Distinctive. Choice.

Trade Credit

A Jardine Matheson Associate Company

Risk and Insurance Services

Overview

As the credit crisis fallout continues, trade credit risks are growing, and no company is shielded from the impact.

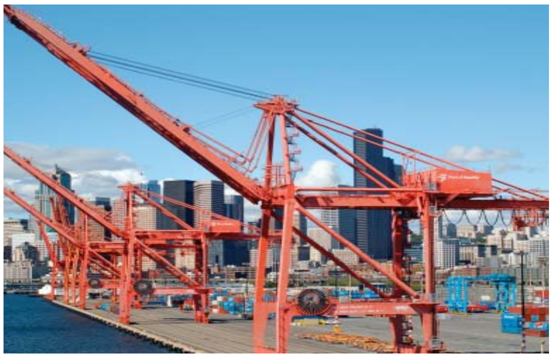
Trade credit risk, the risk that debtors may not pay, or may not pay within a reasonable timeframe, can be very costly. A company's liquidity is paramount to its survival, and bad debt and late payment are commonly the main threats to liquidity. Trade receivables typically represent 20% - 40% of total assets and companies often cite liquidity problems as the reason for their business failing.

Insuring against the risk

Trade Credit Insurance provides protection against the non-payment of trade receivables due to commercial risks and/or political risks.

Commercial risks include the possibility of losses due to debtor insolvency before payment is made, or prolonged default by debtors on payments due. Political risks include the possibility of losses in cross-border sales arising from action taken by a political body before payment has been received. Insured events include war, exchange restrictions, export/import restrictions and non-payment by a public entity (also referred to as public buyer default).

Renowned for innovative, performance-driven risk solutions



Additional value

Trade Credit Insurance enables companies to protect the capital associated with trade credit risk. At the same time, it also gives companies access to a range of other business benefits, some of which can in themselves be key drivers behind a company's decision to purchase trade credit insurance.

Benefits of Trade Credit Insurance:

Limits the credit risks associated with a company's trade receivables	→	Protects the balance sheet
Provides early warning if a customer is in financial difficulty or is delaying payments to other creditors	→	Strengthens credit management
Limits the risks associated with switching from fully-secured payment terms to less secured and/or unsecured terms	→	Enhances competitiveness
Limits the risks associated with selling to new customers in unfamiliar territories	→	Enables companies to expand market coverage
Secures a company's trade receivables so they can be used as collateral for financing	→	Enables access to new financing options (e.g. trade receiv-ables financing)

Effective Trade Credit Insurance policies are designed to support, and align with, a company's credit management procedures and strategic goals. Putting this in place requires expert advice. Jardine Lloyd Thompson's credit risk professionals have extensive experience in advising on and structuring credit risk management programmes. Our clients also benefit from associated services such as:

- Alternative policy structure design
- Credit management policy review
- Credit risk exposures and needs assessment
- Policy wording customisation
- Claims negotiation

Jardine Lloyd Thompson is committed to providing the solutions and support needed to enable companies to access the business benefits offered by Trade Credit Insurance, wherever exposures threaten to restrict business.

Scenario:

Insurance-backed Trade Receivables Financing

A large manufacturer needs additional financing to meet its expansion goals. The company decides to purchase Trade Credit Insurance because of its ability to open new financing options.

When Trade Credit Insurance is used to secure a company's trade receivables, the company is able to obtain financing from lenders, often at a reduced cost compared to conventional methods.

How does this work?
The primary considerations when putting Trade Receivables Financing in place include:

1) the quality of the debtors
2) the perceived ability of the debtors to pay

In insurance-backed Trade Receivables Financing, unsecured trade receivables are insured under a Trade Credit Insurance policy so that they can be used as collateral for a loan.

Unless debtors are well known and financially strong, it is unlikely that the lender will be able to advance funds (after all, lenders are generally risk averse).

Trade credit insurance protects the capital associated with credit risk and thereby allows the lender to recognise the quality of the company's debtors, and in turn to lend against the insured trade receivables.

With Trade Credit Insurance in place, this company gains not only the traditional protection benefits of the insurance policy but also achieves the following:

- Removes trade receivables from its balance sheet (assuming the financing is on a non-recourse basis)
- Gains an alternative form of financing
- Improves its working capital

About JLT Asia

Jardine Lloyd Thompson (JLT) Asia is a market leader in insurance and reinsurance broking, risk management consultancy and employee benefits services.

Our operations in Asia date back to 1836. Today, JLT Asia is one of the most experienced brokers in Asia, with over 700 staff in 12 locations - China, Hong Kong, Indonesia, Japan, Korea, Malaysia, Macau, Philippines, Singapore, Taiwan, Thailand and Vietnam.

JLT Asia's technical abilities and expertise span a wide range of specialist areas:

- Affinity
- Aviation
- Captives
- Capital Risks
- Construction
- Employee Benefits
- Energy
- Interactive Technology Solutions
- Major Corporate Risks
- Marine (Cargo and Hull P&I)
- Professional & Executive Risks (ProEx)
- Property
- Reinsurance (Treaty and Facultative)
- Risk Management
- Small & Medium Enterprises (SME)
- Wealth Management

Our specialists are renowned for their innovative approach to developing integrated insurance, reinsurance and alternative risk transfer solutions.

Integrity is a hallmark of the JLT organisation. Our quality and compliance regimes are among the most thorough in the industry.

You can obtain more information about JLT Asia at: www.jltasia.com

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