



**MAINE INTERNATIONAL TRADE CENTER**

*Global Resources. Local Expertise.*



**OneSource**

Risk Management & Funding



**Export Forum 2015**  
**October 14, 2015**

## **MANAGING CREDIT RISK IN A VOLATILE MARKETPLACE**

Presented by: George Babeu, President  
One Source Risk Management and Funding, Inc.

# WHAT WE WILL DISCUSS

- Today's volatile marketplace
- Challenges for the exporter
- Look at types of risks and mitigation tools for each.
  - Country / political risk
  - Credit risk
  - Currency risk



# TODAY'S VOLATILE MARKETPLACE

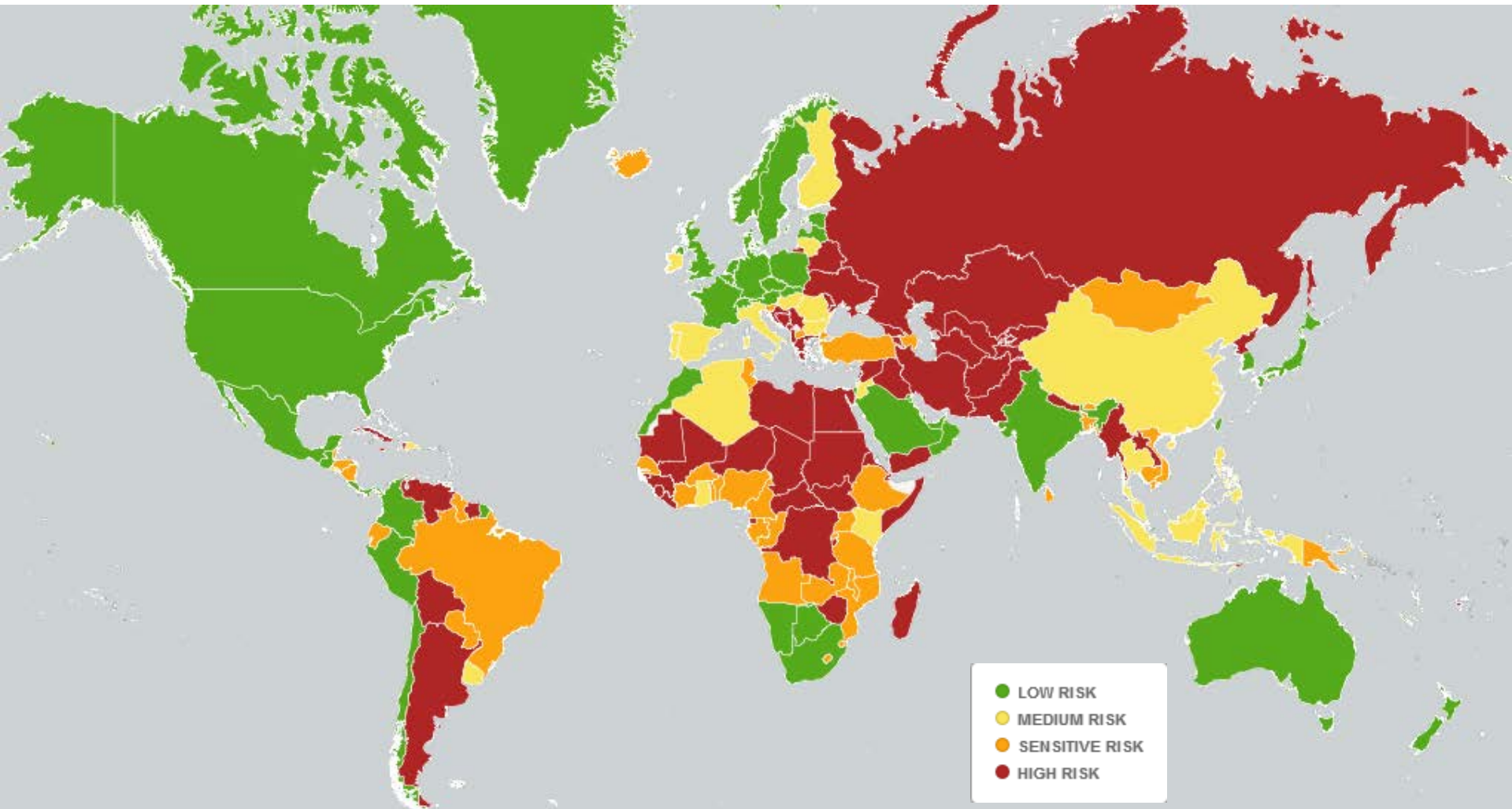
## Current Events impacting exporters...

- **Oil Prices.** Have they hit bottom? Are they stabilized?
- **China's Economy.** Will stimulus be enough or is more needed?
- **Russian Economy.** How will oil prices, the Ukraine and involvement in Syria impact their economic down turn?
- **Brazil's economic woes.** S&P changes debt to "junk status". Jobless rate now at 7.9%
- **Puerto Rico crisis.** Tens of thousand fleeing to mainland U.S. for jobs as 25% of all businesses have closed.
- **Greece's debt crisis.** It's disruptive impact on the EU
- **Escalating Middle East unrest.** How will need for continued and escalating military resources impact countries supplying support?

# COUNTRY RISK MAP 9/2015



**OneSource**  
Risk Management & Funding



Sources: Euler Hermes' country risk ratings as of 09/10/2015. GDP, per capita GDP and population data are from the International Monetary Fund.



# STRONG DOLLAR IMPACTS ON TRADE



- The US trade deficit increased 15.6 percent in August to \$48.3 billion
- Exports from the US decreased 2% from July to \$185.1 billion
- A growing deficit with trading partners may indicate the pressure of a strong US dollar

• *Source [dailyfx.com](http://dailyfx.com) (forex news)*

The US trade deficit widened in August as exports dropped to their lowest level in nearly three years. The US Department of Commerce issued a report on 10/6/15 that revealed the US trade gap rose more than expected to a \$48.3 billion shortfall in August. The department had also revised its estimate for July's deficit to \$41.81 billion from the initial reading of \$41.86 billion.



## CHALLENGES FOR THE EXPORTER:

- Exporters looking to remain competitive in the global marketplace have numerous challenges including:
  - **Political and Country Risks.**
  - **Company Credit Risks**
  - **Currency Risks**
- As firms seek to preserve financial and operational flexibility, **collateral posting or pledging of assets has become less favorable vs. transferring risk to Insurers and/or financial institutions.** This allows for the creation of additional credit and financial capacity to safely protect and grow the business.

# STEP BY STEP APPROACH TO SAFER EXPORTING



# TOOLS FOR SAFER EXPORTING







**OneSource**  
Risk Management & Funding

# POLITICAL RISK INSURANCE

# POLITICAL RISK INSURANCE - OVERVIEW

- War and Political Violence (PV)
- Economic instability
- Confiscation, Expropriation and Nationalization (CEN)
- Non-Honoring (sovereign guarantees, letters of credit)
- Deprivation of Capital
- Embargo
- License Cancellations
- Non Transfer
- Currency Fluctuation
- Divestiture
- Contract Frustration
- Business Interruption

# POLITICAL RISK INSURANCE

## **Benefits: It protects**

- Physical Asset Protection
- Investment Protection
- Contract Value Protection

## **Pitfalls:**

- Performance Risk
- Waiting Periods
- Can be complicated

## **Misconception:**

- Not many companies
- underwrite it



**OneSource**

Risk Management & Funding

# LETTER OF CREDIT (LC)



# LETTER OF CREDIT

- A Letter of Credit (LC) is a promise by a bank to make a demand payment to the holder of the LC under specified conditions.
- Letters of Credit come in several forms:

Documentary letters of credit

- Export / Import

Standby letters of credit

- Financial / Performance



# LETTER OF CREDIT (cont.)

## WHAT IT IS:

- An “absolute” guaranty to pay the creditor
- Written undertaking, usually by a financial institution
- Upon satisfaction of conditions stated in letter of credit

## EFFECTS:

- Creates primary obligation on part of issuer
- Independent of underlying debt owed by obligor
- Issuer must pay, even if creditor has breached underlying contract

# LETTER OF CREDIT

## BENEFITS

- Highly secure
- Often less expensive to the seller than other forms of mitigation
- Generally known and understood by many

## PITFALLS

- Document heavy
- Often requires labor-intensive document review
- Usually requires counterparty to post-collateral
- Less customer friendly



**OneSource**

Risk Management & Funding

# CREDIT INSURANCE





# CREDIT INSURANCE – OVERVIEW

Trade credit insurance protects a company's commercial accounts receivable from unexpected and catastrophic losses resulting from insolvency or "non/slow-payment".

- Protects against catastrophic events/ risk mitigation
- Safely increases sales both domestically and internationally
- Enhances and supports the credit management function
- Improves/facilitates internal and external financing
- LC Replacement with non-cancelable insurance
- Flexible structures: single debtor, key accounts, portfolio

# CREDIT INSURANCE COVERAGE

## Commercial Risk Domestic & Export

- Buyer Insolvency
- Protracted Default
- Non Acceptance
- Contract Frustration

## Political Risk – Export

- Inability to obtain hard currency
- Changes in Import/Export regulations
- Contract frustration due to Act of War
- Foreign government non-payment

## Private Carriers

- ACE
- Atradius
- Coface
- FCIA
- QBE
- AIG
- Beazley
- Euler Hermes
- HCC
- XL Group

## Government Carriers

- ExIm Bank
- EDC (Canada)



# TYPES OF INSURANCE COVERAGE

- **Cancelable Limits** – Carrier assists in monitoring accounts and provides warning and guidance in the event there is increased likelihood of default.
- **Non-Cancelable Limits** – Carrier will not cancel limits, but the action of the limit could cancel itself.

# CREDIT INSURANCE MISCONCEPTIONS / PITFALLS

## Misconceptions

- Inflexible
- Expensive
- Only covers good buyers
- All limits are cancelable

## Pitfalls

- Buyer coverage
- Risk sharing (deductible)
- Conditionality of policy
- Performance risk

# CREDIT INSURANCE – HOW IT IS PRICED

- Priced on sales
- Priced on coverage

## Variables

- Buyer quality
- Industry
- Country
- Credit Process
- Applicant loss history
- Terms of sale
- Length of Coverage



**OneSource**

Risk Management & Funding

# FORFAITING AND FACTORING

# FACTORING

Factoring is a package offered by the Factor to a Seller wherein against assignment of Seller's receivables to the Factor (May be with or without notification of assignment to the Buyers)

## May benefit

- Sales / invoice ledgering
- Debt collection
- Risk protection
- Financing



**OneSource**

Risk Management & Funding

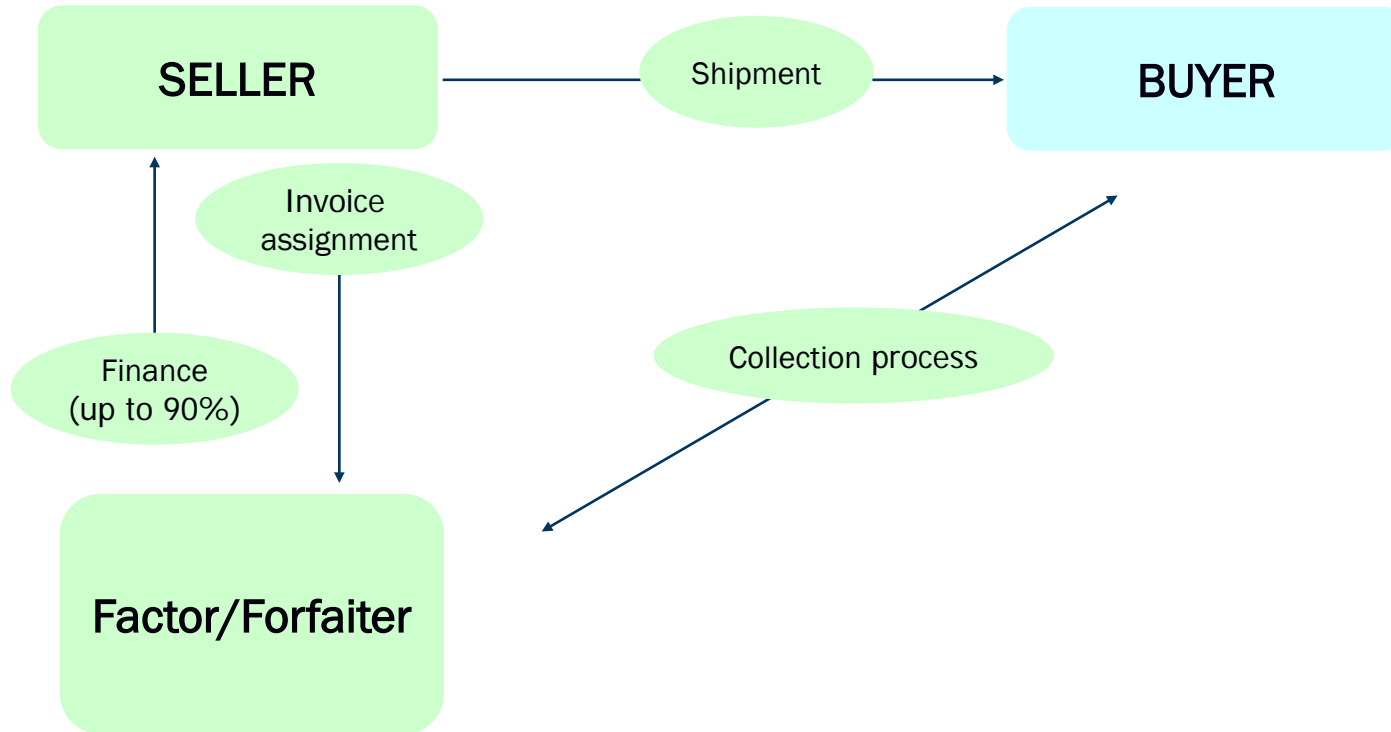
# HOW DOES IT WORK?



**OneSource**

Risk Management & Funding

## Factoring & Finance





# FEATURES AND BENEFITS



**OneSource**  
Risk Management & Funding

## FEATURES

- Invoice/sales ledger
- Collection of receivables
- Credit risk evaluation
- Financing
- Credit management
- Open account terms

## BENEFITS

- Personalized reporting
- Professional collection
- Bad debt protection
- With or without recourse
- Debtors pre-assessment
- On going credit monitoring

**Disadvantage: Cost**

# FORFAITING

Discounting of export receivables without recourse to the exporter, evidenced by:

- Negotiable Instruments
  - Promissory Notes (Promise to Pay)
  - Bills of Exchange (Demand to Pay)
- Deferred Payment Letter of Credit
- Receivables Covered by Private Insurance

# EXPORTER'S ADVANTAGES



**OneSource**  
Risk Management & Funding

- Non-recourse to exporter
- Converts credit sale to cash sale
- Offers fixed rates
- Provides 100 % financing
- Simple documentation
- Used or new equipment
- Not concerned about US origin of the goods
- Exporter generates good will, Importer does not know about forfaiter
- Fast Turnaround
- Confidential
- Flexible

**Disadvantage: Cost**

# FORFAITING VS FACTORING

## FACTORING

- Short Term – up to 120 days
- Ongoing relationship between buyer and seller
- Portfolio management
- Notification usually required
- Up to 90 % advances
- With or without recourse
- Invoice based (normally)
- No minimum size

## FORFAITING

- Medium to long – over 180 days – 10 years
- Incremental sales
- One off transaction
- Anonymous
- 100 % discounting
- Without recourse
- Negotiable instrument
- \$100,000 plus



**OneSource**

Risk Management & Funding

# FOREIGN EXCHANGE HEDGE



# FOREIGN EXCHANGE HEDGE

Provides protections against currency fluctuations for companies that:

- Have overseas vendors, customers, subsidiaries or employees
- Need to make currency payments or convert foreign receivables into US Dollars
- Have exposure to fluctuating exchange rates



# FOREIGN EXCHANGE HEDGE TYPES

## SPOT CONTRACTS

- For immediate payment in one currency in exchange for another, usually to send foreign currency payables or convert foreign receivables (simple wire transactions or payments).
- Typical market settlement in two business days but can be done same day depending on currency and time of the transaction

## FORWARD CONTRACTS

- Locks in a price today for a payment due on a future date or range of dates, providing a hedge against currency fluctuation.
- Forward prices are determined by an adjustment made to the spot price based on the interest rate differential between the two currencies



# FOREIGN EXCHANGE HEDGE TYPES

## CURRENCY SWAPS

- Simultaneous buying and selling of the same currency for one date against another future date. For example, if a company has a Euro receivable in 3 months but a Euro payable in 6 months.
- A swap allow for a guaranteed upfront exchange rates on both dates for both transactions

## NON-DELIVERABLE FORWARDS

- To hedge foreign currency risk in emerging markets where no traditional forward market exists, e.g., china and Brazil.
- NDFs are synthetic hedges that are net settled in USD at the maturity of the contract and 'no delivery' of the forex occurs.





**OneSource**  
Risk Management & Funding

## WHO IS ONE SOURCE...

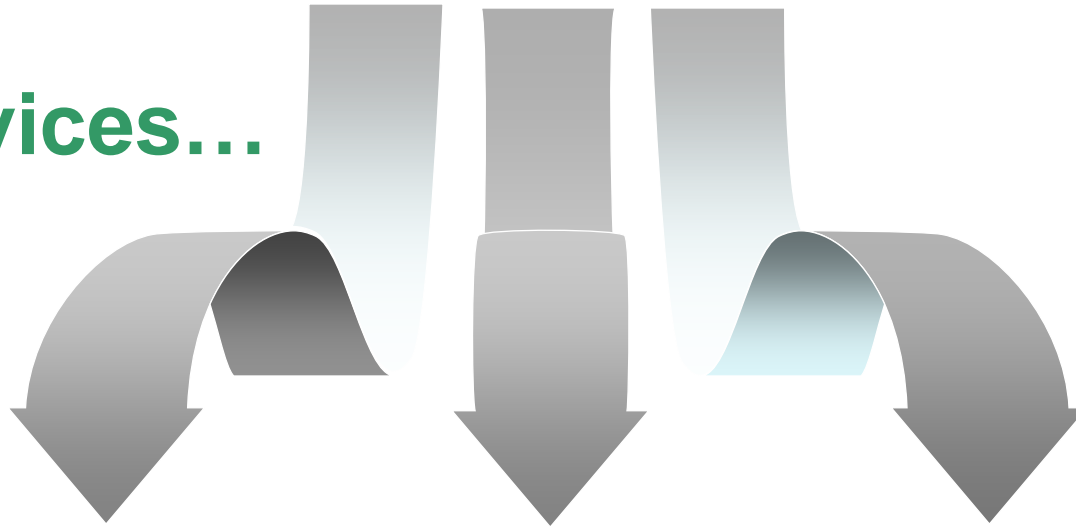
- One of the fastest growing specialist brokers in the U.S.
- Credit Insurance division started 1998
- Over 650 clients utilizing our services
- Headquartered in Portland, ME. National Service Center located in Houston, TX along with offices across the U.S. and Canada.
- Manage multi-national CI policies in 26 countries
- Consistently rated in the top 3 among the largest credit insurance carriers.



**OneSource**

Risk Management & Funding

# Our Services...



## Receivable Protection

*We offer several products to protect your bottom line:*

- Credit Insurance  
Multi National Coverage
- Political Risk Cover
- Receivable PUT Options
- Factoring Solutions
- FX Solutions

## Receivable Management

*One Source specializes in A/R Management solutions:*

- Receivable Management Services
- Commercial Collection Services
- A/R Portfolio Evaluation

## Information

*Information is the Key to Credit.*

- Client Information Services Department
- International Credit Reports
- Country Reports
- Seafax Credit Reports

## Contact:

**George Babeu**

One Source Risk  
Management & Funding

866-463-4741 ext. 4031

[george@onesourcerm.com](mailto:george@onesourcerm.com)

[www.onesourcerm.com](http://www.onesourcerm.com)

**WE SOURCE THE ENTIRE MARKET  
OF CARRIERS TO LEVERAGE  
THE MOST COMPREHENSIVE  
AND COST-EFFECTIVE  
TRADE CREDIT  
PROGRAM**

BEAZLEY • COFACE • EDC  
GUARANTEE COMPANY • FCIA • HCC  
AIG • XL • EULER HERMES  
EXCESS PLACEMENTS, LLC  
QBE • ZURICH • LLOYD'S • ACE  
EXIM • ATRADIUS



**One Source**