obliged to report your default to Credit Guarantee in terms of our credit insurance policy. Legal action will then be instituted against you without any further notice.”

Since a copy of your final demand will form the basis of our instructions to our attorneys should legal action be necessary, it is important that the demand includes the following:

- Your correct name and physical address, so it would be advisable to use your letterhead for the final demand.
- The full name of the buyer in order to establish the correct legal entity (company, close corporation, partnership etc) as well as the buyer's physical address.
- Details of the outstanding amount showing, for each month of delivery, the total amount invoiced and the due date for payment.

### What must I do if the buyer ignores the final demand?

If the amount still remains unpaid after the date stipulated in the final demand, you must complete a claim form and send this to us (together with a copy of the final demand) within ten days after expiry of the final demand period.

### What further action must we take?

Nothing at this stage. You will be informed once we have instructed an attorney or a collection agent to proceed. We will also give you a claims reference number which you must quote in all correspondence referring to this collection.

Naturally, we shall keep you informed of the progress made by the collection agent or attorney

### What should I do if the buyer offers payment after you have instructed your attorney?

You must not accept any payment as this could prejudice the recovery of any legal costs already incurred. Instead, the buyer should be referred either to us or, preferably, to the attorney or collection agent concerned

**May I instruct my own attorney to take legal action against a defaulting buyer?** Normally all legal proceedings shall be conducted by our nominated collection agent attorney and counsel (refer Proviso 15). You may use your own attorney only if Credit Guarantee has given its consent in writing and your policy has been endorsed to this effect.

**What happens after we have instructed our attorneys?**

You must, within ten days of the instruction, complete and send to us a claim form and attach a copy of the relevant final demand. You must also keep us informed of the progress made with the legal action instituted, preferably by sending us copies of all correspondence between you and your attorney.

**Can I continue making deliveries to a buyer who is overdue for payment?**

You may do this under the cover of your policy only if:

- The overdue amount is not more than 60 days overdue for payment (note that, in respect of certain buyers, the credit limit may reduce the 60 days to 30 days-special condition 152), and/or
- A cheque, bill or other negotiable instrument received from the buyer has not remained unpaid for more than 15 days, and/or
- You are not aware of any other information which would suggest that the buyer is in financial difficulties.

If further deliveries are made under contrary circumstances, they will not be covered under your policy.

**What must I do if a buyer asks for postponement of the original due date?** 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 must be referred to us for our written approval

## Lodging of Claims

### When will a claim become due for payment?

Once a cause of loss has arisen in terms of the policy.

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

- a provisional compulsory sequestration/liquidation order has been granted against the insured buyer, or
- the provisional acceptance by the court of a voluntary surrender of his estate, or
- a provisional winding-up order granted against the insured buyer, or
- a statutory compromise or scheme of arrangement has been made binding, or
- a provisional judicial management order has been granted against the buyer.

Or, the insured buyer's protracted default, which means:

- The buyer's failure to pay an undisputed insured debt within six months from the original or postponed due date.
- Or the insured buyer placed under supervision in terms of the business rescue provisions of the companies act.

### How must I lodge the claim?

Complete a claim form and submit it together with all supporting documents.

### When must I lodge a claim?

In the case of insolvency: Upon receipt of advice of the provisional or final liquidation of the buyer.

In the case of protracted default: Within ten days of the date of the final demand, if no response was received from the buyer.

In the case of supervision, within 21 days of your receiving notification that an insured buyer is under supervision (business rescue).

### Is any other documentation required?

Yes, in our claim form you are asked to attach certain supporting documents: copies of statements/ledger cards relating to the previous full year's trading experience with the buyer, circulars received from the liquidator etc, and copies of correspondence with your attorneys including their statement of account for legal fees.

### How long does it normally take before, your claim is paid?

Upon receipt of your claim form, we will advise you of the date that the claim will become due for payment.

Provided that we have all the information necessary for the processing of your claim, we endeavour to send you our proposed settlement within seven days of this date. Complex claims, however, can sometimes take longer. For all claims an E F T will be processed on receipt of the proposed settlement, signed and accepted by you.



### How is the amount of the indemnity calculated?

If you suffered a loss in respect of an insured debt (i.e. one which is fully covered under the policy), we will indemnify you to the extent of the insured percentage of the amount of loss. (The insured percentage is stated in the schedule to your policy). Your share of the loss will thus be: the uninsured percentage of the amount of loss, plus any additional amount owed to you which was not covered under the policy.

**For example:** If the insured percentage under your policy is 80% and you are owed an amount of R24 000 by a buyer on whom you only hold a credit limit of R20 000, then our indemnity would be calculated as follows:

Amount outstanding	R24 000
Less: Portion not covered by a valid credit limit	R 4 000
Insured debt	R20 000
Insured percentage	80%
Amount of indemnity	R16 000

### How does the franchise loss affect claims settlement?

If your policy incorporates a franchise loss, you can only submit a claim if the amount owing to you is more than the franchise loss.

**Example:** If the amount owing (excluding V.A.T) exceeds the franchise 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. This amount will be deducted from the insured debt on the proposed settlement and obviously therefore increases your share of the claim.

## Salvage

### What is salvage?

Salvage, in terms of the policy, is any recovery received from whatever source after the cause of loss, in respect of the insured debt which formed the subject of the claim.

### 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 75% of the amount of loss while 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?

This will be stated in the proposed settlement document under the insured's acceptance section.

### 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:

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

### Who must lodge claims against insolvent estate?

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

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

The terms of your policy requires 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.

### Must I contribute to legal fees?

Legal costs will be shared pro rata.

### In whose name will the legal action be taken?

Although we will initiate the legal action, it will invariably be taken in your name. Our attorney will be instructed on the basis that he must look to us for payment of any unrecovered legal fees and we in turn will look to you for your proportionate share of such fees.