

Trade Credit Insurance Overview

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October 16th, 2014



Trade Credit Insurance *Isn't...*

➤ **Only for large companies...**

Small family owned businesses & mid-sized businesses implement TCI for the same reasons as Global 100's

➤ **Only for companies with high historical losses...**

TCI is implemented for a variety of other reasons

➤ **Only for companies with no credit department...**

TCI is used as a way to strengthen existing credit processes and procedures

Trade Credit Insurance *Isn't...*

➤ **Factoring**

Credit insurers do not finance companies by advancing monies against A/R

TCI is typically much less expensive and more flexible than factoring

➤ **Only for export...**

Majority of TCI policies are securing domestic A/R

Trade Credit Insurance /S...

- Part of Sound Risk Management Strategy
- Indemnifies policyholder against unforeseen bad debt losses due to commercial and/or political risks.

Manage *Expected* Risk

“GOOD DECISIONS”

Information

Your Credit Expertise

Manage *Unexpected* Risk

“PROTECTION”

Insurance

Self-Insurance

- Primary reasons businesses implement credit insurance
 - **Catastrophic Risk Protection**
 - **Sales Expansion**
 - **Bank Financing**
 - **General Loss Prevention**

Loss Protection and Prevention

Protection against unexpected bad debt losses due to insolvency, slow pay or political risk.

Insolvency can be a Ch. 7, 11, 13, bulk sale, receivership, general meeting of creditors, etc.

Everything else falls into the slow pay “bucket”.

- **Slow pay claims must be filed within 90 days from due date or 180 days from ship date, whichever is longer.**
- **We act as collection company with the guarantee...if we don't collect we pay.**
- **If we collect debt then the business is assessed a collection fee however, deductible or coinsurance do not apply.**

Business Credit Insurance

Catastrophic Risk Protection

- Prevents Losses to one of company's largest, unprotected assets
- Reduction of Risk of Key Account concentration levels
- Caps Exposure to Bad Debt Loss

General Loss Prevention

- Support for Credit Risk Evaluation through third party evaluations of customers, prospects, industries and countries
- Provides a structure and discipline for credit decision making
- Gain leverage over problem accounts by using underwriter's clout and resources

Sales Expansion / Credit Department Enhancement

- Expand Sales into Riskier or New Markets
- Grow with Existing Accounts
- Enhance a Customer Relationship

Bank Financing

- Enhance Lending Relationship
- High Concentration with Key Accounts
- Borrowing against Export Receivables
- More capital at reduced rates, taking full advantage of A/R

Strengthening of the Balance Sheet

- Frees up Working Capital
- Converts non-taxable deductible provisions into a fully tax deductible insurance premium

Export Coverage

Provides an organization with increased sales, cost savings and protection from unexpected losses

- **Eliminates...** Need for Letters of Credit
 - Covers shipments for the year
 - Open terms allows the buyer to keep their working capital line of credit available for other uses

- **Competitive Edge ...** Offering open terms
 - The difference in winning business or retaining from competition?

- **Borrow...** Export Receivables are no longer non-performing assets
 - Recognized collateral that can open up opportunities for better financing

- **Political Risk...** Export protection
 - Inability to obtain hard currency
 - Changes in Import/Export regulations
 - Foreign government non-payment



Accounts Receivable: The Only Major Asset Left Uninsured

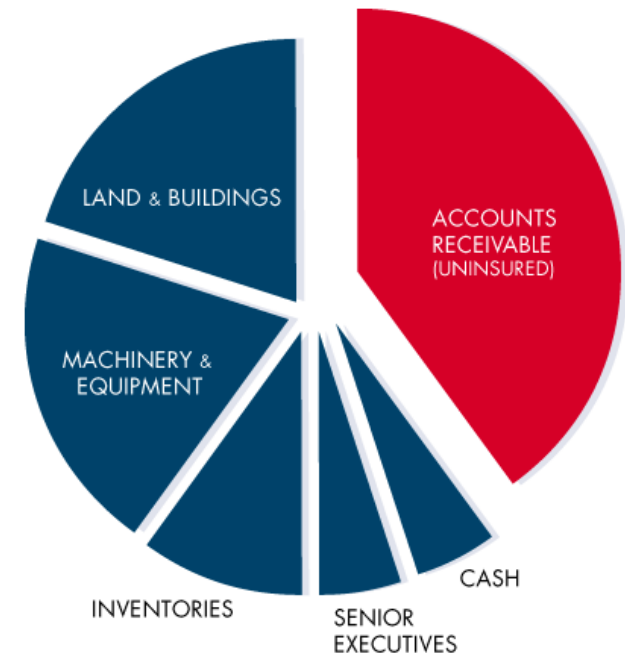
What assets are insurable?

What assets are insured?

- There is a greater chance that a business will experience a loss within their accounts receivable than any other asset.

Where does the A/R fall on the Balance Sheet?

- Typically represents 40% of a company's assets
- Most vulnerable to unexpected losses
- Highly likely to be affected by business cycles
- Provides cash flow for the business
- Only under-leveraged asset
- Few companies can effectively compete without extending credit to their buyers



What amount of loss would seriously impact a company's financial stability or annual profit?

How many accounts have credit extended over that limit?

“My Accounts Are As Good as Gold...Really?”



???

Bankruptcies are inevitable
Have happened to big name companies
Failures come from increasingly unpredictable sources:

- Management Deficiencies
- Complex Financial Restructuring
- Regulatory Changes
- Legal Maneuvering (Chapter 11)
- Product Liability
- Political Upheaval
- Global Economic Changes

Avoid Cash Flow Wheel Domino Effect

- Sets off chain reaction that trickles down.
- The need and resources to monitor and manage beyond primary debtor.

A Policy To Fit Your Business Needs

➤ Where's the Growth? Where's the Risk?

- Portfolio Coverage (Full A/R)
- Key Account, Export Only, 2nd tier, etc.;
- Logical Segmentation *not...* *“only the accounts a business is worried about”*
- Domestic, Export, Catastrophic coverage
- Appetite for Risk

➤ Establish Premium Rate

- Based on policy type, buyer, industry risk, term
- Rate is quoted as a percentage of insured sales

➤ Risk Sharing

- Aggregate First Loss (deductible), Non-Qualifying Loss (NQL), Coinsurance

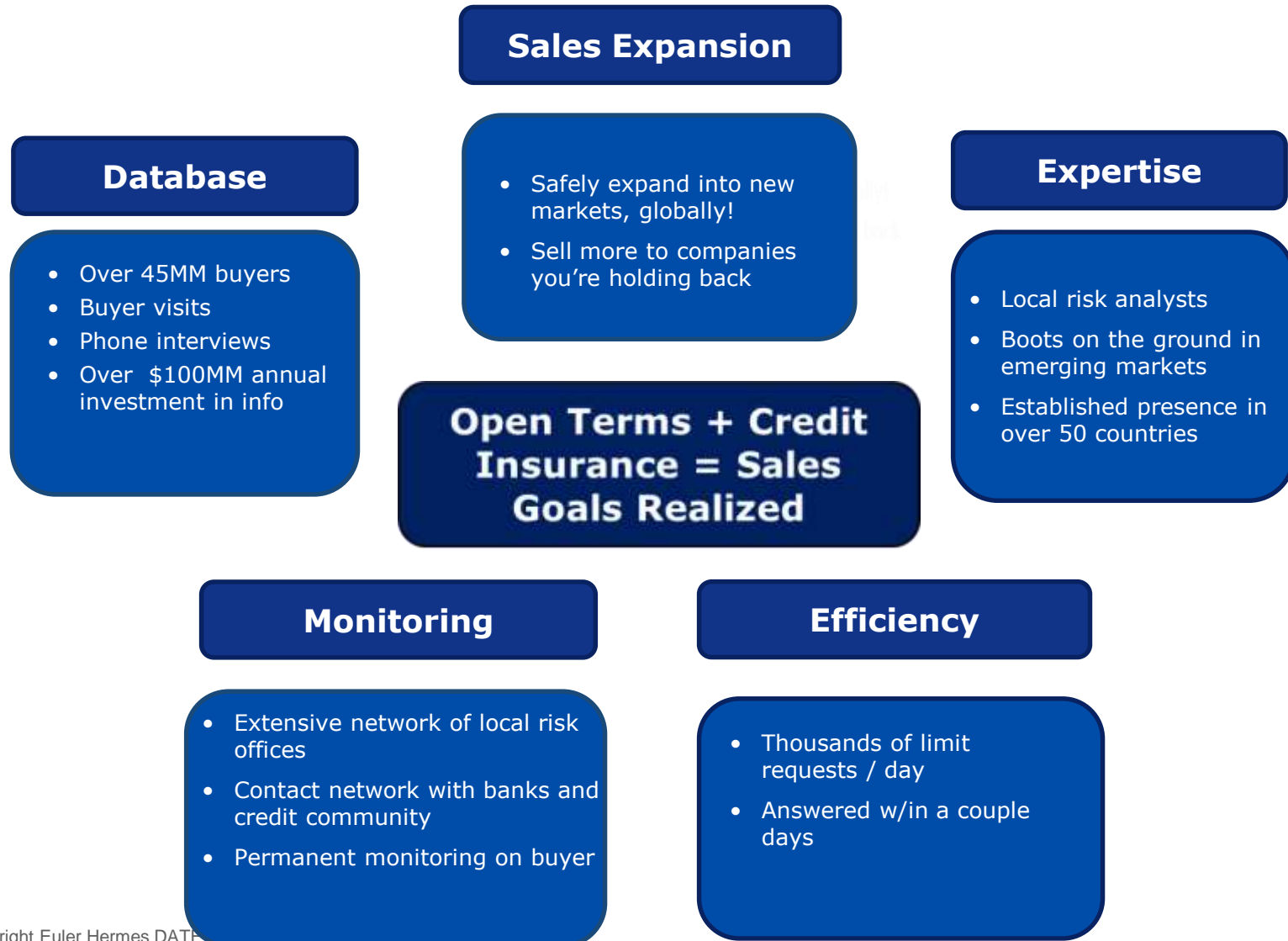
➤ Set Credit Limits

- Underwrite large, named credit limits (Risks are Rated)
- Arrange Discretionary Credit Limit (DCL)

➤ Policy is Dynamic

➤ Policy Payout - Insolvency vs. Slow Pay

Knowledge Really Is Power!!!!



Have You Ever...

- Tried to sell to new customers or new markets but couldn't get comfortable with the risk?
- Needed help assessing the financial strength of your buyers?
- Experienced bad-debt losses?
- Had a customer become insolvent?
- Wanted to improve your cash flow?

If “yes”, then Trade Credit Insurance might be for you



**Thank you for your
attention.**