

# Trade credit insurance and Tidcorp

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## **INSURANCE FORUM**

There are instances when a specialized insurance business is given by law to a particular government corporation or agency to handle. Such is the case for trade credit insurance being offered by the

Trade and Investment Development Corporation of the Philippines (TIDCORP). Aside from guarantees and direct lending, TIDCORP also provides credit insurance. It has two main products in this field. First, Export Credit Insurance (ECI) is insurance coverage to exporters against the risk of non-payment by foreign buyers of export shipments on credit arising from political or commercial risks. Second, Domestic Credit Insurance which is insurance coverage on receivables of a multinational's subsidiary company against non-payment of buyers in the subsidiary's country.

Trade credit insurance “insures manufacturers, traders and providers of services against the risk that their buyer does not pay (after bankruptcy or insolvency) or pays very late. The trade credit insurance policy will pay out a percentage of the outstanding debt. This percentage usually ranges from 75% to 95% of the invoice amount, but may be higher or lower depending on the type of cover that was purchased. In the absence of trade credit insurance many trade transactions would have to be done on a pre-paid or cash basis, or not at all. It is an essential credit management tool and used to control risks, improve payment behaviour, obtain vital buyer information, and monitor exposures.”

(TIDCORP, also known today as PhilExim) is a government-owned and controlled-corporation created by Presidential Decree No. 1080 on January 31, 1977, as amended by Republic Act No. 8494. Its chairman is the Secretary of Finance. The primary purpose of TIDCORP is to guarantee the foreign loans, in whole or in part, granted to any domestic entity, enterprise, or corporation, majority of the capital of which is owned by Filipino citizens. It was formerly known as the Philippine Export and Foreign Loan Guarantee Corporation (PhilGuarantee) under P.D. No. 1080, and also formerly known as the Philippine Export-Import Credit Agency and Philippine Foreign Loan Guarantee Corporation (or PhilExim). In 1979, Philguarantee was granted the additional power to offer export credit insurance with the transfer of the functions of the defunct Philippine Export Credit Insurance and Guarantee Corporation (PECIGCOR) to Philguarantee. In 1987, Executive Order No. 127 issued to empower Philguarantee to extend direct loans and export credit insurance. The E.O. abolished

the Export Credit Corporation that was created under P.D. 1785, and transferred its functions to Philguarantee.

On February 12, 1998, the name was changed to TIDCORP by Republic Act No. 8494. Executive Order No. 85, March 18, 2002, designated TIDCORP to be also known as the Philippine Export-Import Credit Agency (PhilExim).

Under P.D. No. 1080, as amended by R.A. No. 8494, one of the primary purposes of TIDCORP is “to provide insurance cover, credits and appropriate services to facilitate the export of Philippine goods and services by any entity, enterprise or corporation organized or licensed to engage in business in the Philippines; and” “to guarantee or provide insurance cover for investments of any entity, enterprise or corporation organized or licensed to engage in business in the Philippines.” E.O. No. 85 affirmed the mandate of TIDCORP to provide service for “the provision of insurance cover and related services to facilitate the export of Philippine goods and services”.

Republic Act No. 6424 created the Philippine Export Credit Insurance and Guarantee Corporation. Under Section 19, the Corporation had the “full authority to issue policies of insurance and certificates of guarantee against credit risks arising out of or in connection with export transactions”. It provided that “(s)uch insurance policies shall be limited in coverage to export transactions where there are reasonable expectations of repayment from the buyer, and to risks in the form of circumstances, happenings, or events which are outside of or beyond the control of the insured”. Moreover, Under Section 20, it may “(e)nter into a contract of insurance with any person, partnership, corporation, or any other juridical entity carrying on business or other activities in the Philippines that may agree after application to insure with Corporation against risk of credit loss under or in respect of an export transaction.”

As of the year 2017, the Insurance Commission has also allowed two other insurance companies to offer trade credit insurance. These are: Malayan Insurance Co., Inc. and UCPB General Insurance Co., Inc.

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