



Building an Infrastructure for Credit Decisions in a Global Market Place





TOPICS

- Risk Roundup
- Risk And Reward Tradeoffs
- Clear and Mutually Agreed Strategy
- Tools of Credit Risk Mitigation
 - Know your Environment
 - Know Your Customer
 - Transaction Structure
 - Credit Insurance



Volatility and Unpredictability

- Anti-globalization rhetoric from the U.S. and others is changing the landscape for international trade and the changes keep coming.
- Trade Warfare
- Tariffs and Taxes
 - Punitive or Retaliatory
 - Reciprocal
- Currency manipulation,
- National Preferential Subsidies for Producers
- Trade Agreements:
 - New Ones
 - Existing Agreements



HOTSPOTS

- Mexico:
 - Dependence on the U.S. economy: remittances and exports.
 - Anti- Mexico rhetoric on the part of the Trump administration and a possible 35% tax on export to the U.S.
 - Oil and gas sector impacted by lack of investment.
 - Organized crime impacts many areas.
- China:
 - Industrial overcapacity
 - Banking still fragile: lots of bad loans on slender or no credit support. (Shadow banking sector)
 - Huge capital outflows
 - Dropping foreign currency reserves.
 - Inequality and aging population, driving rising wage rates making international competitiveness weaker
 - Possibility of a dispute with U.S. over trad imbalance, and currency value



HOTSPOTS

- South Korea:
 - Unpredictability of the North Korean regime: recent tests of inter continental ballistic missiles and nuclear weapons.
 - Recent impeachment of S. Korean President Park leaves a power vacuum at the same time.
- Australia:
 - Vulnerable to commodities cycle (Ore and Coal) and
 - Chinese demand, which is dropping.
- India:
 - The business environment will continue to suffer from persistent weakness
 - Banking reforms continue to affect the supply of credit.
- Argentina:
 - Inflation rate still high: 23% annual inflation



HOTSPOTS

- Germany:
 - Close to 1 million refugees in 2015 flowed in to the country – possible politically destabilizing
 - Rise of “populist” politics
- EU:
 - Brexit/Frexit/Grexit/Hexit
 - Refugee Crisis
 - “Populist” politics
- Middle East-North Africa
 - Civil War/Unrest
 - Egypt Libya Tunisia Syria Jordan Lebanon
 - Iran
 - Refugee Crisis



What is the Difference?

- How and Why does credit decision making differ in an international market?
 - (Refer to Risk Roundup for some answers)
- Solution sets for problem solving vary widely:
 - Legal framework in another country
 - Bankruptcy
 - Collections
 - Jurisdiction: here, or there?
 - Enforcement



What is the Difference?

- Documentary collections – How secure are they?
- CAD: what about non-acceptance?
- Letters of credit: What about discrepancies?
- Can't we just get cash in advance?
- What do you mean they want Net 90 days? Why?
- We just got a letter of interest from a company in Thailand who wants to buy 5 million chopsticks. Who are these guys?



Let's Get Everybody on the Same Page

- Top Management plays an important role:
- As a company, what are our goals:
 - Do we want to expand into international markets, or
 - Stick with the 5% of the market here at home?
- How risk averse are we?
- How much can we afford to lose?
- If we want to expand, how does our credit policy impact our ability to grow?



Let's Get Everybody on the Same Page

- Let's ask the "boots on the ground" – our sales force
 - Limiting factors:
 - Requiring cash in advance
 - Requiring documentary collections
 - What is our competition doing?



Let's Get Everybody on the Same Page

- Let's match our credit decision making process with our growth goals and appetite for risk.
 - High growth means more risk.
 - Risk avoidance is a slow-growth strategy.



What Tools Are Available to Manage Risk?

- Cash in advance: the ultimate risk avoidance mechanism
 - And a zero interest loan from your customer
- Documentary collections are the right answer sometimes
 - Fees
 - Complexity
 - Size matters
 - Which bank – yours and theirs
 - Documents and dot your I's
- Credit Card Payments
- ...And then there is the Open Account Option



What Tools Are Available to Manage Risk?

- Know your customer
 - Who are you and where are you?
 - Google maps
 - Web sites and Wikipedia
 - Credit reports
 - Trade reference tips:
 - Email and second request
 - Get a contact name
 - U.S. Commercial Service in-country resources
- Financial statements
 - This time, it's you offering a zero interest loan
 - Currency exchange web sites
 - Translations
 - Public companies
 - Companies house (UK)



What Tools Are Available to Manage Risk?

- What's going on over there?
- Keep up on international events and trends
 - Financial Times
 - Latin Trade Daily
- Business culture – get to know the environment



...And then there is the Open Account Option

- When “yes” is the right answer
- Credit Insurance
 - Low marginal cost
 - Cover at 90 to 95% of invoice
 - Help with credit decisions
- Claim Triggers
 - Late Payment
 - Insolvency
 - Political risk in addition to commercial risk of non-collection
- Market for Underwriters
 - ExIm Bank
 - Private Market
 - Specialty brokers

Thanks to FCIA and Coface for Risk Roundup info



An Example - Principles Applied

We have a high volume internet consumer business, and a business to business segment as well. The internet consumer places small orders. Our BtoB customers (distributors) place large orders and want open account terms.

We determined that we can get our internet customers to pay with a credit card at minimal risk. We will reserve against credit card fraud, and set a maximum amount for a credit card purchase. Larger consumer orders must be pre paid by wire transfer.



An Example

Our large distributors outside the U.S. represent strategic partnerships. In addition to being customers, these firms play an important role in marketing our products in their region. We are actively seeking to increase our growth by adding new distributors.

We support these partnerships with a discount program and offer extended open account terms of 90 days.



Example Credit Guidelines

- We vet these customers initially with credit reports.
 - We need to see clear credit history from reports
- We also require financial statements annually
 - We require strong equity position, profitability, and commensurate sales
- We require trade references and check them
 - We need to see clear credit history from references, prompt payment
- We have our sales team visit our distributors to verify their ability to serve the market, and periodically to be sure there continues to be a stable and appropriate business model.
- In addition, since our exposure to these firms is large in comparison to our risk appetite, we credit insure these accounts.



Example Credit Guidelines

- Shipment release requires verification of approval factors
- Only our CEO can override the credit framework as established.
- As a supplement to our own credit process, we rely on our credit insurance underwriter to provide a judgement on the credit limit.
 - If limits are withdrawn the CEO must approve further shipments
 - If limit is refused, CEO must approve credit.
 - If stop-shipment trigger is reached, only CEO can override.



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