

# Outlook

## The Continuous Evolution of Credit and Political Risk Insurance in Canada

Twenty years ago marked the coming of age of private sector credit insurance in Canada. Prior to 1990, the 3 major players in the Canadian market were Export Development Corporation (EDC), American Credit Indemnity (ACI), and Continental North America (CNA). EDC focused on the export markets with a comprehensive policy covering both commercial and political risks, while ACI and CNA competed for the domestic insurance market, including the USA, as they could only provide coverage against commercial risks. All 3 companies sold exclusively through direct sales agents and they didn't recognize brokers. The market for credit insurance in Canada was not very active and the players were quite complacent with their roles. They basically sold "off the shelf policies" and their attitude was one of "take it or leave it."

In 1990, Trade Indemnity plc (TI), a major well established mono line export credit insurer entered the Canadian market offering both export credit and domestic credit insurance. Exporters could now insure all of their receivables under one policy. TI shook up the market by underwriting to the specific needs of the insured and it only sold through licensed insurance brokers. Once TI showed that there was an expanding market for credit insurance in Canada, other international credit insurers entered the market and they too, only sold through brokers.

Today, Canadian companies have the advantage of a very competitive and mature market offering the flexibility and capacity to meet their objectives for risk mitigation against commercial or political risks, at a practical price. All of the credit and political risk insurers in Canada not only sell their policies through specialist brokers, but they all recognize the value a client derives by being represented by a broker. The increase in the number of licensed credit and political risk insurers, and the complexity of the coverage, demanded the development of a new class of insurance broker specializing in these fields.

Millennium Creditrisk Management Limited was the first true specialist broker in Canada to provide full service, patterned on well established European models. Its highly professional staff has combined experience with the public and private sector insurers of over a 125 years.

Credit insurance is still sold by direct agents and general insurance brokers, however there are only a few specialists who not only sell policies, but also act as expert consultants to the client throughout the whole life of the policy from the initial needs identification to the payment of the last claim. When large amounts of money are at risk, clients are well advised to avail themselves of expert advice in the specialized fields. There is no cost to them, as the underwriters remunerate the brokers through commissions, even when the broker is appointed on an existing policy. The most important point to note is specialist brokers work for the client and not the insurers. By law, they have a fiduciary obligation to the client. It is like having in-house expertise at no cost.

### Changes at Millennium



Mark Attley has recently retired from Millennium and John Middleton has been appointed the new President of Millennium. We wish Mark all the best in his retirement and want to thank him for his contribution to Millennium over the last 17 years. Mark was one of the founding shareholders!

John Middleton is thrilled with his new role and is looking forward to the challenges that it will bring. The Millennium team, headed by John, is excited to move forward and continues to grow. We have an excellent team of Account Executives with Carolyn Sloan as our National Account Executive,

Roch Simard managing Quebec and Kevin Sullivan representing us across Western Canada. Eric Pilon will assume the Account Executive role for Mark's clients in Ottawa. Ron Doyle brings his 40+ years of experience in the industry to the team acting as mentor and providing key strategic direction to the business. Ron will also focus on growing Millennium's political risk insurance business. In Ottawa, Eric also manages our Account Management team, and will be working to maintain and enhance our service levels for our clients. Trish Ford-Dunbar and Sandy Corrigan both have over 10 years of experience with Millennium and will continue to help our clients manage their insurance policies. We are excited to announce that Alexandre Blais, a five year veteran of EDC's claims department, has joined Millennium, and will be working with Ron to become our new centre of expertise on claims as well as working with many of our Quebec based clients as their Account Manager. Millennium has grown to be the largest accounts receivable insurance broker in Canada and we look forward to continuing to grow while helping our clients achieve their accounts receivable risk and political risk mitigation objectives.

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# Political Risk

Libya and Egypt have demonstrated how quickly previously stable countries can deteriorate. One of the consistent factors with political events, which can cause catastrophic losses to exporters and investors is that the largest losses are also the most unforeseen. A good example is that the current unrest and situations, like the Iranian Revolution and the Kuwait War, were not even predicted by the major security services in the USA and Israel.

Canadian companies operating overseas must always be aware that political risks can occur at any time and in any country. Even OECD countries are not immune to civil commotion and general strikes. Recent problems in the Arab world have arisen because of an increase in food prices. The expectation is that food prices will continue to rise well into 2011 which could very well result in further unrest globally. Last year, sovereign debt risks in certain EU nations led to massive austerity measures taken by governments. These risks continue today as the world is left to hope that these unprecedented measures are successful. If not, what are the potential ramifications? It is important that prudent risk management identifies all risks from the perspective of probability and consequences. A corporate strategy for management of political risk must be continuous and comprehensive. The speed with which the political environment, in a region or country, can change, makes it impossible to react on a case by case basis.

Fixed assets, mobile assets and financial assets held overseas are all subject to varying degrees of political risk. Equally important are the cash flows from the assets which can be interrupted. The latest financial reporting standards are placing more emphasis on the fair value of assets and cash flow which can be impaired by political events outside of the control of the company.

Political risk insurance coverage from both the private and public sector insurers is available to cover most risks facing companies and financial institutions selling or operating abroad. Some examples of assets that can be covered are:

- Capital investments
- Mobile equipment
- Bank deposits
- Receivables
- Contracts with Sovereign entities
- Frustration of contracts in progress

**For further information, contact Millennium.**

# The Increasingly Critical Role of Specialist Brokers

The Balance sheet of every company includes financial assets, mobile assets and fixed assets which are all subject to some degree of risk. It is the responsibility of the Board of Directors and Senior Management to protect these assets from risks which may impair their value and to report the fair value of the assets, noting any possible impairment.

The role of the specialist credit and political risk broker is to work with management to identify the credit and political risks to the assets; determine the practical options to mitigate the risks; find, cost and recommend the appropriate coverage to transfer some or most of the risk; and continuously work with the client to optimize the protection in place.

The role of the specialist credit and political risk broker has become more essential to companies because of the competitive insurance market, the different risk appetites of the underwriters, and the flexibility of the policy structures available. Credit insurance is more complex than some of the other standard general insurance products because it is a "living document", which requires regular administration to ensure the coverage is optimized, and the coverage is subject to the insured complying with certain obligations under the policy. Like many legal contracts, it is assumed that the insured understands the terms and conditions of the policy and it has either availed itself of expert advice or understands the risk of not doing so.

The following cases illustrate where expert advice proved to be critical:

- A company supplying pipeline services purchased a credit insurance policy through its general broker. This policy was to replace an existing policy which was to expire. The company completed the normal application and received a standard policy which unfortunately didn't meet their needs, as it was structured to cover the sales of goods from the time they were shipped. Neither the general broker nor the insured compared the coverage to what was in place under the previous policy. Luckily, the bank, before accepting the policy to enhance the security on receivables which it was margining, asked Millennium to review the policy. The omissions and gaps were identified before a loss occurred and the insured found out that they had no coverage under the policy as it was structured. Millennium then advised the bank as to the endorsements to the policy necessary to make it comparable to the policy it was replacing.
- This same situation occurred in March, when an insured invited Millennium to review its coverage under 2 credit insurance policies it held, one with Euler and one with EDC. Neither policy addressed the specific requirements of the insured. Both policies have now been revised to provide the necessary coverage, but had a loss occurred in the interim, there wouldn't have been any coverage under either policy.

## ICBA News

The International Credit Brokers Alliance (ICBA) held its annual conference in Johannesburg, South Africa from 2-4 February 2011. Seventeen member companies met for three days of business organization, strategy sessions, systems and product training, and the inspired networking that takes place when familiar colleagues, each a leader in their local markets, come together for a common purpose. This year, the organization's representation grew from 25 to 27 countries, with the addition of new brokers from Russia and Japan to the multinational organization. Malakut Insurance Brokers, headquartered in Moscow, and World Insurance Brokers Corporation, headquartered in Tokyo, joined the Alliance, positioning ICBA to service an even larger slice of their global audience.

ICBA's expansion into Russia and Japan strengthens the ability of Millennium and other members of ICBA to respond effectively to the needs of multinational companies. ICBA's clients will continue to benefit from the cultural acumen, industry focus, credit insurance expertise and the proximity of our licensed specialist partners when addressing problems in their local markets around the world.

Millennium is the Canadian member for the International Credit Brokers Alliance ([ICBA](#)).

Download and read the most recent **ICBA Advantage** Newsletter here.

Please visit our website at [www.mcm.ca](http://www.mcm.ca) for information on Country Risk Rating reports, as provided by our insurers. You can also find previous newsletters, links to blogs written by Ron Doyle and complete information on Millennium and our services.