

Code of conduct for the

CREDIT INSURANCE SECTOR



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1. Principles of a code of conduct

Credit insurance is a risk management tool to help companies manage and reduce the risks involved in trade credit transactions through the provision of cover on insurable risks as well as risk prevention and debt collection services.

Credit insurers provide an indemnity against losses incurred by companies.

Credit comes from the Latin word “credere” or “to believe in”. Trust and transparency are the basis for our financial system and for our product, credit insurance. With mutual trust, the sector will develop its full potential.

This Code strives to make the sector more efficient and is a win-win for all involved parties. The Code has been produced in order to formalize and to make the commitments of all parties transparent.

This document is a statement of principles and is not legally binding. Customers should ensure that any contract they enter into satisfies their requirements.

This code have an impact on six different aspects:

- ✓ **Enhance competition:**
this is an important element for the behavior of the insurance companies in a market characterized by its oligopoly structure, but where price competition is already tough.
- ✓ **Stimulate transparency:**
the code will encourage all parties, including the buyers, to greater openness enabling both the insured and the insurance companies to have more accurate information on their buyers.
- ✓ **Minimize fraud:**
which happens e.g. often when policyholders declare less covered turnover than is the case in reality to reduce the premium charge.
- ✓ **Change perception,**
by having a positive impact on the perception of credit insurance as being an essential part in the credit (risk) management process.
- ✓ **Reduce 'air',**
by bringing the credit lines on buyers closer to their real use.
- ✓ **Increase Sustainability**
by optimizing communication between credit insured and insurers whenever there is a need to reduce or withdraw credit limits. A 'stop and go' approach should be avoid.

This code of conduct is in a way essentially bilateral agreement between the policyholder and the Credit Insurance Company. But the scope is even larger because the brokers are integrated into it as facilitator, and the buyer takes indirectly part into it although in most cases he does not have a contractual relationship with the credit insurer.

The basic principles of the code of conduct are:

- ✓ **Openness and accurate information exchange**
- ✓ **A win-win for all parties**
- ✓ **Mutual trust and dialogue**
- ✓ **Maximum use of IT possibilities**
- ✓ **Discretion and professionalism**

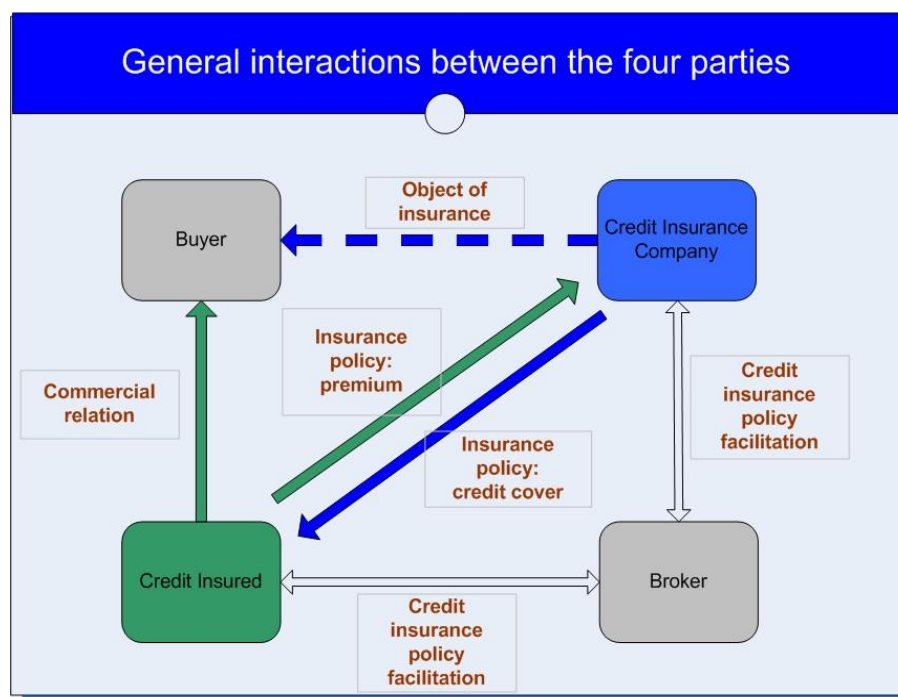
2. Contracting parties of the code of conduct.

The code of conduct reflects the relations between four parties.

We should distinguish between:

- the two contractual parties (The credit insurance company & The credit insured company)
- the broker (acts as a facilitator)
- the buyer (who is not a contracting party but crucial for the credibility issue)

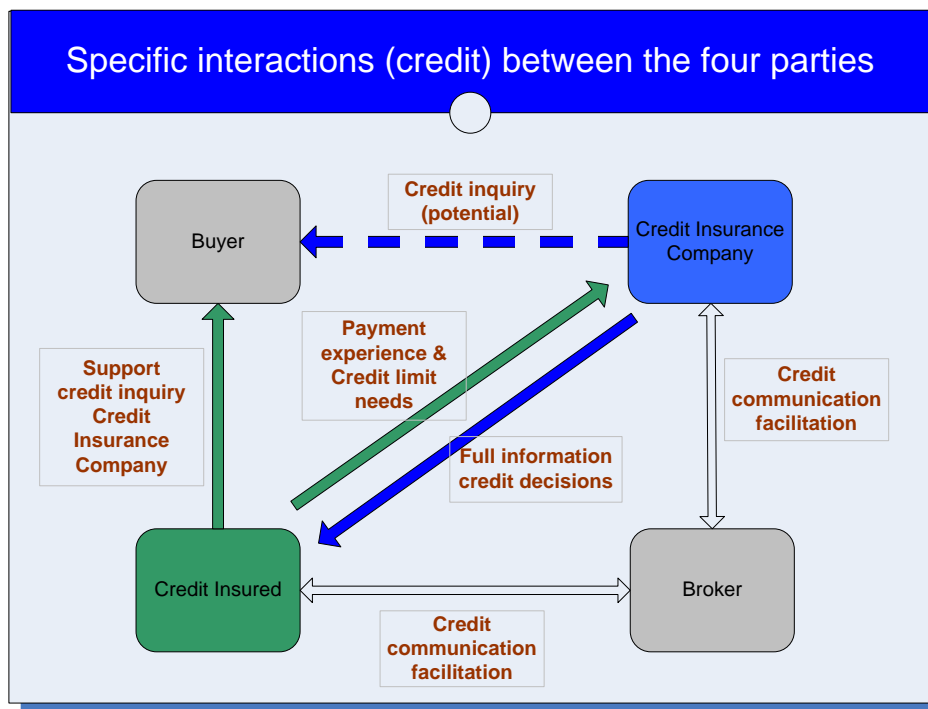
We can illustrate the four parties as follows:



⇒ Code of conduct is supported by all the Credit Insurance Companies and by the credit insured company and brokers.

⇒ The buyer is not directly involved in the Code of Conduct.

We can illustrate the specific interactions about credit decisions as follows:



3. Characteristics of the code of conduct

The code of conduct has six characteristics:

- ✓ It is a **Gentlemen's agreement** and is not legally binding. It is not a legislative initiative but a sector initiative, based on the initiative of the credit management community (companies, Brokers¹), and backed both by the credit insurance society and the credit insured companies. Its value is moral.
- ✓ It is supported and discussed for **every existing policy and at the issuance of each new policy**.
- ✓ A **yearly progress report** on the implementation of the Code will be published.
- ✓ It is first launched as a pilot at the **Belgian** level and shall thereafter be negotiated at **European** level (in collaboration with the European Commission and European Credit Insurance Organizations).
- ✓ The communication of the Code is basic. Therefore, the Code is **widely announced** (e.g. through press) and communicated. The Credit Insurance Companies are invited to include the code in their promotional material by confirming that they "*support the Code of Conduct*".
- ✓ **Brokers** are invited to take into account the adherence and respect of the Code in their role as facilitator between both contracting parties.

¹ The Code of Conduct is an initiative from the think-tank launched by CRION

4. Commitments of the credit insured companies

The credit insured as supplier has a contractual relationship with the buyer. As such is he also in a way the representative of the buyer, but the insurer can also have direct access to the buyer (or through its different information sources). The two first points should be considered in this perspective.

The credit insured commits to:

1. Support credit inquiry and support access to financial figures of the buyers -or any other financial information- and deliver those documents to the insurer on request.
2. Should engage to build a healthy credit management and to inform correctly about the insured turnover.
3. Deliver when requested (and possible: taking into account all legal and IT restrictions) risks and payment behavior on buyers known by insurer (for instance through DSO) in an IT-efficient way.
4. Inform the insurer on the relations with buyers, in particular about the almost never used credit lines on buyers.

5. Commitments of the Credit Insurance Companies

The Credit Insurance Companies commit to:

1. Inform the credit insured of new 'relevant' information about a customer's insured credit. This can through installing an alarm warning system by informing insured companies if a significant change occurs in one of their debtors credit worthiness and/or if a rating has been changed.
Optimize customer-friendly databases which are partially (public domain) accessible to the credit insured.
2. Offer, if not the case yet, a rating system on debtors and communicate the rating and motivation in relation to the rating to the insured company on agreed conditions. Such a rating should be seen as an integral part of the global credit assessment exercise that the insurer needs to do to determine credit lines on debtors.
3. Move towards a system allowing partly the 'information push possibility' (e.g. web services application).
4. Explain a clear business strategy with respect of the possible adaptation of credit lines on the basis of a framework with objective criteria and pre-agreed terms. Decisions on individual credit limits will not normally be based solely on the situation of the particular trade sector in which the relevant entity operates. Decisions are based on various types of information, public and confidential, financial and non-financial, which constitute a credit insurer's unique source of value.
5. Avoid competitive price destruction to the disadvantage of quality (acceptance ratio's, speed of decisions,...).
6. Take initiatives to discuss the almost never used credit lines.
7. Analyze in cooperation with the insured if some debtors' lines could be reduced and others increased.
Develop and/or promote solutions in order to avoid the systematic and abrupt volatility.
8. Give as much notice as is reasonably possible to a customer of a decision to stop or substantially reduce credit insurance cover in respect of that entity. Credit Insurers will make an effort to provide explanations to companies where cover has been altered or stopped.

6. Commitments of the brokers

In their role of facilitators, brokers commit to:

1. Promote actively the use of the code of conduct.
2. Inform both contractual partners on the respect of the code of conduct.
3. Push the inclusion of the code of conduct in every new or renewed contract.
4. Organize the promotion and divulgation on European level with the aim to create a European code of Conduct for the credit insurance sector.
5. Make a professional analysis of the credit insurance proposals taking into account all aspects of credit insurance: premium, quality, credit lines, reporting tools, service,...
6. Analyze the real needs of the prospects / insured companies and communicate them correctly towards the Credit Insurers.
7. Provide all the relevant information of the prospect / insured companies / debtor to the insurance company.
8. Take initiatives to discuss the almost never used credit lines.

7. Common commitments

All parties will:

1. Further explore the possibilities in the IT area in order to facilitate transmission of information and try to reduce administrative burden as much as possible.
2. Promote in a neutral way the concept, functioning and added value of credit Insurance in the credit management process through:
 - Federations,
 - SME organizations,
 - Schools and educational programs (including academic networks).

This includes the explanation of the credit insurer's preventive role: its added value lays in the fact to make as precisely as possible the distinction between the healthy companies on the one hand, and the unhealthy ones on the other which carry a big risk to fail during the next year.
3. Work together in order to obtain as much information as possible on the debtors based on the principle of 'joint effort'.
4. Explore ways how to best assure the implementation of this code by actions such as best practices, benchmarking or positive reporting.



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