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IRDAI (Trade Credit Insurance) Guidelines, 2021

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Why in News

Recently, the **Insurance Regulatory and Development Authority of India (IRDAI)** has issued revised guidelines for **trade credit insurance**.

Key Points

- **Trade Credit Insurance:**
 - **About:**
 - Trade credit insurance **protects businesses against the risk of non-payment for goods and services.**
 - It **usually covers a portfolio of buyers and indemnifies** an agreed percentage of an invoice or invoices that remain unpaid as a result of protracted default or insolvency.
 - It contributes to the **economic growth of a country** by facilitating trade and helps improve economic stability by addressing trade losses because of payment risks.
 - **Coverage:**
 - It can be issued to **sellers or suppliers of goods or services, factoring companies** as defined in the **Factoring Regulation Act, 2011** and banks and financial institutions.
 - **For banks and financial institutions and factoring companies,** it covers the loss on account of non-receipt of payment from a buyer, due to **commercial or political risks**, against the bills and invoices purchased or discounted.
 - **Commercial risks** include insolvency or extended default of the buyer, rejection by the buyer after delivery subject to conditions of contract, and rejection before shipment and non-receipt of payment on account of the collecting bank's failure.
 - **Political risk** cover is **available only in case of buyers outside** India and will include occurrence of war between the buyer's country and India and also war, hostilities, civil war, rebellion, revolution, insurrection or other disturbances in the buyer's country.
- **Applicability:**
 - These guidelines will apply to **all insurers transacting general insurance business**, registered under the **Insurance Act, 1938.**
 - However, **ECGC** Ltd (formerly Export Credit Guarantee Corporation of India Ltd) is exempted from the application of these guidelines.
- **Benefits of the Move:**
 - It will facilitate general insurance companies to **help businesses manage country risk, open up access to new markets** and manage non-payment risk associated with trade financing portfolios.
 - It will also enable general insurance companies to offer trade credit insurance with **customised covers to improve businesses** for the **Micro, Small and Medium Enterprises (MSMEs)**, considering the evolving insurance risk needs of these enterprises.

Source: IE