Ασφάλιση Πιστώσεων – Εγγυήσεων:
Ένα μοντέρνο χρηματοπιστωτικό εργαλείο για τον Έλληνα εξαγωγέα

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ΕΑΕΕ / Επιτροπή Ασφάλισης Πιστώσεων – Εγγυήσεων

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What is Credit Insurance / How does it work

What is Credit Insurance / How does it work

Credit insurance is the insurance of the trade credit receivables against the risk of default of the end buyer. These B2B receivables regard invoiced goods delivered or services rendered.

Components of credit insurance:

- Supplier = Policyholder
- End buyer = the risk
- B2B transactions only
- Invoiced (only) goods or services (Trade credit receivables)

We insure:

- Buyer's Insolvency
- Buyer's Protracted Default

We insure trade receivables, this is the risk!

So, we exclude cover for:

- Transactions on cash basis (no credit)
- B2B debts like corporate debts or postdated cheques, etc
- End buyers who are public companies, private individuals, associated companies

What is Credit Insurance / How does it work

Which receivables are not / cannot be insured?

Buyers who belong to the wider Public sector (public hospitals, ministries etc)

Buyers who are affiliated companies

Buyers who are private individuals

Buyers with short term receivables:
- Short term receivables: 0 to 1 year
- Middle term receivables: 1 to 2 years
- Long term receivables: more than 2 years

What is Credit Insurance / How does it work

The duration of the policy is usually 1 year.

Credit Insurance is provided via credit limits

The inception of the policy coincides with the validity of the credit limit.

The Supplier requests a credit limit for each buyer onto which he will invoice on credit

The Credit Insurer evaluates and eventually approves the credit limit, taking into account several financial & commercial factors.

All invoices that are issued after this date and within the policy period are insured within the credit limit.

The invoice date is the decisive factor!!!

What is Credit Insurance / How does it work

Political Risk may Also be Covered!

Or else we insure our supplier against the risk of his buyer not to pay for non financial reasons:

- Moratorium: a general moratorium, decreed by the government of the buyer's country.
- Nationalisation, capital controls, confiscation
- War: the occurrence of war (including civil war, hostilities, rebellion and insurrection), revolution or riot in the buyer's country.
- Natural disaster: cyclone, flood, earthquake, volcanic eruption or tidal wave or other forms of natural disaster in the buyer's country.

Beneficiary for exporters!
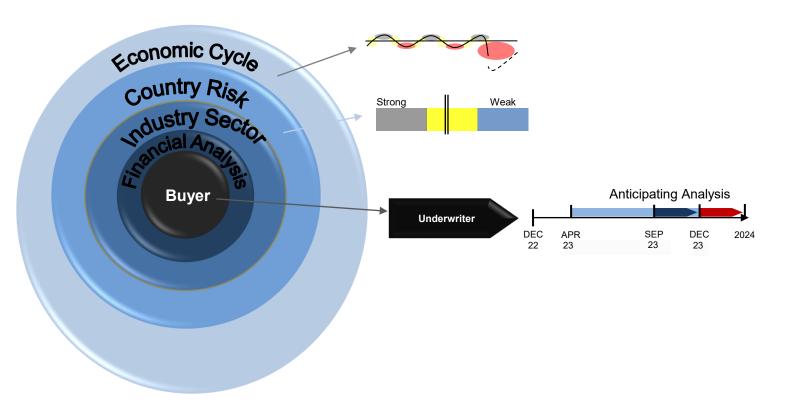
Why do we need Credit Insurance nowadays?

Why do we need Credit Insurance nowadays?

- Geopolitical instability

- Deteriorating economic climate

- Increase of insolvencies on a global scale

- High inflation

- Expensive financing

- Climate change

Credit Underwriting process

Strong ─ Weak

Anticipating Analysis

DEC 22 · APR 23 · SEP 23 · DEC 23 · 2024

Underwriter

Credit Underwriting process

Rating agencies & Reports

Audited accounts – Credit Agencies / International equivalents

Buyer visits / telephone conference calls

Management accounts / forecasts

Maximum Level of Cover

Customer background information / trading experience

Customer

Your Local Expertise

Internal Ratings Models

Credit Underwriting process

Local experts

- Native speakers
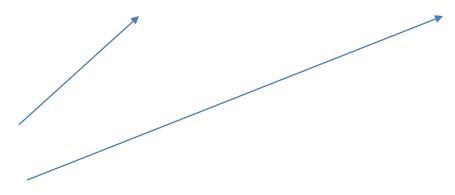- Sector experts
- Knows the local business Culture

Customer focused

- Knows customer
- Knows your portfolio
- Empowered to amend decisions

Intensive care unit

- Close communication with grey zone buyers
- Knows the local legislation
- Forward looking approach

Credit Underwriter

Benefits of Credit Insurance

Benefits of Credit Insurance

- Unbiased credit control

- Prophylaxis

- Safe growth

- Assure liquidity

- Financing tool

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Benefits Of Credit Insurance / Unbiased Credit Control

In order to reach a credit limit decision for a buyer we use information of:

- Financial data

- Empirical data

- Decisions taken by Credit Insurance Experts / Underwriters

- Each supplier has only his own view / experience

- The Credit Insurer has a spherical view of the credit behaviour of each buyer via insuring multiple suppliers of him

Remember: Unlike the banks we provide limits upon information without any collaterals / **it d' better be correct**!!!

Unbiased Credit Control offered!

Unbiased Credit Control offered!

Benefits Of Credit Insurance / Prophylaxis

▪After approving a limit our real job begins

▪Credit Insurers maintain a **buyer base** of many hundreds of millions of **buyers** worldwide

▪We enrich our buyer database **periodically**.

▪**Qualified UWers monitor** the development of the buyer portfolio (majority of staff is UWers)

▪For every new adhere information we **notify** the supplier (policyholder) either **not to sell further or to reduce sales**

▪**In this way we protect him from suffering a non payment**

We offer prophylaxis not indemnification!

Benefits of Credit Insurance / Safe growth

▪Assist you in penetrating new markets or start relationships with new customers on credit terms and not on a cash basis terms

▪This is a competitive alternative and much more commercial than requiring customers to provide LCs or similar collaterals

Competitive advantage for the exporters

The norms and modus operandi of the export countries are usually unknown to the exporters

Limited knowledge for the

    insolvency rates

    currency devaluation risks

    the legal practice of the market

    … we do not even speak the language

(the above restrain us from exporting **on credit** to new countries)

Examples…

Benefits Of Credit Insurance / Assure Liquidity / Indemnification

- In case of a **non payment** from a buyer the customer informs us

- We pay the unpaid receivables **either**

- When the buyer goes bust **or**

- **Max 6 months** after the due date of the unpaid invoice (whichever comes first)!

- In any case after the NNP, the Insurer takes over the **Inkasso procedure on the behalf of the supplier /** The supplier **does nothing!!!**

Inkasso costs are usually born by the Insurer (no out of court or legal actions are required by the supplier) / beneficial for the exporter!!!

Differences between **TCI** and **legal protection** insurance products

- In the Event of Loss **we pay even the 90%** of the value of the outstanding receivables

Unique product in the Insurance industry that you know **the date of payment** of the indemnification

- Certificates to auditors / **window-dressing** of our books

Benefits Of Credit Insurance / Cheaper and easier Working Capital

Cheaper and easier Working Capital

Having Credit Insured your clientele, minimises the likelihood of a fatal claim.

Improves the impact of the IFRS9 on the P&L.
How?

The above improve the position of the company to the eyes of the financial institutions.

Or else lower the interest financing rates

Benefits Of Credit Insurance / Cheaper and easier Working Capital

Cheaper and easier Working Capital

Credit insurance is provided via credit limits which are highly rated collaterals. Why?

The time of the indemnification is guaranteed (**Protracted Default**) allows for these lim**its to be assigned to financial institutions** for reasons of financing.

Factoring Houses and / or Banks and / or Funds accept our limits and provide invoice discounting to the insured ARs

Easier and cheaper financing / Working Capital is provided

A high percentage of customers proceed to TCI in order to benefit from this mechanism

Good to know …

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Razor thin margins / Bad debts Vs. Profitability

- For every bad debt the additional turnover needed to digest the loss is:

    bad debt / profit margin

- Example: if we operate with a profit margin of 4%, a bad debt of **$50.000** requires an additional turnover of: $50.000 / 4% = **$1,25m** to be digested…!

- The less the profit margin is the more **catastrophic** the impact of the bad debt becomes

- Credit Insurance **safeguards the liquidity** of our company

- Corporates die <u>only</u> because of lack of liquidity!

"Set Up" Claims ...

▪A high percentage of **cases are "set up / fraud" cases**

▪These "set up / fraud" cases can **hardly been predicted / diagnosed** by the supplier.

▪Credit Insurance operates as a **safety net** to protect the most valuable organ of every financial organisation: **liquidity**

Arguments usually brought forward against Credit Insurance

- I know my buyers for so many years, I will be the last to lose money…"

- "I am very experienced, I know the market…"

- "I have friends in the banks and I learn everything…"

- "If this buyer goes down the entire economy will collapse…"

- "This buyer is the best, no way to collapse. Paying premium for him is just a waste of money…

- My buyer is too big to fail…"

Too Big To Fail?" / case studies

- Hanjin

- Toshiba

- OW bunker

- Abengoa

- ΑΤΛΑΝΤΙΚ

- ΡΑΔΙΟ ΚΟΡΑΣΙΔΗ

- ΗΛΕΚΤΡΟΝΙΚΗ

- CRETA FARM

- Carrefour

Carrefour Marinopoulos / Case study

- *"I know the Marinopoulos family for so many years, I will be the last to lose money…"*

- *"My friends in the banks told me that the government will support him"*

- *"If he goes down the political cost will be huge"*

- *We have a left government, they will not let him go down and have so many unemployed people…*

- *"He is too big to fail…"*

- *"If this buyer goes down the entire economy will collapse…"*

- *"I have to keep on supplying him as the majority of my turnover is with him. If not to whom should I sell?"*

- *"I cannot attack him first, what if he is finally saved?"*

Covid – 19 Impact!

- JCPenney (USA)

- Virgin Atlantic (US branch)

- Hertz (North US)

- Diamond Offshore (Mexico / USA)

- Victoria's Secret (UK)

Credit Insurance and Technology …

"The world's most valuable resource is no longer oil, but data"

(*The Economist May 6th 2017*)

Credit Insurance and Technology …

Big Data / Internet of Things

Massive concentration of data to corporates.

All devices are connected

Machine Learning / Artificial Intelligence (A.I.)

optimization of algorithms and functions in our life and business segments

Not just in Google ads & YouTube layout …

Credit Insurance and Technology …

Insurance is a mathematical science, therefore this is heavily based upon technology and available data

Credit Insurance forms no exception!

Credit Insurance and Technology …

Credit Insurance

We need financial data to reach credit limit decisions
We need **more** financial data to reach better credit limit decisions
We need **all the data of the world** to reach super credit limit decisions

We use insurance predictive analysis
Web crawling mechanisms, machine learning algorithms

Hard facts can be traced in the financial universe and parametrized

An increasing number of credit limit decisions are already taken by machines!
This will further increase in the near future …
Error type A and B will tend to 0%!!!

UWing though is instinct / Instinct is (for the moment) a human feature
Soft facts cannot easily be traced … yet
(examples of soft factors which would affect the premium / risk)

Surety / Bonds

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Surety / Bonds - How does it work

- Policyholder

- Insurance Company

- Beneficiary

The Insurer insures / guarantees that he will cover the loss that the beneficiary will bear in case the policyholder fails to comply the terms of his agreement with the beneficiary.

- Performance guarantee

- Payment guarantee

- Advance Payment guarantee

- Custom Bond

etc

So far, only banks would offer such guarantees, however since 2018 Insurance companies can do so as well

Benefits…