# Trade Safe: Episode 3

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MARILYN BLATTNER-HOYLE: We look for high quality relationships between bank, seller, and their buyers. In our experience, when times get tough, it's really the bank and the seller that are critical.
SPEAKER: Welcome to Trade Safe, a podcast series for trade credit professionals where WTW experts talk with industry colleagues on how organizations across all industry sectors can manage trade credit risks safely.
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SCOTT PALES: A warm welcome to our listeners as we embark on our third podcast topic in our Trade Safe series. I'm your host, Scott Pales. I'm a trade credit specialist broker with WTW.
And with me is my partner, Sanjeev Ganjoo. He's the Global Head of AR Financing with Citibank. And joining both of us today is Marilyn Blattner-Hoyle. She's the Global Head of Trade Finance with Swiss Re Corporate Solutions. It's the primary insurance arm for Swiss Re.
Welcome, Sanjeev. Welcome, Marilyn.
SANJEEV GANJOO: Good morning, Scott. Good morning, Marilyn. Really a pleasure to be here.
MARILYN BLATTNER-HOYLE: Thank you very much for having me as your first guest.
SCOTT PALES: Yes, welcome, welcome both. Guys, for today's discussion, I'd like to discuss best practices in insured AR financing. From the initial bank review to submission to market, then to the underwriting, servicing of the policy, and then, ultimately, to a claim submission.
Let's kick off by starting with a best practice discussion with you, Sanjeev. What are the bank's best practices involved in determining whether a particular seller is going to be a good fit for an insured financing facility?
SANJEEV GANJOO: Sure. So Scott, in Citi we have a very stringent process when it comes down to selection, and the key initial metrics which are involved in decision-making are the first and important is the internal rating of the seller.
Now, as a practice, we typically go with very high rated sellers to ensure that they are pretty well rated, and we do not carry a high performance risk. That is the first and most important thing.
Now, the second is, how diversified is the portfolio of the seller in terms of the local, regional, and the global, and indeed the credit profile of those buyers?
MARILYN BLATTNER-HOYLE: And Sanjeev, can I just ask, how many buyers are there typically in a portfolio? And do you typically have financials and a rating on all of them?
SANJEEV GANJOO: Yeah, Marilyn, in fact, in the portfolio today, the deals which are coming out in the market are typically comprised of a diversified set of obligors. And we do have internal processes to define the ratings for each obligor as required under the securitization rules.
And what we also see most of the time, sellers don't have the financials, and sometimes we look for public databases for financials of those obligors. Today, if I have to look into the portfolio globally, we cover more than 10,000 buyers, and this number keeps on increasing as more and more of portfolio deals become very popular with the sellers.
SCOTT PALES: That's actually a huge number of buyers. Sanjeev, what are some of the other key metrics involved in determining if a seller is a good fit?

SANJEEV GANJOO: I would say the reasoning, what are the key objectives of the seller? Whether it's an off balance sheet, risk mitigation, liquidity, or the payment terms extension.

SCOTT PALES: This is interesting to me. Does this reasoning of the seller weigh in your decision if a seller is a good fit? For example, would you have more preference if a seller was coming in for off balance sheet versus risk mitigation?

SANJEEV GANJOO: As a bank, it all depends. It all depends on the seller's internal KPIs, which, as a bank, we are able to meet either of those objectives, so I won't have any preference. We are agnostic to their requirements, but at the bank, we ensure that we cover all their requirements.

SCOTT PALES: OK, all right, I got it. Any last metrics that you use in making the determination if a seller's a good fit?

SANJEEV GANJOO: One is the past performance. How strong is the seller's relation with the buyer to ensure there's a strong repayment discipline? Very, very important, and the payment track record of the past few years with each of the buyers in the portfolio becomes, I would say, a key internal benchmark before we onboard these portfolio deals.

SCOTT PALES: As a former underwriter, I have to believe that this is beautiful music to Marilyn's ears.

MARILYN BLATTNER-HOYLE: Absolutely. We find seller leverage, track record is really critical to strong underwriting outcomes throughout the cycles. So, very good music.

SCOTT PALES: Yes, I completely agree. I think we can now shift to our next topic. Marilyn, what are Swiss Re's best practices in determining if a particular submission is going to be a good fit to put your capital up against the risk?

MARILYN BLATTNER-HOYLE: Yeah, no, that's a good question. So from the insurance perspective, the first thing that our underwriters do when we receive a receivables purchase deal is to consider general feasibility.

And that covers the insured bank, who the seller is, the buyer portfolio, and the structure, so similar to what Sanjeev has described. So for the insured bank and the seller, we consider, are they industry leaders? What are their motivations for the insurance and for the receivables program itself?

And we look for high-quality relationships between bank, seller, and their buyers. In our experience, when times get tough, it's really the bank and the seller that are critical to positive outcomes, in addition, of course, to the critical goods that the buyer might be buying. So you've got that triumvirate that drives the leverage to good outcomes.

SCOTT PALES: Got it. I certainly hear that for the seller and the bank. How about for the buyers themselves? What are your best practices in underwriting the buyers?

MARILYN BLATTNER-HOYLE: For the buyers we look at sector, industry. Are there large limits needed on certain names, what we call "tall trees?" And also we think about how many buyers are there.

So at Swiss Re at the moment, we focus more on simple portfolios of maybe, let's say, up to 20 names on average, but certainly tech can make this more scalable as well to be able to cover more buyers.

SCOTT PALES: That's a great point. Can you expand just a bit on how tech would allow you to compete? And do you see this changing in the near future to allow larger portfolios to be underwritten by Swiss Re?

MARILYN BLATTNER-HOYLE: Yeah, definitely. So, in order for us to compete, certainly it will be good to be able to cover more than 20 names and larger portfolios, and certainly that's a need of some of the market.

And so we're working on various data solutions to be able to seamlessly pull information from a variety of sources, like Capital IQ, that can speed up the rating and info assessments.

We're also working on things like group limits for underwriting large multinationals and their core subsidiaries. So really we're trying to use tech to drive scalability without jeopardizing strong underwriting quality.

SCOTT PALES: Marilyn, I like those words-- drive scalability. I think this is important because we're seeing more and more of these portfolio transactions than single-risk transactions coming through.

So you talk about the insured, you talk about the seller and the buyers. Let's talk a bit about the structure. How does that work for you guys?

MARILYN BLATTNER-HOYLE: Yeah, so that's a good point. Structure is definitely key, and really one of the most important points about structure is "skin in the game."

What indemnity does the bank want covered? Is there a first loss deductible, for example? Does the bank and/or perhaps the seller have "skin in the game" themselves?

We believe that really these programs enable more than just risk transfer. It's about working capital. It's about wider capacity. So we really believe that partnership, i.e. that "skin in the game," is key to ensuring that we're all working to make sure those invoices get paid.

SCOTT PALES: I agree, I do agree. But we aren't seeing-- and this could be regional, based on where our opportunities are coming in from. Maybe it's a bit of a shift, as we have a looming recessionary environment.

But we're seeing risk transference becoming more of a need from the sellers. Sanjeev, what are your thoughts on this?

SANJEEV GANJOO: Yeah, and frankly, post-pandemic we have seen slightly a shift here. Now we are seeing the sellers are going from domestic, regional, to global markets. And what it brings is a lot of cross-border buyers.

Again, then it shifts to what are the key objectives of the seller here. I'll go back to my earlier comment in terms of that their initial KPIs, whether it's on the exchange payment terms or the other key KPIs, which they're looking here to the fees.

Because these are-- we need to understand, this is the first time they might be entering into the new jurisdictions, the new buyers, and the new markets.

SCOTT PALES: Got it, Sanjeev. I agree. And certainly we are seeing a higher degree of risk transference. Marilyn, it might be interesting to the audience if you can perhaps-- and this might be a big ask-- but can you give us kind of a weighted listing of what's most important to you during the underwriting process?

MARILYN BLATTNER-HOYLE: Sure. So this is very much a guide because we look at each deal on its merits, of course. But I would say for the credit quality of the portfolio and the structure itself-- so really, the buyer risk view-- about 40%, so a big chunk of what we look at.

And that's really about, will each buyer be able to repay its invoice when it falls due, and is the structure set up against that credit quality? So that's the first one.

The second one, I would say industry and diversification of the portfolio, about 20%. So is there a favorable mix in sectors we like in terms of the buyer portfolio?

Then I would say the seller itself is about 20%. And here, again, as we said earlier, we really care about the market strength of the seller, how essential the underlying goods and services are for both the buyer and the seller, the "skin in the game" point we talked about.

And then the final 20% is the insured bank itself. And that's really, again, about their "skin in the game," but it might be their "skin in the game" beyond the individual transaction itself.

It's their experience handling a portfolio like this. And I would also say it's how good is their receivables purchase agreement, their documentation?

SCOTT PALES: I really love your mention of the RPA. I'm a bit of an RPA junkie myself. I don't believe it's a cure-all for a weak rated portfolio, but a really tight RPA should bring confidence to the insurer, especially when you look at concepts like recourse of uninsured amounts.

MARILYN BLATTNER-HOYLE: Oh, absolutely. I think legal documents set the scene for good behavior for monitoring and really put a box around topics like tenor, presence of trade, the eligibility criteria, the provision of info.

And so we always think that the receivables purchase agreement is a key document to review, and the bank's RPA quality actually tells us a lot about their robust processes.

SCOTT PALES: I love the phrase you just used, "legal documents set the scene for good behavior." I think that's spoken like a true attorney, Marilyn.

MARILYN BLATTNER-HOYLE: Oh, dear.

SCOTT PALES: We're going to shift to our next topic. Sanjeev, what are the bank's best practices on properly managing the insured AR facility? So once you've bound coverage on the policy and it allows for the funding to take place, can you share how you conduct this funding and monitor for the policy?

SANJEEV GANJOO: Absolutely. I think the critical part starts now. Once we have bound the policy, we have very robust control and monitoring processes in place to ensure that we are maintaining the health of the portfolio. What does it entail?

Now, the first important thing is the solution that we offer is on a fully automated basis to avoid any manual intervention. We have our own proprietary systems to manage the fundings and the processes, so ensure it is a straight-through processing because that is very, very critical in today's environment.

Then we track on a daily basis the deal flows and overdues, if any. That is second-- again, very important aspect. Then we always try to keep communication open with the seller and the buyers on the due dates of the payment.

And we do also have specific reports customized for our insurance partners as well, which we share with them regularly.

MARILYN BLATTNER-HOYLE: Yeah, Sanjeev, we love that. With your mention of great automated data, how much of the data is really shared with insurers, and would more be planned for the future?

SANJEEV GANJOO: Absolutely. As I mentioned, we have our own proprietary platform, which I think is one of the big USPs what Citi offers today. However, the access is currently limited to sellers and buyers under the program, which we finance.

But yes, Marilyn, to your point, in future we are indeed looking to expand the visibility and provide a dashboard sort of portal to our external partners as well.

SCOTT PALES: Oh, that's actually great news, Sanjeev. A platform for external partners would be awesome. That would be a great resource. Any last points to make on managing the insured facility?

SANJEEV GANJOO: Yeah, we ensure that every discounting happens within the framework what we have approved with the insurers. Any exceptions gets automatically rejected. As I mentioned, this is a straight-through processing without any manual intervention.

There is an open dialogue with the insurers at all point of time to get their feedback or any red flags or concerns on any industry or segment. And this is very critical to have that dialogue going on during the term of the facility.

SCOTT PALES: Agree.

SANJEEV GANJOO: And lastly, again, I'm a very firm believer, as a bank, it's not that we sleep well after we have closed the policy, but in fact, our responsibilities increase to ensure we deliver what we agreed with our internal and external partners like USS.

SCOTT PALES: I fully understand. So the insurance provides the benefits you seek, but you also have to comply with the requirements of the policy as you go forward.

SANJEEV GANJOO: Absolutely.

SCOTT PALES: I'm going to move back to you, Marilyn. What are your best practices with regard to the policy management? This is the servicing nature, and then if you ultimately get to a claim process.

MARILYN BLATTNER-HOYLE: Yeah, so, I mean, portfolio monitoring is absolutely key, and we do use tools which I mentioned earlier like Capital IQ and some other internal tools like industry heat maps which takes hundreds of thousands of data points and analyzes every quarter how we feel about certain industries and country risks, et cetera. So that's one piece.

But then we're also very interested in aging patterns on the portfolios, which Sanjeev mentioned earlier, and whether there have been, for example, buybacks by the sellers, where perhaps an invoice isn't getting paid by a buyer.

SCOTT PALES: You know, Sanjeev, what we're speaking about right here is repurchase obligations under the RPA. Do you see much of this within your insured portfolios, or are receivables generally being collected?

SANJEEV GANJOO: Yeah, I think as our focus has always been on strong sellers and a good quality of the buyers, this is like an initial gatekeeping exercise. And then we have the automated repurchase, but none of these have resulted in any default till date, as memory goes.

SCOTT PALES: So good old LGD, perhaps a future podcast discussion topic, Sanjeev.

SANJEEV GANJOO: Absolutely.

SCOTT PALES: Marilyn, what are some of your other policy management practices that you can share?

MARILYN BLATTNER-HOYLE: We can think about regular dialogue with insureds, like Sanjeev. When there are overdues, we love to speak with business teams at the banks to know what's going on with the sellers and their buyers, to understand the nuances of what's happening.

We also like overdue reporting, as I said before, but we also like a recent trend which I've discussed where banks are moving towards merging working capital and trade products together. And that's also great because it means there's more warning signs that we can track and partner on.

And then I guess the other point, which you made earlier, which is the claims process is critical. Because in the end of the day, we are here for that rainy day, to pay claims when there's an issue.

And at Swiss Re, we're renowned for our strong claims service levels and the ease of working with us. And so I would say that's our goal in every case when it comes down to those situations.

SCOTT PALES: I would think that both Sanjeev and myself would agree, as well as probably all of our listeners, that if we're involved in a claim, speed, ease, and with you being there with your umbrella on that rainy day are going to be very important calls indeed. Thank you for that, Marilyn.

And guys, I think this takes us to the end of our time today. Sanjeev and Marilyn, thank you for your valuable insights, your open sharing of your best practices and credit insured facilities. I'm sure our listeners were able to take some valuable information from the discussion.

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MARILYN BLATTNER-HOYLE: Thanks very much for having me, Scott and Sanjeev. It's a pleasure.

SCOTT PALES: You're very welcome.

SANJEEV GANJOO: Sure. Thanks for a great discussion.

SCOTT PALES: Thanks, thank you both. And a big thank you to our listeners for tuning in, which reminds me to invite all of you to our next topic, where we're going to discuss the concept of innovation within insured AR facilities. So until next time, trade safe, and be well.

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