

CODE OF CONDUCT FOR THE CREDIT INSURANCE SECTOR

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Think tank & Code of conduct

The financial crisis has revealed the weaknesses of the credit insurance product. The business communities and the professional federations experienced that the credit insurance product needed renewal and a think tank was therefore created: the “Credit Management Think Tank”.

The think tank acts as a breeding ground for innovative ideas and initiatives regarding credit management. The think tank must bridge the needs of the companies, exporters on the one hand and those of the credit management solutions providers on the other hand. The academic world plays an advisory and stimulating role in that process.

The think tank needs enterprising and creative people who can examine each idea from the point of view of their respective disciplines and functions. The members of the think tank therefore come from international business communities, professional federations and universities. You will find the list of members on page 77.

Based on the needs of companies, the think tank develops creative and innovative solutions. One of those needs of the business world was the development of a Code of conduct for the credit insurance sector. The Code of conduct was developed by the think tank, discussed with the federations, presented to the providers of credit insurance products and finally accepted by them.

The key words in the Code of conduct are: more transparency, better communication, professionalization of the sector and increased sustainability. We invite you to go through the complete text.

The think tank

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 realized in order to formalize the commitments of all parties and to make these commitments 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 has six different goals:

Enhancing 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.

Stimulating 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.

Minimizing fraud:

This is the case when policyholders declare a lower amount of covered turnover than in reality in order to reduce the premium charge.

Changing perception:

The Code wants to have a positive impact on the perception of credit insurance as being an essential part of the credit (risk) management process.

Reducing "air" in credit limits:

By bringing the credit lines on buyers closer to their actual use.

Increasing sustainability:

The Code wants to optimize communication between credit insured and insurers whenever there is a need to reduce or withdraw credit limits. A 'stop and go' approach should be avoided.

This Code of conduct is in a way an essentially bilateral agreement between the policyholder and the Credit Insurance Company. However the scope is even larger because brokers are integrated into it as facilitator. The buyer indirectly takes part into it as well 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***

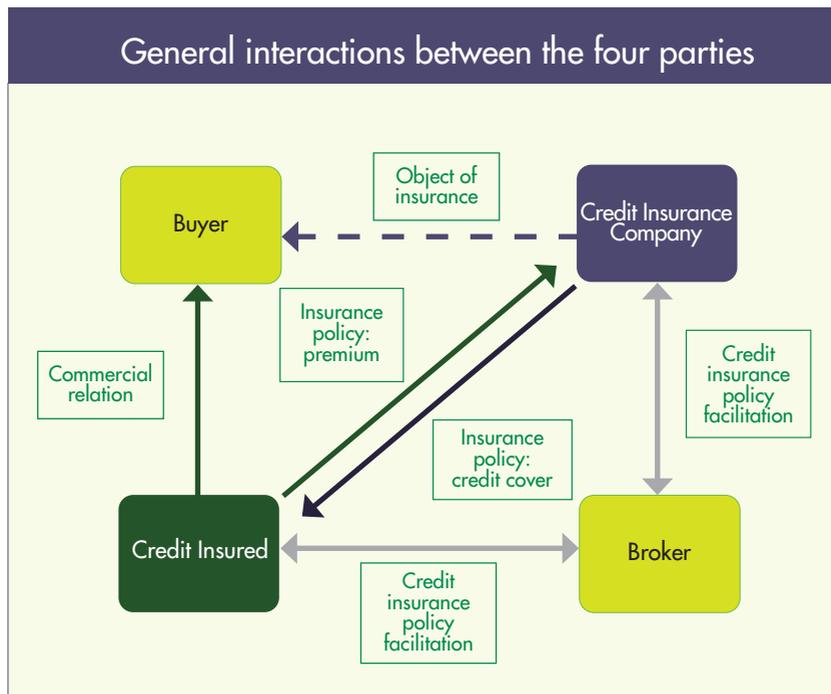
2. Contracting parties of the Code of conduct

The Code of conduct reflects the relations between four parties.

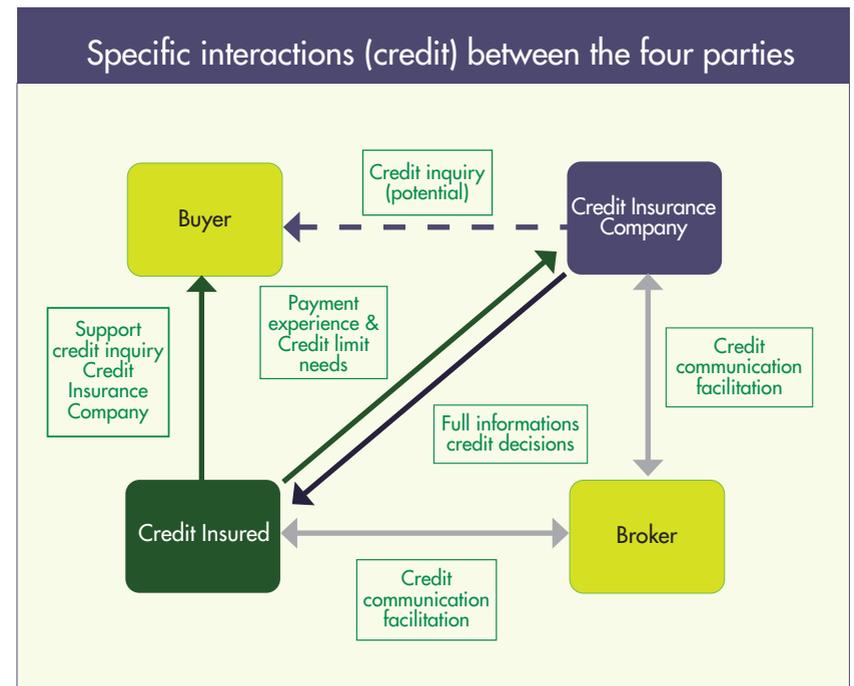
We should distinguish between:

- 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:



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



→ The Code of conduct is supported by all the Credit Insurance companies, by the credit insured companies and brokers.

→ The buyer is not directly involved in the Code of conduct.

3. Characteristics of the Code of conduct

The Code of conduct has six characteristics:

- It is a **Gentlemen's agreement** and 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. It has a moral value.
- It will be 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 was first launched as a pilot project in Belgium and shall thereafter be negotiated on a **European** level (in collaboration with the European Commission and European Credit Insurance Organizations).
- The communication of the Code is essential. 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 to and respect for 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 he is also in a way the buyer's representative, although the insurer can also have direct access to the buyer (through its different information sources). The two first points should be considered in this perspective.

The credit insured makes following commitments:

1. Supporting 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. Engagement to establish a healthy credit management and to inform correctly about the insured turnover.
3. Delivering when requested (and possibly: taking into account all legal and IT restrictions) risks and payment behavior on buyers known by the insurer (for instance through DSO) in an IT-efficient way.
4. Informing the insurer about the relations with buyers, in particular about credit lines on buyers which are hardly ever used.

5. Commitments of the credit insurance companies

The credit insurance companies make following commitments:

1. Informing the credit insured of new "relevant" information about a customer's insured credit. This can be done by installing an alarm warning system that informs insured companies of a significant change in one of their debtors credit worthiness and of rating evolutions.
Optimizing customer-friendly databases which are partially (public domain) accessible to the credit insured.
2. Offering, 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 perform to determine credit lines on debtors.

3. Moving towards a system that partly allows “information push possibility” (e.g. web services application).
4. Explaining a clear business strategy with respect for 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 will be based on various types of information, public and confidential, financial and non-financial, which constitute a Credit Insurer’s unique source of value.
5. Avoiding competitive price destruction to the disadvantage of quality (acceptance ratios, speed of decisions,...).

6. Taking initiatives to discuss credit lines hardly ever used.
7. Analyzing in cooperation with the insured the possibility to reduce or increase specific debtors’ credit lines.
Develop and/or promote solutions in order to avoid the systematic and abrupt volatility.
8. Giving as much notice as is reasonably possible to a customer of a decision to stop or substantially reduce credit insurance cover with respect to a specific entity. Credit Insurers will make an effort to provide explanations to companies whenever cover is altered or stopped.

6. Commitments of the brokers

In their role of facilitators, brokers make following commitments:

1. Promoting actively the use of the Code of conduct.
2. Informing both contractual partners on the respect for the Code of conduct.
3. Pushing the inclusion of the Code of conduct in every new or renewed contract.
4. Organizing the promotion and divulgation on European level with the aim to create a European Code of conduct for the credit insurance sector.
5. Making a professional analysis of the credit insurance proposals taking into account all aspects of credit insurance: premium, quality, credit lines, reporting tools, service,...
6. Analyzing the real needs of the prospects / insured companies and communicate them correctly towards the Credit Insurers.
7. Providing all the relevant information of the prospect / insured companies / debtor to the insurance company.
8. Taking initiatives to discuss the credit lines hardly ever used.

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 lies in the capability of distinguishing as accurately as possible 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.

Members of the Credit Management Think Tank

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