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lci Credit Insurance

Letter from the GM

LCI News

DUE DATE

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Insights

Letter from the GM

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Dear colleagues,

As we bring you another issue of Due Date, regional and international developments are underway, impacting business as we know it.

Markets can no longer function in solitude, rather, a global market place has surfaced and occurrences in remote areas now impact businesses across continents. This interconnected marketplace has both advantages and disadvantages. Today, risks that we are exposed to are diverse and are shared by all entities and must be proactively dealt with to preserve business interests.

We understand this, because we observe our client's businesses grow across geographical locations and we follow closely, in order to ensure and protect their companies and trade receivables.

Today, from where we stand, the outlook on trade remains uncertain globally, with Brexit and its repercussions coming into the spotlight, the fluctuations in oil prices which led to GCC countries moving from oil-dependent nations to diversifying their economies, to US politics and foreign policy and stories surfacing that the new US Administration is moving towards protectionism. Of course, political transformations in numerous countries along with the questionable state of security – all these factors impact trade in different ways.

In such unstable times what we can do is focus on innovation in our business, offer new tailored solutions for the changing marketplace, as well as diversifying our spread of risk, to create a well-balanced portfolio. That is what our current strategy is based on.

We hope you enjoy this issue of Due Date.

Regards,

Karim Nasrallah
General Manager, LCI

LCI News

7th Annual Partners & Resinsurers Meeting held in Beirut

LCI held its 7th Annual Partners & Reinsurers Meeting in Beirut, on May 25 and 26, 2017. The meeting brought together the company's growing network of partners, reinsurers and colleagues to discuss LCI's growth and upcoming plans.

The meeting kicked off with a series of presentations by the team at LCI, starting with a corporate and strategy update from the GM of LCI, Karim Nasrallah. The day unfolded with a business development presentation and risk assessment update, along with partner market updates as well as the introduction of two new reinsurers, Qatar Re and CCR Re.

Day two of the meeting had a full agenda of presentations, which included case studies from regional partners, a presentation by the Company Watch team on the future trends in insurance and a keynote address by LCI's newly appointed Chairman, Dominique Charpentier.

LCI's Partners and Reinsurers meeting is held on an annual basis to showcase the progress of the company and discuss issues of importance to all parties in attendance.

LCI appoints Dominique Charpentier as its new Chairman

LCI has appointed Dominque Charpentier as its new Chairman at its Annual General Meeting held in May, 2017.

Charpentier led a seasoned career with extensive experience in the realms of finance and credit insurance, having held senior financial positions in corporations, namely CFO of SCOA and PINAULT Groups and then moving on to become Deputy CEO of Société Marseillaise de Crédit. In 1995, Charpentier ventured into the Credit Insurance industry, within the Euler Group where he was successively Deputy CEO of Cobac Benelux, CEO of Société Française de Factoring and CEO of Eurofactor. In 2002, he moved to Atradius Group, assuming the role of Managing Director of several divisions of the Group: Atradius Factoring, Atradius Bonding, Atradius Instalment Credit Protection and Atradius Credit Insurance Italy.

He then joined the Management Board of Atradius as Chief Insurance Operations Officer in 2013.

Throughout his career, he held numerous Board member positions in professional organizations across Europe, of which: In France, as Director of Association des Sociétés Financières (ASF); in Belgium as Director of Beroep Vereniging van het Krediet (BVK), and on an international level as Director and Chairman of International Factors Group (IFG).

In January 2017, Charpentier retired, and now serves as Chairman of the Supervisory Board of Graydon Holding NV in the Netherlands and has been newly appointed as the Chairman of LCI.

Charpentier graduated from Institut d'Etudes Politiques de Paris.

In his capacity as Chairman of LCI, Charpentier will bring his wide experience to support the company in implementing its growth strategy and in its development and expansion. Charpentier succeeds Gerard van Brakel who has been chairing LCI since it was founded in 2001.

Insights

Brokers and Credit Insurance

by Bahaa Merhi

Bahaa Merhi,
Manager,
Risk Assessment and
Credit Information
Department, LCI

Companies and individuals alike are more concerned with insuring tangible and immediate assets, be it from their office premises, their home, car and their health for example, and insurance brokers as well, are keen to push for these types of insurance policies. However, when it comes to a company's biggest asset, which is its trade receivables (estimated at around 45%), there remains little awareness on the importance of protecting and insuring it, via trade credit insurance.

Despite the numerous conferences, discussions, growing risks and case studies related to the importance of credit insurance, its spread across the Middle East remains embryonic to date.

In simple terms, trade credit insurance is a tool which manufacturers, suppliers or service providers obtain, that ensures they are paid for the products and services they supply, in a timely manner.

Credit insurers also provide extensive assessment and monitoring tools to mitigate risks.

In the MENA region, brokers in the United Arab Emirates are probably the most aware about this product offering, mainly due to the size of the policies and the existence of multinational and regional companies. As for the rest of the region, we find that brokers are less involved and motivated about spreading this product and this is mainly due to the lack of awareness that exists.

In this regard, brokers should integrate an additional layer to their role, and should be the acting risk managers of their clients by following the below steps:

#1: Recommending the right credit insurance company and policy

#2: Guiding the policy holder to comply with the policy conditions to avoid paying a premium without a claim indemnification

#3: Adding extra features to the policy in order for the client to best benefit from it and secure their biggest asset

Let us look deeper into each of these steps:

#1 Recommending the right credit insurance company and policy

This is the most important decision where the brokers should carefully chose the best credit insurance company and policy which suits their clients' requirements.

Below are the main factors that need to be considered:

1. The credit insurer and reinsurer's rating
2. Credit Insurer's knowledge about the business model of the policy holder and their appetite for the related industries and countries.
3. Servicing level of the insurer where it is directly measured by their risk appetite, credit limit decisions response time, and simplicity of the procedure and conditions.

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#2 Guiding and monitoring the policy holder

Below are the main points that the policy holder has to comply with to avoid paying a premium without a claim indemnification:

1 On time notification
(Overdue notification or claim submission)
This is the most common error that policy holders fall into where the majority either delay sending overdue notifications, alert on defaulting payments or submitting a claim. Delay in overdue notification will expose the insurer to lower probability of collection and higher risk in case they have additional risk on the buyer with other policy holders.

2 Late or short declaration
A policy holder has to always declare all their sales on a monthly or quarterly basis (as per their policy conditions) and has to submit it within the time frame set in his policy.

3 Sharing delay in payments or bounced checks or any adverse information
It is one of the main requirements that the policy holder notify the insurer once they have major delay (before exceeding the overdue notification time line) or bounced check or any negative information as these are main indicators for the insurer to review their exposure on the buyer/risk.

4 On time premium payment
Any delay or nonpayment of the premium will cause direct claim rejection. That is why it is a must that the policy holders pay their premium as agreed in their credit insurance policy.

5 Legally enforceable debt
What this refers to is that the policy holder has valid delivery proof (Bill of lading, delivery note, airway bill, truck assignment note, etc...) and valid signed invoice with all other required documents that proves the legality of their debt where disputes are not covered under the policy and should be sorted out before claim indemnification.

6 Stop shipment
Policy holders should stop shipping or providing services to their buyers before the 'stop shipment period' defined in their policy which is normally 60 days after the due date. Such a period is given to the policy holders based on the credit insurance industry understanding of what we consider to be normal delay and part of doing business. However, any delay exceeding the 'stop shipment period' should fall under the overdue notification condition mentioned above.

7 Follow conditions of the credit limit decision
The last point that should be focused on is the importance of the credit limit decision shared with the policy holder. This refers to a credit limit notification decision of the limit granted / accepted by the insurer and its conditions. Such decisions should be retained by the policy holder in their database to assure their coverage in case of claim or any dispute with the insurer.

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#3 Extra features that the broker should check or ask for

1 Is it a whole turnover policy?
Brokers should prepare a direct comparative sheet when assessing credit insurance policies between different credit insurers. While the majority of the insurers mainly offer the Whole Turnover Credit Insurance policy that obliges the policy holder to insure all their buyers, other insurers have the Multiple Credit Insurance Policy that gives them the flexibility to choose the buyers they wish to insure. This will definitely reflect different premium rates between the two policies with lower rate for the Whole Turnover Policy.

2 Maximum Annual Liability (MAL)
While the norm that the Maximum Annual Liability is a multiplier of premium paid, the broker should carefully check if this MAL covers the highest limits that they have in their portfolio. For Example: a policy with a limit of USD 1 million and premium of USD20,000 will require a MAL of 50 times the premium. This sometimes cannot be acceptable by the insurers as it is above the average MAL in the industry. As an alternative, the broker can ask for a special MAL to cover the top buyers on top of the normal MAL to cover the rest of their portfolio.

3 Servicing level agreement
This should measure the insurer capability of providing good acceptance / approval rate, response time to the requests of the policy holders, claims decisions response, etc...

4 Premium Rate
Last but not least, the broker should negotiate a good premium rate. As the last point mentioned, it should be the last factor to make a decision. With the growing spread of risks across the MENA region and the world, Brokers must grab opportunities in the trade credit insurance market especially that this product covers less than 5 % of the total trade in our region. Trade credit insurance, globally, is a widespread product and many multinational firms are expected to have it when trading. This proves the potential business that can be done and the importance of credit insurance and the risk management role of the brokers with their clients.

Insights

How bad is 'bad debt'?

By Claude Madi

We often hear companies complain about their debt, with their receivables not being collected in a timely manner. Debt collection has become an arduous task for many, with companies resorting to external experts to settle such issues. How does this impact businesses and just how bad is bad debt?

It is widely known that debt can severely affect a company if not managed properly and can lead to serious repercussions. These repercussions range from ruining a company's financial books, tarnishing a company's reputation, and in turn, loss of business and human resources can occur.

In addition, having bad debt reflected on balance sheets can prohibit a company from obtaining a line of credit from suppliers, which could impact the future operations of the firm. Valuable assets can also be at risk when faced with bad debt.

The first and most integral preventive solution is to not allow bad debt to pile up, which can be done with a proactive approach. Of course, a manufacturer or supplier should conduct due diligence on a potential buyer, assessing their reputation and credit history before going into business with them.

Should all matters be in order and you embark on a business venture, you must manage your systems to ensure the timely issuance of invoices with clear payment terms, indicated in an agreement.

Claude Madi,
Manager,
Debt Collection Department,
LCI

Red flags of non-payment

- Flag any delays in payments as a first step
- Pay attention to the way the client responds to general communication, whether email or phone and if calls and emails go unanswered
- The methods of payment may indicate warning signs.
  These include:
  - Excuses for nonpayment or slow payment (excuses are never a good sign)
  - Having no one available to sign the checks
  - Being given post-dated checks
  - Request to extend payment terms (indicating that client needs more time)
  - Payments from different bank accounts (a change in the client's bank account may indicate banking problems, closed accounts etc.)

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Other measures a company should take to prevent the pile up of bad debt include:

1 Record it all
Keep a record of all correspondence (phones, emails, letters etc.) with the client, and follow verbal communication with a recap email, to be saved in the official records.

2 Draft agreements
Draw up clear agreements/terms and conditions with clients. Regularly update and remind clients on these conditions. In addition, send copies of the terms and conditions with the company's invoices as a reminder on policies towards payment delays, interest rates etc.

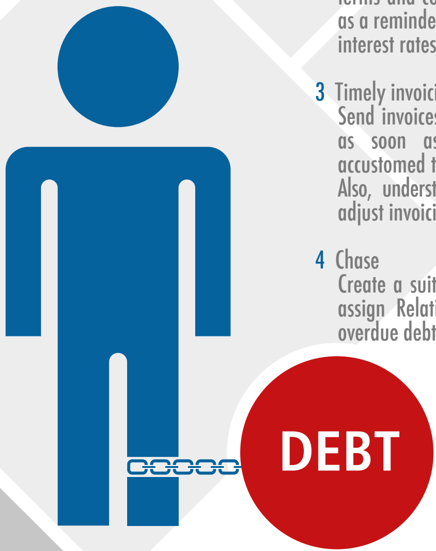
3 Timely invoicing
Send invoices on time and regularly each period, as soon as they become due. Get clients accustomed to paying at a certain time each period. Also, understand a client's payment systems to adjust invoicing plans accordingly.

4 Chase
Create a suitable Payment Chasing Schedule and assign Relationship Managers to actively chase overdue debts.

5 Amicable resolve
Always follow up on initial Payment Chasing letters with an amicable phone call or email. Try to resolve it in a diplomatic manner in order to preserve the relationship.

6 Demand
Should the payments still not be settled after numerous phone calls and emails, send out a demand letter, with the dates of the payment clearly indicated in the document. This letter should also stipulate that legal counsel may be sought if the issue is not dealt with as per the agreement.

7 Go legal
If all else fails, first threaten to take legal action. If a resolve is not found, and legal action must be taken, go to court with all documentation proof and file a lien (if you have taken the debtor to court and won the case against them, but they still refuse to pay, then place a lien on the debtor's property. If the debtor ever decides to sell the property you can collect the debt.



Side note:
Formulate a Policy on how specific cases are handled. For example, the company may choose to simply write-off smaller invoices for some clients in order to preserve the relationship. Such a guide will help employees better equip themselves with fast customer service and quick answers to tough cases.

In summary, run a background check on your potential clients to see if there are any red flags related to their credit background.
If clients have a record of defaulting or a bad reputation in the market, choose either not to work with them or take more precautions in your dealings with them.
Also, assess their ability to pay upfront, by analyzing their liquidity and cash flow.
Try to collect payments or partial payments upfront, to not leave the entire amount pending.
Lastly, it is vital to remain in contact with the customer, to strengthen your relationship with them.

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