RISK MANAGEMENT

TIME IS FOR CREDIT AND SAFE GUARANTEES

At a time when everything in the finance world is insecure, businesses offer credit facilities with the greatest fear of not being paid. Credit Guarantee Insurance Co. Ltd has some solutions for that | **LEEVY FRIVET**

« FOR CREDIT, *come tomorrow* » goes the saying which many shops in Mauritius had adopted as their « *credo* ». A statement that is being revisited in these times of uncertainty. Because businesses do not have the choice than to work on credit basis rather than focussing on cash flow. Working on credit is a simple formula that can be sucessful unless when the creditor goes by default or becomes insolvent. Unfortunate things that nevertheless often happen in the finance world.

Credit Guarantee Insurance Co. Ltd (CGI), incorporated in February 2009, provides cover to businesses against non-payment of debts owed to them by business customers for goods or services provided on credit terms. In these circumstances, there is always a risk of non-payment, either because the customer may be unable or unwilling to pay, or because an unforeseen event prevents successful completion of the sales.

"*CGI's business is to provide credit insurance to local suppliers for both domestic and export markets,*" says Zayd Soobedar, Credit Manager at CGI Ltd. The shareholders of the company are : Prudence Holding Ltd (60%) and The Mauritius Commercial Bank Ltd (40%).

But CGI does more than that: "*What we do is credit management. We advice our clients whether they can work with somebody on a credit basis and provide a cover against insolvency/default of the buyers' portfolio. We will examine the buyer's profile and we have information providers in all parts of the world to that. We have developed a specialization for regional risks (including Mauritius, Madagascar, Seychelles, Reunion, Africa and India), but we also cover buyers in all continents across the world ranging from Mauritius to France. We have the expertise to assess the credit risk associated with the different buyers. This will depend on the nature of the business, the financial position of the company, and the location where the trade will be done*".

In addition, CGI undertakes recovery across the world with its strategic partners Atradius (2nd largest credit insurer worldwide) through Atradius Collections. There is a 30 days period gap before CGI reimburse the loss in case of insolvency. As far as default is concerned, the matter is resolved in a period of three months.

Andy Chin Chew, Sales Manager at CGI Ltd insists that companies are keen to take such insurance. "*Nothing is secure and certain in the finance world. Adding to that, more and more businesses operate out of Mauritius, in other countries. Efficient market development and suing any default or insolvent partner will cost higher than being insured with CGI*".

It should nevertheless be pointed out that CGI Ltd refrains itself from covering commercial disputes. "*Even banks have been keen in such insurance and refer clients to us. They want to know whether they can provide invoice discounting facilities to their clients on various buyers their customers sell to especially* under open account" says Zayd Soobedar.

PHOTOS NICHOLAS LARCHÉ

CREW. Andy Chin Chew, Sales Manager, Shikha Nijhawan, Customer Relation Executive and Zayd Soobedar, Credit Manager

FREQUENTLY ASKED QUESTIONS

1.What is credit insurance?
Credit insurance provides cover to businesses against non-payment of debts owed to them by business customers for goods or services provided on credit terms.

2.What does credit insurance cost?
CGI premiums usually cost between 0.15% & 1.5% of your annual sales depending on the market sector you trade in, your bad debt experience and the amount of your sales. Flexibility in premium costs can be tailored to your requirements by use of excesses and similar price mechanism tools.

3. Are all the debts from buyers covered?
CGI recommends whole turnover cover as suitable for most businesses wanting comprehensive cover and credit management support. This means all your debts from buyers are covered unless a buyer is not creditworthy.

4. Is cover only provided when my buyer becomes insolvent?
No. A Credit Guarantee Insurance policy also provides cover for delayed payment (Default) ensuring your cash flow disturbance is kept to a minimum.

5. How does the client knows what cover he has got?
GGI will notify him of buyer credit limits covered in response to his requests. The client's credit limit request can be made using E-mail or faxing a simple cover request form. On smaller limits he can decide his own cover using his discretion up to agreed levels.

6. When will the client receive notification of cover?
On average CGI sends credit limit notifications on Mauritian buyers within one week. On foreign buyers decisions may vary between two days and two weeks, depending on the country.

7. Do claims take a long time to be paid?
Not with CGI! Our stated aim is to pay valid Insolvency claims within 30 days of receiving a (fully) completed claim form and within 3 months for Default claims. We do not hide behind 'technicalities' and long drawn out proof of loss confirmations.

8. What about paperwork?
CGI has specifically designed its policy operation to keep paperwork to a minimum.

9. Can difficult industries be covered?
Yes, each buyer is considered on its own merits whatever the sector. Not surprisingly premium charges reflect the greater likelihood of non-payment of invoices.

10. Are there any benefits to me apart from the insurance cover?
Increased sales through the confidence credit insurance protection provides and it can act as a deal facilitator. Claims can be assigned to banks and factors enhancing your ability to arrange facilities at improved terms.

CGI delivers credit management assistance and dedicated support through our information network, underwriting skills and helpful staff.

ZAYD SOOBEDAR, CREDIT MANAGER

"OUR TOURISM INDUSTRY IS NO MORE RESILIENT"

From gathered qualitative and quantitative information from several suppliers for tourism-related businesses, CGI notes a general deterioration in the Payment Behaviour of some market players (shifting from Normal to nearly Poor). Hotels and restaurants take more time to pay their suppliers - up to 120 days in some cases. Taking more credit facilities will not help solve the problem, analyses Zayd Soobedar | **LEEVY FRIVET**

Economically speaking, do you believe firms have no alternative than to work on credit rather than on cash basis during this particular period of uncertainty?

Credit is at the core of trade and most economies across the world. Provision of goods and services on credit is known to be one of the oldest forms of doing trade and was even present in the barter system. It is an intrinsic growth parameter for businesses worldwide and generates multiplier effects through the economy. Given the current adverse economic climate, working on cash basis would definitely have its advantages mainly related to liquidity. However, the reality is different. Most businesses look for credit from their suppliers and with globalization, it is very hard not to provide credit to corporate clients especially with cut-throat competition. Indeed, the availability of credit has become a main driver in modern market dynamics. As such, one main risk management tool that can be used to safeguard the cash flow of a business is credit insurance, which allows businesses to trade safely on credit with the credit risk (default and insolvency) associated with buyers being mitigated. The product is quite new to the Mauritian market but is well-anchored in most developed countries (Europe and US mainly) as an integral part of risk mitigation for businesses.

How does Credit Guarantee Insurance inquire on the insolvability ratio of a company?

CGI has access to both qualitative and quantitative information on companies across the globe. Our strategic partner Atradius, 2nd largest credit insurer worldwide, has information on over 60 million companies worldwide. We also have a network of information providers for companies in Mauritius, Reunion, Seychelles, Madagascar, South Africa, Europe, India, other African countries, and across the world. Information is the key in credit insurance since we need updated information to carry out proper credit risk underwriting. We have access to the company's latest financial statements, which can provide a good understanding of the financial health of the business. Our underwriting team analyses the different financial parameters to assess the credit risk associated with the company. Regarding insolvency risk, the main factors we look at are the interest-bearing debt to equity ratio (to assess whether the company is not too highly overburdened with borrowings) and the interest cover (which gives us an idea whether the company is being able to repay its finance costs with its level of earnings before interest and tax).

> **Africa has indeed substantial potential to be the next booming continent following the exponential developments of Asia. However, the African continent has its limitations, which, if not corrected, could hamper its full potential**

We also take into consideration the level of fixed assets as well as the level of charges inscribed on the company. Moreover, the credit underwriting team also takes into account qualitative information like bank references, payment behaviours with other suppliers, reputation & background of directors/shareholders, and credit worthiness amongst other factors in the analysis process. We also look at other elements that may have an indirect impact on the company's insolvency risk, the main one being the industry risk.

Africa seems to be on the lips of all Finance ministers in the world. Is it safe to trade in Africa?

Africa has indeed substantial potential to be the next booming continent following the exponential developments of Asia (mainly China and India). Countries like South Africa are already positioning themselves as emerging nations. As per the IMF, Middle East and North Africa are expected to experience growth of 5.5% yoy in 2012 while Sub-Saharan Africa is projected to hike by 5.4% yoy for this year compared to only 1.4% yoy expansion in Advanced Economies. However, the African continent has its limitations, which, if not corrected, could hamper its full potential.

In general, one of the main drawbacks of some African countries is the lack of proper financial and legal framework to carry out business. This could be a major factor that would escalate credit risk associated with African buyers. However, CGI has developed over the past 3 years an expertise in the regional and African markets. We have also agreements with Information Providers in Africa that allow us to properly gauge the credit risk associated with buyers in African countries. As such, the credit insurance product could hereby contribute in market development for domestic enterprises exporting to African countries.

Does the Tourism industry needs to look for credit facilities in order to survive the difficult situation in which it is facing?

The domestic tourism industry is indeed facing a gloomy outlook for 2012 with the slowdown in arrivals and weakening of the Euro. The market players already operate on credit facilities with most local suppliers. Qualitative and quantitative information gathered from several suppliers for tourism-related businesses confirm a general deterioration in the Payment Behaviour of some market players (shifting from Normal to nearly Poor). On average, hotels and restaurants take more time to pay. In 2011, the average repayment period amounted to around 60 days. For the first half of 2012, the figure stood around 75 days. There are some specific cases where some hotels are taking nearly 120 days to pay their suppliers. Taking more credit facilities will not help solve the problem since the issue stems from the demand-side (fewer tourists). The industry, which was known to be robust and resilient, is nowadays quite fragile and at the mercy of international drivers like the main source markets and international tour operators.

Another way to view the access to credit facilities is through borrowing from financial institutions. A large number of stakeholders have over recent years (especially prior to the 2008 financial crisis) contracted financing for expansion projects. With drastic declines in profitability, interest-bearing debt to equity ratio is on the high side and is close to or greater than 1 time. On average, this financial leverage ratio is deteriorating for most businesses in this industry causing the general Insolvency Risk of this sector to be Moderate (previously Low). Waning operating profit of these firms and soaring debt-servicing pressures, have contributed to fuel alarming drops in the interest cover ratio for many tourism-related businesses, thus causing upward pressures on the Insolvency Risk parameter.

However, the high level of non-current assets (especially land and buildings) provides some reasonable degree of comfort regarding this financial element. In addition, many tourism-oriented businesses have reviewed their business strategies and have engaged in debt re-structuring to alleviate these pressures. Looking for additional credit facilities from banks is not recommended for the moment given that the sustainability of the debt is uncertain with the adverse sector outlook. Re-thinking the existing industry model would be the way for our flagship sector to navigate safely out of the storm!