

Supply Chain Scenario

Short Term Trade Credit Insurance

AS Limited has secured a contract to supply 8,000 duvets to a New Zealand firm (OB Exports Limited) for export to Asia. The demand for these duvets is seasonal, and AS Limited must have these duvets available for shipments between September and January. This contract is worth a total NZD 1.4 million.

OB Exports is selling these duvets to a range of Asian-based distributors and retail outlets, and is not getting paid until up until 60 days from delivery from New Zealand.

Accordingly, OB Exports is wanting to postpone its payments to AS Ltd for these duvets, and has asked for a 90 day credit term.

AS Ltd's fabric and wool suppliers are not prepared to provide credit terms to AS Ltd, and require full up-front payments. AS Ltd now finds itself squeezed for working capital to finance this profitable opportunity, as well as facing the risk of not being paid for its duvets.

AS Ltd's bank recommends trade credit insurance to mitigate this payment risk.

In light of only having one buyer to insure, for a seasonal contract, AS Ltd finds it difficult to obtain private insurance, and is referred to the New Zealand Export Credit Office (NZECO).

NZECO first assesses the creditworthiness of OB Exports, including its financial ability to repay AS Ltd in the event that some of its Asian buyers delay or default on their payments.

If NZECO is satisfied with the credit risks, then it issues its Short-Term Trade Credit Insurance to AS Ltd which will cover losses arising from either OB Exports cancelling their order while the duvets are being manufactured, or OB Exports failing to pay for the duvets 90 days after delivery.

While NZECO typically only supports exporters, it has the ability to also provide its solutions to New Zealand firms that are supplying goods or services that are integral to an exporting firm's delivery of exports. Given that AS Ltd is manufacturing the duvets for export by OB Exports, NZECO is able to offer its support to AS Ltd.

An additional benefit of this trade credit insurance is that AS Ltd's bank may be able to advance additional working capital to help AS Ltd pay their suppliers.