

FCIB Webinar

Tools & Techniques for Making Intelligent International Credit Decisions

Presented
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Exporting Amidst Uncertainty

- Challenges in world economy but also opportunities for growth
- Global political and economic crises not affecting every sector
- Many companies continue to grow, particularly export sales
- Worldwide demand continues to engender international trade
- U.S. has only 5% of world population and <25% of global GDP
- All countries linked but each region on its own path to recovery



U.S. vs Global Demand for Credit

<u>Domestic Sales</u>	<u>Export Sales</u>	
X	X	Refusal to pay cash in advance
x	X	Refusal to open letters of credit
x	X	Limited access to working capital
x	X	Credit terms as competitive tool
x	X	Distribution and supply chains
	X	Inflation and high interest rates
	X	Politics/government actions
	X	Currency rate fluctuations
	X	Currency exchange controls



U.S. vs Global Payment Risks

<u>Domestic Sales</u>	<u>Export Sales</u>	
X	X	Bankruptcy, insolvency, closure
X	X	Cash flow / working capital issues
X	X	Balance sheet or financial fraud
	X	Currency exchange rate fluctuations
	X	Currency inconvertibility or transfer
	X	Expropriation, nationalization, etc.
	X	War, invasion, civil strife, strikes
	X	Trade sanctions, embargoes, etc.
X	X	Government actions, political risks



U.S. vs Global DSO

<u>Domestic Sales</u>	<u>Export Sales</u>	
x	X	Length of open-account credit terms
x	X	Slow payments business as usual
x	X	Ability to finance creditworthy A/R



U.S. vs Global Credit Info Availability

Domestic Export

Sales

Sales

X	x	Supplier credit references (in US\$)
X	x	Commercial bank/lender references
X	x	Financial statements per GAAP/IFRS
X	x	Comprehensive credit agency reports
X	x	Local reputation, news, online info
X	X	Industry credit groups
X	x	Direct recovery efforts
X	x	Collection agencies
X	x	(Timely) legal action



Export Credit Tools - 1

- Supplier trade credit references
 - The more the better in the absence of conventional information
 - References from anywhere help demonstrate payment morality
 - References from USA, Europe, etc., reveal hard-currency access
 - Bootstrapping: start small and evolve into your own credit reference?
- Financial statements
 - Increasingly available as GAAP/IFRS from reliable preparers
 - If not, mostly useful for triangulation on other primary sources
- Credit agency reports
 - Mostly useful for triangulation or small credit limits?
 - D&B, Creditsafe, Graydon, FCIB, Skyminder
Kreller, Owens Online, Experian, Equifax, ICTF
Credit Reports World, Creditreform, Coface, USDOC, et al



Export Credit Tools - 2

- Commercial bank/lender references
 - Available from banks in the most-developed economies
 - In some cases more obtainable through your own bank
 - Often not feasible in emerging/developing foreign markets
 - Newer non-bank lenders seem to be more forthcoming
- Other sources of information
 - Online research, website, search engines
 - Industry and region-specific paid solutions
 - News items from online and local sources
 - Market share, reputation, customers/suppliers
- Industry credit groups
 - Specific to your market segment or target countries
 - NACM and other credit management associations



Largest Economies by GDP

- USA
- [EU]
- China
- Japan
- Germany
- UK
- France
- India
- Italy
- Brazil
- Canada
- South Korea
- Russia
- Australia



Largest Countries by Population

- China
- India
- [EU]
- USA
- Indonesia
- Brazil
- Pakistan
- Nigeria
- Bangladesh
- Russia
- Mexico
- Japan
- Ethiopia
- Philippines



Global Credit Overview



Credit Insurance: Do Claims Get Paid?

- Indemnification
 - Properly structured insurance policies work as advertised
 - Getting insurance claims paid is a function of compliance
 - No greater than the sum of parts; policy compliance is achievable
 - Understand policy terms and build relationship with underwriter
- Compliance
 - Each foreign buyer needs to be approved (named or via DCL)
 - Even non-cancelable limits have rules (shipping into difficulty)
 - Shipment must be reported, as do past-dues over thresholds
- Claim filing
 - Need to file claims within policy's claim-filing window
 - Extensions can be requested but prior to deadlines
 - Actions are required following losses and claim filings
 - Underwriters respect/reward robust collection efforts



Export Credit Insurance

- Export credit insurance enables exporters to:
 - Protect their foreign receivables against virtually all default risks
 - Extend competitive export payment terms with confidence
 - Expand their international sales and market share
 - Increase the profitability of doing business internationally
 - Enhance their borrowing capacity by including their foreign A/R
- Policy structures
 - Whole turnover, top/key buyers, reasonable spread of risk, et al
 - Single-debtor policies for concentrations (possibly syndications)
 - Driven by underwriters' algorithms and/or exporters' experience
 - Customers approved on named basis or discretionary limits
 - Low premium rates paid annually, quarterly, or pay-as-you-go



Credit Insurance Trends

- Adoption level still nowhere near Europe and other markets
- But growing numbers of U.S. companies are obtaining coverage
- Function of greater awareness and more SME exporting
- Claim volume level, debtor payments variable, outlook uncertain
- Reinsurers responsive to growing activity and larger exposures
- ECAs continue to play a key role, despite Ex-Im Bank politics
- Longstanding insurers: AIG, Atradius, Coface, Euler, FCIA/GAIC
- Growing players include AWAC, Beazley Chubb, HCC, QBE, et al
- Plus newcomers like Chaucer, Markel, Talbot, XL
- Greater competition focusing on policy features
- More policies are offering non-cancellable limits
- Trend toward underwriting buyers and exporters



Meridian Finance Group

Insurance

- Export credit insurance
- Political risk insurance
- Surety bonds, A/R put options
- Domestic receivables insurance



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