

# Advance Payment Insurance

## WHAT IT IS

Paying in advance for capital goods, or providing a “deposit”, is sometimes a necessary step in a business transaction. But a lot can change during the transaction timeframe and if, in the end, the supplier cannot fulfill their obligation or return any advanced payments Advance Payment Insurance through our partner Intact Insurance will cover up to 90% of the purchaser’s eligible financial losses.

## WHAT IT COVERS

### Commercial Risks

- Supplier insolvency
- Unlawful contract termination by supplier
- Lawful contract termination by the customer

### Political Risks

- Problems with currency conversion and transfer
- War and related disturbances
- Required permits, licenses or approvals are cancelled or expire
- Government declares a halt to paying international debts

## PRODUCT USE SCENARIO

Rick Iron Fabricator Inc. (RFI) is a producer of aluminum alloy based in Alberta, Canada. Rick, the owner of RFI, is looking to gain operational efficiencies and improve his company's profitability by acquiring a specialised blast furnace. The furnace he has identified that would best serve his desired outcomes is produced in Germany and can only be sourced from one specific manufacturer.

The cost of the furnace is \$2,000,000 USD and will be delivered in 12 months to RFI. The German supplier requires \$500,000 upon signing the purchase order and contract and \$500,000 upon acceptance of the drawings and specifications.

Rick approaches his bank for a loan in the amount of \$1,000,000 USD. His bank will only issue the loan if RFI insures the down payment and progress payment against the possibility of financial loss resulting from the occurrence of commercial or political risks.

Rick works with his broker and gets Advance Payment Insurance coverage. RFI is able to secure the loan and the bank is satisfied that the monies advanced are secured. As exhibited in the case above, given current global uncertainties coupled with continued stringent bank regulations, Advance Payment Insurance is a great tool to transact with suppliers requiring upfront payments prior to delivering capital products.