

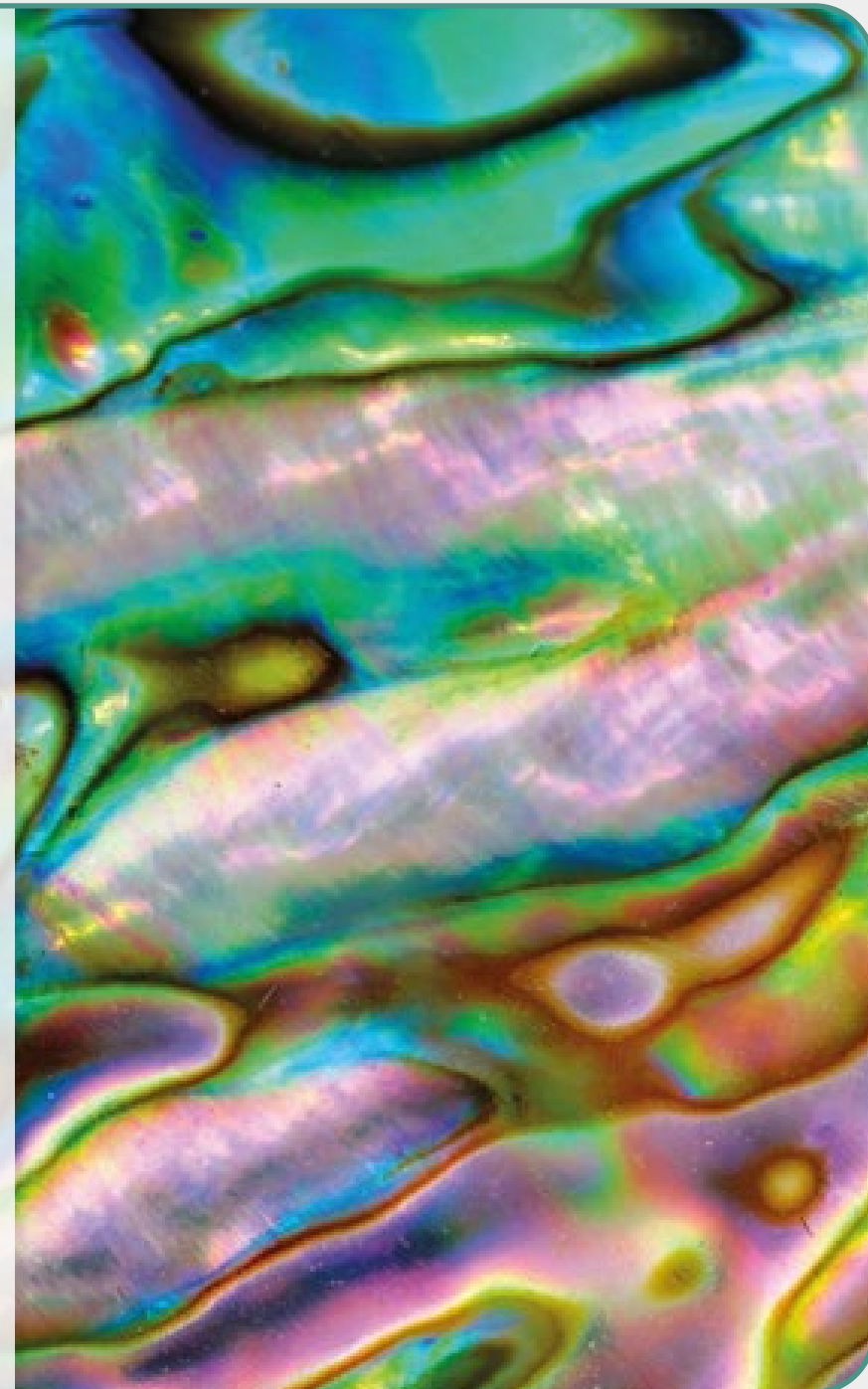


**MERIDIAN**  
**FINANCE GROUP**  
A TEXEL COMPANY

# Jazz or Blues Trends Impacting Credit

---

Jenny Lezon Norris  
Meridian Finance Group



Q:

What keeps credit  
managers up at  
night?

- 1. Credit Risk:** One of the primary concerns for credit managers is managing and mitigating credit risk. They worry about assessing the creditworthiness of customers and clients to minimize the chances of defaults or late payments.
- 2. Economic Conditions:** Credit managers are often affected by economic factors such as recession, inflation, and changes in interest rates. Economic uncertainties can impact their ability to make sound credit decisions.
- 3. Bad Debt:** The possibility of bad debts and uncollectible accounts is a significant concern. Credit managers need to balance their desire to extend credit to grow sales with the need to minimize bad debt write-offs.
- 4. Regulatory Compliance:** Staying compliant with various regulations, including those related to consumer credit and data privacy (e.g., GDPR or CCPA), can be challenging and a source of anxiety for credit managers.
- 5. Technology and Data Security:** As technology plays an increasingly important role in credit management, concerns about data security and the use of advanced analytics to make lending decisions are ever-present.
- 6. Portfolio Diversification:** Credit managers often worry about diversifying their portfolios to spread risk adequately. Over-concentration of credit exposure in a particular industry or client can be risky.
- 7. Customer Relationships:** Managing relationships with customers who may face financial difficulties can be a delicate balance. Credit managers may worry about maintaining good relationships while ensuring that outstanding debts are paid.
- 8. Fraud Prevention:** The risk of fraud, both internal and external, is a constant concern. Credit managers need to implement fraud prevention measures to protect their organization's assets.
- 9. Legal Issues:** Legal disputes and collections can be a headache for credit managers. They may worry about navigating the legal system and ensuring that debts are collected legally and ethically.
- 10. Cash Flow:** Ensuring a healthy cash flow is a priority for credit managers. They need to balance the extension of credit with the organization's need for cash to operate efficiently.
- 11. Market Competition:** The competitive landscape can also keep credit managers awake at night. They may worry about losing customers to competitors who offer more favorable credit terms.
- 12. Global Markets:** For credit managers working with international customers and suppliers, concerns about currency exchange rates, international trade regulations, and geopolitical risks can be significant.

It's important to note that the specific concerns of credit managers can vary depending on the industry, the size of the organization, and the economic climate. To address these concerns, credit managers often use a combination of risk assessment tools, data analysis, credit policies, and ongoing monitoring of customer accounts.



1.  
International  
Macroeconomic  
Factors

# International Macroeconomic Factors

---



## US

- Recession talks have dissipated.
  - US economy grew, GDP +2.1% in Q2 over Q1.
- Still high interest rates, tight credit conditions (banks), and overall tough foreign conditions
- Personal income has increased, personal saving rate was 3.5% in July.
- How hard will loan repayments hit economy?
- Buzzword: AI



# International Macroeconomic Factors

---

## Europe

- Russia / Ukraine War
- The 20 countries that use the euro currency are expected to see growth of 0.8% this year instead of 1.1% projected in the spring forecast, the commission said. For next year, growth expectations were lowered to 1.3% from 1.6%. – European Union 9/11/23



# International Macroeconomic Factors

---

## China

- Moody's kept its growth projection for this year at 5% but cut its 2024 forecast to 4.0% from 4.5% previously. It rates China at A1 with a stable outlook, which is four notches below the U.S.'s top Aaa grade.
- Foreign buyers have cut back purchases due to inflation.
- Factory activity showed signs of sluggishness and authorities have warned of an incomplete recovery as global demand for goods waned. FCIA - Byron Should



# International Macroeconomic Factors

---



## Africa

- Sub-Saharan Africa
  - Lack of resilience to climate change
  - Chronic food insecurity
- Africa's economic growth is set to edge upwards in 2023 and 2024 amid tighter global monetary policy and the fallout from Russia's invasion of Ukraine, but South Africa's will plummet, the African Development Bank (AfDB) said.



## Latin America

- **Argentina** – economy will contract 2.5% in 2023, with a year-end inflation rate of about 120%, IMF predicts, largely due to a crippling drought that has curtailed agricultural production.
- **Colombia** – July 31 – benchmark interest rate 13.25%
- **Mexico** – Elections in 2024, nearshoring wave
- **Brazil** – 11<sup>th</sup> largest economy, BOA upgrades



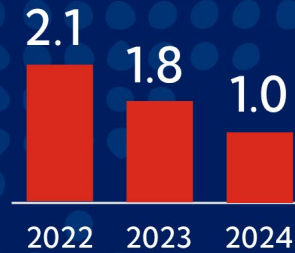
# GROWTH PROJECTIONS BY REGION

## GLOBAL GROWTH

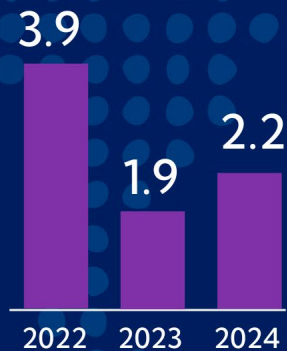


(Real GDP growth, percent)

## UNITED STATES



## LATIN AMERICA & THE CARIBBEAN



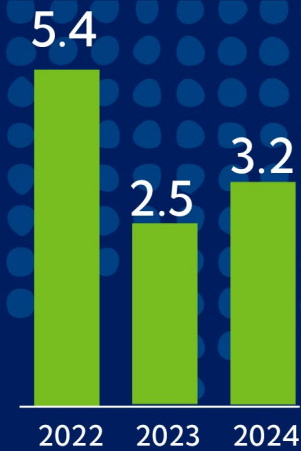
## EURO AREA



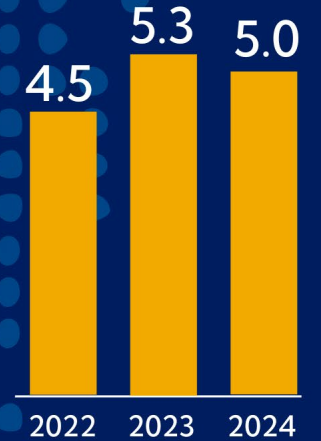
## SUB-SAHARAN AFRICA



## MIDDLE EAST & CENTRAL ASIA



## EMERGING & DEVELOPING ASIA



### Source

IMF, World Economic Outlook, July 2023.

### Note

Order of bars for each group indicates (left to right): 2022, 2023 projections, and 2024 projections.

“

## Commercial Chapter 11 Filings

July 2022 vs. 2023

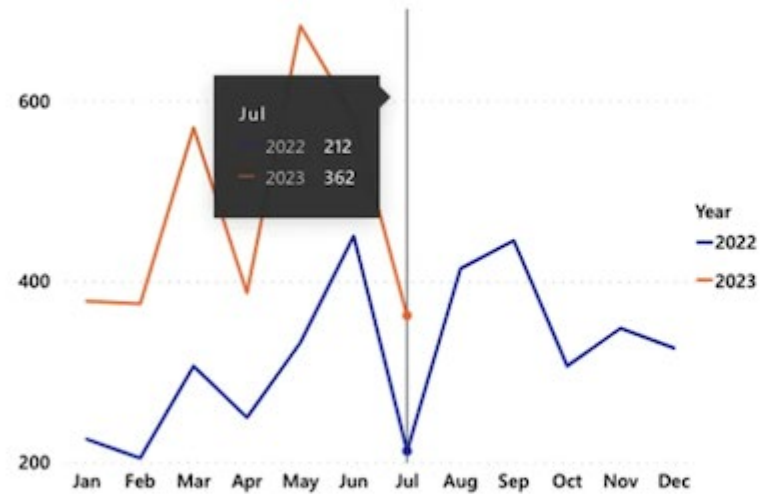


Image provided by [bankruptcy analytics](#)

Commercial Ch 11 Filings

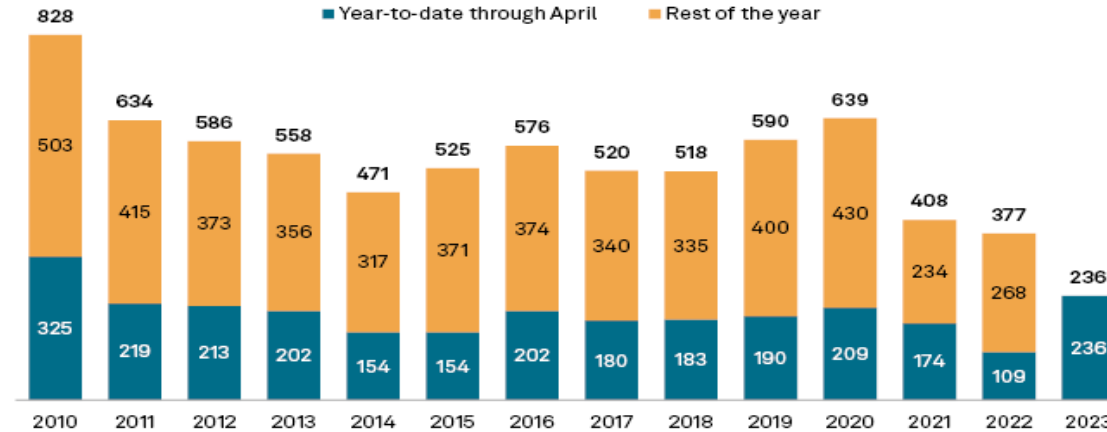
**Increase 71%**

Year-Over-Year

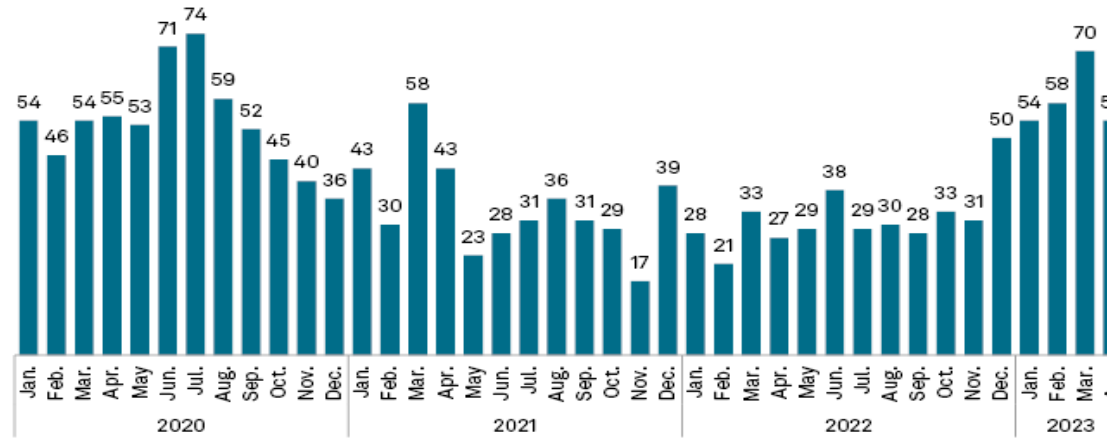
epiq  
bankruptcy

# US Bankruptcy Filings

US bankruptcy filings by year



US bankruptcy filings by month



Data compiled May 2, 2023.

Includes S&P Global Market Intelligence-covered US companies that announced a bankruptcy between Jan. 1, 2010, and April 30, 2023.

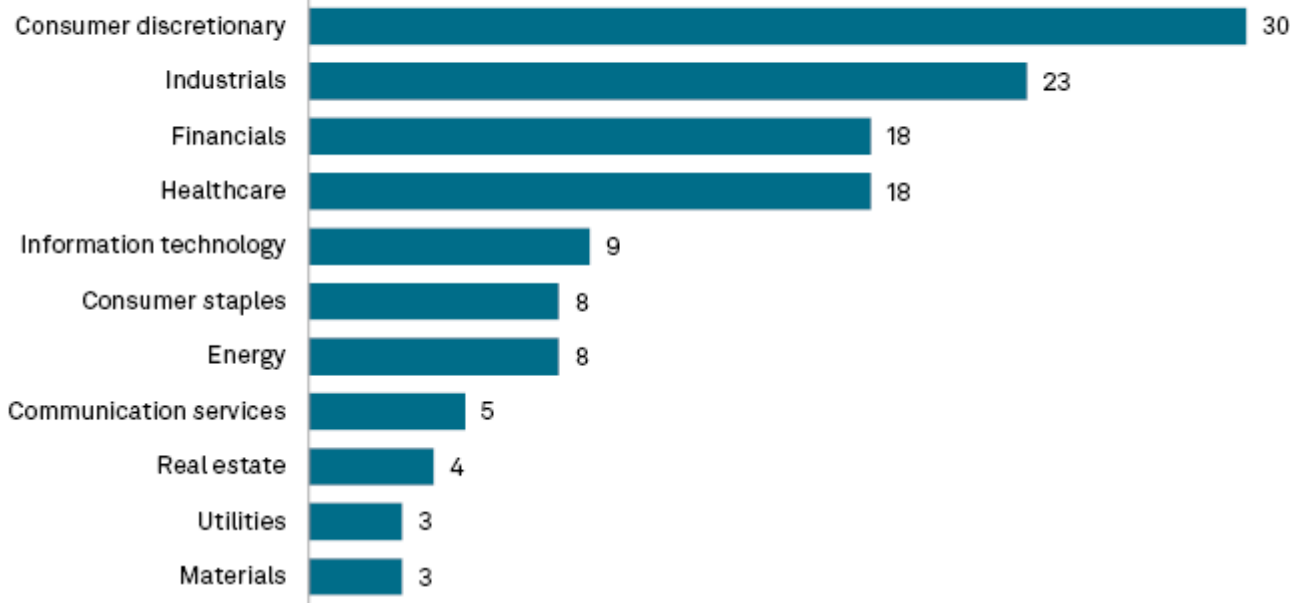
S&P Global Market Intelligence's bankruptcy coverage is limited to public companies or private companies with public debt where either assets or liabilities at the time of the bankruptcy filing are greater than or equal to \$2 million or private companies where either assets or liabilities at the time of the bankruptcy filing are greater than or equal to \$10 million.

Source: S&P Global Market Intelligence.

© 2023 S&P Global.

# US Bankruptcy Filings

2023 bankruptcy filings by primary sector



Data compiled May 2, 2023.  
Includes S&P Global Market Intelligence-covered US companies that announced a bankruptcy between Jan. 1, 2023, and April 30, 2023.  
S&P Global Market Intelligence's bankruptcy coverage is limited to public companies or private companies with public debt where either assets or liabilities at the time of the bankruptcy filing are greater than or equal to \$2 million or private companies where either assets or liabilities at the time of the bankruptcy filing are greater than or equal to \$10 million.  
Primary sector not available for 107 bankruptcies filed in 2023.  
Source: S&P Global Market Intelligence.  
© 2023 S&P Global.

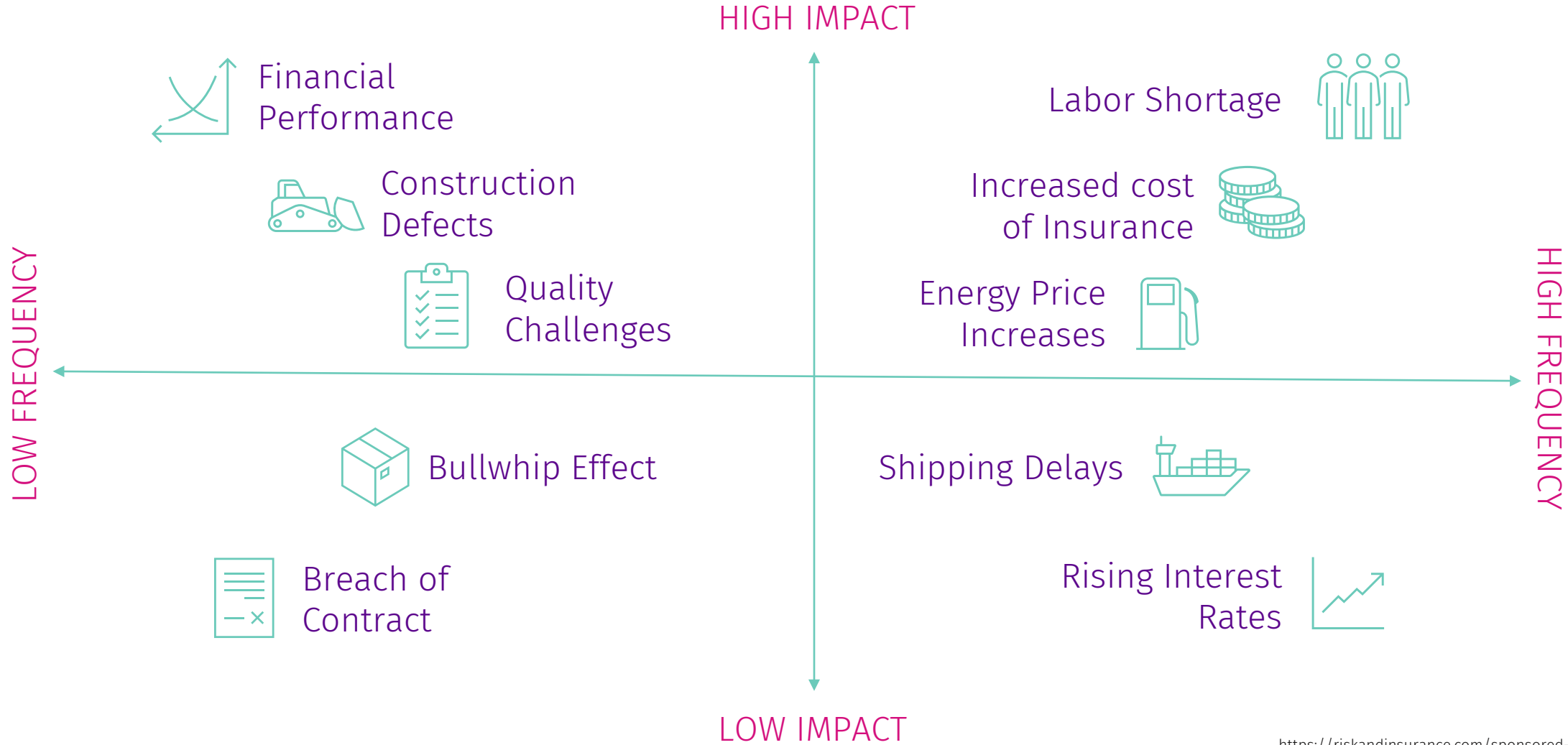
# Why Credit Managers Should Understand Supply Chain?

## What are you waiting for?

- What is your lead time?
- Where in your build/sales cycle is our product?
- Access to critical materials?
- Understanding their supply chain?
- Have you 'received' the inventory?



# The Impact of Supply Chain Disruption



<https://riskandinsurance.com/sponsored-10-ways-supply-chain-disruption-has-impacted-aspects-of-business/>



# Trends Expected to Define Supply Chain

---

## Markets returning to normalcy

*Freeing up of capacity and tempering of freight rates has brought markets almost back to pre-Covid levels.*

## Infusion of new capacity

*The delivery of new builds ordered by Carriers will begin in Q2 2023, creating a capacity-surplus situation and pressuring freight rates.*

## Greater costs of regulatory compliance

*As IMO 2023 and other rules come into effect and emissions from shipping face increased regulatory and consumer scrutiny.*

## New Trend in Inventory management

*JIC vs JIT – businesses are adding buffers in Supply Chain by maintaining higher inventory levels.*

## Rise of integrated logistics service providers

*Looking to optimize the investment of the super profits made since 2020, Carriers are moving away from pure Container Shipping and foraying into Logistics, Freight Forwarding, Air transport, Rail transport, and Ports.*

## Global recession

*As manufacturing activity dips and consumer sentiments turn negative, the Shipping industry will experience a slowdown in the face of falling volumes.*

## Supply chains to be characterized by considerable uncertainty and lack of reliability

## Covid-related disruptions

While we are well past the worst of the Covid pandemic, and its impact on economic activity and international trade has waned, we do see sporadic outbreaks, especially in China.

## New Trends in Procurement gaining prevalence

*Diversification of sourcing origins / China + 1 / Near-shoring / Friend-shoring*

## ILWU – PMA negotiations

*Potential for causing large-scale disruptions at US West Coast ports (June tentative agreement)*



## 2. Demand for Trade Credit 2023 and beyond

# Demand for Trade Credit - 2023 and Beyond

Demand from customers for credit is increasing – Why?

- Face more limited access to working capital
- Struggle with reduced financial flexibility
- Reluctance to open LCs
- Slower payment by their customers
- Supply chain delays/broken
- Operational shutdowns

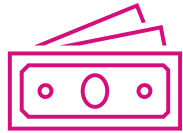
# Demand for Trade Credit - 2023 and Beyond

Exporters  
continue to  
offer payment  
terms/credit –  
Why?

- More competitive terms
- Build and maintain relationships / loyalty
- Enhance reputation
- Enter new markets and obtain new customers
- Maintain/grow market share and sales
- Produce or purchase more efficient quantities
- Allow distributors to stock more inventory

# How Long Can Exporters Expect To Get Paid?

---



## Payment terms have grown

Economic impacts have extended trade cycles driving demand for 60, 90, 120 days or more



## Customers may be paying slower

Access to working capital, payment morality, impacts of the pandemic



## Receivables can be difficult to finance

Banks/lenders face credit and regulatory challenges to monetizing foreign receivables, especially with today's longer terms, slow payments, concentrations, uncertain recovery and recession



An aerial photograph of a large shipping yard or port. The yard is filled with hundreds of colorful shipping containers stacked in neat rows. The colors include blue, red, orange, yellow, green, and pink. Several large gantry cranes are visible, positioned over the stacks of containers. The ground is paved with yellow lane markings. In the top left corner, there is a large white industrial building. The overall scene depicts a highly organized and active logistics hub.

### 3. Managing Evolving Demand for Trade Credit



# How To Manage Evolving Demand for Trade Credit

---



## Evaluate

Evaluate customers' creditworthiness then extend them reasonable credit terms



## Protect

Obtain trade credit insurance to protect your accounts receivable



## Insure

Unlock working capital - monetize your insured receivables with financing from a bank / asset-based lender

# Evaluate International Customer's Creditworthiness

Supplier credit references (\$)\*

Credit agency reports

Financial statements\*

Bank references\*

Industry-specific creditor groups

Specialized industry resources

Personal visits\*

Time in business

Local reputation\*

Online, legal, news-wire info

Parent/related companies

Direct recovery efforts / Collection Agencies \*

Q:

What percentage of  
World Trade was  
protected by credit  
insurance in 2020?

A:

14.52%

*International Credit Insurance & Surety Association  
(ICISA)*

# Trade Credit Insurers

## Buyer Limits

- Noncancelable Limits
- Cancelable Limits
- Hybrid



Allianz  
Trade



CHUBB®



TOKIO MARINE  
HCC



# Why Purchase Trade Credit Insurance?

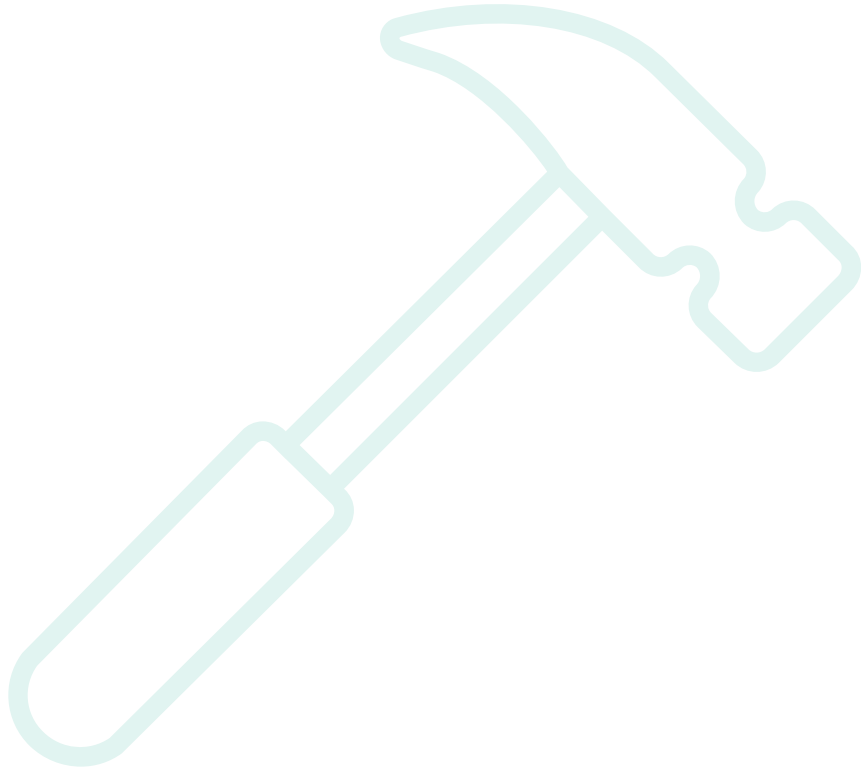


## Risk Management Tool

- Protect A/R against nonpayment
- Keep selling even in recession
- Strengthen balance sheet assets



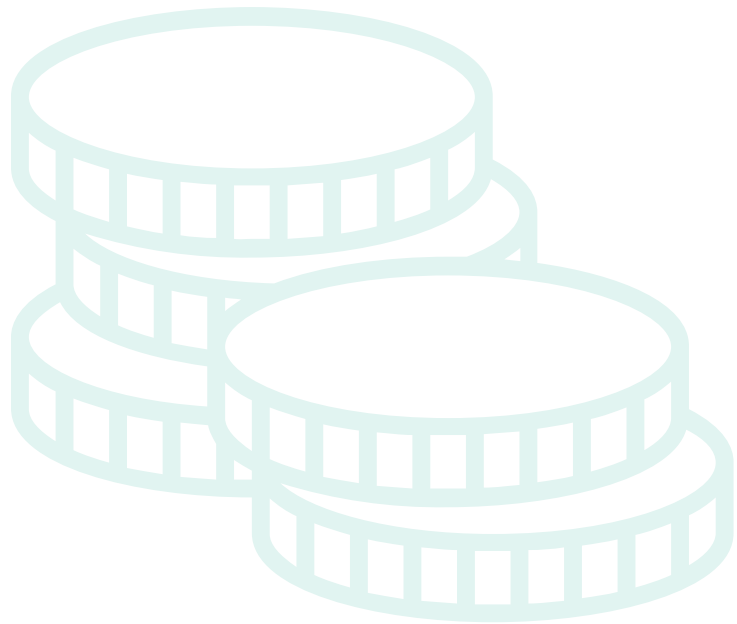
# Why Purchase Trade Credit Insurance?



## Sales Tool

- Extend competitive payment terms
- Ship more, transfer inventory costs
- Maintain distributors, fill supply chains

# Why Purchase Trade Credit Insurance?



## Financing Tool

- Maximize collateral/borrowing base
- Monetize accounts receivable
- Negotiate favorable advance rates

# Key Factors to Consider

---

## Types of Policies

- Whole turnover, key buyers, spread of risk
- Single/selected buyers (for strongest credits)

## Premium

- Fraction of 1% of insured invoice amount
- Annually, quarterly, or monthly reporting

## Claim Filing

- ASAP for bankruptcies, other insolvency
- Flexible window for protracted defaults

## Buyer Approvals

Named buyer underwriting by insurer and/or based on insured's experience

## Risk Sharing

- Deductible or annual first loss
- Indemnification percentages
- Excess vs bottom-up coverage

## Named Buyer Limits

- Credit info: financial statements, credit reports, trade references, industry info
- Write-up: credit memo, ledger experience, history, pandemic's impact on buyer
- Transaction info: essentialness of product, one-off vs ongoing sales, payment leverage

## Discretionary Credit Limits

- Powerful tool for experienced creditors
- Insure terms you extend on the basis of your own analysis or ledger history
- Worth the cost of more deductible

# Claims

---

## Need to file within claim filing window

- Waiting periods and deadlines are defined
- Insurers being flexible but you must comply
- Extensions can be requested in good time

## Actions following a payment default

- Insurer and/or insured control of collections
- Insured must cooperate, help minimize loss
- Approval for any acceleration/rescheduling

## Claim filing documentation

- Claim form and other insurer requirements
- Contracts, purchase orders, invoices, etc.
- Release/assignment of receivables (when claim is paid so insurer can pursue)





## 4. Political Risk

# Political Risk Insurance

## Types of Cover

- Comprehensive Contractors Plant (CCP)
- Equity
- Public Non-Payment

## Key Perils

- Expropriation/Selective Discrimination/Forced Divestiture
- Forced Abandonment
- License Cancellation
- Export / Import Embargo
- Currency Inconvertibility and Exchange Transfer
- Political Violence and War
- Arbitration Award Default



## Risks/Policy Considerations

- Country Location
- Security and Owner of Site
- Licenses
- Experience in Country
- Deductible (PV)
- Country Legal Framework
- JV Partner
- Valuation of Loss
  - replacement, book value or original cost

## Who Buys PRI

- Traders (stock)
- Mining Companies
- O&G
- Mobile Power
- Manufactures
- Telecoms (operating licenses)
- Retail (PV/War)





**MERIDIAN**  
**FINANCE GROUP**  
A TEXEL COMPANY

# Questions?

---

