Insuring Trade Default Risk Awareness in the Market

How can Insurers Increase Consciousness about this Sensitive Topic?

November 2015

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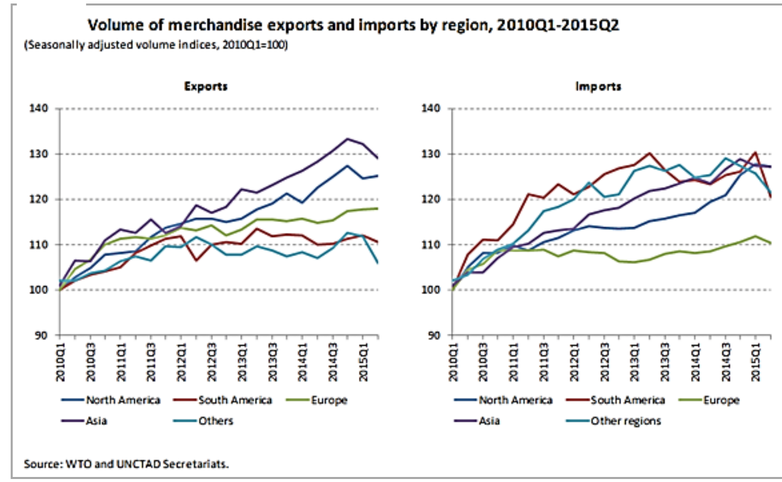
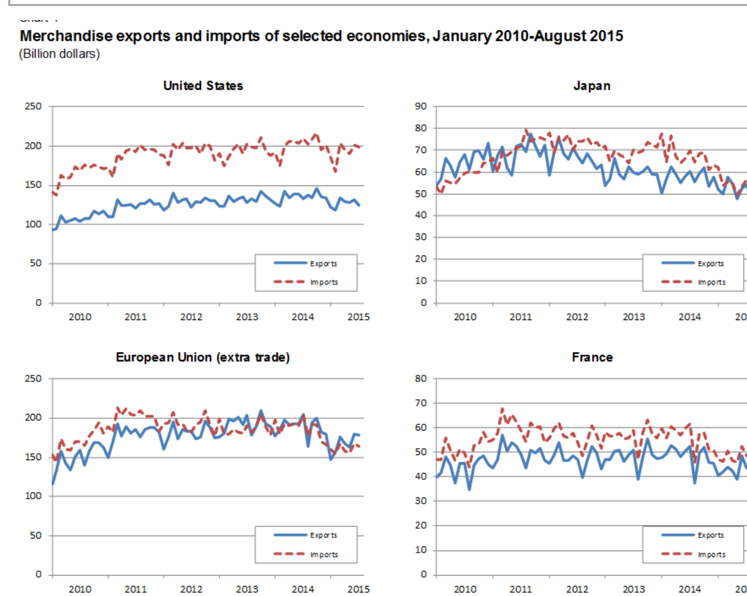
Contents

World Trade Forecast 2015 / 2016

Falling import demand, lower commodity prices push down trade growth prospects

- **World merchandise trade volume is expected to rise 2.8% in 2015**, down from the previous estimate of 3.3%, as slowing import demand in China, Brazil and other emerging economies reduces exports of trading partners.
- If current projections are realized, 2015 will mark the fourth consecutive year in which annual trade growth has fallen below 3 per cent and the fourth year where trade has grown at roughly the same rate as world GDP, rather than twice as fast, as was the case in the 1990s and early 2000s.
- **Trade growth in 2016, optimistically are estimated at 3.9%**, down slightly from the last estimate of 4.0%, and still below the average for the last 20 years (1995-2015) of 5%.
- **Asian export and import growth for 2015 has been revised down** as slower growth in Chinese imports has reduced intra-regional trade.
- **South American imports have also been revised down sharply** but the region's export volume growth should remain positive in 2015 and 2016.





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Global Trade Volume, Value, % change vs. last year

- In volume terms, trade is still growing by 1.7% year-on-year in the first half of 2015 .
- But that is far below the long-term average volume, of around 5% a year.
- In emerging markets, volume growth was weaker still, at 0.3% year on year.

http://www.economist.com/news/finance-and-economics/21665040-slowdown-global-trade-growth-bad-news-many-emerging-markets-becalmed

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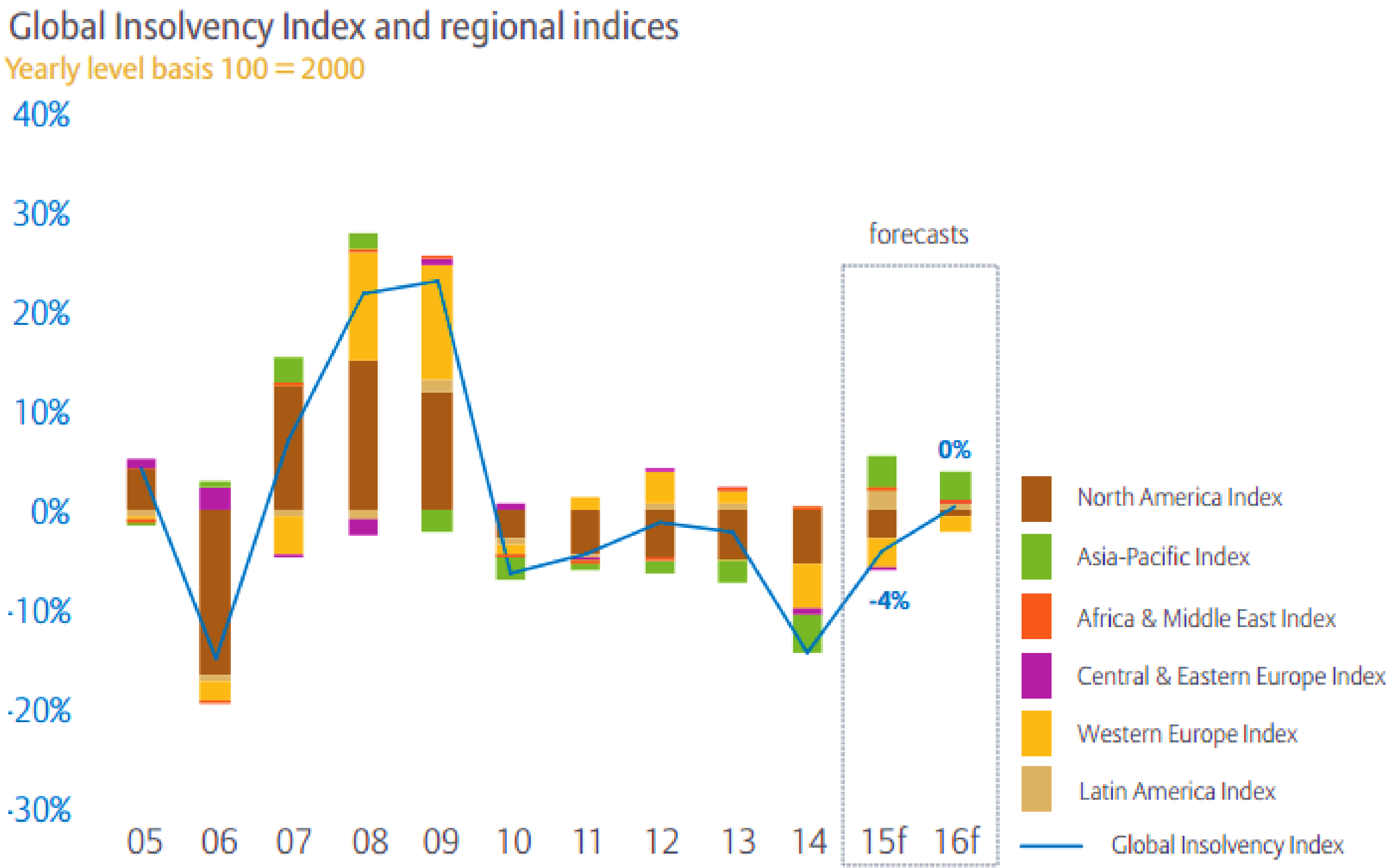
Global Insolvency Outlook 2015



Sources: National figures

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Risk Management - Business Failures

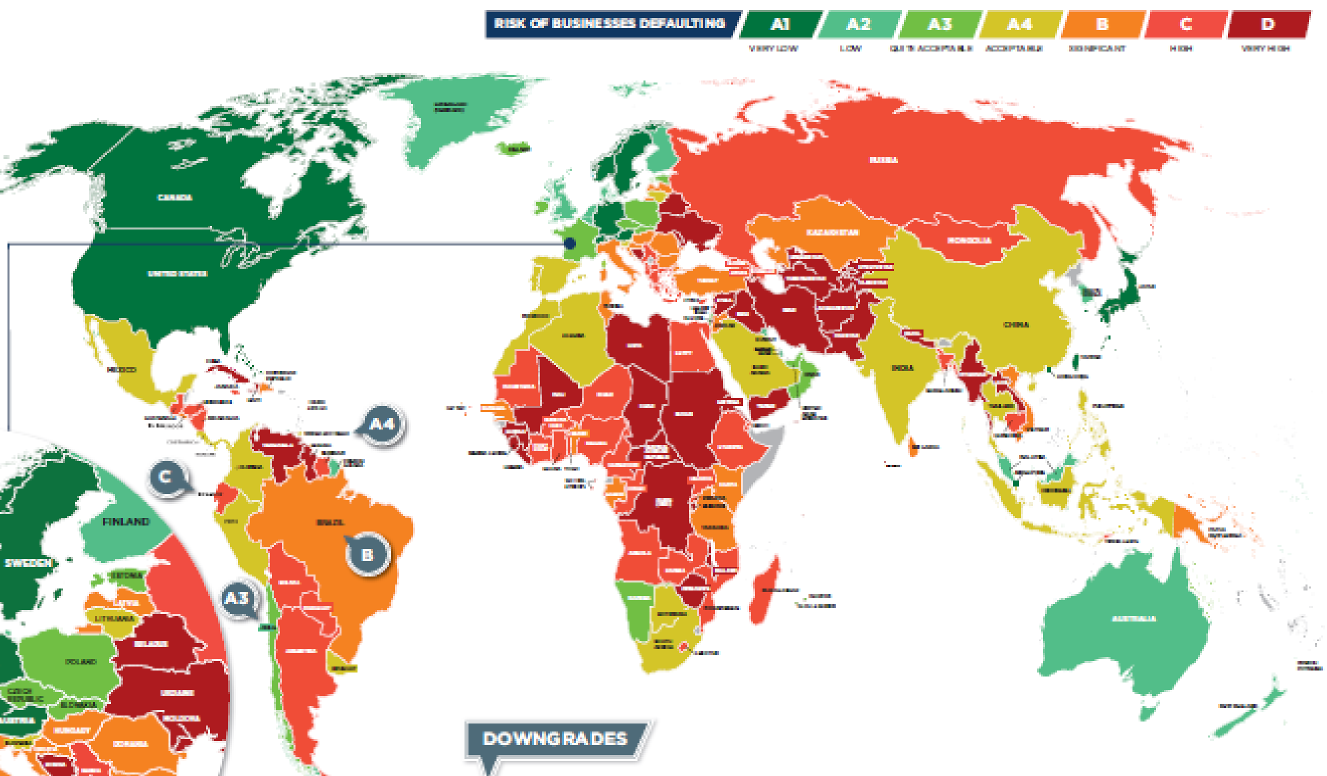
- Bankruptcies are inevitable
- Failures come from increasingly unpredictable sources
  - Management Deficiencies
  - Complex Financial Restructuring
  - Regulatory Changes
  - Legal Maneuvering
  - Product Liability
  - Political Upheaval
  - Global Economic Changes
- Large Bankruptcies can cause a bankruptcy domino effect with suppliers
  - Set off chain reaction that trickles down
  - Demand resources to monitor and manage beyond primary debtor

Coface Country Risk Map – Q3/2015

160 COUNTRIES UNDER THE MAGNIFYING GLASS

A UNIQUE METHODOLOGY

- Macroeconomic expertise in assessing country risk
- Comprehension of the business environment
- Microeconomic data collected over 70 years of payment experience



DOWNGRADES

ECUADOR C

Ecuador is the second most affected country in the region by the decrease in oil price (40% of the fiscal revenue, more than 50% of exports), which impacts public spending and investment. The perspectives for local private businesses are gloomy due to the tariff disagreements with Colombia and Peru.

BRAZIL B

Brazil's economy is in recession (growth of -2,5% in 2015), in a highly fragile political context. Household consumption, the main engine of growth, and investments are declining, particularly due to the repercussions of Petrobras scandal.

TRINIDAD and TOBAGO A4

The economic situation is deteriorating because of the persistent decrease in oil prices. Infrastructural developments and gas supply issues are still pending.

CHILE A3

Sustained low copper prices and the slowdown of China (main destination of Chilean copper) impact Chile's economy. Labour reform, which will strengthen the labour unions' bargaining power, and corruption scandals undermine business environment.

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Definition: Payment Default risk

- Payment Default Risk: The failure by a buyer to make a payment for delivered goods or services by the due date specified in the invoice or sales contract.
- Suppliers that deliver goods and/or services on credit, have to manage this credit risk, to ensure that payment is received on time.
- Outstanding receivables are usually the largest or second largest item on a trading company's balance sheet.
- Bad debt losses affect liquidity and profits. Even worse, they can cause a company's ultimate financial ruin.

Consequences of Bad Debt Losses

- A healthy credit management program **budgets for a certain level of expected uncollectible debt write-offs** in the financial management of a business.

- However, *even if* an unprotected company is able to withstand an unplanned catastrophic loss or multiple losses to its financials, there are other consequences on earnings and future growth.

  If a company's revolving credit line is secured by its accounts receivable**, a write-off of part of those receivables immediately impacts cash flow**. The same level of funds is no longer available for the company to run it's day-to-day operations.

  The company may become less comfortable with extending future credit without highly secured forms of repayment, impacting the company's ability to successfully compete and acquire new customers.

  Future growth may suffer if the company lacks the necessary cash to invest in product development, distribution, technology and other areas.

Trade Credit Risk Management

- Several methods may help mitigate trade credit risk.

- Some of the more common tactics include:
  - letters of credits
  - factoring
  - self-insurance in the form of "bad debt" reserves
  - trade credit insurance.

- Each has advantages and disadvantages, and organizations should assess their particular situation to determine what approach is most suitable for their needs.

However many will find is that trade credit insurance provides one of the best and most cost-effective solutions, especially when expanding globally.

Benefits of Trade Credit Insurance

- Protect companies against catastrophic events
- Reduce costs of credit management
- Enhance risk management
- Improve financing
- Increase sales

Additional Benefits of Credit Insurance

- ❑ **Leveraging Trade Credit Insurance for financing needs** – Banks lend more capital against insured receivables and in better financing terms. It also offers release for intercompany credit facilities.

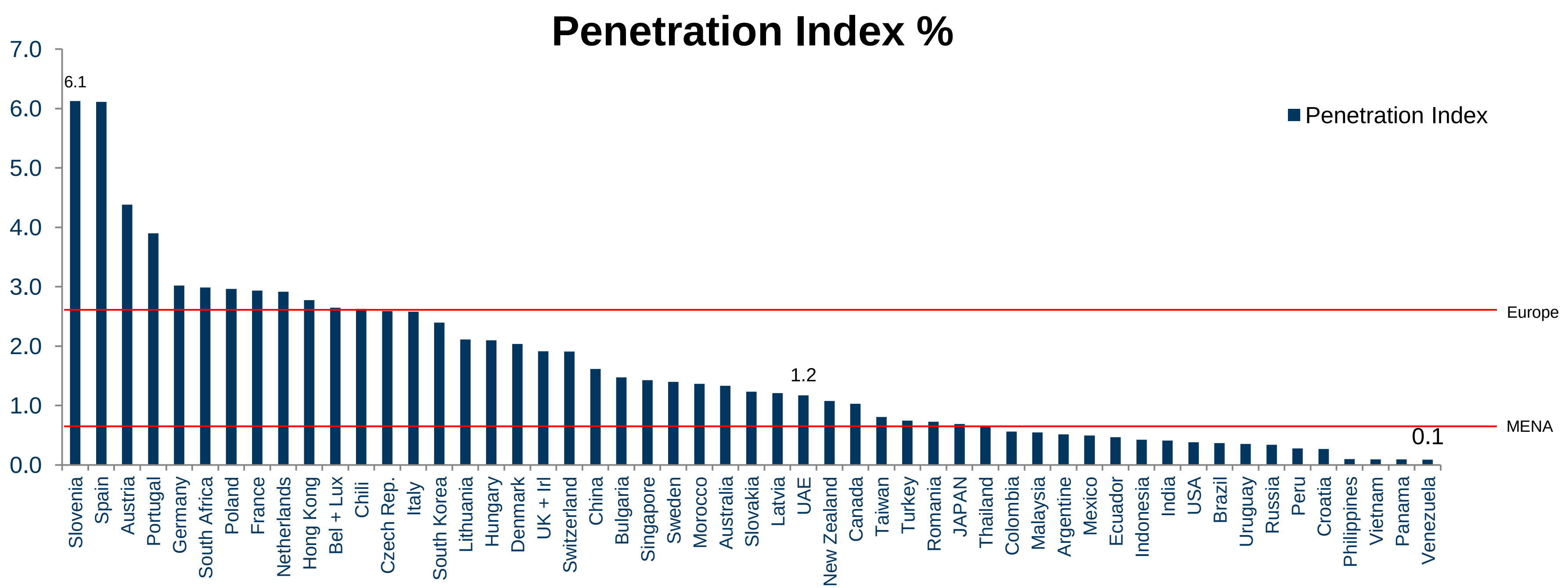
- ❑ **Increasing revenues and profitability** – Trade Credit Insurance often contributes to increased sales to existing customers as well as new ones, or new markets that would not necessarily happen in the absence of Trade Credit Insurance. Without Trade Credit Insurance many trade transactions have to be concluded on a pre-paid or cash basis, or not at all.

- ❑ **Cost saving** – By using Trade Credit Insurance, companies save expenses such as: information, analysts, collection expenses, provisions for bad debt etc.

- ❑ **Taxation and Accounting benefits** – In IFRS Trade Credit Insurance premiums are a tax-deductible expense, whereas general provisions for doubtful debts are not. Trade Credit Insurance also helps in the process for gaining recognition of revenues, as required by accounting regulations.

- ❑ **Improving the policyholder's rating** – Trade Credit Insurance is an important factor taken into account by the Rating Agencies when assessing companies. Measures taken to mitigate credit risk weigh positively when considered by Rating Agencies.

Trade Credit Insurance Penetration



The penetration index (Premiums / GDP) shows the under penetration of the insurance industry in this market niche

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How can Insurers Increase Risk Consciousness

Educating CEO / CFO / Risk Managers / Brokers / Financial Consultants

- Promote forums/workshops on credit/risk management
- Webinars, publications

Partnering with Chamber of Commerce, Universities, Ministries of Economy/Trade, Export Credit Agencies

- Share economic outlooks, insolvency trends, country risk outlooks, sector analyses, payment behaviors, claims trend observatories

Partnering with Banks and Financial Institutions to enhance the goodwill on trade risk policies; simplifying and adapt the product offer

- Simple questionnaire
- Clear and structured policy wording

Liaising with Govt. Institutions to enforce specific recommendations for insuring such risk

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Some Good Initiatives

- **ICISA – "A Guide to Trade Credit Insurance"**
  - → The book is now available at Amazon UK, Amazon USA and Anthem Press.
- **Coface Morocco Credit Opinions Survey**
  - → After a successful experience in France, Coface rolls out its Country Risk Conference in most of the countries with direct presence
  - → Coface Morocco launched in May 2015 its own credit survey, after the positive feedback from the same initiative in Asia
  - → MOU with Dubai Export and Dubai Chamber of Commerce to ease trade/export to Africa
- **Atradius Payment Practices Barometer**
  - → After a successful experience in Europe, Atradius launched its own credit survey Asia Pacific report
  - → Credit to Cash Briefing papers
- **Euler Hermes International Trade Observatory**
  - → After a successful experience in Italy on Industries' Payment Barometer, EH Group launched MMEA ITO (International Trade Observatory)
- **Sace**
  - → Training services dedicated to those who wish to develop skills in this area: seminars, classroom-based workshops, on-the-job training and video seminars available via the dedicated e-learning portal.

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Thank you for your attention

Q&A