DUE DATE

newsletter

AS A MATTER OF FACT

Domestic and export
trade receivables
can represent up to
50%
of the assets of a company.

So why do companies
only insure and protect
their fixed assets
against fire, theft, earthquakes,
and do not insure
their **trade receivables**?

REFLECTING ON AN EVENTFUL YEAR!

Welcome to the first issue of Due Date, a periodical newsletter from LCI, bringing you the latest news on the industry as well as the company's regional operations.

While we mark the start of a new year, we must reflect on 2014, which was a challenging one, not just for LCI, but also for everyone working in times of economic uncertainty. Despite the prevailing instability, LCI has managed to grow the business and find new opportunities.

The turnover insured reached USD 1.7 Billion in 2014, while our active commitments reached USD 720 Million.

In 2015, LCI will continue to focus on large an fast growing economies such as Saudi Arabia, UAE and Egypt while developing the other existing markets and adding new ones such as our latest venture in West Africa.

In addition to the current environment, the major challenge we continue to face is the lack of awareness for Trade Credit Insurance (TCI). LCI will continue to work on increasing this awareness through our strategic involvement with trade associations, events, conferences and social media presence.

I hope you will enjoy this first issue of Due Date.

Best wishes for the new year!

Karim Nasrallah
General Manager, LCI

LCI NEWS

EXPANDING TO NIGERIA

Industrial And General Insurance Plc

LCI has achieved a new milestone by signing a cooperation agreement with the Industrial and General Insurance Company (IGI) in Nigeria. IGI is one of the major insurance companies in Nigeria with presence in a number of African countries. With LCI's expansion into Nigeria via a local partner, this will enable the firm to offer cover in eight countries in the West African region, including Ghana and Uganda.

As a result of this partnership with IGI, it will add to the firm's global presence and cover an important region for LCI. Through IGI, LCI can work to serve the Lebanese expatriate businessmen in Nigeria and increase the secure trading between Nigeria and the Middle East.

Mr. Sina Elusakin, Executive Director at IGI, stressed on the strategic import-ance for IGI to be the first company in Nigeria to offer Trade Credit Insurance.
"We are glad that IGI has reached this milestone, which would add to the product offering differentiation in the Nigerian markets, and then to the other African markets that we serve. We believe there will a huge demand for Trade Credit Insurance not only for the export market but also for the domestic one as well. We are happy that we have joined hands with LCI," Elusakin added.

Naser Abu Ghazaleh
Head of Business Development, LCI

LCI NOW ASSOCIATE PARTNER AT IFG

LCI is pleased to announce that it has just been welcomed into the International Factors Group (IFG) as an Associate Partner. The IFG is the global trade association that fully represents and promotes the interests of the factoring, invoice financing and asset based lending industry on a global basis.

By joining IFG as an associated member, LCI hopes to expand its reach into the factoring world. This membership will allow LCI to benefit from the networking opportunities, information and education initiatives IFG offers.

LCI will also be able to bring its regional market insight and experience to the table for IFG members to benefit from. For LCI's clients, this means greater business and networking opportunities.

AMAN UNION 5TH ANNUAL MEETING

The 5th annual Aman Union meeting was held from November 10 to 12, 2014, hosted by the Export Guarantee Funds of Iran in Tehran. Over 70 experts from the credit insurance industry came together to draft the Union's business plans for the coming year.

The meeting covered topics such as: ECAs & Development Finance, Investment opportunities in Iran, Impact of BASEL III implementation of the Trade Credit Insurance industry, Claims management and recovery strategies, amongst others.

Iranian officials reiterated their commitment to fulfill the set objectives and enhance trade opportunities, despite the sanctions imposed on the Republic.

These sanctions, as shared in the meeting, have not only impacted Iran, but foreign companies with decreasing turnover, as a result of economic difficulties caused by the sanctions.

LCI was represented by Mr. Karim Nasrallah (General Manager), Mr. Michael McPhilimey (Advisor to the Board) and Mr. Naser Abu Ghazaleh (Head of Business Development).

During the meeting, LCI and the Export Guarantee Fund of Iran (EGFI) announced and signed a Memorandum of Understand (MoU). The MoU establishes a framework for cooperation in the fields of Marketing, Sales and Short Term Export Credit Insurance, and will seek to help in supporting and encouraging trade and services between Iran and Lebanon and will strengthen LCI and EGFI's co-operation.

CELEBRATING 80TH ANNIVERSARY OF THE BERNE UNION

The Berne Union and its affiliate the Prague Club, held their Annual General Meetings in London, celebrating 80 years of supporting trade and investment, jointly covering 11% of international cross-border trade and investments.

The association's members provide risk mitigation products to exporters and investors, helping companies to safely trade internationally. The meeting was an occasion to celebrate the 80th anniversary of the Berne Union as well.

For the first time, the Berne Union was joined by members of its affiliate, the Prague Club. The Prague Club, which was established in 1993, aims to support new and maturing export credit agencies and insurers setting up and developing export credit and investment insurance schemes. Karim Nasrallah, GM of LCI, was elected Chair of the Prague Club in early 2014, and will continue to serve his term until the next Annual General Meeting in 2015.

With 76 private and public member companies from around the world, the Berne Union and the Prague Club have grown to be the leading global organization for the export credit and investment insurance industry, together providing risk protection for 11% of world trade.

In the first half of 2014, Berne Union members insured $50 billion of new Foreign Direct Investment and $74 billion of new medium to long term exports. The credit limits extended to support short term exports reached $1,640 billion.

The next meeting of the Berne Union will be its Spring Meeting in May 2015.

WHEN IT COMES TO POLITICAL RISK

Over the last 5 years, a global shift in the trade credit insurance industry has been witnessed, brought about by financial and unforeseen political transformations. The MENA region in particular, has been heavily impacted by these transformations, beginning with the global financial crisis and followed closely by the unfolding of the 'Arab Spring' and its on-going repercussions.

Due to these series of events, companies operating on a regional and an international scale have been forced to take notice that additional insurance protection was needed. Domestic and export trade receivables are very often the largest asset of a company and yet tend to be the most under-insured.

With a company's trade receivables spread across rapidly changing and emerging markets, such as the MENA region, the demand for both trade credit insurance andspecific cover for political risks is increasing.

The term 'political risk'entails any risk brought on directly or indirectly by the actions of foreign governments that impact upon a company's receivables or investments. These political risks can include transfer restrictions, war, license cancellation and supply chain disruptions to name a few.
If not managed and insured correctly, the consequences of these risks can be costly for companies and can disrupt or even halt their operations. As such, for companies to protect their trade receivables in an unstable global marketplace, trade credit and political risk insurance is needed. The role of trade credit insurance export credit agencies (national and multinational) and private insurers in this regard, is to identify potential risks that a company's trade receivables may be exposed to, assess the likelihood of these risks and therefore provide adequate cover and should a risk become a reality to minimize a company's losses.

To initially assess if a company's receivables are vulnerable a company should ask itself:

- Are our receivables 100% domestic?
- What percentage of our receivables come from our exporting activities? Are they spread over 3 or more countries or do we have a concentration in just 1 or 2 countries?
- If we have a concentration in just 1 or 2 countries, what is the impact to our balance sheet if a political risk arises in either of these countries?
- Are payments delayed?

If the company is happy with their answers to these questions, then they are on the right track. However, if the questions and answers have raised doubts, then they should investigate the possibility of obtaining Political Risk Insurance.

Michael McPhilimey
Advisor to the Board, LCI

IS THE MENA REGION TRADE READY?

This article was published in the Global Policy Journal on December 2, 2014.

BEING "TRADE READY"

A key issue for the development and standardization of trade credit and political risk insurance

In order for global standards for export credit and political risk insurance to become a reality in 2020, Credit Insurance in the MENA region should theoretically be widely spread and utilized.

Practically, this is not the case. The concept of trade credit insurance is still not spread out amongst Middle Eastern markets. While credit insurers from OECD countries have succeeded in reaching "common approaches" this is not the case in many developing countries who have not to date developed their own ECAs nor encouraged the establishment of credit insurance companies to support their exports.

The lack of awareness for credit insurance has managed to keep the demand at low levels and the penetration of credit insurance in the MENA Region remains very weak.

Historically, trade credit insurance penetration has been good in Europe and Asia, but is still at low levels in the Middle East, Africa and the Levant regions and Credit Insurers have had to struggle to educate the market.

Within the area, two multilateral agencies were set up by governments, as early as 1974 for Dhaman and 1994 for The Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC).

The first one was established to cover

exports between Arab Countries and the second one, between Islamic countries. Existing ECAs and multilateral agencies have been moderately active in covering mainly inter-regional trade. Recently, their scope has widened to cover not only exports worldwide, but also some types of domestic transactions.

The surge of the Gulf economies in the 1990s and early 2000s has attracted the dominant international private Credit Insurers who have established offices locally to support their multinational clients in the region. But it was only on the back of the international financial crisis in 2008 as well as the "Arab Spring" that swept the region, that we have witnessed a surge in demand for credit insurance and political risks covers.

Assuming that Trade Credit Insurance becomes widely spread in the region within the coming years, obstacles to establishing standards will remain and they are bound to delay the process if not keeping it from happening.

The diversity of the regional markets and their lack of stability are bound to create technical, commercial and legal challenges that Governments in these regions would have to address in order to make their countries "export-trade ready".

The legal framework would be of paramount importance. Insolvency laws should be modernised and updated and Governments should work hard on their enforceability. The events in the MENA region and their consequences have shown the importance of such measures.

According to the World Bank, an average bankruptcy procedure in the MENA region takes 3.5 years to complete, costs 14.1% of the value of the debt and produces an average recovery of 29.9%. This does not compare favorably to the OECD countries where the respective averages are 1.7 years, 8.4% cost and 68.6% recovery rate.

The law on the retention of title should be implemented and made enforceable. It would be interesting to note that this law exists in some of the MENA countries under different forms however there is a big discrepancy between the existence of such law and its application.

Taxation related to exports and related services (including export credit insurance) should be adapted to modern needs and international practice.
Whilst there has been an evolution in the economic landscape, legal and regulatory frameworks have been stagnating and no longer reflect modern trade needs.
Insurance Laws should specifically be addressing credit insurance and regulators will have to work hand in hand with lawmakers addressing issues related to trade and finance. They will have to make sure that the assignment of debts and subrogation of rights would totally apply to credit and political risks insurers.

Governments have also an important role to play in providing access to reliable financial information, one of the key tools of trade facilitation.

There is no obligation in most of the MENA jurisdictions to publish the annual accounts of companies and there's no existence of a register of companies that would give access to filed financial statements. In order to make sure the practice of submitting a company's financials and information is common, procedures should be put in place. One such example would be to make disclosing a Company's financials obligatory and establish high-level adequate penalties if not published.

The scarcity of reliable credit information that is necessary to any credit insurer is also an important element. It has pushed the few of them covering these markets, whether domestically or from an export perspective, to be extremely cautious.
Local companies are predominantly SMEs, family owned and usually very reluctant to share financial information that would normally help insurers take credit decisions.

This might be solved if "official" Credit Bureaus are established and information made easily available.
Finally, Policy makers should make the implementation of Credit Insurance (ECAs, Private Market, Multilaterals etc.) a priority as the principal sustainable tool for trade promotion and support.
It should also be ensured that Credit insurance is legally and technically admitted as a trade finance facilitation tool by the Central Banks of the governments of the region.

Businesses might assume that the bulk of the business credit insurers would obtain is of export transactions. However, most international insurers would agree that domestic credit plays a very big role in most companies. Consequently, regional credit insurers should work on changing their mandate to cover both domestic and export credit. There are very few pure exporters and most companies need to insure their total receivables. They also have to be flexible and dynamic in terms of restrictions on covering any type of receivables irrespective of goods with a certificate of local origin. Consequently, products would become more modern, user friendly and adaptable.
Investment in human capital and technology is strategic for ECAs and funding is an important issue to allow them grow and and succeed in completing their mandate.

The cooperation between private credit insurers and government ECAs is necessary both for building capacity and from a technical aspect. This has been seen in many developing countries in the MENA region.

Trade and export are key elements for growth and economic stability. Developing countries have become more competitive and have been able to grow where mature markets have faced restrictions due to internal policies.

It is unlikely to see these restrictions implemented equally and considering the MENA region is far from being "trade and export ready", it remains highly unlikely to reach a standardization in terms of export credit and political risks in the near future.

Karim Nasrallah
GM of LCI

OPERATING IN TIMES OF RISK

Even though it has always been, and to some extent it remains the most commonly used trade security in the region, the Letter of Credit's attractiveness to suppliers has been declining lately in the Middle East and North Africa region.

In fact, the recent rise in its cost has pushed companies to seek new methods for securing receivables in increasingly risky markets. In turn, Trade Credit Insurance is, albeit slowly, but surely, proving to be a more reliable and more cost effective alternative.

Trade Credit Insurance not only enables customers to venture into markets that would have otherwise been too risky to go into, but it can also ensure easier access to low-interest loans and much needed liquidity.

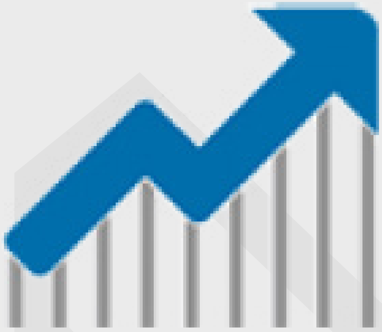
Coupled with very competitive premium rates, customers see it as a small price to pay for the peace of mind that they are offered in return. Perhaps the greatest testimony of the companies' interest in credit insurance is the rate of referrals by policy holders.

From the Insurer's perspective, diversifying the clientele base has a proven effect on reducing risk, since every additional company insured in the supply chain reduces the overall risk of the chain. So as the risk of the MENA region grows and as credit insurance becomes more appealing, policy holders' numbers have been increasing, which is helping the Insurer reduce its risk and consequently stay competitive.

In the case of LCI, we are using the momentum of increasing risk to our advantage through risk diversification, both horizontally to include different products, and vertically across each supply chain.
All in all, risk, being the theoretical origin of any insurance, LCI's exp-erience shows that operating in a risky surrounding does not have to be disadvantageous. As a matter of fact, it can be beneficial for both the insurance company and the policy holders.

Jad Yassin
Underwriting Administrator
Underwriting Department, LCI

THE RATINGS ARE IN



Do you ever wonder what the secret is to obtain the full limit when applying for insurance? If so, here are some factors that you want to consider, before applying for cover.

Before delving into any criteria, your financials in terms of their consistency throughout the years and in term of their financial position (leverage, liquidity and profitability) are the main points that insurance companies consider, when rating a company.

Now, although the financials are essential, the current economic and political climate across the globe must also be taken into consideration. In fact, many other factors can greatly affect the rating of your company and that might give you a higher rate even with low to average financial position.

These factors can range anywhere from business location, the reputation of the company, its payment behavior, and the diversity of how the company is supplied and how its sales are allocated.

While rating a company, the business location is indeed important, especially if it has commercial or touristic targets.

For instance, if a firm were located in an area that currently suffers from political, economic, or terrorist-related threats, then it definitely would not be given the same rate as a firm located in good/safe commercial areas. This is why it is preferable to choose a safe location for your business. However, as the environment is not always controllable, having another branch or switching to different locations would be a good strategy.

Moreover, the company's reputation is established by its shareholders' behavior and conduct in relation to the business, valued by how loyal are the shareholders are in keeping their word. A company's reputation is also verified by its payment behavior rated by the suppliers. The payment behavior is an asset for the company, for when it is kept, the suppliers and the insurance companies would support the business when falling in extreme cases and negative situations. In such cases, when the company loses its ability to pay on time, it would not lose its credibility, instead it will gain support from the other parties in order to proceed with its trading and emerge from the dilemma that has affected its performance.

Another important factor is the way the company chooses to supply its inventories and how it decides to allocate its sales. It is always better to have a plan B for supplying the company's inventory, and this is crucial, as when one specific source is down, the business will have alternative sources to provide itself with the goods/services it requires to function. This mark is usually shown in the diversity of the business imports or its number of suppliers it trades with.

Furthermore, the export or sales allocation is also a major point to consider when rating a firm. For example, a company with major exports to Syria, Iraq, Libya, or even to Russia might be directly and considerably affected by the current problems that these countries are facing. As for the companies that only sell to the local market, they should consider targeting the key players in the industry or try to diversify their services in order to hedge the business risk and to have a better rating and a higher limit.

The Factors Affecting a Company's Ratings

- Financial consistency
- Financial position
- Business location
- Reputation of the company
- Payment behavior
- Diversity of suppliers and sales

Bayan Khalife
Senior Credit Analyst
Risk Assessment Department, LCI

LCI at a glance

First Independent specialized Credit Insurance Company in Lebanon and the Middle East established in 2001. LCI covers domestic & export trade receivables.

A joint venture between a group of local and regional insurance companies, private holding companies and Atradius, one of the largest credit insurers in the world.

Reinsured by first class reinsurers specialized in credit and bonds reinsurance.

25 people specialising in all aspects of trade credit receivables management

USD 1.7 billion turnover covered

USD 720 million active commitments

Covering exports to more than 100 countries worldwide

Products

- Trade Credit Insurance
- Debt Collection*
- Credit Information*
- Factoring**
- Outsourced Risk Solutions

*provided by LCI Services s.a.l.
**provided by Levant Factors

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