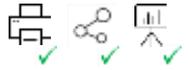




Sudden defaults

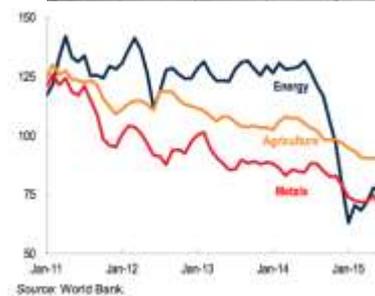
Franz Maier
Portorož, 8th May 2019

Introduction

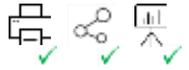


Companies that use credit insurance protect their business, limit their risks and can find new opportunities in an easier and better way.

Yet, the growing uncertainty of external factors like fraud, political instability, economic fluctuations, natural disasters, changing commodity prices, technological developments, etc. are influencing secure business environments. This situation is not expected to calm down in the near future.



Risk Protection - Threats to collect receivables



Although we detect insolvencies through our proximity to the market, our relationships with customers and our access to information and market intelligence, some insolvencies are increasingly difficult to foresee.

- Political factors have the ultimate power to destabilise economies
- Trigger of the next global recession is probably not a classical business cycle, but more a shock to a leading economy
- Shock waves run around the globe much faster than in history
- Fintechs are introducing new concepts in the Trade Finance Industry facilitating access to finance with innovative solutions



World economic update

Global economic sweet spot

Real GDP growth forecasts

	2018	2019
World	3.2	2.9

Source: Oxford Economics

Eurozone growth reaches highest level in a decade

Strengthening economic momentum for emerging markets

Advanced Markets – The US economy is enjoying strong growth

Insolvency outlook remains benign for the time being



Market Hot Spots: UK



Halved export growth

squeezed household finances

Inflation

Political uncertainty

Departure from the EU

low unemployment rate

Increasing # of insolvencies

Slowing down economy

lower consumer spending

sluggish investment growth

Market Hot Spots: China



Over-capacity

Fraudulent/fake trades

Environmental protection

uncertain US trade policy

Government oriented economy

Economic slowdown

high debt ratio

Tougher financial sector regulations

Exports recovered

Risk of hard landing not likely

Market Hot Spots: Brazil



Corruption

Currency volatility

Political instability

Unemployment

Commodity prices

Electoral Year

Constrained consumer spending

high fiscal

deficit

Social security reform

Insolvencies

Inflation

Market Hot Spots: Russia



Inefficiency

Corruption

Currency devaluation

Government controlled economy

Sanctions

structural weaknesses

dependent on oil prices

Geopolitical tensions

tensions

Low investments

slowdown of economy

Market Hot Spots: Middle East



Ongoing tensions

Insufficient insolvency law

Israel

Politically volatile region **Oil**

prices

Low business confidence

Governmental driven economy

Payment delays

War & Terror

Weak economic performance

Inflation

Market Hot Spots: Italy



Fragile to shifts on financial market

weak bank balance sheets

Economic slack

political instability

High insolvency rates

high rates of non-performing loans

unemployment

Restrictive lending policy

Shifting in Global Trade Development

Fundamentals are changing

1. Globalisation is further feeding Global trade and Trade finance
2. Digitalization is underway to mitigate the complex interactions in the supply chain and in Trade finance
3. New players and new sources of information try to disrupt the market chasing traditional players
4. Regulatory frameworks are on the rise



Shifting in Global Trade Development

- We are currently living at the edge of new global trade patterns driven from global digital platforms

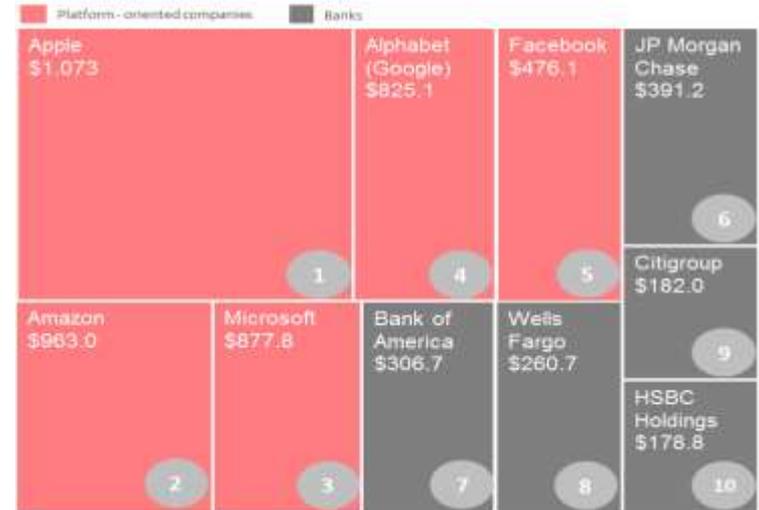
Disruptive

- The global B2C e-commerce platforms like Alibaba and Amazon are stepping in the B2B supply chain
- Market capitalisation of such platform-oriented companies exceed traditional banks

Evolutionary

- Parts or the full supply chain will be optimised and digitalised e.g. trade finance platforms, logistics platforms

2018, market capitalization, \$ billion



Shifting in Global Trade Development

Digital transformation will boost the cooperation opportunities of the different players.

Credit insurers

- Huge database of information
- Sophisticated risk assessment infrastructure
- Leading players with a global network
- Collections

Banks

- Large customer base
- Need to meet the demands in the new global trade framework
- Expertise in Financing

Trade Platforms

- Providing simpler trading framework
- Enormous customer base
- Analytics

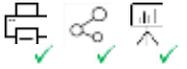
FinTechs

- Technological innovator
- Need to build reliability in market and access to customer basis



Smart data analytics will lead the market

What are sudden defaults?



Sudden defaults fall outside the level of a 'normal' default based upon:

- The size, value and speed of default
- The circumstances for the default
- Often, the triggers for these sudden defaults are a combination of events

“Sudden defaults are defaults that are improbable, unpredictable and unimaginable”.

Sudden defaults generally have a severe impact on local/regional economies and destabilise societies for a short or long period of time. They are true “anomalies”. The definition of sudden defaults shows they have the same characteristics as ‘black swans’:



The Black Swan - The Impact of the Highly Improbable: by Nassim Nicholas Taleb (Author).
“A black swan is an event, positive or negative, that is deemed improbable yet causes massive consequences. In this ground breaking and prophetic book, Taleb shows in a playful way that Black Swan events explain almost everything about our world, and yet people - especially the experts - are blind to them”.

Trade Credit Insurance – More than outsourced credit management

The definition of credit management (source ICISA), is assuring that:

- Buyers pay on time
- Credit costs are kept low
- Poor debts are managed in such a manner that payment is received
- without damaging the relationship with that buyer

Credit insurance as a service element and not just an insurance product goes much deeper; the heart of credit insurance is loss prevention by:

- Protect insured from unexpected buyer defaults – insolvency or protracted defaults
- Monitoring buyers and assessing their credit quality
- Taking actions in case of the quality of a buyer deteriorates
- Atradius provides forward-looking credit limit decisions

Credit Management:
Is a company's management decision: either manage risks internally or use instruments to share risks with external markets and outsource the service to an external partner like a credit insurer



Trade Credit Insurance - Benefits

- Better trade decisions
 - Improving sales efficiency through better buyer information
 - Doing business with stronger buyers
- Applying a more effective risk strategy
 - Reduces concentration risk
- Improved finance, stronger credit conditions
 - Easier access to financing facilities
 - Better cash flow, stronger financial position
 - Increased bottom line, higher creditworthiness
 - Increases advance rates, reduces interest rates
- Strengthens client relationships
 - Companies can offer better financing terms in the knowledge they can obtain funding



Risk Protection - Sudden Defaults



We identify two recurring themes in sudden default cases:

1. Business failures can't always be anticipated

Any company can be caught by surprise by a business failure, no company is too big to fail.



2. Even the most experienced credit manager can be caught by this, not having foreseen it.
It's how the credit manager and the credit insurer respond that makes the difference.



Thank you!