

INSURANCE OF  
**BUYER CREDITS**

DELICREDERE  
DUCROIRE



MEMBER OF THE CREDENDO  
GROUP

# The Belgian Export Credit Agency Delcredere | Ducroire provides cover for buyer credits that banks grant to foreign customers to finance exports of capital goods, services and contract works.

Buyer credits generally involve major sums repayable in the longer term. It is therefore of essential interest to lenders that Delcredere | Ducroire provides insurance for such cases.

## **Why choose Delcredere | Ducroire as your partner?**

Financing often plays an important role in the award of export contracts. The buyer is often reluctant to pay cash, especially in the case of larger contracts; moreover, the buyer is not always able to get competitive loans from his local bank.

Because most exporters are not prepared to take on the responsibility of financing the deal, and thus do not want to grant supplier credits (see product brochure "Insurance of supplier credits"), they will ask their banks to provide finance to their foreign customer.

However, in many cases, the banks will be unwilling to grant a buyer credit without support from Delcredere | Ducroire, since they need to protect themselves against the risk of default on the part of the foreign buyer.

## **What is a buyer credit and what does the insurance cover?**

In the case of a buyer credit, the bank grants the loan at the request of the buyer or exporter to finance the contract. The exporter can draw on the loan and thus receive cash payment for the delivery of goods and services made under the commercial contract (see below under "Who are the contracting parties?").

As a lender, it is usual for the bank to arrange insurance from Delcredere | Ducroire to cover the payment risk associated with the foreign buyer. In other words, Delcredere | Ducroire covers the lending bank against the risk that the customer defaults in whole or in part on the buyer credit (principal and interest) or repays the debt late.

This type of insurance also applies to other medium- and long-term credit variants in relation to exports, such as:

- > inter-bank loans (with a foreign bank acting as the lender);
- > project finance (loans to a "special purpose company", which are primarily repaid from the income generated by the project);
- > soft financing (credit under concessionary conditions).

Beside the payment risk, the exporter also incurs the risk of contract termination by the buyer prior to delivery (termination risk). After all, if the buyer terminates the contract, it is highly uncertain for the exporter whether he will be able to recover the expenses and costs he made thus far. For unrecovered expenses and costs, Delcredere | Ducroire can indemnify the exporter.

Delcredere | Ducroire does not just provide cover for termination and payment losses due to buyer's default, but also as a consequence of political and similar risks (= all cases which constitute a force majeure event for the contracting parties).

In addition, the exporter can be covered by Delcredere | Ducroire against the risk of unfair calling of the bank guarantees that have been issued in favour of his buyer abroad (see product brochure "Insurance of contract guarantees").

## **Who is eligible for buyer credit insurance?**

Any bank, whether domestic or foreign, with international operations.

## **Who are the contracting parties?**

Essential in this type of financing is the parallel existence of two contracts: the exporter negotiates and signs the commercial contract with the buyer, governing the technical and commercial aspects of the transaction, whilst the bank signs a financial agreement with the buyer setting down the terms of the credit.

## **Which supplier credits are eligible for Delcredere | Ducroire credit insurance?**

Supplier credits with a tenor of two years or more, eligible for Delcredere | Ducroire cover, are governed by the "Arrangement on guidelines for officially supported export credits", known as the OECD Arrangement (see [www.oecd.org](http://www.oecd.org)). The Arrangement lays down the conditions that need to be met in the field of credit insurance.

The Arrangement regulates inter alia:

- > the maximum repayment terms depending on the nature of the supplies and the value of the contract;
- > that the contract must also provide for a 15% cash payment/advance. The supplier credit therefore amounts to no more than 85% of the contract value;
- > that the credit shall be repaid in equal instalments at intervals of no more than six months.

### **Which risks are insured?**

Delcredere | Ducroire offers the lending bank protection against the risk that, due to political causes and default (or insolvency) on the part of the debtor, the principal and interest under the loan are not repaid, in whole or in part, or are repaid late.

Belgian exporters can also be insured by Delcredere | Ducroire against the termination risk of the commercial contract and the risk of unfair calling of bank guarantees issued in favour of their foreign customers (see product brochure "Insurance of contract guarantees").

### **Insured percentage?**

The maximum percentages of cover offered by Delcredere | Ducroire are as follows:

- > private debtor risk: 95% (98% if the debtor is a bank);
- > risk of public debtor and political risk: 98%.

The insured bank thus bears some of the risk itself. However, it may pass part of this risk on to the exporter. For instance: with a cover percentage of 95%, the bank has to retain 2% of the principal and 5% of the interest. So, 3% of the principal may be passed on to the exporter.

### **Waiting period and indemnity payment?**

To avoid paying indemnities each time there is a short payment delay, the insurance policy provides that the insured may only claim an indemnity after expiry of a given (waiting) period, which starts from the date the payment is in arrears. The waiting period is usually 6 months from the due date of payment. However, there is no waiting period where the loss is the result of the customer's insolvency.

### **Currency of the financing?**

The financing is generally provided in EUR or USD. Other hard currencies may also be accepted. Contracts payable in the currencies of emerging economies can be examined on a case-by-case basis.

### **Fixed or variable interest rate?**

One major advantage of a buyer credit guaranteed by Delcredere | Ducroire is that the exporter is able to offer the buyer a fixed interest rate via the lending bank. Before the start of the credit, customers know the exact debt burden they will bear over the term of the loan.

In this regard, the lending bank can ask Finexpo for so-called interest stabilisation. Finexpo is an interministerial committee under the authority of the Federal Public Service for Foreign Affairs, Foreign Trade and Development Cooperation and the Federal Public Service for Finance. The application for stabilisation is made on a joint Finexpo/Delcredere | Ducroire form.

The interest rate is dependent on the loan's tenor and currency. The OECD Arrangement lays down what minimum fixed interest rates have to be offered, i.e. on the basis of the "CIRRs" (Commercial Interest Reference Rates), which are set monthly.

### **Right of recourse against the exporter?**

Should exporters fail to fulfil their obligations under the commercial contract, the risk increases that the customers will refuse to repay the loan.

In such cases, Delcredere | Ducroire may to a certain extent claim from the exporters the sums Delcredere | Ducroire has paid out to the lending bank.

### **Premium?**

The Delcredere | Ducroire premiums for termination and non-payment risk are payable upon issuance of the policy: it is expressed as a percentage of the credit amount.

The premium percentage is calculated in accordance with the customer's creditworthiness, the import country and the tenor of the loan.

If you would like an estimate of the premium for a specific transaction, feel free to contact Delcredere | Ducroire.

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