

## CHAPTER III

### EVALUATING TRADE INSURANCE

#### SYNOPSIS

#### WHAT DO MEMBERS ACTUALLY DO TO ASSESS EXPORTERS?

- Importance in exporter assessment
- Past - insurable turnover and the sector are essential parameters
- Present - tendency is to better identify the exporter's profile

#### OBJECTIVES

(1) Exporter vs Credit Insurer - striking a balance

- The balance may be jeopardised if
- Exporter operating in adverse sector
- Exporter facing substantial bad debt losses
- High management cost of small policies

(2) Credit insurance to meet exporter's requirement

(3) Offer price allows for

- wider range of parameters e.g. quality of exporter
- variants resulting from enhanced flexibility in the proposed products and services

#### SHARING OF EXPERIENCE

Can exporters be ruled out because of:

- their size?
- their sector?
- their financial situation?

Must the quoted price be the primary selection parameter?

#### FACTORS TO TAKE INTO ACCOUNT IN ASSESSING QUALITY EXPORT ACTIVITY

- Total Export Sales

- Sectors
- Bad Debt Losses
- Credit Management Organization and Methods

#### (1) TOTAL EXPORT SALES (Key Parameters)

#### (2) SECTORS

- Essential parameter considering major disparities resulting from known loss ratios in certain sectors
- Need to identify
  - exported products or services
  - exporter is a
    - manufacturer?
    - trader?
    - services provider?
  - exporter's customer base
    - industry
    - wholesalers
    - retailers
    - others

#### (3) BAD DEBT LOSSES

- Increasing emphasis on this factor
- Credit insurers to determine the following from exporter's books:
  - the provisions
  - the bad debt losses for last 3 financial years
  - the amount and number of outstanding payments
  - the major failures

#### (4) CREDIT MANAGEMENT ORGANIZATION AND METHODS

- Terms of payment - fundamental information item
- Whether exporter has credit management department

### SHARING OF EXPERIENCE

- What is the insurer's view regarding credit management by the exporter?

### QUALITY OF APPLICATION

- Obtain as much detailed information as possible in the application form

### CUSTOMER BASE SURVEY FORM

- Appended to application
- Exporter to indicate
  - names and addresses of largest customers
  - terms of payment
  - credit limits applicable

### OFFER

- Two important parameters in setting quoted prices
  - amount of insurable turnover
  - loss ratio
- Other factors discussed earlier are used to sharpen the quotation

### FLEXIBILITY

- Risk sharing particularly on private buyers
  - 90/10 to 50/50
- Threshold
  - used to shift low risks (amounting to several thousand dollars) to the insured
  - limits insurer's management cost

### FLEXIBILITY

- First loss
  - Insured assume first loss
  - Reduce management cost
  - Reduce loss ratio
  - Reduced tariffs

SHARING OF EXPERIENCE

- Position of members regarding flexibility in general
- To whom should it be offered?

SPECIMEN - APPENDIX I

**Questionnaire to Prospective Policyholder**

Name of Company \_\_\_\_\_

Address \_\_\_\_\_

**A. GENERAL INFORMATION**

- 1) Economic Form \_\_\_\_\_
- 2) Business Category (Exporter / Mfr./Both) \_\_\_\_\_
- 3) Registration Date \_\_\_\_\_
- 4) Paid up capital \_\_\_\_\_
- 5) Ratification Organization of Foreign Trade Business \_\_\_\_\_
- 6) Shareholders \_\_\_\_\_
- 7) Management Background \_\_\_\_\_
- 8) No. of employees \_\_\_\_\_
- 9) Space of premises \_\_\_\_\_
- 10) Parent / Associate / Subsidiary companies \_\_\_\_\_

10). Major export markets

Market	Annual Turnover	Breakdown By Terms of Payment		
		LC	DP	DA & OA

11) Goods exported

Goods Exported	Percentage

**B. BANKERS**

- 1) Names & branches \_\_\_\_\_
- 2) Amount of facilities \_\_\_\_\_

**C. COMPANY OPERATIONS**

1) Total Turnover Direct Local  
Export \$ \_\_\_\_\_ Sales \$ \_\_\_\_\_

2) Present Terms of Payment for Export

LC \_\_\_\_\_ % DP \_\_\_\_\_ % DA&OA \_\_\_\_\_ %

3) Pattern of Shipments Regular \_\_\_\_\_ Seasonal \_\_\_\_\_  
Peak Season \_\_\_\_\_

4) Buyer Profile to be Covered

Estimated credit turnover for the next 12 months	No. of Buyers
UP to \$1,000,000	
\$1,000,001 to \$5,000,000	
Over \$5,000,000	

5) Overdue payment encountered in last 2 years:

Buyer Name & Country	Approximate Amount (\$)	Terms of Payment	Due Date	Reason for Non-Payment

**D. Buyer Information**

1) Two Major Buyers for Cover

1 Buyer Name		
2. Buyer Address		
3. Credit Limit Applied		
4. Terms of Payment		
5. Goods Exported		
6. Order Schedule		
7. Bad Debt/Overdue Record		
8. Past Trading Experience		
a) No. of Years		
b) Turnover for the last 12 months		
9. Management Background		
10. Financial Information Available (Y/N)		

SPECIMEN - APPENDIX II

Name of the Exporters: .....

**PROPOSAL FOR A COMPREHENSIVE POLICY (SHIPMENTS)**

We have read a specimen of your Comprehensive Policy (Shipments), and request that you will inform us of the terms on which you are prepared to pay to us a percentage of the amount of any loss, as therein defined, that we may sustain in respect of contracts made with overseas buyers for the sale of goods wholly or partly produced or manufactured within Malaysia hereinafter referred to as "Exports", and under which contracts goods are exported from Malaysia during the period from ..... to ..... by reason of the occurrence after the export of such goods of any of the causes therein defined.

**DECLARATION**

1. NATURE OF GOODS TO BE COVERED UNDER THE PROPOSED POLICY

2. NATURE OF BUSINESS (MANUFACTURER/MERCHANT)

3. EXPORT TURNOVER We give below a breakdown by countries of our total export turnover (shipments destined for an overseas consignment stock should not be included) worldwide during the last twelve months and of our estimated total export turnover worldwide during the period to which the proposed Policy is to apply. Our export sales to our associated companies are included in Table 1 but direct business with buyers in the market concerned, are shown separately.

Table 1 - Country Turnover Analysis

1 BUYERS' COUNTRIES (in alphabetical order)	2 Actual Turnover during last 12 months	3 Estimated Turnover for next 12 months
	M\$	M\$
Total	M\$	M\$

Table 2 - Total Estimated Turnover Analysis relating to the estimated turnover for next 12 months shown in column (3) of Table 1 above.

	CAD or SID/DP	Up to 180 days
	M\$	M\$

(a) Secured by Unconfirmed Letters of Credit		
(b) Unsecured		
Total	M\$	M\$

Note: In Tables 1 and 2, the figures should exclude any contract in relation to any goods exported thereunder where:

- (i) irrevocable payment in full in Malaysia is made therefor prior to the date of, such exportation or payment is made against documents under an irrevocable letter of credit confirmed before exportation by a Bank in Malaysia.
- (ii) terms of payment exceed 6 months credit.

If more convenient. Actual Turnover of the most recent financial year may be given in Column 2 of Table 1.

4. OVERDUES Our current overdues in respect of payments outstanding for more than three months from the due dates are shown hereunder:

BUYER'S NAME & ADDRESS	Amount	Due Date of Payment:

5. BAD DEBTS Our actual losses incurred on all buyers overseas arising only from the insolvency of the buyer or the buyer's failure to pay, for the previous three completed years, and the subsequent period to date have been as follows:

	For each of the three financial years ending			Subsequent period to date
	19	19	19	19
	M\$	M\$	M\$	M\$
Total bad debts				
Total export turnover				

Note: The total export turnover for each of the respective years should be completed accordingly even if no bad debts were sustained.

6. SIZE OF ACCOUNTS The approximate number of our existing accounts (i.e. Credit Limits) are as follows:

Number of accounts on secured terms	Number of accounts on unsecured terms	Credit Limits*
		Less than M\$1,000
		M\$ 1,001 M\$ 2,500
		M\$ 2,501 M\$ 5,000
		M\$ 5,001 M\$10,000
		M\$10,001
		M\$25,000 M\$25,001
		M\$100,000
		Over M\$ 100,000

\* A Credit Limit for any one buyer is the maximum amount outstanding for payment at any one time after the goods have been exported and before they have been paid for.

7. CREDIT CONTROL

(a) We give opposite the sources from which we obtain information regarding our buyers or prospective buyers.	Intermittently / at regular intervals / rely entirely on our own experience
(b) We check the standing of our buyers with sources at (a) as shown opposite (Delete items not appropriate)	
(c) The bank and particular branch through which we operate is shown opposite	

8. We have not entered into any contract of insurance or indemnity relating to any contract to which this Proposal applies in respect of any cause of loss covered by the Comprehensive Policy (Shipments) and we will not enter into any such contract of insurance or indemnity without your consent in writing.

9: We are not aware of any circumstances relating to any particular buyer or contract which might adversely influence your acceptance of any of the risks submitted.

10. We agree that, unless otherwise agreed by the Company in writing, the Company shall be under no liability in respect of:

(a) any contract made with any buyer in whose profits we have any interest, direct or indirect, or who has any interest in our business, or

(b) any contract made with any buyer in relation to any goods exported thereunder after we have learnt that he is in financial difficulties or that his position appears to be such as to make exports to him undesirable.

11. We undertake to declare under the terms of the Policy all exports made to any and every buyer in all countries, including those specified in paragraph 3 hereof and any other countries to which we may make exports unless otherwise agreed by the Company in writing.

12, We undertake to carry on our business with due care in making contracts and exports and with due regard to the conditions of the contract and the trustworthiness of the buyer.



13. All discussions and correspondence in connection with this Proposal and with any Policy arising therefrom are to be treated by both sides as confidential, and we undertake not to disclose either the existence of the Policy or any of the details thereof to our agents or to the buyers or to any other person or concern, other than in confidence to our bankers, without the prior consent of the Company in writing.

14. We certify that the representations made and facts stated by us are true, and that we have not misrepresented or omitted any material fact which might have a bearing on the Policy and we agree that such representations and facts shall form the basis of and be incorporated in the Policy and that the truth of such representations and facts and due performance of each and every undertaking contained herein or in the Policy shall be a condition precedent to any liability of the Company thereunder.

Exporter's Name: .....

Exporter's Address: .....

.....

Company's -Stamp:

Signature: .....

Capacity of signatory .....

Date: .....

- Note: 1. In the case of incorporated companies this Proposal should be signed by an authorised officer for and on behalf of the company and should state the capacity in which the signatory acts (eg. Managing Director, Secretary).
2. In the case of partnerships this Proposal should be signed by a partner in the firm.
3. In the case of sole proprietorships this Proposal should be signed by the proprietor of the firm.
4. The words NIL' or NOT APPLICABLE' should be entered in any space where appropriate.  
NO SPACE SHOULD BE LEFT BLANK.
5. If space in any of the above tables is insufficient, please attach separate SIGNED statements.

**SPECIMEN - APPENDIX III**

**COMPREHENSIVE POLICY  
PROPOSAL SUBMISSION  
(NEW / RENEWAL BUSINESS)**

Name of Exporter \_\_\_\_\_

Address \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_ Tel. No. \_\_\_\_\_

Fax No. \_\_\_\_\_

Proposed Policy Period \_\_\_\_\_ Ref. No.: \_\_\_\_\_

Other Policies BEFIP expiring \_\_\_\_\_ Others \_\_\_\_\_ Expiring \_\_\_\_\_

1. Type of Company	<input type="checkbox"/> Sole Proprietorship <input type="checkbox"/> Partnership <input type="checkbox"/> Private Limited <input type="checkbox"/> Public Company <input type="checkbox"/> Branch Office Date Incorporated: _____ Date Export Commenced: _____	
2. Parent (P) and Subsidiary (S)	<input type="checkbox"/> _____ <input type="checkbox"/> _____ <input type="checkbox"/> _____ <input type="checkbox"/> _____ <input type="checkbox"/> _____	Country _____ _____ _____ _____ _____
3. Board of Directors	_____ _____ _____	Designation _____ _____ _____
4. Management Team	_____ _____ _____	Designation _____ _____ _____

5. Capital Structure	Authorised Capital _____	<u>Ownership</u>	
	Paid-up Capital _____	Bumiputra _____%	Local _____%
		Foreign _____%	
6. Brief Description of goods involved			
7. Overdue / Bad Debts Experience (exports only)	Amount RM _____ Due Date _____ Payment Terms _____	Reasons: _____	
8. Renewal of Policy a) Past Claim Experience	RM _____ Date Claim Paid _____	Cause of Loss _____	
9. Policy Assignment	<input type="checkbox"/> Required <input type="checkbox"/> Specific Transaction <input type="checkbox"/> Whole Policy <input type="checkbox"/> Buyer <input type="checkbox"/> Country <input type="checkbox"/> Not Required		
Name & Address of the Bank	_____ _____		

10. Proposed Estimated Turnover

ACTUAL						
Countries	Market Grading (Current)	Estimated Export Turnover for past 12 months RM	Export Declared RM	Premium Billed RM	Export for next 12 months RM	Markets to be Excluded
Terms of Payment: ILC		0	0	0	0	0
Non-ILC		0	0	0	0	0
TOTAL		0	0	0	0	0

11. PATTERN OF BUSINESS OFFERED:

Total Estimated Insurable Turnover RM \_\_\_\_\_

**LESS**, if applicable, total value of business in markets with associated companies RM \_\_\_\_\_

a) **NET TURNOVER FOR " WHOLE TURNOVER" POLICY** RM \_\_\_\_\_

or **LESS** , if applicable, total value of business in excluded markets or/and ILC terms. RM \_\_\_\_\_

b) **NET TURNOVER FOR "SELECTIVE BASIS" POLICY** RM \_\_\_\_\_

Turnover offered in A and B markets RM \_\_\_\_\_

Turnover offered in C and D markets RM \_\_\_\_\_

c) **CONTRACTS IN HAND** not yet shipped: Total Value RM \_\_\_\_\_

12. Assessment of Exporter's Status

Std = Base ("0" Score)

Criteria	Premium Loading (+ OR -)		Remarks (if any)
1. Type of Company	Public / Sdn. Bhd.	Std	
	Proprietorship / Sole Proprietor	+5	
2. Nature of Business	Manufacturer	Std	
	Merchant	+5	
3. Type of Goods	Manufactured/Com.	Std	
	Perishable	+10	
4. Turnover	1 m and below	+10	
	1 m to < 3 m	+5	
	3 m to < 5 m	Std	
	5 m to < 10 m	-5	
	10 m to 20 m	-10	
	Each 10 m (Additional -10)	%	
5. Exporting Experience	No experience	+10	
	L/C Exports	5	
	< 3 years	+5	
	< 5 years	Std	
	Above 5 years	-10	

6. Credit Control	Maintains Credit Department	Std	
	Regular Check	-5	
	None	+10	
7. Overdue as % of turnover	Bad Debts > 5%	+10	
	Bad Debts < 5%	+5	
8. Spread of business	Whole turnover	Std	
	ILC Exclusion	Std	
	<50% CAD	+5	
	DP Exclusion	+10	
	Selective Market	+10	
	Divisional Cover	+10	
	One Market	+20	
	One Buyer	+20	
9. Performance (Renewal)			
a) Premium Contribution	> RM20,000	- 10	
	> RM 5,000	-5	
	< RM 5,000	Std	
b) Claims Experience	> RM10,000	+10	
	> RM 5,000	Std	
	Nil	- 5	
c) Premium Payment	Outstanding	+5	
	Nil if contribution >RM5,000	- 5	
	Others	Std	

**13. Remark(s) [if any]**

a) Premium Contribution RM \_\_\_\_\_ Premium Outstanding RM \_\_\_\_\_

b) Coverage: % to be offered \_\_\_\_\_ Tax RM \_\_\_\_\_  
Exporter's gross profit margin \_\_\_\_\_  
Exporter's net profit margin \_\_\_\_\_

c) Any comments on markets / Countries

Subject is continuing the policy to cover their export to Iran on D/P for sale of TV sets for USD 200,000.00 of which 10% is paid in advance. No declaration was made during the last policy years.

Recommended to be approved. Renewal Fee: RM 100.00 (To be deducted from provisional premium).

Premium Rate: a) 1.5% on gross invoice value of goods exported to approved buyer in Russia

b) 4.0% on gross invoice value of goods exported to approved buyer in Iran.

\_\_\_\_\_  
Underwritten by : Signature

Name :

Date :