

Receivables Finance - Credit Protection

The basics

Credit protection is an optional product feature that limits the impact of your customers paying late or becoming insolvent, where you have a receivables finance facility with us (either Invoice Discounting, or Invoice Finance with Sales Ledger Management). Under our agreement with you, we have contractual rights to:

(i) designate debts as ineligible debts, and/or (ii) require you to repurchase those debts, and/or (iii) remove or reduce the funding availability accordingly.

Credit protection is our agreement to limit these contractual rights. Provided the debt purchased by us is eligible for credit protection (see below), the protected amount will remain available to you in your funding facility (invoice discounting or invoice finance with sales ledger management) regardless of your customer paying late or becoming insolvent.

This guide is to help you understand and use our credit protection feature. Full details of the applicable terms are set out in the Agreement for the Purchase of Debts between you and us (the Agreement).

How it works

If you have selected the credit protection product feature, we may set a credit protection limit for a customer. For your customers in the UK, the Isle of Man and the Channel Islands, we will provide an initial limit automatically unless we or you are aware of any adverse information about the customer. For your customers in other countries, we will usually confirm a limit with you on a case by case basis.

In order to avoid invalidating any current or future credit protection requests please note that if a credit protected debt is unpaid 120 days past its due date, or is payable by a customer that becomes insolvent, you must not trade with that customer on any terms (unless we agree) until the credit protected debt is fully discharged. Additionally, if a credit protected debt is unpaid, or is payable by a customer that becomes insolvent, you must not trade with that customer on Pro Forma or Cash on Delivery (CoD) terms (unless we agree) until the credit protected debt is fully discharged.

We will make funding available to you and/or maintain existing funding in relation to that debt despite non-payment, provided the debt is eligible for credit protection. A summary of key requirements for eligibility included in your agreement with us is detailed below.

If you are using our Invoice Discounting option for finance you will need to do the following at 60 days past due date or, if earlier, 120 days from invoice date:

- ◆ within 7 days, notify the customer of our ownership of the debts;
- ◆ within 15 days, provide an 'instruction for collection form' to us and all information relevant to prove the existence and validity of the debt, and your attempts to collect the debt as our agent.

If you are using our invoice finance with sales ledger management product, this will not apply as we will be seeking to collect the debt ourselves and will pursue our usual processes for doing so.

What you need to know

Certain debts are not eligible for credit protection. A full list is included within your agreement with us but this includes:

- ◆ debts (or a part of a debt) in excess of a limit we set for a customer will not be covered whilst the limit is exceeded
- ◆ debts that are the subject of any breach of warranty or undertaking that you give to us under the agreement (this includes debts which are disputed)
- ◆ the part of the debt which is the 'first loss' as defined in our agreement with you

- ◆ debts which are already over 60 days overdue for payment at the beginning of our relationship with you, and all debts of that customer
- ◆ debts created on payment terms that we have not agreed to
- ◆ debts that are irrecoverable due to Force Majeure e.g. civil commotion, war, act of god or due to the direction of any government, so called political risk
- ◆ debts where the 'instruction for collection form' is not submitted within the timescales required.

If a debt becomes ineligible for credit protection (e.g. by it becoming a disputed debt), any benefit received as a result of this debt in terms of available funding will be removed and/or reversed (unless we agree otherwise on a case by case basis) unless or until the debt becomes eligible again (e.g. by proving the debt in court or otherwise withdrawal of the dispute).

We can change the limits applicable to your customers and will notify you of this. Any change to a limit will not impact debts you have already notified to us prior to the notice to change the limit. If a limit request is declined and you have concerns about this decision, please contact us and we will explain the position to you and discuss options available.

The credit protection and limits provided are for the named customer legal entity only. It is important that you check and ensure that the information you are providing to us is accurate in all respects (including company registration number if applicable).

If the customer is insolvent, we will seek to recover the debts within the insolvency process or in some circumstances we may reassign the debts to you for you to do this. In either case, any dividend received by either of us would be shared in proportion to the proportion of the debts which were and were not credit protected.

The VAT element of debts is not eligible for credit protection, and account adjustments (debits and credits) may be made from time to time to reflect this in accordance with the agreement.

You need to maintain robust operational and data records and must carry out appropriate due diligence on your customers.

If your customer becomes insolvent, making funding available to you and/or maintaining existing funding in relation to that debt despite non-payment may require sight of satisfactory evidence as to proof of the debt. We typically apply a threshold of £10,000 above which we will require evidence of the debt. Below that amount we may require evidence within our discretion.

If you choose to cancel the credit protection product, we will treat all eligible debts falling within the credit protection terms before notification of cancellation as still being eligible for credit protection. If the Invoice Finance agreement is terminated, credit protected receivables will become unprotected if they are outstanding on the termination date.

What does it really cost?

- ◆ The charge for Credit Protection is clearly stated in the agreement.
- ◆ You will be liable for our legal costs in pursuing a debt through court proceedings under the terms of the agreement between us. However, this liability is limited by reference to the proportion of the debts which are covered by credit protection. You will only be responsible for unrecovered costs of court action in proportion to the value of the debts which are not covered by credit protection.
- ◆ Be aware however that disputed debts are not covered by credit protection unless or until that dispute is resolved or determined in our favour by a court and valid debt is proven.
- ◆ Our credit protection charge is calculated taking account of predicted annual turnover. The credit protection charge may be subject to a minimum annual charge.

More information

You can find further helpful information on how to operate your receivables finance products in the “Help” section of the HSBC*net* platform, including detailed user guides for our Credit Protection feature.

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