

# UNDERSTANDING CREDIT LIMITS

Our job is to work with you to protect your business and aid its growth. That means managing your cover and your exposure to risk. As part of this process, you will need to set credit limits. How does this work?

In order to be covered by your Policy, you must have a valid credit limit in place with each individual customer. Find out more below.

## 1 SETTING YOUR CREDIT LIMIT

### STEP 1: DECIDE THE MAXIMUM AMOUNT OF CREDIT YOU WISH TO GRANT TO YOUR CUSTOMER.

First, you need to calculate the maximum outstanding amount. This is the highest amount owing by a customer for sales you have made to them and which hasn't yet been paid.



Let's take this example: You are trading with company ABC Inc.

- You have quoted for three deliveries: Two for an amount of €15,000 and one for €10,000.
- The deliveries are scheduled 30 days apart and the terms of payment are 90 days.
- Every 30 days, you deliver and ABC Inc. pays you on schedule within the 90 days.

The outstanding amount is represented in the graph on the next page.

## ABC Inc. EXAMPLE



In this case, the outstanding amount will be €15,000 in January, €30,000 in February and €40,000 in March. The maximum outstanding is €40,000. You should set your credit limit at €40,000. If there are further orders, then you will need to reassess this maximum amount.

You should consider a few things when setting your credit limit:

- Does your customer regularly pay you on time?  
Adding additional unpaid invoices will increase the amount outstanding. Your credit limit should be higher.
- Is your business cyclical?  
If your orders are higher over Christmas for instance, you may need to increase your credit limit and your cover temporarily.
- Are your sales regular over the year?  
Here's a trick for calculating your average outstanding per month:  
[annual sales / 360] x terms of payment, or [monthly sales / 30] x terms of payment



**Example of average outstanding calculation for regular sales. You are trading with company ABC Inc. Your yearly sales to them are €60k, you invoice regularly and your terms of payment are 30 days. Following the above calculation, your average outstanding amount is  $(€60,000 / 360) \times 30 = €5,000$ .**

## 2 HOW TO APPLY FOR A CREDIT LIMIT

You can apply for an Approved Limit in **EOLIS**. Read our guide: [How to apply for a credit limit](#).

In many cases, we will approve the limit online immediately. We will confirm the limit by email. Once you receive the Approved Limit endorsement, please check the details to ensure that the customer is correct.

## 3 WHAT HAPPENS AFTER THE WITHDRAWAL OF AN APPROVED LIMIT

When we withdraw an Approved Limit (including when we endorse a nil Approved Limit), it is because we consider the risk has increased significantly.

The withdrawal becomes effective and your cover ceases. If you have an approved Delayed Effect Period, usually 30 days unless specified otherwise, your cover will cease after this period. You will be covered for any goods or services you supplied under the Approved Limit (provided you have appropriate justification) during the Delayed Effect Period.

We will put in place a shorter withdrawal period at times depending on the information we have. When that happens, it will be noted on the credit limit under Special Conditions.

Once cover has been withdrawn, you may no longer use your Approved Limit even if you have the appropriate justification.