



New Zealand Export Credit Short Term Trade Credit Guarantee

What is a Short Term Trade Credit Guarantee?

Our Short-Term Trade Credit product covers the risk of a foreign buyer or foreign bank failing to make short-term credit payments for your exports as agreed. NZEC's short-term cover can also be utilised by New Zealand companies who are supplying to a New Zealand Exporter where the goods or services being provided to the Exporter are either: integral to the Exporter being able to fulfil the export contract; or integral to the Exporter. There are three different ways NZEC's short-term cover may be used:

- ▶ as a policy issued directly to you where you have been declined cover on a foreign buyer by a private trade credit insurer (**Direct Trade Credit Insurance**)
- ▶ as a 'top-up' policy issued directly to you where you are seeking an increase to the buyer limit provided by your private trade credit insurer (**Top-up cover**) or
- ▶ as a policy issued to your bank to enable them to confirm the payment of a Letter of Credit issued by a foreign bank (**Letter of Credit guarantee**).

Benefits

The benefits of our **Direct Trade Credit Insurance** include:

- ▶ a complementary alternative in the event your private trade credit insurer lacks the capacity or credit appetite to cover your buyer(s)
- ▶ the ability to provide extended credit to your foreign buyer, which may help secure an export order
- ▶ the undertaking of due diligence by NZEC on your foreign buyer, which may provide you with peace of mind to trade with a new buyer (or not, if NZEC declines to approve cover)
- ▶ the mitigation of loss in the event your buyer fails to pay you due to offshore political or commercial events and
- ▶ the potential ability to assign our policy to your bank in order to receive trade finance to better support your working capital.

The benefits of our **Top-up cover** include:

- ▶ the ability to commit to increased shipments or a larger export contract, with the peace of mind that you have an additional layer of cover on your foreign buyer, in excess of your private trade credit insurance limit.

The benefits of our **Letter of Credit guarantee** include:

- ▶ helping you protect the payment of your export sales, especially in higher-risk markets, via the use of letters of credit
- ▶ enabling your bank to confirm the Letter of Credit payment by the foreign bank, in circumstances where your bank may otherwise lack credit capacity or appetite
- ▶ enabling your bank to potentially advance you payment of the Letter of Credit amounts, which improves your working capital.

What is covered?

For **Trade Credit Insurance**, you apply for a credit limit on a foreign buyer. This limit should be the maximum amount which you consider may be owing from your buyer at any stage over the next 12 months. This limit may cover an individual goods or services transaction, or multiple sales over a 12 month period.

For Trade Credit Insurance, we do not provide 100% cover on your buyer limit. Typically our level of cover ranges is between 80% to 90%. This means that you will retain some risk in the transaction.

If you are selling via **Letters of Credit**, your bank may seek our Letter of Credit guarantee to cover the risk of non-payment by a foreign bank.

For Letters of Credit, we can provide up to 100% if your bank is not able to provide a Confirmation.

We underwrite the risks of your buyer or foreign bank failing to repay any amounts outstanding to you under your supply contract or Letter of Credit. The reason for this non-payment must be as a result of specific commercial (e.g. liquidation or insolvency) or political events (e.g. foreign currency restrictions).

Talk to our team for our full list of insurable events, and also visit our **Country Information** page on our website (<https://exportcredit.treasury.govt.nz/country-information>) to see our current country risk categorizations and cover status.

Our policy does not cover non-payment if it is a result of a dispute between you and your buyer, unless you obtain a judicial or arbitration judgment in your favour.

The maximum credit term we can support under this product is 360 days, however typically our support is for credit terms of 120 days or less. As a general principle, the credit term should not exceed the economic life of the exported good.

Our cover can be issued in the following currencies: NZ dollar, Australian dollar, US dollar, Canadian dollar, the euro, Japanese yen, Chinese renminbi, or UK sterling.

How it works

We can only consider providing you with **Direct Trade Credit Insurance** if you have first been declined cover by a private trade credit insurer.

In the event you have received cover on a buyer from your private insurer, but it does not fully cover the value of all of your expected exports then, with the agreement of your private insurer, you may seek an additional layer of trade credit insurance (**Top-up cover**) from us.

In both instances, we undertake an assessment of the creditworthiness of your buyer and your buyer's country. This typically involves obtaining a credit report on your buyer, as well as seeking their financial accounts. If we approve your application, we will offer our trade credit insurance policy directly to you.

If your bank is extending additional trade finance against this trade credit insurance, then we can both assign our policy to your bank.

In the event of non-payment and a claim under our policy, there is normally a three-to-six-month waiting period before we compensate you. This recognises that delayed payments are common and this waiting period is used to attempt to recover or reschedule the outstanding payments. Upon our payment to you, we continue to explore options to recover money back from your buyer.

Our **Letter of Credit guarantee** is typically provided direct to your bank to enable them to "confirm" payment under an international Letter of Credit. A New Zealand bank may directly apply for our cover where they have reduced risk appetite on a foreign bank or country.

We recommend that you discuss your risk mitigation and export finance requirements with us and your bank and insurer as early as possible. If you would like to email us an enquiry for our indicative feedback, please complete the **information checklist** available on our website <https://exportcredit.treasury.govt.nz/what-we-do/how-apply>

How to apply

The key eligibility criteria for our support are:

- ▶ confirmation that you are a New Zealand registered company or a subsidiary of a New Zealand registered company domiciled overseas
- ▶ confirmation that the private sector is unable to provide cover or support the export transaction on reasonable terms or pricing
- ▶ evidence of a commercially sound transaction with a credit-worthy buyer or bank;
- ▶ signed acknowledgment of our anti-bribery declaration (<https://exportcredit.treasury.govt.nz/corporate-responsibility/new-zealand-export-credit-anti-bribery-policy>) and
- ▶ evidence of economic benefits to New Zealand relating to your delivery of the goods and/or services provided under the export contract(s) or
- ▶ evidence that the performance of your contract is integral to the Exporter.

To apply for a Short-Term Trade Credit Guarantee, please complete the **application form** available on our website: <https://exportcredit.treasury.govt.nz/what-we-do/how-apply>

As part of our assessment on your buyer and the underlying exports, we will seek the following information:

- ▶ your buyer's (and/or guarantor's - if applicable) audited financial accounts (for the previous two years of trading PLUS the current year of trading)

- ▶ a credit report (for example from Dun & Bradstreet) that has been conducted within the last three months and
- ▶ details of your prior trading history and any outstanding payments with this buyer.

What it costs

If we approve your application, we charge a premium for our cover which reflects the commercial and political risks, as well as the payment terms under your supply contract.

Our premium is applied against the total value of your export contract being underwritten, rather than against your buyer limit or Letter of Credit limit.

We also charge a minimum \$500 assessment fee, per buyer limit.

Contact us

For more information, please contact us or visit our website:

Tel: +64 4 917 6060
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Website: [https://exportcredit.treasury.govt.nz /](https://exportcredit.treasury.govt.nz/)