A Trade Credit Insurance Guide

Trade Credit North America

Bring on tomorrow

Start

What Is Trade Credit Insurance?

All enterprises that sell goods and services are exposed to, and must account for, the risk that their customers fail to pay them. Trade Credit Insurance, also referred to as Accounts Receivable Insurance, provides coverage against the risk that a commercial customer (also known as a buyer) fails to pay for the goods and services that a business sells. Specifically, Trade Credit Insurance protects the accounts receivable (AR) of a policyholder against loss due to a buyer's bankruptcy or protracted default (non-payment of a valid trade debt within the contracted terms).

Trade Credit Insurance can support the insured's financial strength and provide confidence to extend credit to new and existing customers. That support and confidence can help firms to grow profitably, and to weather the up-and-downs of the business cycle. Businesses of all sizes from global multinationals to small businesses can benefit from the value of Trade Credit Insurance.

Two primary types of risk covered by Trade Credit Insurance:

1. **Commercial Risk.** This is the risk that a buyer goes bankrupt or defaults for financial reasons. The cause, or risk factors, are numerous, but a short list would include: the buyer's industry dynamics; the amount of debt, or leverage, the buyer has; commodity/input price volatility; regulatory changes; poor management; changing consumer buying habits; and many more. More often than not, an accounts receivable loss resulting from commercial risk is a combination of factors impacting the buyer.

2. **Political Risk.** This is the risk of non-payment resulting from political events outside of the buyer's control. Examples are wars and revolutions that result in the buyer being unable to pay, and thus becoming a protracted default. Risk also comes in the form of the implementation of currency controls by the buyer's home government that restrict the buyer's ability to access hard currency to pay its foreign debts.

Trade Credit Insurance Policy Highlights

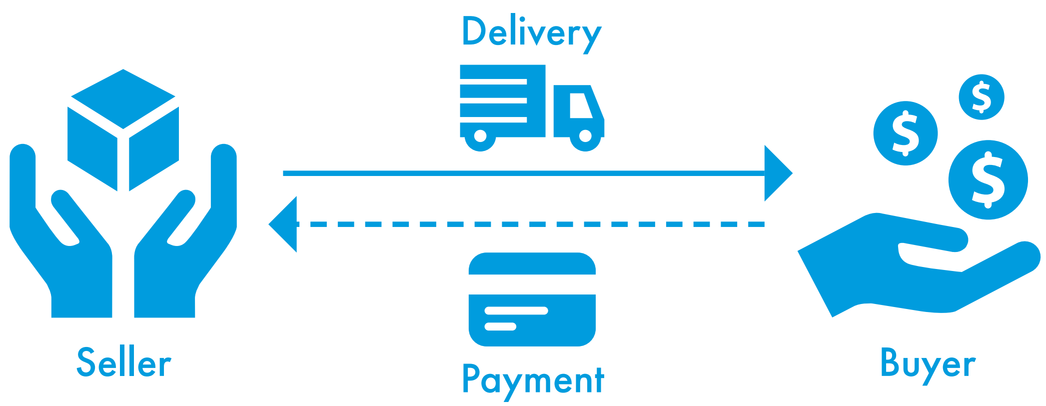
Policy Highlights

- Policies cover both commercial risk (the buyer's bankruptcy or protracted default) and political risk (protracted default resulting from adverse political events in the buyer's country).
- Policies are written on an annual basis, with coverage attaching to goods delivered and services provided to buyers during the policy period.
- Key buyers with the largest AR balances are underwritten and, if approved, scheduled with a corresponding buyer limit on the policy.
- Discretion is given to the policyholder to manage the credit risk of buyers with smaller AR exposures in accordance with its credit management practices.
- Policies can be easily amended to add new buyer limits or increase buyer limits during the policy period.
- Premium is typically charged as a rate on sales, a rate on AR exposures, or a rate on approved buyer limits.
- Country limits are scheduled to the policy covering buyers in that particular country.
- Risk sharing can be tailored to the insured's needs and comes in the form of co-insurance (generally 10%) and typically an aggregate annual deductible to absorb expected losses.

Trade Credit Insurance = Accounts Receivable Insurance

	Insured	Not Insured
Cash	✓	
Accounts Receivable		✓ ⚠
Finished Goods	✓	
Work in Progress	✓	
Plant and Equipment	✓	

Why is Trade Credit Insurance Valuable?



Trade Credit Insurance can do more than just protect your accounts receivable asset. It can help a company grow its business and potentially find better financing by making its accounts receivable a more valuable asset.

The Value of Trade Credit Insurance

Download

- Provides risk mitigation by protecting against non-payment risk for a portfolio of accounts receivable
- Facilitates more attractive financing options
- Expand sales to new and existing customers – companies have to provide credit to remain competitive
- Mitigates concentration risk when a large portion of a company's sales are among a few customers
- Supplements credit risk management
- Allows access to value-added services including systems-based accounts receivable management, collections agents and legal services
- Enables the insured to penetrate new foreign markets
- Can facilitate reducing the insured's bad debt reserve

Questions to consider in evaluating Trade Credit Insurance for your business:

- Could your company benefit by safely expanding sales and extending credit to new or existing customers?
- Can your company take advantage of emerging market opportunities to compete in today's global market?
- How large is your accounts receivable portfolio relative to your business? Is it your biggest asset?
- How large an accounts receivable exposure do you have to your largest 5 clients? What would happen if just one went bankrupt? What about two?
- What is the frequency/severity of your expected accounts receivable losses?

Who buys Trade Credit Insurance?

Companies that sell goods or services on credit, or financial institutions that buy, finance, or provide short-term lending backed by accounts receivable as collateral, can all realize the value of Trade Credit Insurance.

The most common purchasers of Trade Credit Insurance are manufacturers and distributors selling domestically within their own country as well as exporting or selling via overseas subsidiaries.

Industry Sectors

- Agriculture
- Automotive
- Capital Equipment
- Chemicals
- Computer Hardware and Software
- Consumer Electronics
- Consumer Goods
- Energy
- Food
- Metals
- Paper
- Pharmaceuticals
- Plastics and petrochemicals
- Software
- Textiles

Business Types

Distributors
Financial Institutions
Manufacturers
Traders

Typical AIG Trade Credit Policyholder Attributes

- Leader in its field with products its customers want to have
- Have a professional approach to credit risk management with the discretion to sell prudently to its customers
- Concentrated buyer portfolios with a core base of key customers
- Already have an international business footprint

Our Products & Services

Our Trade Credit Insurance solutions can be tailored to meet the particular needs of the insured. We provide an array of options whether the insured is looking to cover its entire accounts receivable portfolio globally, sales in a particular region of the world, one or several products or divisions in the corporate group, a specific list of key buyers, or anything in between.

The buyer limits we provide are non-cancellable, almost always for the full 12-month policy period. That means we can't reduce or cancel coverage on your buyer during the policy period.

Domestic and Export Credit Insurance (DECI)
Multinational Trade Credit Insurance Program
Credit Insurance for Banks and Financial Institutions
A/R Secure
Top Accounts or Single Buyer Coverage
Medium Term Trade Credit Insurance

Medium Term Trade Credit Insurance

Good for manufacturers and financial institutions looking to insure their long term credit risks.

Medium term trade credit insurance enables exporters to offer extended credit terms and safely expand sales to customers around the world, and allows both buyers and sellers access to financing that supports their long-term growth and stability.

Medium Term Trade Credit Insurance indemnifies the insured for loss caused by the failure of the obligor to pay the insured all or part of the financed value of the capital goods. The policy period matches the repayment period, with the flexibility to attach coverage up to the obligor's credit limit for all sales transacted within 12 months of policy inception. Credit limits are non-cancellable for the life of the policy.

Policies are typically "single-buyer" written for a specific obligor, though multiple obligors may be included in one policy.

Premium is calculated using a rate applied to the amortizing balance of the financed value, and is usually payable in full at inception of the transaction.

Claims Scenarios

Over the 35 years since the inception of our Trade Credit business, we have received over 15,000 claims and paid over $1.5 billion to clients with respect to approved claims. Through many global economic cycles and crises, our claims experience allows us to quickly understand the unique circumstances that often accompany an insured's accounts receivable loss. Here are just a few examples of actual events that illustrate how our Accounts Receivable insurance can support your business.

Key Customer Files Bankruptcy

When one of our insureds was faced with adverse financial conditions as result of the insolvency of a key customer, our Trade Credit insurance responded by indemnifying the insured for a substantial portion of the customer's covered unpaid accounts receivable, which allowed the insured to move forward without significant disruption to the business' cash flow. Thereafter, AIG took the lead in the ongoing recovery effort to reduce the loss sustained for the benefit of both parties.

Subsidiary Files Bankruptcy

When a US parent company abruptly decided to place one of its local subsidiaries under bankruptcy protection in Canada, our insureds were indemnified for covered loss for shipments to that subsidiary despite the fact that the parent company continued to operate.

Supporting Working Capital

Our insured in the rice distribution business, which is heavily dependent upon a working capital loan from a global bank to finance its business, suffered a credit loss in Mexico when one of its largest customers went bankrupt. The claim payment from AIG allowed the insured to continue to service the principal and interest on the working capital loan and not lose access to a key funding partner. The insured's global banking partner, as a Loss Payee on the policy, recognized the strength and support provided by our insurance, and continued to provide the loan into the future.

Whether a claim is driven by a single default or a market crisis, our clients can count on swift service and equitable resolution of claims

WHY AIG in 5

1) Claims Expertise

- For over 35 years, we have been underwriting trade credit risks and helping companies increase their sales and manage their working capital.
- In that time, we have received over 15,000 claims and paid over $1.5 billion to clients with respect to approved claims.
- Our experienced claims organization is committed to mitigating risk, reducing loss, and protecting businesses from significant disruption. Whether a claim is driven by a single default or a market crisis, policyholders can count on a rapid response.

2) Global Partner

- AIG has been providing trade credit insurance in multiple countries around the world for more than three decades.
- We offer local underwriting expertise and policy servicing capabilities virtually anywhere a client's business operates, including many emerging markets.
- Clients can customize non-cancellable limits coverage, credit management tools, and debt collection services to meet their specific needs and location.

3) Certainty of Coverage

- We provide non-cancellable trade credit insurance limits where limits approved by us cannot be reduced or cancelled for 12 months
- AIG welcomes reassurance for clients following the disillusionment of the past when many Accounts Receivable insurers arbitrarily withdrew credit limits in an economic downturn.

4) Flexibility and Accountability

- AIG trade credit underwriters provide clients with flexible program structures to allow a high level of autonomy when granting credit to customers.
- We craft customized protection for clients based on their specific business needs, whether it be for a specific supplier, or because they are in certain industry, so they can manage their operations with confidence.

5) 24/7 Support

- We know our clients' business needs are constantly changing...we have the knowledge, experience and global network to provide quick responses to add or increase limits during the policy period.
- Our dedicated underwriters are directly accountable for servicing those requests, and our online Global Limits system allows for 24/7 access to request new coverage.

AIG TRADE CREDIT
tradecredit@aig.com
AIG Trade Credit
175 Water Street
New York, NY 10038

www.aig.com

Bring on tomorrow

American International Group, Inc. (AIG) is a leading global insurance organization. Founded in 1919, today we provide a wide range of property casualty insurance, life insurance, retirement products, mortgage insurance and other financial services to customers in more than 100 countries and jurisdictions. Our diverse offerings include products and services that help businesses and individuals protect their assets, manage risks and provide for retirement security. AIG common stock is listed on the New York Stock Exchange and the Tokyo Stock Exchange.

Additional information about AIG can be found at www.aig.com and www.aig.com/strategyupdate | YouTube: www.youtube.com/aig | Twitter: @AIGinsurance | LinkedIn: www.linkedin.com/company/aig. These references with additional information about AIG have been provided as a convenience, and the information contained on such websites is not incorporated by reference into this press release. AIG is the marketing name for the worldwide property-casualty, life and retirement, and general insurance operations of American International Group, Inc. For additional information, please visit our website at www.aig.com.