

Americas Business Forum

EXPORT CREDIT INSURANCE

A TOOL FOR EXTENDING
COMPETITIVE CREDIT TERMS
(EVEN DURING THE ECONOMIC DOWNTURN)

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BY GARY MENDELL
MERIDIAN FINANCE GROUP



Exporting in the Economic Downturn

Amidst the challenges in the world's present economic situation, there are also opportunities for growth. The global financial crisis is not affecting every sector of the real economy. Many companies will continue to grow and in many cases their growth will come from export sales.

While total export volumes may fall short of earlier projections, worldwide market demand for goods and services will continue to engender a considerable amount of international trade, and even expansion in some sectors.



Purchasing Power in Other Countries

The U.S. economy is projected to continue declining for some time before it begins to recover, but with just five percent of the world's population and less than one-quarter of global GDP, the U.S. is not the only country with purchasing power.

While all countries are linked to some degree by economic interdependence, different cultural, political, and market forces will lead Europe, Asia, Latin America, and other regions each on their own trajectory.



Customer Demand for Credit

Facing limited access to capital in their own countries, as well as high interest rates and exchange controls, foreign companies are turning to their international suppliers for working capital in the form of longer payment terms.

Exporters who seek to capitalize on the opportunities that will emerge in 2010 and beyond need to consider extending competitive international credit terms:

- When customers refuse to pay cash in advance or L/Cs
- As a competitive tactic vs. other suppliers
- To support distribution /representation
- For inventory transfer/supply chain benefits
- And to keep doors open in strategic markets



Export Credit Risks

U.S. exporters need to extend competitive credit terms to grow their international sales, but what happens if they don't get paid? Non-payment risks include:

- Customer bankruptcy, receivership, or insolvency
- Protracted slow payment for any number of reasons
- Cash flow problems or balance sheet issues
- Over-anticipated demand or local competition
- General economic conditions (there or in USA)
- Currency fluctuations
- Foreign exchange/transfer controls
- Expropriation and other political risks
- War, strikes, embargoes, trade sanctions



Export Credit Insurance

Exporters can protect their foreign receivables and be confident of getting paid with an export credit insurance policy.

Export credit insurance protects exporters against the commercial and political risks of not being paid by a foreign customer for virtually any reason.

The benefits of this coverage include:

- Risk protection on foreign receivables
- Increased international sales
- Higher exporting profits
- Enhanced borrowing capacity



Spreads of Risk

All of an exporter's foreign receivables can be insured under one policy . . . or single-buyer cover may be available.

- **Whole-turnover coverage**
 - Lowest premium rates
 - May include discretionary credit limits

- **Key-buyer policies**
 - Requires disciplined selection
 - Smaller buyers excluded from premium

- **Single-buyer insurance**
 - Highest premium rates
 - Buyer needs to be very strong



Eligibility

Sales of all types of products and services can be covered, in some cases regardless of content or country of origin.

- **Ex-Im Bank policies**
 - Can cover highest-risk markets
 - Advantages for small-business exporters
 - Only for products manufactured in USA (at least 50%)

- **Private-sector export credit insurance**
 - No USA content requirements
 - Minimum annual premium costs
 - No mandate to help smaller exporters

- **Global or domestic coverage is also available**



How Much Does Coverage Cost?

- Premium rates are based on a number of factors:
 - Spread of buyer and country risks
 - Payment terms extended
 - Previous export credit experience
- The cost of export credit insurance is low:
 - Typically a fraction of 1 percent based on covered sales volume
 - Premiums are usually paid annually or monthly (pay-as-you-go)
 - In most cases less than fees charged for letters of credit
- Whether or not the cost is passed to foreign customers, the price of the coverage is insignificant compared to the business to be won by extending credit terms.



Coverage as a Sales Tool

- **Increases profitability**
 - Makes it more economical for customers to place larger orders
 - Enables negotiation of better pricing from suppliers
 - Facilitates transferring inventory costs to foreign customers
- **Supports market penetration**
 - Allows opening of new target markets
 - Engenders confidence when selling into high-risk economies
- **Gets more out of distributors**
 - Enables extended payment terms for distributors
 - Supports negotiation of stronger representation
 - Keeps more products in the local supply chain
 - Increases market share and brand recognition



Coverage as a Financing Tool

- **Enhances borrowing capacity**
 - Facilitates the arrangement of favorable A/R financing
 - Makes foreign receivables more attractive to lenders
 - Exporters can assign policy proceeds to their banks
- **Strengthens balance sheets**
 - Keeps a company's financial position secure
 - Mitigates exposure to unforeseen events
 - Reduces impact of credit risk concentrations
 - Offsets changing international market conditions
 - Allows for reduction of bad debt reserves
 - Facilitates “true sales” of receivables per FASB 140
 - Supports asset securitizations



Meridian Finance Group

- **TRADE FINANCE**
 - Cross-Border Equipment Financing
 - Foreign Buyer Credit Facilities
 - Note Purchase Agreements
 - Custom Financing Structures
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- **INSURANCE**
 - Export Credit Insurance
 - Political Risk Coverage
 - Domestic Receivables Insurance
 - Policies for Financial Institutions



For More Information:

Meridian Finance Group

**1247 7th Street, Suite 200
Santa Monica, CA 90401**

Tel: 310 260 2130

Fax: 310 260 2140

gmendell@meridianfinance.com

robina@meridianfinance.com

www.meridianfinance.com

