

Ref: IRDAI/ NL/CIR/GDL/176/10/ 2023

Date: 9<sup>th</sup> October, 2023

**ALL GENERAL INSURERS (EXCEPT ECGC and Stand-Alone Health Insurers)**

**Re: Trade Credit Insurance Guidelines, 2021 - Modification to Guideline 5.3A – allowing “reverse factoring” on TReDS platforms**

1. The Authority issued guidelines on trade credit insurance in September 2021 to protect business against the risk of non-payment for goods and services by buyers. The Guidelines set out the regulatory framework that facilitated trade credit insurance covers to suppliers as well as to banks and other financial institutions. It also provided customised covers to improve businesses for SMEs and MSMEs.
2. RBI in order to ease constraints faced by MSME, in converting their trade receivable to liquid funds, issued guidelines in July, 2018 for the trade receivable discounting system (TReDS). Based on experience gained, RBI in June 2023 decided to permit insurance facility for TReDS transactions, which would aid financiers to hedge default risk, thereby allowing insurance companies to participate as “fourth participant” in TReDS and undertake “reverse factoring”.
3. In light of the steps taken by RBI, IRDAI examined the feasibility of Trade Credit Insurance cover against “reverse factoring” transactions on TReDS platforms. Trade Credit Insurance cover is provided to the financiers to cover default of the buyer against the invoices financed on TReDS platform. IRDAI (Trade Credit Insurance) Guidelines, 2021 allows single Invoice covers through bill discounting / factoring on Invoice discounting e-Platforms such as TReDS. However, it restricts cover against reverse factoring transactions to participate as “Fourth Participant” in TReDS.
4. In view of the fact that through “reverse factoring”, the financiers can take exposure on low rated or unrated buyers provided the default risk is hedged with insurers by taking Trade Credit Insurance cover, therefore, in order to facilitate “reverse factoring”



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- transactions on TReDS platform, para 5.3A of the guidelines will be now read as “(a) *Reverse Factoring (except on TReDS platforms)*”.
5. All the other provisions and requirements of Trade Credit Insurance Guidelines 2021 shall remain unaltered.
  6. This circular shall come into force with immediate effect.

-Sd/-

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