

Comparison between 2016 and NEW proposed IRDAI guidelines

Sl.No	Particulars	Trade Credit Guidelines	Trade Credit Guidelines	Comments
	Circular Number/Date	IRDA/NL/CIR/CRE/044/03/2016(10 Mar 2016)	IRDAI/NL/GDL/MISC/244/09/2021	
1	Buyer	Means any person/ business entity, who is liable to pay policy-holder, for a trade credit transaction on open and agreed terms.	Means any legal entity that is liable to the insured for payment of the gross invoice value of the shipments made or services rendered by the insured on agreed terms.	
2	Credit Limit	is the credit limit set by the insurer for every buyer with whom the policy holder trade. The level of the limit is set at the maximum amount in normal circumstances that can be owed by the buyer at any time. Limits shall be assessed by seller applying principles of prudence and granted at a suitable level, depending on the credit worthiness of the buyer.	is the limit set by the insurer under the policy against a buyer for losses, occasioned owing to commercial risks. The liability of the insurer, against a buyer, is limited to the credit limit set on the buyer	
3	Factoring	Means the business of acquisition of receivables of assignor by accepting assignment of such receivables or financing, whether by way of making loans or advances or otherwise against the security interest over any receivables	Means the business of financing or acquisition of trade receivables of assignor by accepting assignment of such receivables. Factoring company as defined in The Factoring Regulation Act 2011 & amendments thereof. (5.1.(b))	

4	Financial Guarantee	is understood as comprising any bond, guarantee, indemnity or insurance, covering financial obligations in respect of any type of loan, personal loan and leasing facility, granted by a bank/credit institution, financial institution or financier, or issued or executed in favour of any person or legal entity in respect of the payment or repayment of borrowed money or any contract, transaction or arrangement - primary purpose of which is to raise finance or secure sums due in respect of borrowed money	comprises of any bond, guarantee, indemnity or insurance, covering financial obligations in respect of any type of loan, personal loan and leasing facility, granted by a bank/credit institution, financial institution or financier, or issued or executed in favour of any person or legal entity in respect of the payment or repayment of borrowed money or any contract, transaction or arrangement, the primary purpose of which is to raise finance or secure sums due in respect of borrowed money.	
5	Granted Credit Limit	is the maximum insured credit line for a specific buyer and the policyholders can trade on an insured basis within the approved credit limit throughout the policy period without further reference to the insurer		
6	Government Buyer		means any entity that is authorized to enter into commitments in the name or on behalf of the government of its country, including the government itself or government agencies whose commitments are guaranteed by the government.	

7	Insolvency	A judicial or administrative procedure whereby the assets and affairs of the buyer are made subject to control or supervision in the jurisdiction defined under the policy by the court or a person or body appointed by the court or by law, for the purpose of reorganization or liquidation of the buyer or of the rescheduling, settlement or suspension of payment of its debts	A judicial or administrative procedure whereby the assets and affairs of the buyer are made subject to control or supervision in the jurisdiction defined under the policy by the court or a person or body appointed by the court or by law, for the purpose of reorganization or liquidation of the buyer or of the rescheduling, settlement or suspension of payment of its debts.	
8	Invoice discounting E Platforms		means any authorized institutional platform facilitating the financing or discounting of trade receivables through sole or multiple financiers through electronic platform.	
9	Micro and Small Enterprises		shall be as defined by the MSMED Act, 2006 and amendments thereof.	
10	Project Cover		means insurance of receivables, against non-payment by the principal or buyer, provided to a contractor engaged in but not limited to long term infrastructure, civil and industrial projects and services. The project period should be more than six months.	
11	Protracted Default		means failure by a buyer to pay the contractual debt within a predefined period calculated from the due date of the debt.	

12	Reverse Factoring Arrangement	means any arrangement in whatever name or form, between a borrower and a financier, wherein a borrower receives or is supposed to receive finance, either directly or indirectly, for borrower's purchase of trade receivables, goods or services.	means any arrangement in whatever name or form, between a borrower and a financier, wherein a borrower receives or is supposed to receive finance, either directly or indirectly, for borrower's purchase of trade receivables, goods or services.	
13	Seller	means a person or business entity who sells the underlying goods or services, for a trade credit transaction, on open and agreed terms.	means any business entity who sells the underlying goods or services, for a trade credit transaction, on agreed terms.	
14	Trade Credit Transaction		means a transaction between two business entities, for supply of goods or services on agreed terms.	
15	Trade receivables	means a receivable in the hands of seller arising out of a trade credit transaction	means a receivable for the Policy Holder arising out of a trade credit transaction.	
16	Whole turnover Policy		means a trade credit insurance policy that covers all trade credit receivables of all buyers, pertaining to a seller.	

17	Coverage			
17.a	Commercial risk		<p>a. Insolvency or Protracted Default of</p> <ul style="list-style-type: none"> (i) the buyer; (ii) bank/`s responsible for payment in case of Letter of Credit transactions; (iii) stock holding agent in case of consignment transactions; <p>b. Rejection by</p> <ul style="list-style-type: none"> (i) the buyer after delivery subject to conditions of contract; (ii) the buyer before shipment, where the goods are manufactured or being manufactured exclusively as per the requirements of the buyer and cannot be sold elsewhere; <p>c. Non-receipt of payment on account of collecting Bank`s failure;</p>	

<p>17.B</p>	<p>Political Risk</p>	<p>India and in respect of those countries agreed upon. Political risks include the following.</p> <ul style="list-style-type: none"> a. Operation of a law or of an order, decree or regulation having the force of law which, in circumstances outside the control of the insured and/or the buyer, prevents, restricts or controls the transfer of payment from the buyer's country to India; b. Occurrence of war between the buyer's country and India; c. Occurrence of war, hostilities, civil war, rebellion, revolution, insurrection or other disturbances in the buyer's country; d. Imposition of any law or order, decree or regulation having the force of law which, in circumstances outside the control of the insured and/or of the buyer, prevents the import of the goods into the buyer's country; e. Cancellation, in circumstances outside the control of the insured and/or of the buyer, of a previously issued and currently valid authority to import the goods; f. Incurring, in respect of goods shipped from India, of any additional handling, transport or insurance charges which are occasioned by interruption or diversion of voyage outside India and which is impracticable to be recovered from the buyer; g. Any other cause, save and except in the case of merchanting exports in which case this risk will stand excluded, which arises from an event 	
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19	Policy issuance to Banks/NBFC	A Trade Credit Policy shall not be issued to Banks /Financiers/lenders (Clause 4.A.1)	A trade credit insurance policy may be issued to the following, subject to detailed guidelines given in the ensuing provisions. a) Seller / Supplier of goods or services. b) Factoring company as defined in The Factoring Regulation Act 2011 & amendments thereof. c) Bank / Financial Institution, engaged in Trade Finance, licensed and regulated by respective Statutory Bodies which have better quality appraisal and effective risk management system.(5.1)	

			trade credit insurance for Banks / Financial Institutions and Factoring Companies shall cover the loss on account of non-receipt of payment from a buyer, due to commercial or political risks, against the bills / invoices purchased or discounted.(5.2)	
4	Assignment	Assignment of proceeds of claim under the trade credit policy may be made to a bank/NBFC registered with RBI, in the manner prescribed under sec 38 of the insurance act 1938 ((Clause IV.A.2)	NO mention	NO mention, so as per assignment clause of Insurance Act, the policy is now freely assignable
5	Indemnity	A trade Credit Policy shall not grant an Indemnity of more than 85% of the trade receivables from each buyer (Clause B.2)	Trade credit policy shall specify the indemnity limit being offered and the maximum indemnity limit that may be offered shall be clearly indicated in the product filed with the Authority.	NO cap on indemnity
6	Minimum Number of Buyers in a Trade Credit Insurance Policy	A single specific Trade credit policy covering only one shipment cannot be sold to a prospect. The Insurer Can issue a credit insurance policy even if the number of buyers is very small., However the insurer needs to exercise due diligence and caution if the buyers sought to be covered are very small in numbers (Clause IV.A.13)	5.5 A trade credit insurance policy shall be sold as:(i)A Whole turnover basis to cover all buyers of that particular segment or product or country. (ii) Cover for individual buyer only for: a) Micro & Small Enterprises (as defined in paragraph 4 (viii) above b) Project covers (as defined in paragraph 4 (ix) above) (iii) Single Invoice Covers through bill discounting / factoring shall be allowed only on Invoice Discounting e-Platforms such as TReDS.	

		Where Fewer than 10 buyers are to be covered the insurer shall use appropriate policy conditions and underwriting techniques, to place extremely prudent compliance obligations on the insured (Clause VI.4.e)		
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Our Best

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