

Schematic illustration:

Insurance Based Financing of Trade Receivables with no recourse

Before:

Trade receivables of total EUR 20, corresponding to 20% of total assets of EUR 100, financed with debt of 75% (EUR 75) and equity of 25% (EUR 25).

After:

After sale of receivables, assets have reduced from EUR 100 to EUR 80. The released capital (EUR 20) has reduced the capitalisation needs with a corresponding amount. Released capital is used to reduce debt from EUR 75 to EUR 55.

Effects:

The ratio of equity to assets is improved from 25% (25/100) to 31% (25/80), increasing the safety margin for providers of long term debt by 24% $((31-25)/25)$. Reduced capital needs at unchanged revenues will increase the yield on working capital. Increased productivity in working capital will typically strengthen stock market evaluation, increasing market capitalisation of the equity.

Before				After			
	Active	Passive			Active	Passive	
Assets	100	75	Debt	Assets	80	55	Debt
		25	Equity			25	Equity
	100	100			80	80	