

WELCOME

Demand for Trade Credit Now & How to Manage It

April 28, 2020



LOS ANGELES AREA
CHAMBER OF COMMERCE



CHANGING
DEMAND
FOR CREDIT

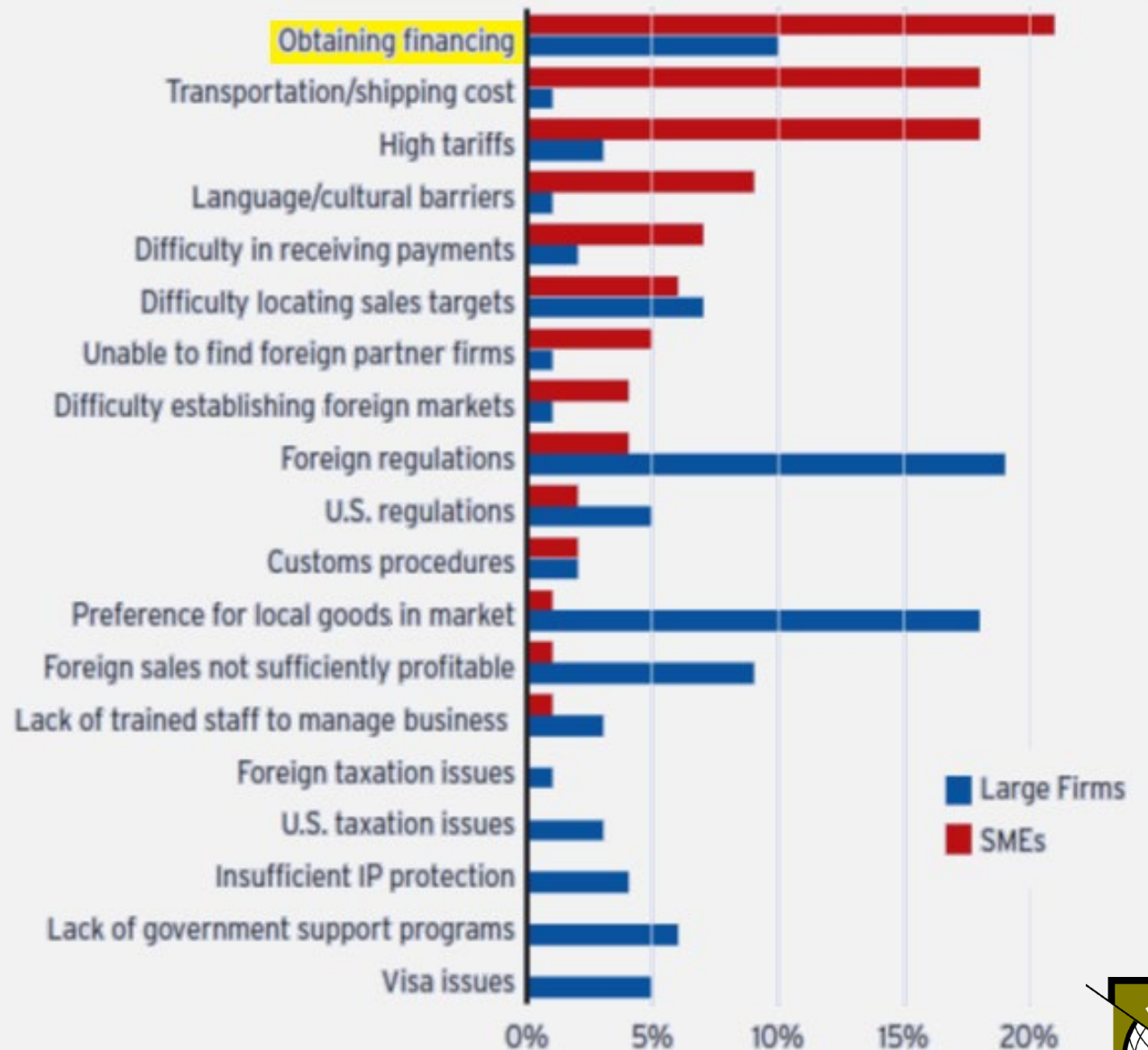
Demand for credit amid
the evolving downturn

How to manage credit now
and keep doing business

WHAT'S THE
DOMESTIC &
INTERNATIONAL
OPPORTUNITY?

- Global trade > \$25 trillion
- U.S. exports > \$2.5 trillion
- USA < 5% of world population
- U.S. economy < 25% of global GDP
- Most buying power located abroad
- Worldwide demand for goods/services
- Economies linked but on own paths

THE BIGGEST CHALLENGE FOR EXPORTERS & IMPORTERS



Source: U.S. International Trade Commission (2010)

WHY YOUR
CUSTOMERS
NEED MORE
CREDIT NOW

Demand for credit has been increasing for some time, but now your customers:

- Face limited access to working capital
- Have diminished financial flexibility
- Are getting paid slower by their customers
- Source goods through broken supply chains
- Operate remotely or with social distancing
- Contend with daily change and uncertainty
- Yet try to plan ahead for economic recovery



WHY YOU
CONTINUE TO
EXTEND CREDIT

Same reasons as always, plus to help you:

- Book orders while opportunity still exists
- Outsell competitors who are still out there
- Produce or purchase more efficient quantities
- Strengthen your throughput and supply chains
- Get your distributors to take more inventory
- Stage your products nearer to local end users
- Maintain market share for coming recovery



BUT WHAT
HAPPENS IF
YOU DON'T
GET PAID?

Nonpayment risks have always existed but they're becoming more acute now because of:

- Customer bankruptcies/insolvencies
- Liquidations, going out of business
- Cash flow or working capital issues
- Excess leverage, financial inflexibility
- Lockdowns and uncertain supply chains
- Pandemic masking underlying problems
- Economic conditions, supply/demand
- Government actions, political risks

BUT WHAT
HAPPENS IF
YOU DON'T
GET PAID?

Plus these international credit risks:

- Unfamiliarity with local business practices
- Different laws, regulations, creditors' rights
- Currency exchange rate fluctuations
- Inability to obtain or transfer U.S. dollars
- Expropriation/nationalization of assets
- War, riots, civil strife, insurrection
- Import/export license cancellation

AND HOW LONG
CAN YOU WAIT
TO GET PAID?

- **Payment terms are growing longer**
Economic impacts are extending trade cycles, driving demand for 60, 90, 120 days or more
- **Customers may be paying slower**
Depending on access to working capital, payment morality, impacts of the pandemic
- **Receivables are more difficult to finance**
Banks/lenders face credit and regulatory challenges to monetizing A/R with longer terms, slow pays, concentrations, and generally during a downturn

HOW TO MANAGE
EVOLVING DEMAND
FOR TRADE CREDIT

1. Carefully evaluate customers' creditworthiness then extend them reasonable credit terms
2. Obtain trade credit insurance to protect your accounts receivable against nonpayment risks
3. If short on working capital, monetize your insured A/R with financing from a bank or other asset-based lender

CUSTOMER CREDIT EVALUATION

Sources of information for analyzing creditworthiness:

- Bank and trade references
- Your own ledger experience
- Financial statements / tax returns
- Credit bureau reports
- Industry creditor groups
- Online info, data, articles
- Virtual personal site visits, video dialogue with your customers, and their customers, banks, et al

TRADE CREDIT INSURANCE

Credit insurance protects accounts receivable against nonpayment risks.

If a customer covered under your policy defaults and the debt can't be collected you can file a claim and get indemnified.

Trade credit insurance enables you to:

- Extend competitive payment terms
- Continue selling even in a downturn
- Increase the profitability of your sales
- Enhance your borrowing capacity



CREDIT INSURANCE POLICIES

- **Types of Policies**
 - Whole turnover, key buyers, spread of risk
 - Single/selected buyers (for strongest credits)
- **Premium**
 - Fraction of 1% of insured invoice amounts
 - Annually, quarterly, or monthly reporting
- **Claim Filing**
 - ASAP for bankruptcies, other insolvency
 - Flexible window for protracted defaults
- **Buyer Approvals**
 - Named buyer underwriting by insurer
 - or based on insured's experience

CREDIT
INSURANCE
UNDERWRITERS

- **Multiline Carriers**
AIG, Chubb, Hartford, Allied, Zurich, et al
- **Specialty Insurers**
Great American, HCC, Liberty, Markel, et al
- **Monoline Underwriters**
Euler, Coface, Atradius, ReceivaSure, et al
- **Government Agencies**
EXIM Bank and other ECAs (for exporting)
- **Lloyd's Syndicates**
Available in USA on surplus lines basis



CREDIT
INSURANCE:
RISK, SALES, AND
FINANCING TOOL

- Risk Management Tool
 - Protect your A/R against nonpayment
 - Keep selling even during downturn
 - Strengthen your balance sheet assets
- Sales Tool
 - Extend competitive payment terms
 - Ship more, transfer inventory costs
 - Maintain distributors, fill supply chains
- Financing Tool
 - Maximize your collateral/borrowing base
 - Monetize your accounts receivable
 - Negotiate favorable advance rates



CREDIT INSURANCE INDUSTRY TRENDS EARLY IN DOWNTURN

- More U.S. companies obtaining coverage
 - Adoption level still below other countries
 - Greater demand amid spreading pandemic
 - Subsidiaries getting insured like foreign parents
-
- Claim volume level but surge anticipated
 - Underwriters reaching out for payment data
 - Policy terms being liberalized for slow pays
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- Buyer's market has become seller's market
 - Insurers still underwriting but growing cautious
 - Unknown how long policies will keep being issued

If you're thinking about it, apply now.



BEST PRACTICES
NOW FOR GETTING
POLICY QUOTES

- Equitable Spread of Risk
 - Whole turnover or all largest buyers
 - No cherry-picking or adverse selection (except for extremely creditworthy debtors)
- Cogent Cover Memo
 - Coronavirus impacts on company/sector
 - Clear explanations for any past-due accounts
 - Descriptions of favorable policies/procedures
- Reasonable Expectations
 - Overnight this has become a seller's market
 - Show willingness to share risk with insurer
 - Be flexible regarding terms and conditions
 - Any coverage is better than no coverage



WHAT TO EXPECT
NOW IN CREDIT
INSURANCE POLICY
QUOTATIONS

- Risk Sharing
 - Deductible or annual first loss
 - Indemnification percentages
 - Excess vs bottom-up coverage
- Premiums
 - Rates still low vs benefits
 - Upfront deposit for policy year
 - Some risks uninsurable at any price
- Buyer Limits
 - Noncancelable limits still available for reasonably creditworthy buyers
 - If cancelable limits are the only option, take whatever coverage you can get and use insurer feedback to your benefit

TIPS FOR GETTING BUYER LIMITS UNDERWRITTEN

- **Named Buyer Limits**
 - Credit info: financial statements, credit reports, trade references, industry info
 - Write-up: credit memo, ledger experience, history, pandemic's impact on buyer
 - Transaction info: essentialness of product, one-off vs ongoing sales, payment leverage
- **Discretionary Credit Limits**
 - Powerful tool for experienced creditors
 - Insure terms you extend on the basis of your own analysis or ledger history
 - Worth the cost of (higher) deductible

CREDIT INSURANCE INDEMNIFICATION

- Getting credit insurance claims paid is a function of compliance
- A credit insurance policy is no greater than the sum of its parts
- Read your policy and get answers for anything you don't understand
- Do business in compliance with all policy terms and conditions
- Guiding principle: extend credit with as much care as if uninsured

FILING CREDIT INSURANCE CLAIMS

- Need to file within claim filing window
 - Waiting periods and deadlines are defined
 - Insurers being flexible but you must comply
 - Extensions can be requested in good time
- Actions required following loss/claim
 - Insurer and/or insured control of collections
 - Insured must cooperate, help minimize loss
 - Approval for any acceleration/rescheduling
- Claim filing documentation
 - Claim form and other insurer requirements
 - Contracts, purchase orders, invoices, etc.
 - Release/assignment of receivables
(when claim is paid so insurer can pursue)



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