

UNDERSTANDING DISCRETIONARY LIMITS

In order to be covered by your Policy, you must have a valid credit limit in place with each individual customer. You can choose either an Approved Limit or a Discretionary Limit.

In this guide, we explain why and how you can use your Discretionary Limit.



Read our guide [Understanding credit limits](#) to know more about credit limits and how to choose between Discretionary Limit.

1 WHY USE YOUR DISCRETIONARY LIMIT?

As part of the day-to-day management of your customer portfolio, you should have a set of procedures to minimise trade credit risk and to decide whether to grant credit payment terms. This may include:

- Carrying out due diligence on your prospective customers (for instance, see our guide on [How to steer clear of fraud](#)) before accepting a new order.
- Analysing financials to assess trade credit risk and/or obtaining information from external credit reference providers.
- Calculating the outstanding balance for each of your customers and monitoring your exposure.
- Monitoring overdues and chasing late payers.

We recognise you have credit control procedures in place and offer an option to justify cover up to the value of your Discretionary Limit without having to make an Approved Limit request. Justification includes: CIO, third-party reports and trading experience.

In these cases, it is easier for you not to ask for an Approved Limit for every single customer.

2 HOW TO USE YOUR DISCRETIONARY LIMIT?



We'll be using the ABC Ltd example throughout this section. Your monthly sales to customer ABC Ltd are £5k and your terms of payment are 15 days. The outstanding amount is $(£5k/30)*15 = £2.5k$. Your Discretionary Limit is £10k. When you compare the £2.5k to the £10k, you may trade using your Discretionary Limit.

How does it work? There are three different ways to justify a Discretionary Limit.

1. CREDIT OPINION

A Credit Intelligence Opinion (CIO) enables you to be covered for trade at a level below your Discretionary Limit. With this credit opinion, we will provide an assessment on your customer's creditworthiness in the form of an amount of cover.



Regardless of the method you choose, you must have obtained the justification within the Justification Period specified in your Policy and prior to your trading.

You may request opinions on your domestic customers and on customers in 22 export markets:

Australia, Austria, Belgium, Canada, Czechia, Denmark, Finland, France	(including DOM TOM), Germany, Greece, Italy, Luxembourg, Morocco, Netherlands,	New Zealand, Norway, Portugal, Slovakia, Spain, Sweden, Switzerland and USA.
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CIOs are valid for 12 months provided you haven't had your Discretionary Limit withdrawn and include a free positive monitoring service. This means that if we can increase cover, we will notify you automatically.

To request a CIO, log in to our [online portal](#), identify your customers and we will tell you the maximum value we can insure.

The CIO service incurs a fee, please check your Credit Intelligence Services Schedule of Fees.

You can also refer to our [Credit Intelligence Services Terms and Conditions of Business](#) for more information.



ABC LTD

You're just starting to trade with ABC Ltd so you'd like to have a credit opinion before confirming the first order. You go online and ask for a CIO. Our answer will come instantly (in most cases). In this example: £7k. Now you know you're able to trade with ABC Ltd up to £7k and be covered up to that amount.

2. REPORTS, OPINIONS OR PRODUCTS FROM A CREDIT INFORMATION AGENCY

In certain cases, you may also use information from a specified Approved Source to justify your trading with a customer.

For your customers in the United Kingdom, Republic of Ireland, Channel Islands and Isle of Man, you may use an endorsed credit information agency and their permissible report types as noted in your Policy Schedule. Here is a list of the [Approved Sources](#) which can be requested to be added to your Policy.

For customers in all other countries where your Policy allows you to use your Discretionary Limit, we accept justification from any credit information agency providing evidence of the creditworthiness of your customers.

This justification must have been requested prior to trading and include an amount. You will be covered up to the amount recommended in the report, or the value of your Discretionary Limit if lower. The justification is only valid for a limited amount of time, please check your Policy.



ABC LTD

You've already obtained a credit agency report on ABC Ltd prior to giving your quote. It is recent (within the Justification Period allowed in your Policy) and states an amount of £25k. Provided the report is an approved type of report from an agency noted in your Policy, you will be covered for £10k (the value of your Discretionary Limit).

3. TRADING EXPERIENCE

If you have been supplying a customer for a while, you may be able to justify trading under your Discretionary Limit based on your trading experience with this customer (i.e. past transactions on credit terms).

The amount you will be covered for is the highest amount outstanding that was paid within the payment terms + Maximum Extension Period (MEP) and within the Justification Period specified in your Policy, capped at the value of your Discretionary Limit. See your Policy for the MEP applicable to your customer’s country.



You have traded with ABC Ltd for for a few months and below is the payment history since you started supplying them.

Month	Invoices (1st of month)	Payment received	Month-end balance	Discretionary Limit justified
January	£10,000		£10,000	0
February	£10,000		£20,000	0
March	£10,000		£30,000	0
April	£10,000	£10,000 (30/04)	£30,000	0 until the 30.04, then £10,000, (expires on 31/10)
May	£10,000	£10,000 (31/05)	£30,000	£10,000 until the 31.05, then £20,000, (expires on 30/11)
June	£5,000	£10,000 (30/06)	£25,000	£20,000 until the 30.06, then £30,000, (expires on 31/12)
July			£25,000	
August	£10,000		£35,000	£30,000 (expires on 31/12)

This example shows how we will assess your trading experience in the event of a claim. Let’s assume your customer becomes insolvent at the end of August and you have an amount outstanding and unpaid of £35,000.

The first outstanding undisputed invoice is dated 1 April and there are no payments in the Justification Period (6 months) prior, therefore you have no trading experience justification under your Discretionary Limit for this April invoice. The invoice dated 1 May for £10,000 can be supported by the payment received on 30 April (£10,000) which clears the January balance and sets a Discretionary Limit of £10,000.

By 1 June, the highest balance now cleared within terms plus Maximum Extension Period is February with a balance of £20,000 (by payments of £10k in April and £10k in May). This creates a new Discretionary Limit of £20,000. The £10k May invoice is still outstanding so there is only another £10k available within the new £20k Discretionary Limit, but this is sufficient to justify the June invoice of £5k.

At the time of the last invoice dated 1 August, the highest balance now cleared within terms plus Maximum Extension Period is the March balance of £30,000 (by payments of £10k in April, £10k in May and £10k in June). This creates a new Discretionary Limit of £30,000. Of this, £15,000 has already been used up as justification for May and June invoices, so theoretically there would be up to £15,000 available to support the £10,000 August invoice. However, this is excluded from cover due to Maximum Extension Period (MEP) cut-off (see our guide [Reporting overdue or adverse information](#) for more information on the MEP).

Please refer to the credit limits section of your Policy for further information on how to use trading experience.

3 WHEN CAN'T YOU USE YOUR DISCRETIONARY LIMIT?

When you have an Approved Limit, a nil or we have withdrawn cover, you cannot use your Discretionary Limit.

Any questions?

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