

### **Commercial Credit Insurance Increases Business Safety**

Commercial credit insurance is a lesser known product, but Euler Hermes is taking steps to correct that. This product eliminates the risk of not recovering debts from a customer from the minute the insurance policy is signed.

Euler Hermes, a company with joint German and Austrian credit, has been on the Romanian market for the last three years, and belongs to the Allianz group. Romania has benefited from the advantage of having Allianz Tiriac, itself a member of Allianz group. Additionally, owning a license to operate on the market, Allianz Tiriac could sell Euler Hermes policies, which it then managed, but all that means marketing, sales, and customer service fall on the Euler Hermes staff, told us Cristina Rusuleanu, 39, the company's general director.

Rusuleanu considers that one advantage that this company has is that, internationally, it holds information about over 40 companies it analyzed. The same will have to happen in Romania too, in order to very well know the peculiarities of the market, and to develop the risk undertaking department's development. With the introduction of this service, suppliers started having more confidence in exposing to risks posed by unrecoverable credit, "which are, in fact, false risks, if we see our policy standing behind it", Rusuleanu specified. She explained that, due to the policy they offer, customers ask for higher credit. If so far the amounts involved ran into the tens or hundreds of thousands of Euro, the latest requests came for over 1 million Euro. "This can only make us happier, because it is a sign of the economy developing, nevermind the statistics. Certainly there are more credit limits for this year compared to last year, especially for foreign debtors, because economic relations with other countries have grown very much, which means Romanians do not just import, but also export", said Rusuleanu. Another advantage for this policy, in the context of ever growing competition, is that it allows companies who offer this type of insurance to relax relations with debtor customers, Rusuleanu added. They cover the risk, and, at the same time, relax the payment conditions. Cristina Rusuleanu said: "our role is not just paying reparations, but, together with our customer, we avoid further damage".

When an application is made, Euler Hermes analyzes the potential insurance client's entire portfolio of customers. All the customers covered by the policy are analyzed one by one, and a credit limit is approved, which could be equal to the amount requested by the client, smaller, or 0, when risks are too great, Rusuleanu specified. "Of course our insurance customer should rely on our thinking and the reasons we made that decision. In some cases, they don't listen to us, and take that risk, because it may be about a customer which is good for the time being. The problem is that this is exactly the reason you are signing the policy, to listen when you are told that a certain company may default". After analyzing all customers, and setting the credit limits, the insured company can deliver merchandise in the amount approved by the insurance company for each of its customers.

The Euler Hermes director explained step by step how commercial credit insurance works. When a debtor doesn't pay an invoice, and the insured does not wish to stop sales, the debtor is given a 30 day grace period, time in which the policy bearer can still deliver goods to the debtor, within limit of the credit granted. At the same time, the insurance company monitors the debt and the debtor company. If the bill is not paid within 30 days, deliveries stop. Any delivery beyond the 30 days is not covered by the insurance. From that moment, together with the insured party, they start attempts to recover the debt amiably, by direct contact, letters, or summonses. If the insured party has not recovered the debt within six months, completely or partially, then the insurance company covers the debt. "From that point on it falls upon the insurance company to recover the money", added Rusuleanu in the end. A special situation is that in which, in spite of having problems with a debtor, an insured company intends to resume commercial relations with it. Euler Hermes stands against extending credit in that situation. In Romania, the general tendency is to not communicate to debtor customers having such a policy, because then they become very relaxed with their payments, knowing that their supplier is insured. In other countries, where commercial credit is used on a large scale, no company takes the risk to end up on a black list. Mainly, criteria upon which Romanian companies sign such policies are based on their experiences. If they had no incidents, then they don't take out the insurance. "If they had losses in previous financial years with unpaid invoices, then they can easily make a comparison. They will think that if they lost 50 thousand Euro in the past, and the policy costs 20 thousand, then the insurance is worth it", Rusuleanu said. She then recalled two large companies which, although did not foresee any financial collapse, nevertheless had large losses. "No one thought Parmalat will have moments when it will default. There have been difficult situations when many of the suppliers for these companies though nothing could go wrong with Parmalat, or Enron. And yet it happened. Therefore, it very much depends on the mentality and the strategy that the management applies", underlined the Euler Hermes general director.

Another reason for which not many Romanian companies are using this type of service is the cost of a policy. Rusuleanu said a special budget is needed from year to year. "The price of a policy can vary greatly, depending on how much turnover the policy covers, the payment deadlines, and the client portfolio. The algorithm sets the premium, which is generally below 1% of the insured amount. The cost, percentage wise, is not large, but it depends at what turnover you apply it". On the Romanian market, Euler Hermes competes with the other insurance companies, who also offer such services. Internationally, Euler Hermes leads the market with 34%, followed by Atradius and Coface, Rusuleanu explained.

"These three players have the market practically divided amongst themselves". On the markets where all three act, competition is fierce.

A few years ago German company Hermes merged with a French company with similar activities, Societe Francaise D'assurance des Credits, and they became Euler Hermes. At the beginning, Euler Hermes was a company with only one employee, who now heads the company, and who gave up the safety of a position in banking for pioneering the commercial credit insurance market.