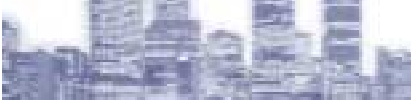

Credit Insurance in Developed Economies

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«Not long ago the commercial transaction was the most visible and evident aspect. To an increasing extent now the real transaction is taking a secondary role and more prominence is being taken by the financing, the execution and the risks derived or associated with the actual transaction, which in themselves are not credit insurance. The clearest case of this is the "weather derivative", whose cover is tied to measurable and verifiable meteorological events, and not to the insolvency of the purchaser.»

Credit insurance covers a supplier of goods or services against the risks arising from the insolvency of its buyers. Insolvency is understood to mean that as defined by law, in other words receivership, bankruptcy, creditor tendering or other forms as recognised by law. De facto insolvency is a concept which is set by a state combined with a period of time, normally in Europe prolonged payment default is understood to be the payment default of a liability, after its maturity, for a period of six months.

Credit insurance is linked to mercantile activity and occurs in industrialised countries, rather than agricultural or underdeveloped countries, due to a number of reasons related to the availability of financial information about the agents – suppliers and purchasers – to payment conditions, trading practices and the general economic context.

The principal players in credit insurance are: a) a supplier of goods and services; b) a local or foreign buyer; c) a credit insurer able to assume the credit risk.

In the first phase, the supplier's credit arises out of a firm order or a contract which obliges the delivery of goods or services to the purchaser, and sets the payment conditions of the debtor in terms of form and term.

Greater sofistication is achieved when a bank or financier is willing to mobilise, discount or factorise the credit documents. In these circumstances the credit insurer extends its cover to the bank directly or to the **factoring** company. In any case, the compensatory payment will only be made to the legitimate holder of the credit on which the debtor has defaulted.

In all these cases the predominant relationship is that between the supplier and the debtor.

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Elements appear in more developed economies which make it necessary to consider the risk in another way. The first of these is the greater weight of the financing banks which request guarantees for their credits. The second is «project financing», in which the transaction as a whole is considered, and it is necessary to assess the technical aspects of the insurable project.

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Credit insurance is quickly turning into a collection of covers affecting the underlying mercantile transaction. Not long ago the commercial transaction was

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