

**Maritime Knowledge Shipping Session 27:  
Trade Credit, Financing & Government Support**

# **Catering for Necessary Coverage in Contracts**

**Speaker**

**David Chin**

**Executive Director**

**Singapore Maritime Foundation**



# 10 issues to cater for if one were to have access to Export Credits and/or Political Risk Insurance

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## (1) Export Credit Documentations

# **(1) Export Credit Documentations**

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**As we have heard, an Export Credit comprises:**

- a) Insurance Coverage**
- b) Financing with Subsidised Interest**

**Hence it is a Specialised Facility and Documentation is very important**

# **10 issues to cater for if one were to have access to Export Credits and/or Political Risk Insurance**

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## **(2) Application, Distribution and Sharing of Payments**

## **(2) Application, Distribution and Sharing of Payments**

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- **Need to define this as often many export credit agencies are involved and in a situation of default, a Sharing of Payments and Distribution procedures need to be pre-agreed.**

# **10 issues to cater for if one were to have access to Export Credits and/or Political Risk Insurance**

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**(3) Need to define Price very accurately and all the Triggers for Payment**

## Price

### The Craft

2.01 (i) The Price to be paid for each Craft constructed in accordance with the Specification and General Arrangement Drawing presented for acceptance alongside at the Contractor's shipyard (before all adjustment required or permitted by the Agreement) is S\$ (Singapore Dollars

(known hereinafter as the 'Craft Price').

The price for all Four (4) Craft is four (4) times the Craft Price.

2.01 (ii) The Craft Price in Clause 2.01 (i) above shall be deemed to be a firm price at a base date of 1 July 1981 and be subject to adjustments in accordance with Clauses 2.06, 6, 15.03 and 28 and shall then be subject to variation in respect of the costs of labour and/or materials occurring during the construction of the Craft in accordance with Clauses 27.01 and 27.02.

## Triggers

### a)(i) For the First Craft

<u>Instalment</u>	<u>Event Upon Which Instalment Is Due</u>	<u>Amount Due</u>	<u>Document</u>
2 (i)	Commencement of fabrication of Hull Skeg for the Craft	\$	Contractor's Invoice and Stage Certificate
3 (i)	First Hull Module for the Craft has been placed on the building berth	\$	Contractor's Invoice and Stage Certificate
4 (i)	Third Hull Module for the Craft has been placed on the building berth	\$	Contractor's Invoice and Stage Certificate
5 (i)	Main Propulsion Engines ready for testing at the manufacturer's works	\$	Contractor's Invoice and Engine manufacturer's letter of notice that engines are ready for testing
6 (i)	The Craft is in the launch condition	\$	Contractor's Invoice and Stage Certificate
7 (i)	Commencement of Contractor's Sea Trials of the Craft	\$	Contractor's Invoice and Stage Certificate
8 (i)	Acceptance of the Craft in Singapore	\$	Contractor's Invoice and Acceptance Certificate



# **10 issues to cater for if one were to have access to Export Credits and/or Political Risk Insurance**

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**(4) Need to define that all payments are due upon first failure of any stage payments**

## SUSPENSION OF WORK

, shall in addition to any other remedy be entitled to suspend work under this Agreement for the whole or any part of any period during which has without justifiable cause failed for at least thirty (30) days to make payment to for any sum due under this Agreement or has failed to extend validity of any of the Letters of Credit within thirty (30) days of VPL's date of notification to extend.

Should this Agreement be suspended, shall immediately pay to all accrued fees and all other sums then due under this Agreement and each party shall remain liable to the other for any antecedent and future breach of this Agreement.

# **10 issues to cater for if one were to have access to Export Credits and/or Political Risk Insurance**

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**(5) Need to define the right and entitlement to suspend work, without invoking penalties for delay upon failure to receive any stage payments**

# **10 issues to cater for if one were to have access to Export Credits and/or Political Risk Insurance**

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**(6) Need to define Delays and Force Majeure as covering hostilities (whether war shall have been declared or not) and government intervention**

## DELAYS

Should the construction or presentation for acceptance of the Craft or the performance by the Contractor of any of his other obligations under the Agreement be delayed by :-

- a) Force Majeure that is by reason of any of the following causes, events or state of affairs, not being causes, or events or state of affairs arising directly or indirectly from any act or omission of the Buyer, namely :
  - i) strikes, lockouts, go-slow, work-to-rule or trade disputes of the Contractor.
  - ii) late provision to the Contractor of any information, analysis or certificate pertinent to the fulfilment of this Contract by the Contractor
  - iii) late delivery to the Contractor of components or materials or rejection of faulty components or materials
  - iv) hostilities (whether war shall have been declared or not)
  - v) fire, accident, storm or tempest
  - vi) government intervention
  - vii) any other cause, event or state of affairs, whether of the same nature as the foregoing or not, which is outside the reasonable control of the Contractor

or

- b) by any act or omission of the Buyer.

or

- c) by suspension of work as permitted under the Agreement.

Then and in any such case without prejudice to any other rights the Contractor may have the date for presentation for acceptance of the Craft set out in Clause 4.02 shall be extended by the delay suffered by the Contractor which the Contractor shall agree with the Buyer.

The Contractor shall within fourteen (14) days or as soon as reasonably possible thereafter notify the Buyer in writing of any occurrence of Delay. At convenient intervals, as the Contractor shall be in a position to assess the incidence of delay, the Contractor shall provide to the Buyer a statement of the effect.

# **10 issues to cater for if one were to have access to Export Credits and/or Political Risk Insurance**

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**(7) Need to define the need to obtain Export Licence for all sensitive materials such that any supplier's failure to obtain this will trigger Termination and hence claims**

### EXPORT LICENCE

The Contractor undertakes to obtain an Export Licence or document from the relevant authority of the Republic of Singapore, that will allow the accepted Craft to be exported from Singapore and a copy of such Export Licence or document shall be made available to the Buyer before the Effective Date.

# 10 issues to cater for if one were to have access to Export Credits and/or Political Risk Insurance

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**(8) Need to define Termination very carefully and that once Buyer has failed to make any payments, Termination sets in and all payments are due**



TERMINATION

24.01

Either party may terminate the Agreement pursuant to the provisions of this Clause 24 by notice in writing to the other party in the circumstances set out in this Clause 24 but (i) such termination shall be without prejudice to the right of the other party within 30 days thereafter to refer the grounds for or the validity of such termination to arbitration in accordance with Clause 20.02 and (ii) save as provided in this Clause 24 and Clauses 11.03 and 22.01, neither the Contractor nor the Buyer shall have any right to terminate or to cancel the Agreement either in whole or in part.

24.02

The Buyer shall be entitled to terminate the Agreement if the Contractor shall fail to observe or perform the Agreement in any fundamental respect not being a failure for which an express remedy is provided for in the Agreement or which is capable of adequate remedy by the payment of compensation by the Contractor to the Buyer. And the right to terminate the Agreement under this Clause 24.02 is referred to as the "Buyer's Right".

24.03

The Contractor shall be entitled to terminate the Agreement if the Buyer shall have failed to make payment to the Contractor for a period of 60 days after due claim hereunder for any moneys payable to the Contractor under the terms of the Agreement. And the right to terminate the Agreement under this Clause 24.03 is referred to as the "Contractor's Right".

24.04

Either party shall be entitled to terminate the Agreement in respect of the Craft if all or any material part of the work under the Agreement shall

have been suspended by reason of Force Majeure for a consecutive period of at least 180 days and whilst the work continues to be so suspended either party shall notify the other in writing that in its opinion by reason of that Force Majeure work will be suspended for a further consecutive period of at least 180 days. And the rights to terminate the Agreement under this Clause 24.04 are referred to as the "Mutual Rights".

- 24.05 Any right of termination of the Agreement shall cease and be extinguished if the grounds for that termination shall have ceased to exist by the time that the relevant notice to terminate the Agreement has become effective.
- 24.06 No right to terminate the Agreement shall be prejudiced by the previous exercise of any other right or remedy available in the circumstances nor, subject to Clause 24.05 by any delay in the exercise of the right to terminate.
- 24.07 If the Agreement is terminated pursuant to the provisions of this Clause 24 the procedure shall be as stated in Clause 25.

# **10 issues to cater for if one were to have access to Export Credits and/or Political Risk Insurance**

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**(9) Exact Procedures have to be provided on Termination. To work out the apportionment of costs and for Independent Accountants to verify apportionment.**

25.01 If the Agreement is terminated by virtue of the Buyer's Right under Clause 24.02 then, subject to the provisions of Clause 24.01 :-

- (i) the Buyer may take possession of the Craft in its unfinished state and complete the Craft in accordance with the Agreement and for that purpose the Buyer, its assignees, its and their servants, officers, and agents may use the Yard, buildings, plant, machinery tools and instruments of the Contractor and the materials appropriated to or ordered for the Craft. Subject as aforesaid the Buyer may further, for the purposes of this Clause 24.01 (i), take over or effect such contracts as may be necessary to obtain all suppliers' items for the Craft as provided by the Agreement and necessary for the fulfilment thereof. To the extent that the Buyer exercises its rights under this Clause 25.01 (i) it shall remain liable to pay to the Contractor the Agreement Price (as adjusted in accordance with the Agreement) of the Craft as if the Agreement had not been terminated. The Contractor shall pay to the Buyer the reasonable costs charges and expenses of the Buyer (as certified by the Accountants) (as hereinafter defined) in completing the Craft in accordance with the Agreement.
- (ii) to the extent that the Buyer shall not have stated that it will exercise its right under Clause 25.01 (i) in its notice of termination to the Contractor the Contractor shall pay to the Buyer an amount equal to all sums received by the Contractor at the date of the termination

in respect of the Craft and the Buyer shall accept such amount in full and final satisfaction of all its rights and claims arising from the non-fulfilment of the Agreement, such amount to be certified by the Accountants and upon such payment all property in the Craft shall, if not vested in the Contractor at that time, pass to the Contractor absolutely.

25.02 If the Agreement is terminated by virtue of the Contractor's Right under Clause 24.03 the following provisions of this Clause 25.02 shall, subject to the provisions of Clause 24.01 apply :-

- (i) The Contractor shall arrange for the Craft and all other assets of the Buyer be offered for public auction at such place in such manner and subject to such terms and conditions as the Contractor may require.
- (ii) if the Craft or other assets remain unsold after such auction and are not bought by the Contractor the Contractor may employ and pay on behalf of the Buyer some person or persons to remove and dispose of the same.
- (iii) The Contractor shall certify to the Accountants the amount of "the nett proceeds of sale" namely the proceeds of sale received for the Craft and other assets less all expenses relative to such sale and the amount of any charges incurred under Clause 25.02 (ii).
- (iv) the Contractor shall require the Accountants to certify :-
  - (a) the amount of all costs charges and expenses ("the costs") incurred by the

Contractor in the performance of the Agreement up to the date of its termination

- (b) the amount stated by the Contractor to be the net proceeds of sale;
  - (c) the total amount of all moneys received by the Contractor under the Agreement prior to termination; and
  - (d) the difference between the costs on the one hand and the aggregate of the amounts certified under Clauses 25.02 (iv) (b) and (c) on the other hand.
- (v) If the aggregate of the amounts so certified under Clauses 25.02 (iv) (b) and (c) shall be greater than the amount of the costs certified under Clause 25.02 (iv) (a) a sum equal to the difference (as certified under Clause 25.02 (iv) (d) shall be a debt due from the Contractor to the Buyer and the Contractor shall within 30 days of its certification pay the amount thereof to the Buyer and if the amount of the costs certified under Clause 25.02 (iv) (a) shall be greater than the aggregate of the amounts certified under Clauses 25.02(iv) (b) and (c) a sum equal to the difference (as certified under Clause 25.02 (iv) (d) shall be a debt due from the Buyer to the Contractor and the Buyer shall pay or procure the payment of the same to the Contractor within 30 days after presentation of the relevant Accountants' certificate. Any sum paid under this Clause 25.02(v) shall be accepted by the party receiving the same in full and final satisfaction of all its rights and claims arising out of the termination of the Agreement.

(vi) for the purposes of this Clause 25.02  
"the Costs" means in relation to the Craft  
which has not been delivered at the date of  
termination.

- (a) the actual costs of direct labour and materials expended or incurred within the terms of the Agreement; and
- (b) the amounts due and to become due from the Contractor in respect of all expenses incurred and commitments entered into and obligations incurred prior to the date of termination; and
- (c) an allocation of the total company's overhead expenses of the Contractor; and
- (d) any other actual costs and a sum equal to 15 per cent of the Agreement Price (as adjusted in accordance with the Agreement) in respect of the loss of profit of the Contractor.

And "the costs" also include any moneys which at the date of termination remain unpaid by the Buyer in respect of the Craft.

25.03 If the Agreement is terminated by either party by virtue of the Mutual Rights under Clause 24.04 the provisions of Clause 25.02 shall apply save that (i) such provisions shall be construed as if references to the Craft and other assets concerned and references to amounts incurred or received under the Agreement related only to that part of the Agreement which is terminated and (ii) Clause 25.02 (iv) (d) shall be replaced by the following :-

a sum equal to 15 per cent of the aggregate of the amounts certified in Clauses 25.02 (vi)(a), (b) and (c).



25.04 The Accountants shall be an international independent firm of Public Accountants practising in Singapore to be agreed upon between the Buyer and the Contractor. In the event of failure to reach agreement, the firm of Public Accountants shall be nominated by the :

25.05 The Accountants shall be deemed to be acting as experts and not arbitrators and any certificate given by them shall be final and binding on the parties hereto.

25.06 All costs charges and expenses of the Accountants shall be paid:-

- (i) by the Contractor in the case of termination under Clause 24.02
- (ii) by the Buyer in the case of termination under Clause 24.03
- (iii) equally by the Buyer and the Contractor in the case of termination under Clause 24.04.



# **10 issues to cater for if one were to have access to Export Credits and/or Political Risk Insurance**

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**(10) Since contracts are large and long term, need to define price variation due to cost variation arising from**

- a) Exchange Rate Variation**
- b) Labour Rate Variation (Labour Index) and**
- c) Material Rate Variation (Material Index)**

27. PRICE VARIATION DUE TO COST VARIATION

- 27.01 The Craft Price set out in Clause 2.01 (i) and adjusted in accordance with Clause 2.01 (ii) and the Spare Parts and Special Tools Price set out in Clause 2.02 (i) and adjusted in accordance with Clause 2.02 (ii) shall be varied by application of the Price Variation Formula set out in Annex 9. Such variation shall be calculated at the Effective Date, at dates falling at six (6) monthly intervals thereafter and at the date of presentation for acceptance of the Craft. The calculation relating to any price variation shall be made as soon as possible after these dates. Variations calculated at any date other than at the Acceptance Date of the Craft (interim claims) shall be calculated in accordance with the provisions of paragraph (3) of Annex 9. Variations calculated at the Acceptance Date shall be calculated in accordance with the provisions of paragraph (4) of Annex 9 and shall make due allowance for all interim claims previously paid.
- 27.02 The Contractor's invoice for such variations shall be accompanied by the relative calculations and support documents and shall be paid in accordance with the terms stated in the Contractor's invoice.

27.03 The Support Documentation set out in Clause 2.03 (i) and adjusted in accordance with Clause 2.03 (ii), the Training Price set out in Clause 2.04 (i) and adjusted in accordance with Clause 2.04 (ii) and the Weapon Acceptance Trials Price set out in Clause 2.05 (i) and adjusted in accordance with Clause 2.05 (ii) shall be varied by application of the Price Variation Formula set out in Annex 12. Such variation shall be calculated at the Effective Date at dates falling at six (6) monthly intervals thereafter and at the date of presentation for acceptance of the Craft. The calculation relating to any price variation shall be made as soon as possible after these dates. Variations calculated at any date other than at the Acceptance Date of the Craft (interim claims) shall be calculated in accordance with the provisions of paragraph (3) of Annex 12. Variations calculated at the Acceptance Date shall be calculated in accordance with the provisions of paragraph (4) of Annex 12 and shall make due allowance for all interim claims previously paid.

27.04 The Contractor's invoice for such variations shall be accompanied by the relative calculations and support documents and shall be paid in accordance with the terms stated in the invoice

28. PRICE VARIATION DUE TO EXCHANGE RATE VARIATION

- 28.01 The Craft Price set out in Clause 2.01 (i) as adjusted in accordance with Clause 2.01 (ii) and the Spare Parts and Special Tools Price set out in Clause 2.02 (i) as adjusted in accordance with Clause 2.02 (ii) and the Weapon Acceptance Trials Price set out in Clause 2.05 (i) as adjusted in accordance with Clause 2.05 (ii) shall be increased or reduced by reason of fluctuations in rates of exchange between the United States Dollar and the Singapore Dollar, the West German Mark and the Singapore Dollar and the French Franc and the Singapore Dollar.
- 28.02 The rates of exchange at 1 July 1981 and the foreign currency content of the Craft Price as a percentage of the Craft Price are set out in Annex 10. A statement of the Contractor's bank as to the rates of exchange applicable at the Effective Date shall be conclusive evidence of the basis of the price adjustments under this Clause 28.
- 28.03 The adjustment to the Craft Price will be the difference in the Craft Price when converting the foreign currency content of the Craft Price into Singapore Dollars at the rates of exchange prevailing on the dates set out in Clause 28.02. The

calculation shall be undertaken as soon as practicable after the Effective Date.

28.04 The adjustments to the OnBoard Spare Parts, the Base Spare Parts and Special Tools Price and the Weapons Acceptance Trials Price shall be calculated using the same percentages and exchange rates as for the Craft Price.

28.05 The Contractor's invoice for such adjustment shall be accompanied by the relative calculations and a statement from the Contractor's bankers certifying the rates of exchange. The adjustment and invoice shall be paid in accordance with Clause 3.02.

ANNEX 9

PRICE VARIATION FORMULAE FOR CRAFT PRICE  
AND SPARE PARTS AND SPECIAL TOOLS PRICE

(referred to in Clause 27.01)

1. The Craft Price and the Spare Parts and Special Tools Price shall be adjusted for labour and material variations from the base date of 1st July 1981. Such adjustment shall be calculated by reference to the indices which are stated in paragraph 2 of this Annex applied to the formulae contained in paragraphs 3 and 4 of this Annex.
2. The indices are:-
  - 2.1 The Labour Index is based on data published by the Bulletin - Associazione Nazionale Industrie Elettrotecniche ed Elettroniche "ANIE" Carico Salariale medio orario of Italy.
  - 2.2 The Materials Index is the Index published by the Bulletin - Associazione Industrie Elettrotecniche ed Elettroniche "ANIE" - index of Automation Systems of Italy.

3. Interim calculations shall be made as soon as practicable at the Effective Date and after each complete six (6) months period as referred to in Clause 27.01 in accordance with the following formulae :-

(i) First interim claim :-

$$IC = PO \left( 0.10 + 0.70 \frac{L2}{L1} + 0.20 \frac{M2}{M1} \right) - PO$$

(ii) Second interim claim :-

$$IC = PO \left( 0.10 + 0.70 \frac{L2}{L1} + 0.20 \frac{M2}{M1} \right) - PO - PIC$$

The symbols used in the above formulae shall have the meanings set out opposite them as follows:-

IC = Amount of interim calculation.

PO = The Craft Price and the Spare Parts and Special Tools Price as may be amended by the provisions of the Agreement and before adjustment by the formulae.

L1 = The Base Labour Index as at 1st July, 1981.

L2 = The Labour Index as at Effective Date or at each of six (6) monthly intervals thereafter.

M1 = The Materials Index figure applicable for the base date of 1st July, 1981.

- M2 = i) At the Effective Date  
The Materials Index figure applicable for the month in which the Effective Date occurs.
- ii) At six (6) monthly intervals thereafter  
The simple average of the Materials Index figures applicable for the months falling partly or entirely within the first 5/6th of that period which commences with the month in which the Effective Date occurs and ends with the last month of the six (6) month period concerned.

PIC = The total amount of the first and subsequent interim calculations.

The final calculation as referred to in Clause 27.01 shall be made as soon as practicable after the Acceptance Date in accordance with the following formula :-

$$PA = PO \left( 0.10 + 0.70 \frac{L2}{L1} + 0.20 \frac{M2}{M1} \right) - PO - PIC$$

PA = The price adjustment resulting from the operation of this formula.

PO = The Craft Price and the Spare Parts and Special Tools Price as may be amended by the provisions of the Agreement and before adjustment by the formulae.

L1 = The Base Labour Index at 1st July, 1981.



**END**

# IE Singapore's Assistance to Singapore Companies

Esther Xu

Financing Management Division

16 April 2014



# IE Singapore, Your International Business Partner

Driving Singapore's External Economy

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# Singapore's economic development



**Inward investment**  
and overall  
development of the  
enterprise  
ecosystem in  
Singapore



**Developing Singapore's**  
external economic wing  
through trade and  
overseas expansion



**Increase**  
**productivity**  
of domestic  
non-tradable  
sector



Agency for  
Science, Technology  
and Research

**Fostering world-  
class** scientific  
research and  
nurturing scientific  
talent to develop a  
vibrant knowledge  
based Singapore

Driving Singapore's External Economy

# IE Singapore's twin roles: International trade and internationalisation

## Singapore's external economy

### Trade



CAGR of **4.8%**  
from 2004 to  
2013



Increased  
**11.9%** to  
**US\$1.16 trillion**  
from 2011-2012

### Internationalisation



CAGR of **8.1%**  
from 2009 to  
2013



CAGR of **13.0%**  
from 2003-2012

Source: IE Singapore, Department of Statistics and UN Statistics

# IE Singapore, your international business development partner

## Market expertise

Our overseas centre directors are on the ground to provide market insights on the emerging markets and key sectors.

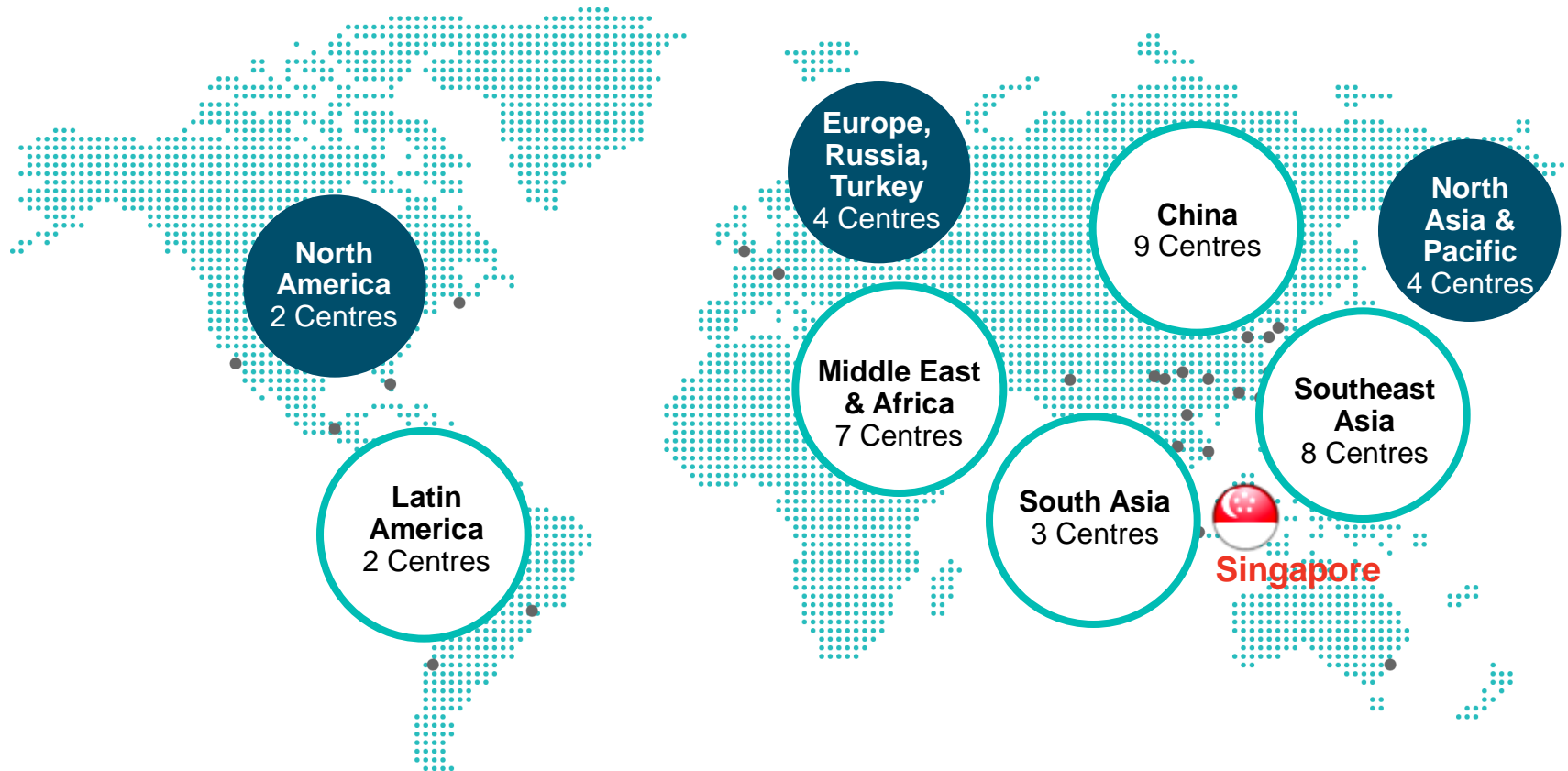
## Strategic engagement of companies

We look at the long term business strategy of companies and provide assistance to develop capabilities and support internationalisation.

## In-market facilitation

- **Connections**
  - G-to-G
  - High value contacts
  - External experts, IFIs and MNCs
- **Platform projects**
- **20 FTAs, 41 IGAs and 71 DTAs**

# IE leads the way into emerging markets

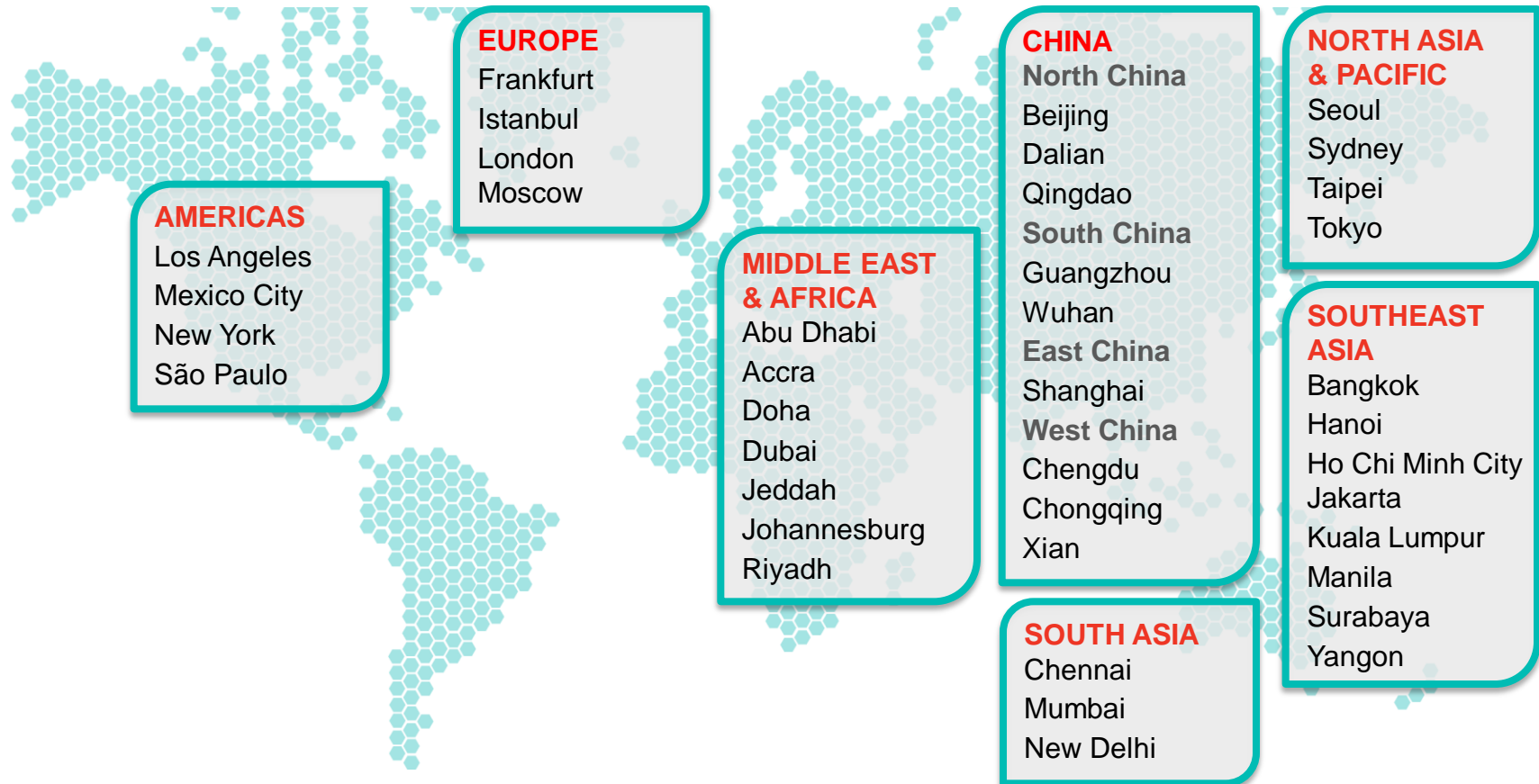


Driving Singapore's External Economy

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# IE Singapore's global network

More than 35 offices worldwide



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# Assistance offered by IE Singapore

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# Non-Payment Risks and Political Risks

Risks faced by companies when expanding overseas

## Political Risks

*includes risks such as expropriation, currency inconvertibility and political violence*

## Commercial Non-Payment Risks

*refers to insolvency and protracted default risks of end customers*

# Political risk is a key concern when expanding overseas

**\*Internationalisation Survey  
2011/2012**

**Singapore non-SMEs expanding  
overseas rank political  
instability as**

**3rd**

**top investment-related  
challenge**

**MIGA World Investment and  
Political Risk 2013**

**Political risk ranks as**

**2nd**

**greatest constraint for  
companies making  
investments into developing  
countries over next 3 years**

Source: + Internationalisation Survey 2011/12 by IE Singapore. Survey period – November 2011 to January 2012

\* An annual survey published by MIGA.

# Political Risk Insurance Scheme (PRIS)



## Political Risk Insurance Scheme (PRIS)

### Areas of Support

**For companies to protect overseas investments/projects against political risk elements**

- IE supports 50% of premiums, for the first 3 years of each Political Risk Insurance (PRI) policy underwritten by Singapore registered PRI insurers
- Up to S\$500K per qualifying Singapore-based company

### Eligibility Criteria

- Singapore-based company with at least three strategic business functions in Singapore
- Global HQ anchored in Singapore
- Turnover of applicant company  $\leq$  S\$500mil
- Annual total business spending  $\geq$  S\$250K for each of the past three years
- Min paid-up capital of S\$50K
- At least three managerial staff who are Singaporeans/PRs

### How to Apply




Approach any Singapore-registered PRI insurer for a PRI Policy cover.

# Types of payment modes when selling overseas



## Receiving payments

Your company may choose from the following modes of payment from your customers:

 <b>CASH</b> How Secure: ★★	 <b>LETTERS OF CREDIT</b> How Secure: ★★	 <b>OPEN ACCOUNT</b> How Secure: ★★
<p><b>How it Works:</b> Buyers will pay cash to you before or upon delivery of goods</p> <p><b>Benefits to Exporters:</b> Most secured form of payment as you will get paid upon goods delivered or services rendered</p> <p><b>Challenges:</b> Your competitors may gain a competitive edge over you if they are able to offer more competitive credit terms to your buyers.</p>	<p><b>How it Works:</b> Payments from your buyer are secured through letters of credit issued by banks.</p> <p><b>Benefits to Exporters:</b> Your bank assumes the payment risk of your seller bank and assures that you get your payment for your trade transactions</p> <p><b>Challenges:</b> Your banks may have limited risk appetite to accept letters of credit from certain foreign banks due to higher perceived risks.</p>	<p><b>How it Works:</b> You may choose to extend credit terms to your buyers.</p> <p><b>Benefits to Exporters:</b> Can enhance your competitiveness vis-à-vis other exporters by extending credit terms to your buyers</p> <p><b>Challenges:</b> You may not be able to collect your payments if your buyers default on the payments and/or become insolvent</p>

# Trade Credit Insurance Scheme (TCIS)



## Trade Credit Insurance Scheme (TCIS)

<b>Areas of Support</b>	<b>For exporters to manage non-payment risks of their buyers</b> <ul style="list-style-type: none"><li>• IE supports 50% of min premium for Trade Credit Insurance (TCI) policies held with Singapore-registered credit insurers</li><li>• Up to S\$100K per qualifying Singapore-based company</li></ul>
<b>Eligibility Criteria</b>	<ul style="list-style-type: none"><li>• Singapore-based company with at least three strategic business functions in Singapore</li><li>• Turnover of applicant company and subsidiaries <math>\leq</math> S\$100mil</li><li>• Annual total business spending <math>\geq</math> S\$250K for each of the past three years</li><li>• Min paid-up capital of S\$50K</li><li>• At least three managerial staff who are Singaporeans/PRs</li></ul>
<b>How to Apply</b>	Approach any Singapore-registered TCI insurer for a TCI Policy cover.



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Singapore's  
External  
Economy

# Thank You

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# TRADE CREDIT & POLITICAL RISK

“Risk Mitigation and Unlocking Capital”

Gerald Lim  
April 2014, Singapore



# Agenda

- Insurable Perils
- Value of Insurance
- Case Studies
- Applications
- Underwriting Considerations
- Insurance Markets
- About Marsh Trade Credit

# Insurable Perils

## **Insurable Perils**

- **Contract Repudiation**
- **Import/Export Embargo or Licence cancellation**
- **Law, Order or Decree (“Actions”) of Host Government**
- **Arbitration Award Default**
- **Unfair & Fair Calling of Contract Bonds**
- **Non-Honouring Guarantees**
- **Non-Honouring of Letters of Credit (State or Private Banks)**
- **Currency Inconvertibility and/or Non-Transfer**
- **Political Violence**
- **Buyer Non-Payment/Insolvency**

# Value of Insurance

# **‘Value’ of Insurance**

- **Risk mitigation**

- protect cost incurred, revenue
- new trading partners / new countries
- concentration risk

- **Enhance bank financing**

- **Drive sales by offering more competitive terms to your contract counter-party**

# Case Studies

# Claim Case Study : Arbitration Award Default Mid-American - Indonesia

- **Case Study:** AAD and Expropriation
- **Exposure:** 2 geothermal power projects
- **Claim Payment:** \$290 million
- **Background:**
  - Projects postponed during Asian financial crisis
  - One unit completed; PLN failed to dispatch the unit and make capacity payments under a take-or-pay agreement.
  - Investor filed arbitration against PLN and won an award of \$572.3 million.
  - PLN failed to pay; the investor arbitrated against the Government of Indonesia under the Support Letter by the Ministry of Finance.
  - The second tribunal awarded the investor \$575.6 million
  - Government failed to pay
  - Investor filed claims with OPIC and the private market insurers and received full payment under the policies of \$290 million.

# Claim Case Study - Forced Abandonment

## Country: Solomon Islands

- **Case Study:** Forced Abandonment
- **Investment:** *Investment* in Gold Ridge mine
- **Claim Payment:** \$70 million
- **Background:** Mining was suspended and staff evacuated after political unrest broke out in June 2000. However, even after a cease-fire in October 2000, the mine remained occupied by hundreds of supporters of the Isatanbu Freedom Movement. The conflict appeared based on resentment between the local islanders and management of the mine who came from another island. Insured has entered into a joint venture with the insurer for the mine's operation in the scenario that it reopens.



## Claim Case Study: PV and BI Sector Resources – Colombia

- **Case Study:** Political Violence / Business Income Loss
- **Exposure:** Investment & Debt in precious mineral mine
- **Claim Payment:** \$2.43 million
- **Background:** Mining was suspended less than three weeks after the mine became operational, as the guerrilla faction FARC threatened to blow up the facilities and kill the workers unless their demands were met. Since the government of Colombia has a policy of non-negotiation with terrorists, Sector Resources had limited options to react. The open neutrality letters and the petitions of the government did not achieve their goal and, with the FARC ultimatum still pending, the workers refused to return. The investor filed a claim for compensation and it was approved for both losses due to Political Violence and loss of Business Income, even though the latter required physical damage to the property, which had not technically occurred.

# Claim Case Study: Currency Inconvertibility

## Country : Venezuela

- **Case Study:** Currency Inconvertibility
- **Exposure:** Loan to Ferry Company
- **Claim Payment:** \$2.65 million
- **Background:** Under Venezuela law, foreign investors are entitled to convert and transfer abroad proceeds of their investments. However, the Law of the Central bank contemplates the possibility of imposing restrictions in certain circumstances. After a steep decline in the value of the Bolivar, following a 2 month general strike that brought oil production to a near standstill, the Central Bank halted trade in Bolivars and the imposed exchange controls. At the same time CADIVI was created to regulate the purchase and sale of foreign currency. Initially, CADIVI was unable to process FX requests efficiently and the Central Bank was only supplying currency to about 15-20 percent of approved authorizations. For two principal payments, the borrower was unable to pay the Insured.

# Applications

# Applications

- **Sale of goods and service eg. bunkers, fuel, supplies.**
- **Charterhire**
- **Shipbuilding / construction**
- **Vessel financing, leasing**

# Underwriting Considerations

# Underwriting Considerations

- **Financials – the parties, the transaction.**
- **Industry trends – macro and micro (sector specific).**
- **Economic factors.**
- **Political factors.**
- **INSURANCE DOES NOT MAKE A BAD DEAL GOOD**

# Insurance Markets

# Insurance Market Availability in Singapore

## Primary

Ace  
AIG  
Atradius  
Coface  
ECICS  
Euler Hermes  
QBE  
Zurich

## New in Singapore past 2 years

Axis Insurance  
Ironshore  
XL Insurance

## Lloyd's in Singapore

Ascot  
Beazeley  
Canopus  
Catlin  
Chaucer  
Kiln  
Markel  
Starr  
Talbot



# About Marsh

# About Us – Marsh Trade Credit & Political Risk

**Marsh's Trade Credit & Political Risk Practice** is a global network of 250 product specialists in 44 countries focused on delivering risk mitigation solutions for payment risk obligations and emerging market investments.



## Value Proposition

- Industry's leading globally coordinated network allowing for local servicing, shared ideas and solutions, and access to all markets.
- Multinational Trade Credit Team provides consistent structuring, placement, and servicing platform to all geographies.
- Financial institution client specialists enable us to achieve customized and innovative solutions to complex transactions.
- Robust benchmarking data resulting from our industry-leading political-risk market share.

## Capabilities

- Products for Corporations:
  - Credit insurance on accounts receivable
  - Contract frustration insurance covering cross-border sales and supply contracts
  - Political risk insurance for equity investments and mobile equipment
  - Political violence cover on physical assets
- Products for Financial Institutions:
  - Comprehensive credit insurance on various types of trade or projected-related debt obligations
  - Political risk insurance for cross-border loans

# Thank You

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