

ICBA Advantage
The newsletter for trade credit insurance solutions
Issue 3 – Spring 2009

Interview with Michel Mollard, Member of the Board of Management, Euler Hermes and Euler Hermes Sfac CEO

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Michel Mollard discusses a fair and acceptable price for risk coverage and why credit insurance rightfully concentrates on prevention of risk.

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There are positives and negatives, but the result brings an opportunity to increase sales.

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Euler Hermes Sfac CEO Michel Mollard discusses ICBA benefits and global risk

Euler Hermes is the world's largest credit insurance provider and industry leader, present in over 50 countries with 36% share of the world credit insurance market. Euler Hermes diagnoses the financial situation of more than 40 million companies. Its analysis provides necessary information for choosing sound trading partners and efficiently managing debtor risk. In 2008, Euler Hermes protected business transactions totalling €800 billion.

Question: As an antidote to shrinking International trade, Arvind Panagariya, Professor of Economics at Columbia University, in a recent Forbes.com article, suggested "the Group of Twenty (G-20) nations must assign a high priority to restoring the provision of trade credit." How does credit insurance aid economic recovery and increase trade?

Michel Mollard: In the same article Arvind Panagariya explained, "With the exporter and importer located in two different countries, information asymmetries and the resulting distrust are deeper." That's why our first aim is to inform and protect companies against business risks. For many businesses, the present crisis has resulted in liquidity problems and difficulties in accessing credit. The consequence is an increase in late payments, default rates and, ultimately, business failures. The latter went up 25% in 2008, will continue to rise in 2009 and will create more instability for businesses. Protecting trade receivables is crucial for all businesses. Overdue accounts can have a direct impact on margin and eventually lead to insolvencies. One quarter of business collapses are due to non-payment by a customer. With trade receivables insured and cash flows protected, companies can concentrate more efficiently on their business activity.

Question: A recent post at the ICBA blog states, "It's interesting to note that if premium rate levels today were at the same level as 2000, i.e. almost

double, claims ratios today would be manageable." Does raising premiums contribute to helping companies grow and increasing global GDP?

Michel Mollard: Over the past ten years, our prices have fallen due to competitive pressure to gain market shares. During the economic upturn Euler Hermes managed to lower its rates and to increase risk coverage altogether. But today, as a mechanical consequence to the economic deterioration, the risk of insolvencies is rising and we have to cost out the real price for that risk. Nevertheless, we also need to take into account how our policyholders perceive the risk's fair

and acceptable price: elasticity is to be measured. Currently, would they be disposed to pay triple to get better coverage? Certainly not, and that is the reason why credit insurance concentrates on "prevention" of risks.

Something else to ponder: is more coverage in this crisis and slump period really needed? Due to the strong demand contraction, we don't notice too much inter-company credit tension.

Question: Euler Hermes is the trade credit insurance industry leader, serving 40 million businesses worldwide. Please comment on how ICBA brokers can work together to best leverage Euler Hermes' size, scale and success?



Michel Mollard, Member of the Board of Management, Euler Hermes, Euler Hermes Sfac CEO

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Interview with Michel Mollard

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Michel Mollard: There are many synergies to explore. Local strengths (unique assessment for each market) and a global view (a consolidated IT system, account managers, the established Service Level Agreement) are key success factors that serve multinational companies. ICBA and Euler Hermes are both global and local players – thus the natural synergy between ICBA brokers and our new business unit, Euler Hermes World Agency.

We have to work more closely together and realize the potential of each market with all the brokers from the ICBA network. ICBA local customer portfolios represent a strong competitive asset. Euler Hermes is pleased to participate in ICBA development and successes.

(ICBA thanks Michel Mollard, Member of the Board of Management, Euler Hermes and Euler Hermes Sfac CEO and Emmanuel Portier, ICBA France, for this interview.)



Avoid nasty surprises at time of claim on credit insurance

Quoted from an April 21, 2009, post by Rob Downey at *Trade Credit Insurance Insights*, the ICBA team blog

"In 2009, expect to see insurers seek to 'take the air out' of your aggregate limit of liability and reduce it to the lowest levels possible. All insurers are taking steps to ensure insureds need and use the aggregate levels made available to them. This year, of a sudden, aggregate levels are a key consideration in the pricing of and in the design of your credit insurance coverage. ...

Attention must be paid to the aggregate limit of liability, if surprises are to be avoided at time of claim. Discuss this with your insurance broker - that is what your broker is for."

(Rob Downey, ICBA team blogger, is one of the founding partners of International Risk Consultants, Inc. (IRC), which is the operating member of ICBA for Mexico, Brazil, Hong Kong, China and the U.S.)

Highlight: ICBA international business win

ICBA Holland welcomes Hoogwegt Group as a new client and looks forward to a successful business partnership. ICBA Holland is a thriving consultancy in the field of credit management. See: www.icba-online.com

Hoogwegt Group, started in the Netherlands in 1965, is a dairy company currently with offices on six continents. The primary activities of Hoogwegt companies are the marketing of dairy products and food ingredients for industrial applications.

Online trade credit and risk insurance resources:

- ICBA team blog www.icbamembers.com/icba-blog
- ICBA website www.icba-online.com
- Team blog on credit and bankruptcy www.creditslips.org
- Council on Foreign Relations: Brad Setser Follow the Money <http://blogs.cfr.org/setser>
- at www.About.com, Forbes.com and [Financial Times \(FT.com\)](http://FinancialTimes.com) use search terms: trade risk, trade credit insurance

Using put options successfully as bankruptcy protection

Businesses want solutions that provide protection against the results of distressed customers going bankrupt. The ICBA member for Mexico, Brazil, Hong Kong, China and the U.S. gets client requests for creative and sound solutions to this problem. Yet, credit insurance is not always an available option.

An alternative that works to good effect is an Accounts Receivable Put Option (A/R Put), but consider:

Positives: "Puts" are often available on distressed credits when credit insurance is not, and are typically structured with 100% cover and typically non-cancelable. Put providers do not restrict shipments made to customers facing bankruptcy.

Negatives: Expense. A put example: an advance fee of 3.95% per month at a cost of \$474,000/year for every \$1 million covered. Puts only cover loss due to bankruptcy. Protracted default (slow pay) is not covered and cover applies to a defined period, not shipments made.

The result: Increased sales. Despite the high cost, protection afforded by an A/R Put can allow a seller to justify continued sales to a distressed client without shortening credit terms. The seller enjoys confidence of reduced possibility of preference liability and has protected market share with the distressed client company. The Put opens the door to increased sales as competitors work to lower credit exposures with the client.

(Summarized from the ICBA member Success Tombstones newsletter: A case study on effective Put Options – PUTting your money where your money is coming from. For more information, inquire at www.icba-online.com.)