Trade Credit Risk in Turbulent Times

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Presentation Outline

- **Global Economic Upheaval**
  - Financial Crisis, Credit Market Woes Have Continue to Impact Trade Credit
- **Exchange Rates, Inflation & Interest Rates**
  - Influence on Trade Credit Risk
- **Political Risk**
  - Apart from Economics, Political Issues Remain Critical
- **Trade Credit Risk: Summary & Outlook**
  - Top Business Risks Influencing Trade Credit
  - A Look Ahead

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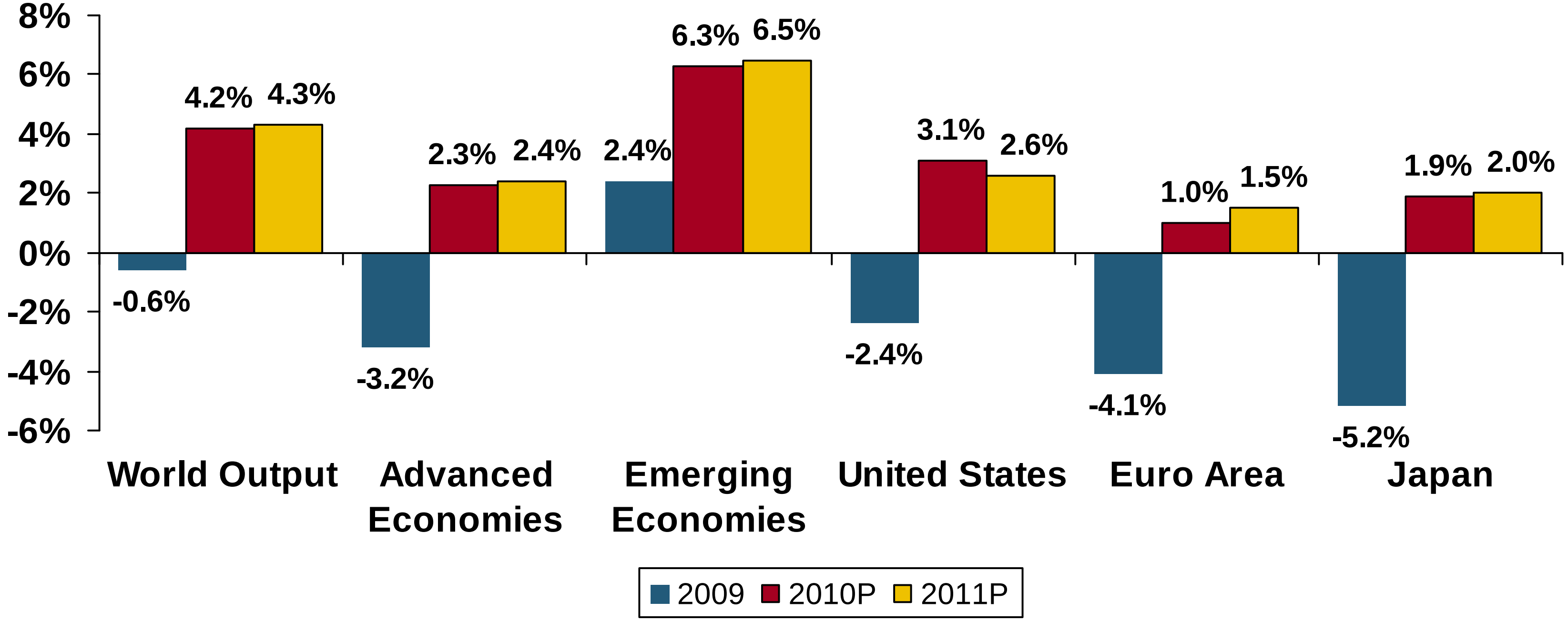
Economic Volatility

A Halting Global Recovery is Underway; Volatility Remains

World Economic Outlook: 2010-2011P

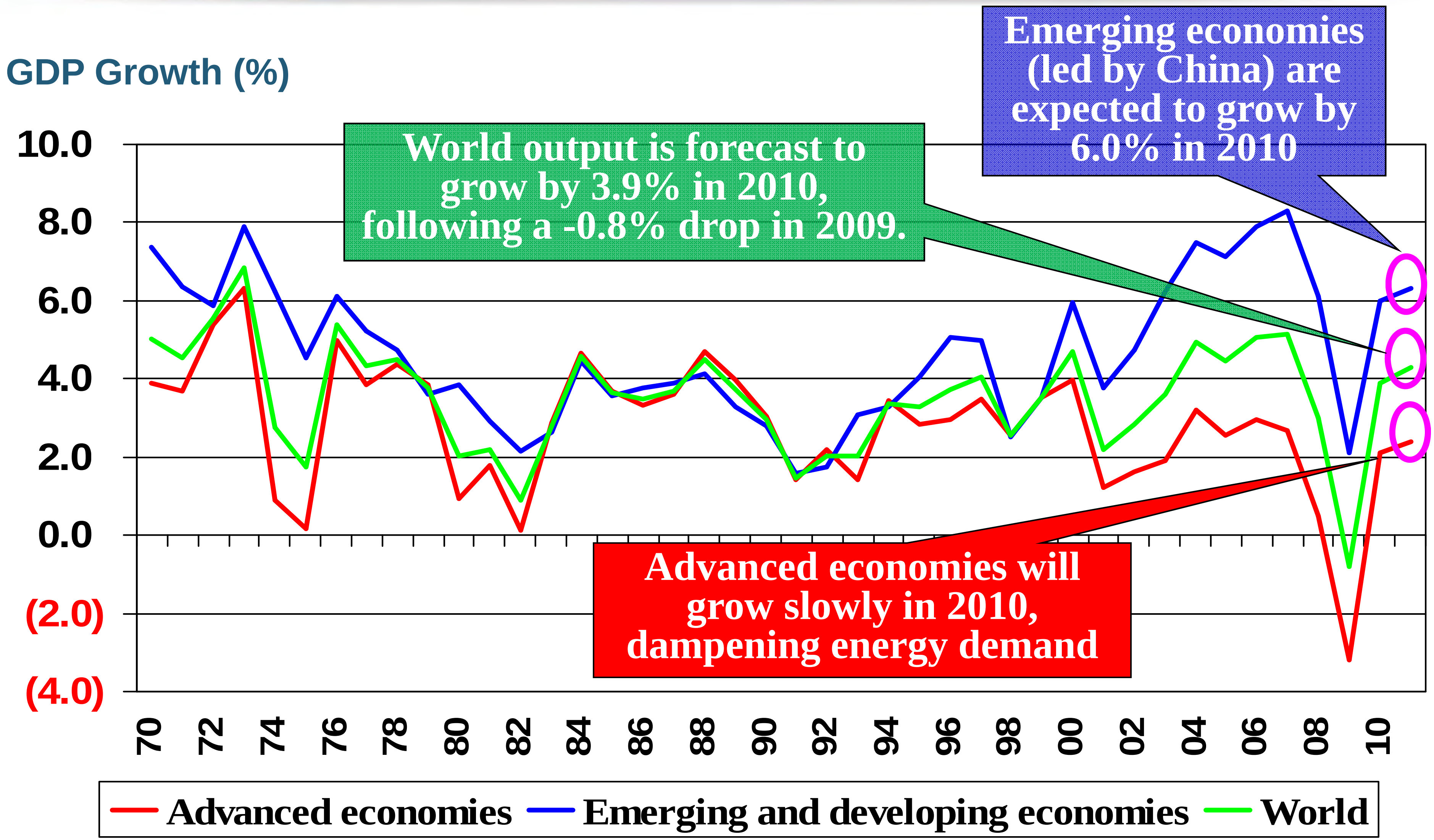
IMF says growth in emerging and developing economies will outpace advanced ones in 2010/11.



Outlook uncertain: The world economy is recovering from the global crisis better than expected, but activity is reviving at different speeds in different parts of the world, according to the IMF. This means trade credit risk will vary regionally and by industry.

Sources: IMF, World Economic Outlook; Insurance Information Institute.

GDP Growth: Advanced & Emerging Economies vs. World, 1970-2011F



Source: International Monetary Fund, *World Economic Outlook Update*, Jan. 26, 2010; Ins. Info. Institute.

Global Industrial Production Rebounds From a Tailspin; Global Trade Recovering

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Source: International Monetary Fund, *World Economic Outlook Update*, Jan. 26, 2010; Ins. Info. Institute.

Merchandise Exports Are Growing at Pre-Crisis Levels Again

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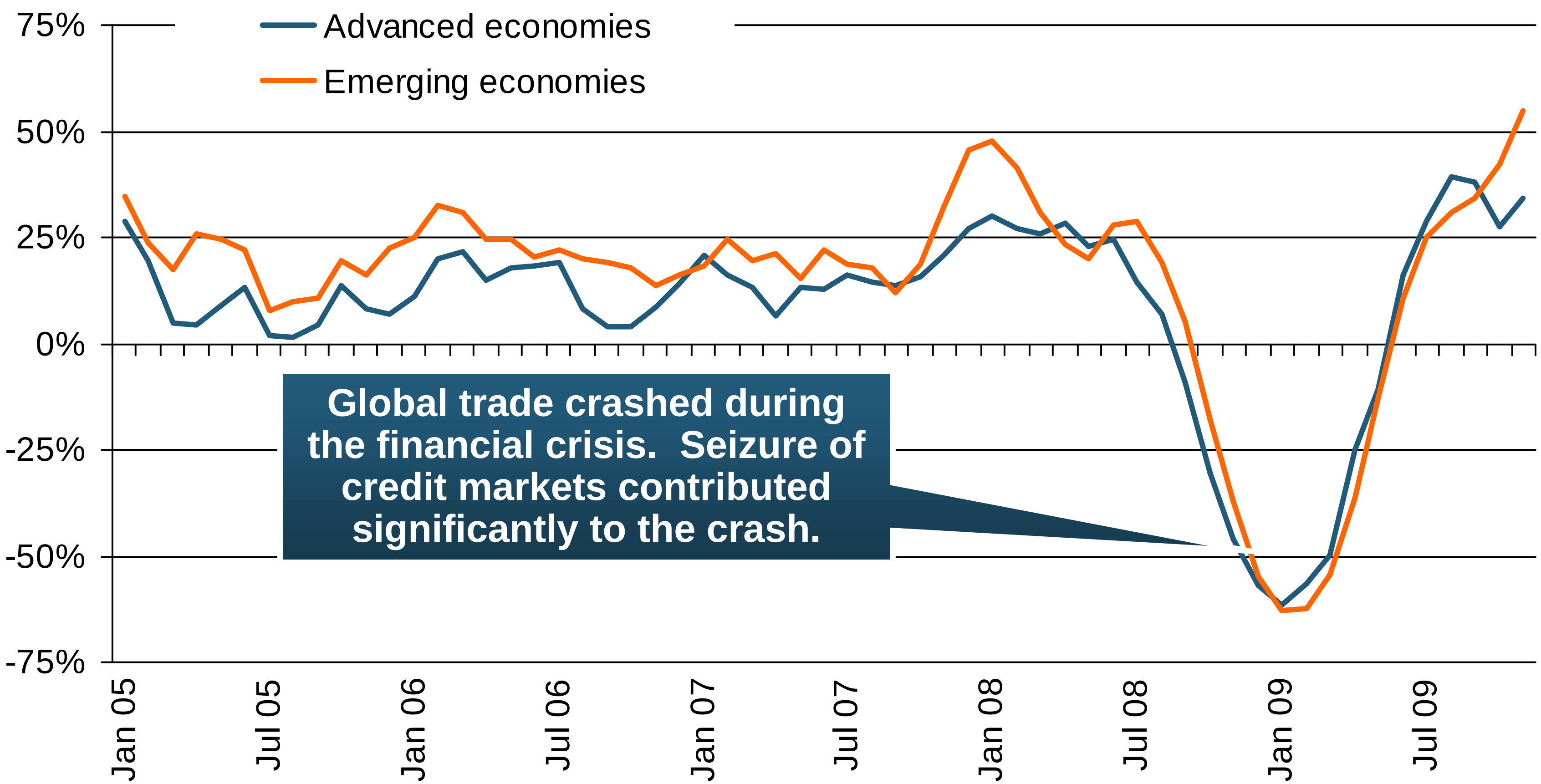
Annualized % change of 3-month moving average over previous 3-month moving average

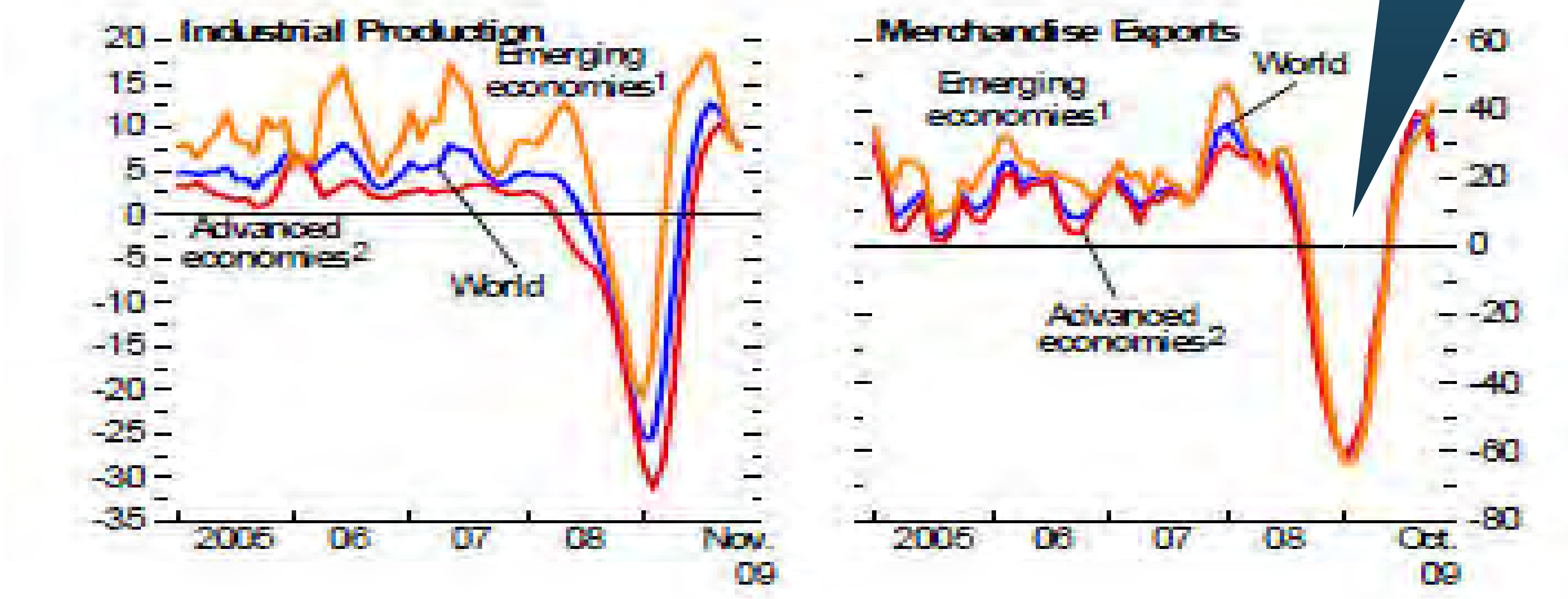


Note: data are through November 2009
Source: International Monetary Fund World Economic Outlook January 2010 update at http://www.imf.org/external/pubs/ft/weo/2010/update/01/data/figure_2.csv

Global Industrial Production and Exports: 2006 to 2011P

(Annual Percent Change of 3-Moving Average)

Global trade crashed during the financial crisis. Seizure of credit markets contributed significantly to the crash.

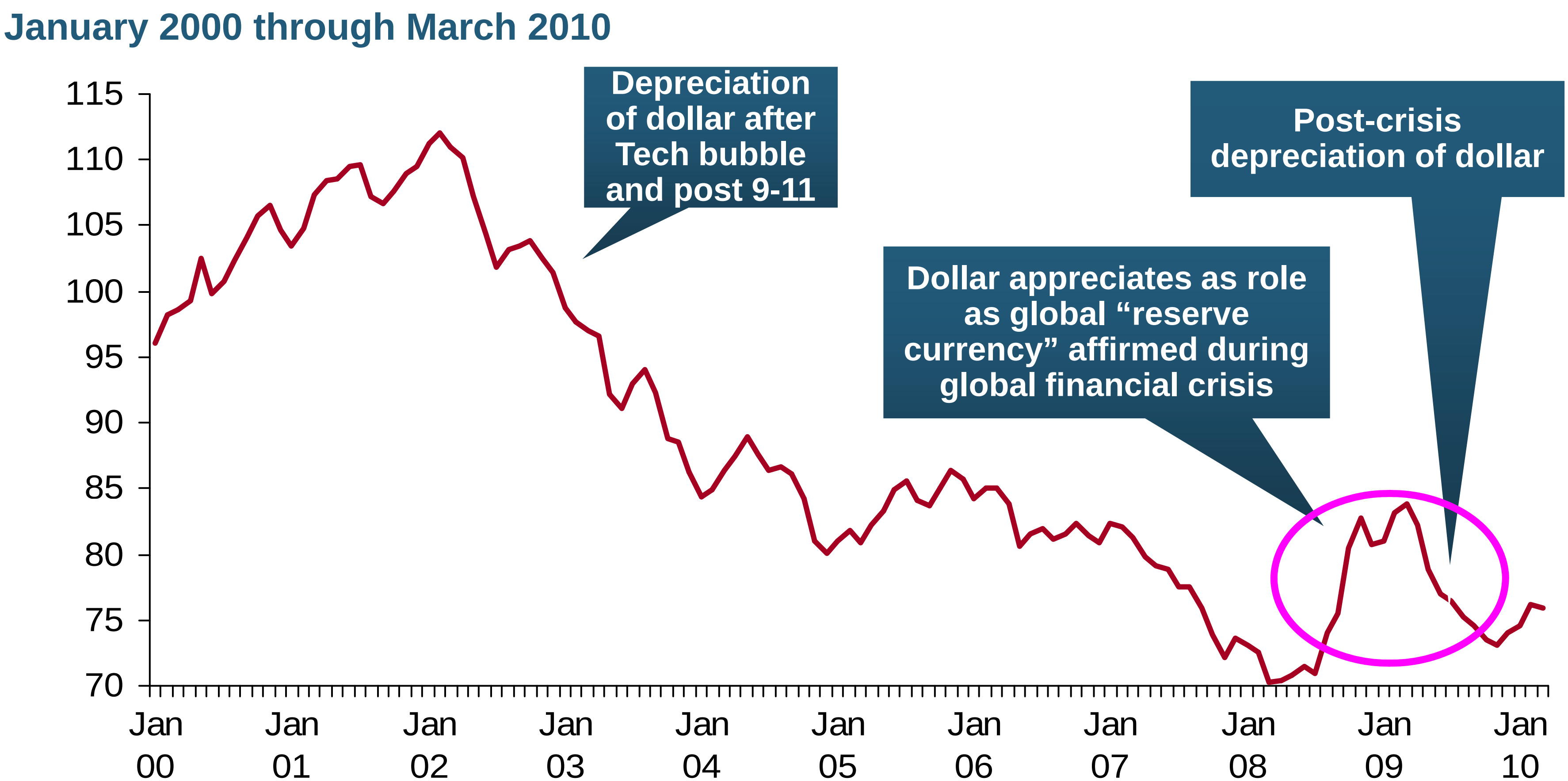


Source: International Monetary Fund, January 2010; Insurance Information Institute.

Exchange Rates, Inflation and Interest Rates

Pace of Recovery and Government Monetary and Fiscal Policies Influence Exchange and Inflation Rates, Impacting Trade Credit Risk and Cost

Trade Index Weighted US Dollar Exchange Rate*



The Global Financial Crisis Produced Significant Exchange Rate Volatility in 2008 and 2009; Despite the Fact that the Crisis Originated in the US, it Was Other Currencies That Weakened

*The broad index is a weighted average of the foreign exchange values of the U.S. dollar against the currencies of a large group of major U.S. trading partners. The index weights, which change over time, are derived from U.S. export shares and from U.S. and foreign import shares.

Source: US Federal Reserve, Board of Governors; Insurance Information Institute.

Inflation Rates for Largest European Economies & Euro Area, 2008-2011F

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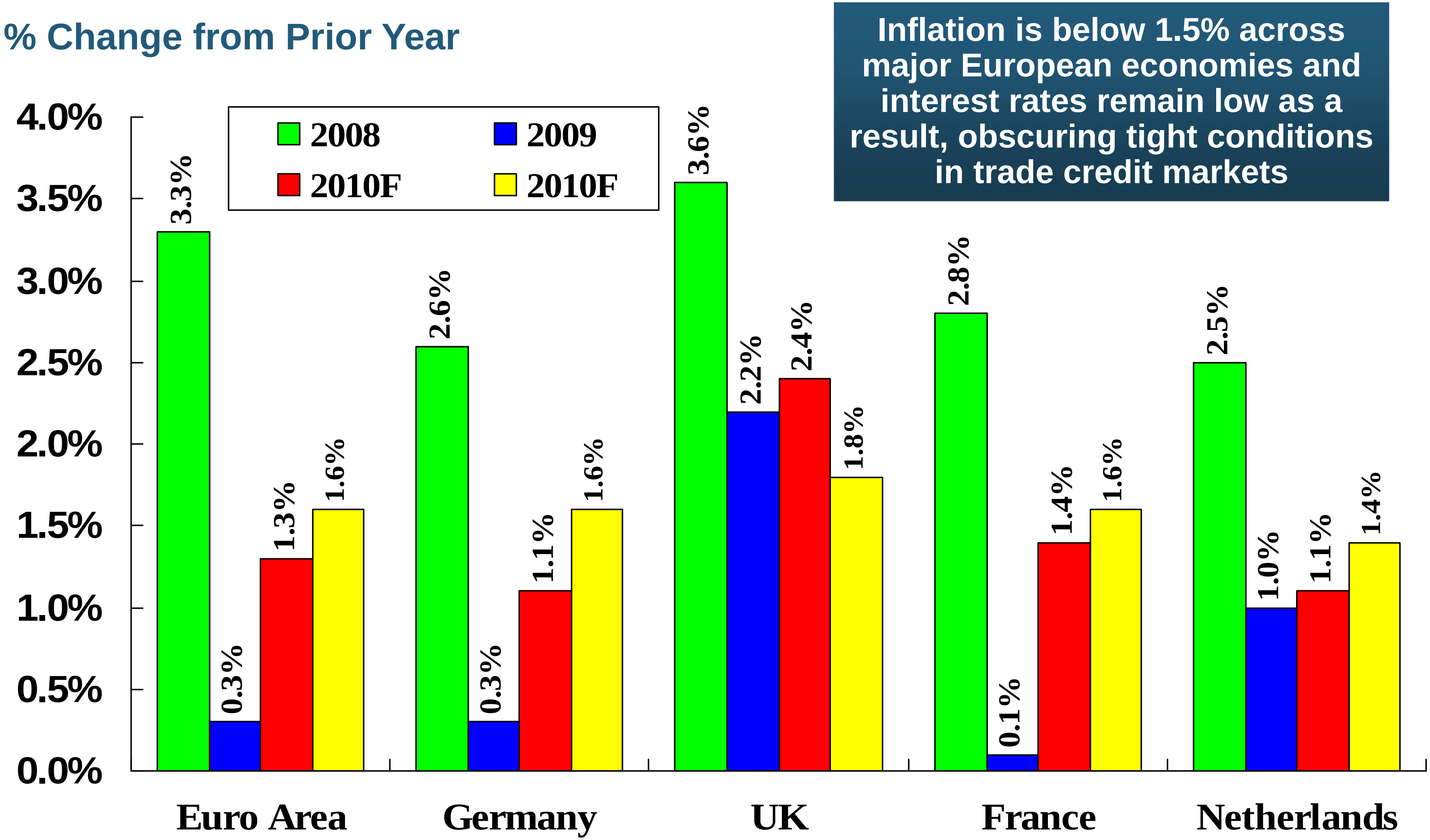
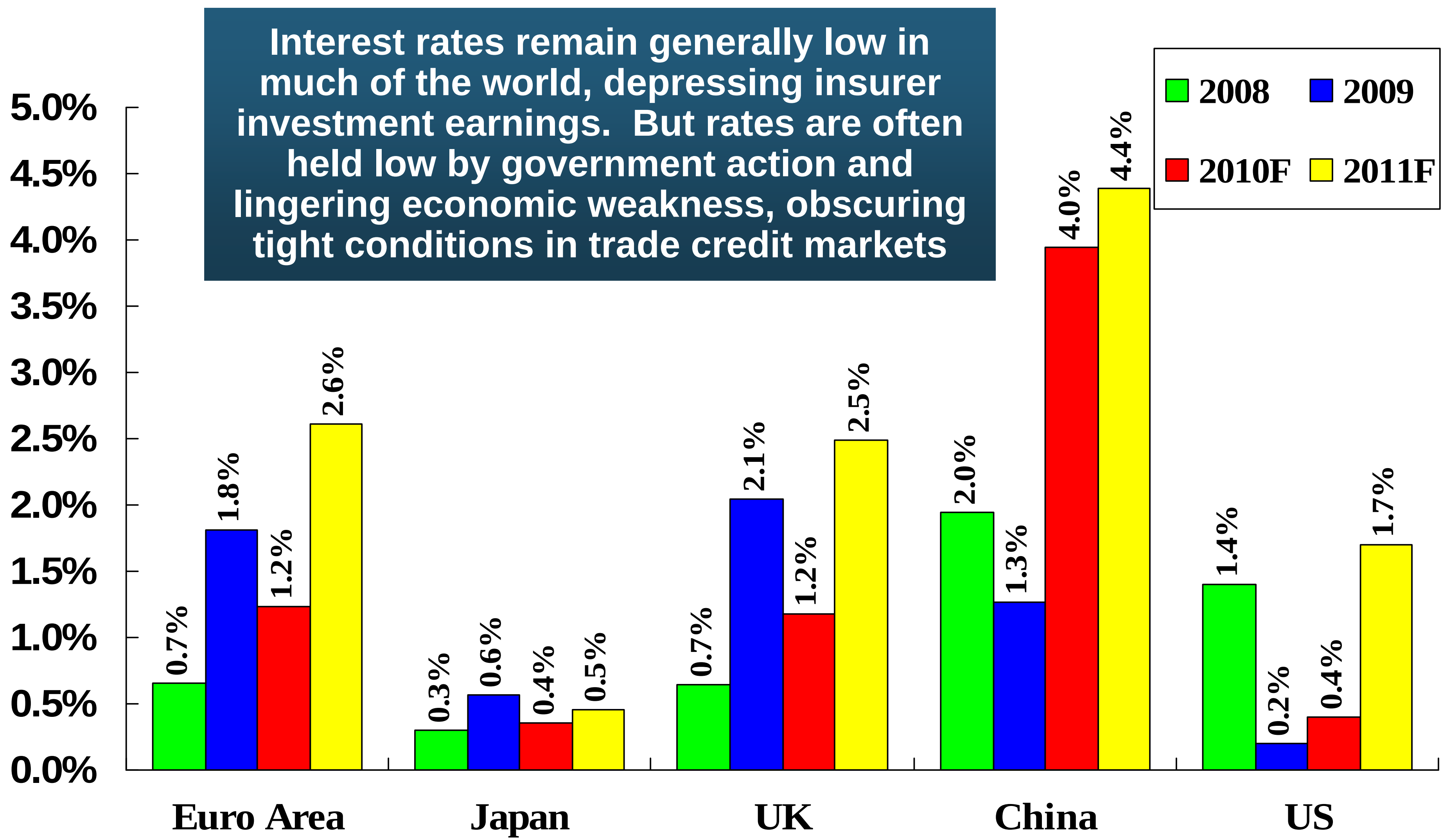
Inflation is below 1.5% across major European economies and interest rates remain low as a result, obscuring tight conditions in trade credit markets



Source: Blue Chip Economic Indicators, 3/10/10 edition.

3-Month Interest Rates for Major Global Economies, 2008-2011F



Source: Blue Chip Economic Indicators, 3/10/10 edition.

Internationally, Most Short-term Interest Rates Are Still Quite Low

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Central Bank	Current Interest Rate	Last Changed
Bank of Canada	0.25%	April 21, 2009
Bank of England	0.50%	March 5, 2009
Bank of Japan	0.10%	Dec 19, 2008
European Central Bank	1.00%	May 7, 2009
U.S. Federal Reserve	0.25%	Dec 16, 2008
The Reserve Bank of Australia	4.25%	April 6, 2010
China	5.31%	Dec 22,2008
Hong Kong SAR	0.50%	Dec 17, 2008
Korea, Republic of	2.00%	Feb 16, 2009
Hungary	5.50%*	Mar 29, 2010

*reduced from 5.75%
Source: http://www.fxstreet.com/fundamental/interest-rates-table/

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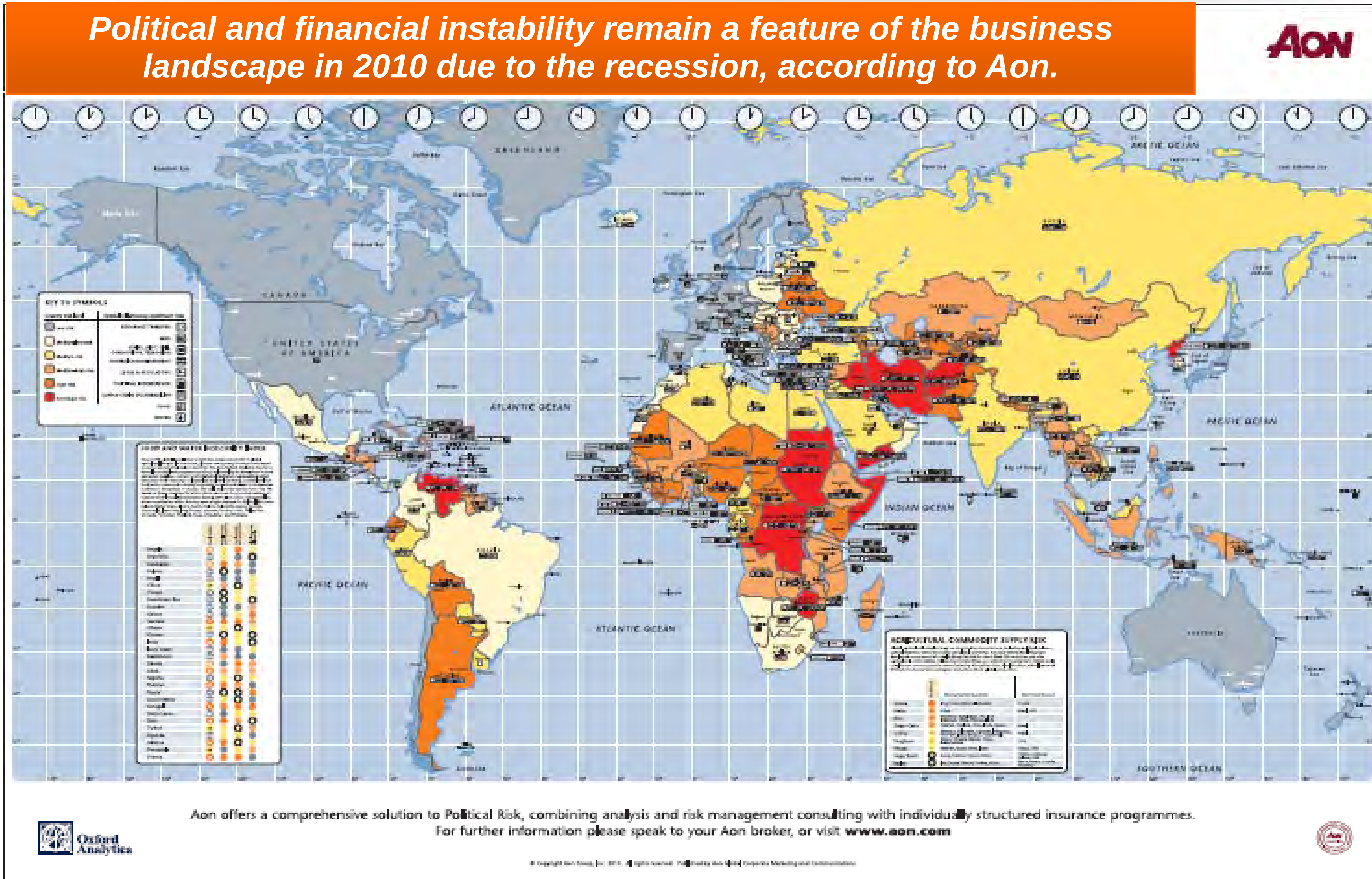
Political Risk

Many Nations Suffer from Political Instability, Fundamentally Influencing Trade Credit Risk

Aon: 2010 Political Risk Map

Political and financial instability remain a feature of the business landscape in 2010 due to the recession, according to Aon.



Source: Aon

Aon 2010 Political Risk Map: Findings

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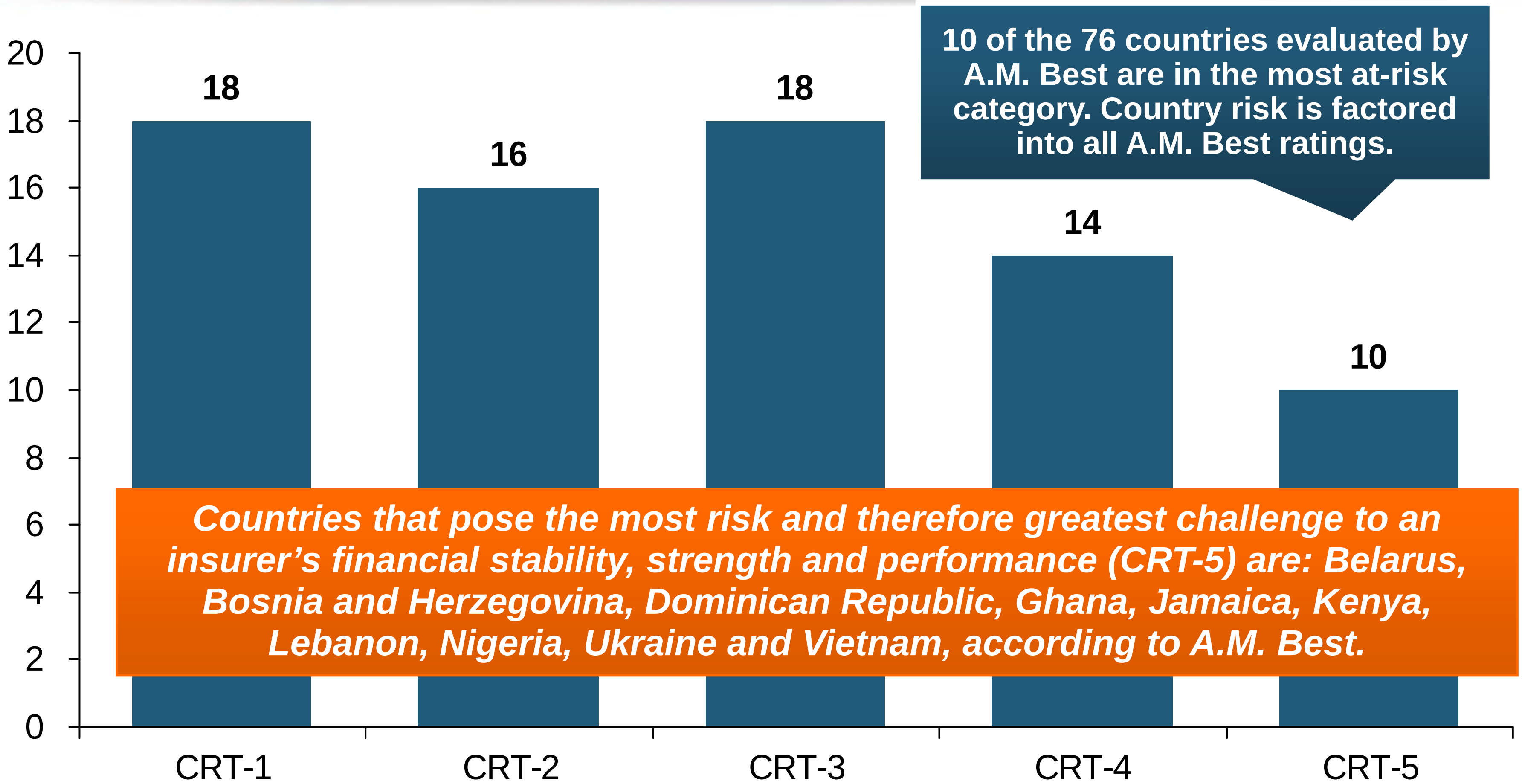
- **Elevated Political Risk Levels to Continue in 2010**
  - Significant volume of credit and political risk claims in international insurance markets have driven many of the ***18 country downgrades*** in this year's map.
  - Aon believes 2010 will see elevated political risk levels continue before an overall tendency for improving global business conditions becomes established. For many companies and across different sectors, including credit and political risk insurance, the business environment remains uncertain when trading with or investing in politically or economically unstable countries.
- **Movements on the 2010 Map**
  - A total of ***18 countries*** have seen conditions worsen leading to a ***downgrade***: Algeria, Argentina, El Salvador, Equatorial Guinea, Ghana, Honduras, Kazakhstan, Latvia, Madagascar, Mauritania, Philippines, Puerto Rico, Seychelles, Sudan, United Arab Emirates, Ukraine, Venezuela and Yemen.
  - Sudan, Venezuela and Yemen have been added to the ***Very High category***, joining Afghanistan, Congo DRC, Iran, Iraq, North Korea, Somalia and Zimbabwe.
  - ***Eight countries/territories*** have been ***upgraded*** to a lower risk level - Albania, Myanmar/Burma, Colombia, South Africa, Sri Lanka, East Timor, Vanuatu, Vietnam and the Hong Kong Special Administrative Region of the People's Republic of China.

Bottom Line: **Political and financial instability remain a feature of the business landscape in 2010 as a result of the recession.**

Source: Aon

A.M. Best: Country Risk Evaluation*



***A.M. Best defines country risk as the risk that country-specific factors could adversely affect an insurer's ability to meet its financial obligations. Countries are placed into one of five tiers, ranging from Country Risk Tier 1 (CRT-1) denoting a stable environment with the least amount of risk, to Country Risk Tier 5 (CRT-5) for countries that pose the most risk and greatest challenge to an insurer's financial stability, strength and performance**

Source: A.M. Best., AMB Country Risk Report, Sept. 2009.

Countries by Risk Tier Rating

CRT-1	CRT-2	CRT-3	CRT-4	CRT-5
Australia	Barbados*	Bahamas*	Antigua & Barbuda*	Belarus
Austria	Belgium	Bahrain	Brunei Darussalam	Bosnia and Herzegovina
Canada	Bermuda	China	Egypt	Dominican Republic
Denmark	British Virgin Islands*	Cyprus	India	Ghana
Finland	Cayman Islands*	Israel	Indonesia	Jamaica
France	Hong Kong	Kuwait	Jordan	Kenya
Germany	Ireland	Malaysia	Kazakhstan	Lebanon
Gibraltar*	Italy	Malta	Mauritius	Nigeria
Guernsey*	Japan	Mexico	Morocco	Ukraine
Isle of Man*	Liechtenstein*	Netherlands Antilles*	Panama	Vietnam
Luxembourg	Macau	Oman	Philippines	
Netherlands	New Zealand	Poland	Russia	
Norway	Slovenia	Qatar	Tunisia	
Singapore	South Korea	Saudi Arabia	Turkey	
Sweden	Spain	South Africa		
Switzerland	Taiwan	Thailand		
United Kingdom		Trinidad and Tobago		
United States		United Arab Emirates		

*Denotes countries to be considered “Special Cases” by A.M. Best
Source: A.M. Best., as of 4/13/10

Trade Credit Risk: Summary & Outlook

Complex Array of Economic, Financial and Political Factors Will Buffet Trade Credit Markets for Years to Come

Top 10 Risks & Reported Readiness and Losses: Many Impact Trade Credit Risk*

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Rank	Top 10 Risks – All Industries	Reported Readiness – All Industries	Loss of Income in Last 12 Months – All Industries
1	Economic slowdown	60%	57%
2	Regulatory/legislative changes	65%	24%
3	Business interruption	79%	30%
4	Increasing competition	71%	39%
5	Commodity price risk	77%	57%
6	Damage to reputation	58%	9%
7	Cash flow/liquidity risk	75%	25%
8	Distribution or supply chain failure	70%	20%
9	Third party liability	81%	40%
10	Failure to attract or retain top talent	68%	16%

*Yellow shading denotes risks with greater impact to trade credit risk.

Source: Aon Analytics; Global Risk Management Survey; Insurance Information Institute commentary of trade credit risk.

Financial Crisis Increases Demand for Trade Credit Insurance

- **Financial crisis has led to significant increased demand for trade credit insurance cover**
  - Banks and other trade financiers had to take measures during the crisis which resulted in increased pressure on suppliers' credit terms and high risk scenarios
  - Trade credit insurers continued to support their customers during the crisis, illustrated by: 20 million running credit limits; insured exposures at EUR 1.8 trillion; claims ratio before costs of around 84 percent for 2009 (pre-crisis 40-60 percent)
  - Available capacity not affected by the crisis, but pre-crisis terms no longer available
- **Insurers increase information sharing and transparency**
  - High policy renewals of around 80-90 percent confirm customer satisfaction with their insurance partners
  - Increased information sharing and transparency will be provided to customers. Emphasis on "added value" of insurers' risk management role and higher transparency re credit limit decisions
- **Outlook**
  - Continued availability of trade credit insurance cover gives confidence and security during fragile economic recovery
  - Cost of capital and tightened risk environment continues to challenge industry, leading to higher premium rates and stricter conditions

Bottom Line: **Market now stable, but still challenging situation**

Source: International Credit Insurance & Surety Association, April 2010

Trade Credit Insurance Marketplace

- **Trade credit insurance market is concentrated in the hands of a few**
  - Total global annual premium income was over $8 billion in 2008
  - Three major monoline credit insurers account for nearly 90 percent of market: Euler Hermes (36%); Atradius (31%); Coface (20%). Backed by reinsurers
  - Other companies involved include: Chartis, QBE, various Lloyd's syndicates and ACE, as well as govt-backed export credit agencies
- **Exposures rise, but premium growth lags**
  - In past five years exposure levels of major credit insurers saw massive growth as they competed for market share
  - Premium income has not grown at same rate because of price competition and increased writing of marginal risks by insurers
  - Risk/reward imbalance
- **Economic downturn takes its toll**
  - Persistent economic downturn with retrenchment of bank credit, drying up of letters of credit results in significant rise in payment defaults and corporate failures
  - These conditions have led to significant increase in claims and record high loss ratios for major three insurers in 2009
  - A capacity problem could follow in 2010 if reinsurance capacity shrinks or becomes price prohibitive

Source: Marsh: Trade Credit Insurance and the Global Credit Crisis, 2009; Insurance Information Institute (I.I.I.)

Trade Credit Insurance Marketplace

- **Insurers refocus on risk quality**
  - Credit insurers review and reduce exposures/limits on certain industry sectors and countries of concern
  - Industry sectors considered difficult by most credit insurers include: construction, retail, commodities, electronic consumer goods, automobiles and transport
  - Dramatic premium increases for loss-making policies. Some not renewed at any price.
  - Insurers will not take on risk deemed to be volatile or unprofitable
- **Alternatives for insurance buyers**
  - Top-up cover, other insurers, accounts receivable purchase agreements and govt support some of the alternatives buyers are exploring
  - Small market for top-up cover, but not in all regions
  - Insureds with strong credit and ability to retain risk exploring increased use of captive insurers
  - Government-backed options offer limited support in some countries, but at a cost

***Bottom Line:* In 2010 challenging conditions remain, but receding recession should improve loss situation for trade credit insurers**

Source: Marsh: Trade Credit Insurance and the Global Credit Crisis, 2009; Insurance Information Institute (I.I.I.)

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Thank you for your time and your attention!

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