

# Receivables Finance Credit Protection Product Guide

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**HSBC** UK

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## The basics

Credit Protection is an optional product feature that limits the impact of your customers paying late or becoming insolvent when 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:

- designate debts as ineligible debts
- require you to repurchase those debts
- remove or reduce the funding availability accordingly

Credit Protection is our agreement to limit these contractual rights. If the debt purchased by us is eligible for Credit Protection, the protected amount will remain available to you in your Receivables Finance facility, regardless of your customer paying late or becoming insolvent.

This guide is to help you understand the Credit Protection feature. Full details of the applicable terms are set out in the debt purchase agreement between you and us (the Agreement).



## How it works

If you've 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'll automatically provide an initial limit, unless we or you are aware of any adverse information about the customer.

For your customers in other countries, we'll usually confirm a limit with you on a case-by-case basis.

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## Unpaid debts

If a credit protected debt is unpaid 120 days past its due date or is payable by a customer that becomes insolvent, you mustn't trade with that customer on any terms (unless we agree) until the credit protected debt is fully discharged. This is to avoid invalidating any current or future credit protection requests.

If a credit protected debt is unpaid or is payable by a customer that becomes insolvent, you mustn't trade with that customer on pro forma or cash on delivery (CoD) terms (unless we agree) until the credit protected debt is fully discharged.

If the debt is eligible for Credit Protection, we'll make funding available to you and/or maintain existing funding in relation to that debt, despite non-payment. We've detailed a summary of key requirements for eligibility, which are also included in your Agreement with us.

If you're using our Invoice Discounting option for finance, you'll need to do the following at 60 days past due date or 120 days from invoice date, whichever is earlier:

- Within 7 days, notify the customer of our ownership of the debts.
- Within 15 days, provide the following information to us:
  - a completed Instruction for Collection form
  - information relevant to prove the existence and validity of the debt and your attempts to collect the debt as our agent

This won't apply if you're using our Invoice Finance with Sales Ledger Management product. We'll be seeking to collect the debt ourselves and will follow our usual processes for doing so.



## What you need to know

The Credit Protection and limits provided are for the named customer legal entity only. It's important that you make sure the information you're providing us is accurate, including company registration number where applicable. You'll need to maintain robust operational and data records and carry out appropriate due diligence on your customers.

We can change the limits applicable to your customers and will notify you if we do so. If a limit request is declined and you have concerns about this decision, please contact us to discuss the options available.

If your customer becomes insolvent, making funding available to you and/or maintaining existing funding in relation to that debt may require sight of satisfactory evidence as to prove the debt, despite non-payment.

If the customer is insolvent, we'll seek to recover the debts within the insolvency process, or we may need to reassign the debts to you to recover the debt. In either case, any dividend received by either of us would be shared in proportion to the debts which were and were not credit protected.

If you choose to cancel the credit protection product, we'll treat all eligible debts falling within the Credit Protection terms before notification of cancellation as still being eligible for Credit Protection. If your Agreement is terminated, credit protected receivables will become unprotected if they're outstanding on the termination date.

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## Debt ineligibility

The VAT element of a debt is not eligible for credit protection. Account adjustments (both debits and credits) may be made from time to time to reflect this, in accordance with the Agreement.

There are also certain debts that aren't eligible for Credit Protection. A full list is included within your Agreement with us and includes:

- Debts (or a part of a debt) over a limit we've 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 haven't agreed to.
- Debts that are irrecoverable due to force majeure, such as:
  - civil commotion
  - war
  - natural disasters
  - the direction of any government (political risk)
- Debts where the Instruction for Collection form is not submitted within the timescales required.

If a debt becomes ineligible for Credit Protection (for example, 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. This is unless we agree otherwise on a case-by-case basis, or until the debt becomes eligible again (for example, by proving the debt in court or otherwise withdrawal of the dispute).



## What are the costs?

The charge for Credit Protection is set out in the Agreement.

You'll be liable for our legal costs in pursuing a debt through court proceedings. We'll set out and agree these terms with you before we decide to begin legal action.

However, this liability for legal costs is limited by reference to the proportion of the debts which are covered by Credit Protection. You'll only be responsible for unrecovered costs of court action in proportion to the value of the debts which are not covered by Credit Protection.



## More information

You can find helpful information on how to operate your Receivables Finance (RF) products in the Help section of the RF on HSBCnet platform, including detailed user guides for our Credit Protection feature.

HSBC Invoice Finance (UK) Limited is a member of UK Finance, and abides by the Invoice Finance and Asset Based Lending (IFABL) Standards Framework, the Invoice Finance and Asset Based Lending Code (2018 Edition) and the independent Complaints Process, each of which can be accessed and viewed in the following document on the UK Finance website [ukfinance.org.uk/system/files/IFABL-Guide-2021\\_FINAL\\_0.pdf](https://ukfinance.org.uk/system/files/IFABL-Guide-2021_FINAL_0.pdf)

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