FCIA®

Trade Credit & Political Risk Insurance

GREAT AMERICAN® INSURANCE GROUP

Letters of Credit Policy

Key Features

- Nonpayment Coverage on Irrevocable Letters of Credit Issued by Foreign Banks
- Single or Multiple Banks
- Non-Cancelable Limit

FCIA's Letters of Credit Policy

The Letters of Credit insurance policy protects banks against nonpayment of irrevocable letters of credit (ILC) issued by banks overseas for cross-border transactions.

Eligible credit terms are generally up to 360 days, however, longer terms can be considered for manufactured goods. Coverage is available on issuing banks worldwide.

Most policies are used to cover confirmation of sight ILCs or discounting of acceptance drafts under usance ILCs. Coverage may be issued for one or multiple letters of credit, single or revolving transactions, and some or all ILCs issued by one or multiple banks. The Letters of Credit policy can include coverage for refinancing of payments under sight letters of credit.

Why Purchase Letters of Credit Insurance

Banks most often purchase our Letters of Credit policy to insure transactions that might otherwise exceed existing internal country or issuing bank capacity limitations. A policy can also be used to mitigate risks in foreign markets where the bank has limited experience. This enables a bank to leverage its capacity and avoid referring customers to other banks or miss opportunities to take on new ILC business.

Insured Percentage and Deductible

Your issuing bank's obligation can be covered up to 90% and you must stay at risk for any uninsured percentage. Deductibles do not normally apply to Letters of Credit policies but may be used as a trade-off to reduce premium.

Policy Limits

The policy establishes a credit limit, which is the maximum projected exposure during the policy period, and a policy limit of liability, which is the maximum amount the insurer will pay for all losses related to transactions insured during the policy period.

Premium

The premium amount is usually calculated based on the amount of policy limit approved. The factors involved include the length of the risk period, the perceived quality of the issuing bank, and the country risk. While the entire premium amount is generally payable at policy inception, there are circumstances which could result in premium payment being spread out over the policy period.

Claims Filing

Claims can be filed as early as 180 days after the due date but not later than 360 days after the due date. Prior to submitting your claim, you must undertake your normal collection effort to minimize the loss including making a written demand for payment. Approved claims are paid within 60 days of the insurer's receipt of a completely documented Proof of Loss.

Overdue Reporting

If an issuing bank is more than 30 days late in paying, an overdue report is filed each month until the buyer pays or a claim is made.

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