UNCTAD Expert Meeting

e-finance for SMEs in developing countries

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Environment

Economical

The growing importance of e-commerce is a fact. Electronic commerce is automatically international: the products and/or services a company offers on Internet are available anywhere in the world, thus leading to an enlarged perimeter of buyers. Cross-border transactions are facilitated by e-commerce. Nevertheless, e-commerce does not really represent a new type of trade; it could be considered, rather, as a new method of trading.

A second element that should be taken into account is that the Internet has vastly increased general access to information – a lot of information is now publicly available, and even information agencies are providing some information for free. But who can guarantee the accuracy of such information? What could be considered as an advantage could take a dramatic turn if credit managers no longer know what kind of information to use and/or to believe, especially when their potential partners are established outside their country.

A further point is that the Internet means speed. The Internet syndrome has boosted the trend towards a requirement for fast, if not immediate response, from each partner. This is a new risk factor associated with e-commerce.

It is expected that trade will shift at least partly to the Internet over the next years. Growth will affect both B2B and B2C transactions. A conservative estimate of growth in the e-commerce market, suggests that by 2002-2004 global figures should be in the order of US$/€ 1,000-5,000 billion. We should however pay attention to a possible slowdown of expansion due to the international nature of the electronic commerce. Overlapping national jurisdictions may apply and could eventually inhibit such trading channels outside large economic entities (e.g., USA, European Union). Hong Kong's legislation, for example, at least with regards to the insurance business, only permits companies established in Hong Kong to be on the Internet for Hong Kong buyers and sellers.

What is the future use of e-commerce ? In the near future 70-80% of payments will go through the Internet. More and more companies, even SMEs, in developed and developing countries, will use this means to transact business.

The Credit insurance market

We are all aware of the growing internationalization of operations with a local presence. There is an increasing competitive pressure to which our industry has responded by diversifying its product portfolio. Furthermore, we all have a high activity of operations in terms of e-commerce.

Although Internet offers us many opportunities, it also brings some threats.

For example, information agencies, such as Dun & Bradstreet, are (together with Internet providers and/or financial institutions) developing products to identify buyers and secure transactions, vying with credit insurers.

A further threat to our industry is that the availability and volume of information may induce people to believe it has become a commodity – which it most definitely is not.
Credit insurers, however, have a lot of relevant proprietary information based on cross-checked data from partners and experts, actual transactions and debt collection which have always proved to be more accurate in terms of risk underwriting than public domain information.

Credit insurers have adopted two different strategies to service the need of risk coverage in the rapidly growing market of B2B Internet transactions:

1) To sell data to clients who cannot (or believe they cannot) afford credit insurance or who are not willing to take credit insurance but prefer to be self-insured. This data is sold under the form of a buyer "rating" issued by the credit insurance company.
2) To provide information and risk coverage to an e-marketplace. Normally all transactions on this insured marketplace are covered provided that the members (suppliers and buyers) have been pre-selected by the credit insurer.

Credit insurers have also launched standard and brand new insurance products (line of credit, single risk, etc.) on the Internet. These products are of course not only available to the companies trading via the Internet, but also to those trading traditionally.

Last but not least, credit insurers are using the Internet's infrastructure to enhance the quality of their services to their clients (e-service) by improving efficiency in distribution, administration and claims settlement. They are also marketing their products and services via Internet.

All this should help them to cut their costs and eventually become even more competitive versus other alternative solutions to credit insurance.

Our solutions

To face this challenging environment, the Gerling Credit Group is implementing a global strategy based on four pillars, one of which is the e-commerce challenge.

E-service

First of all our Group is proposing to all insureds (large as well as small companies), brokers, … to communicate via an Internet-based system named SERV@NET on all aspects of their policies. Internally this e-service (called SERV@WORK) is also in place for the underwriting of risks – gathering information from various sources and linked to the risk underwriters in all countries where our Group is located.

E-trade

In addition to the above, we have decided to go beyond the traditional covers and to offer on-line security for transactions. Trusted Shops, our solution for the B2C market, offers security for on-line shopping. We also serve the B2B market via Trusted Trade, eCredible and Tradecover, which offer security for the virtual market place, on-line scalable credit management and on-line trade credit coverage, respectively.

Trusted Shops

Trusted Shops is the first European "seal of approval" for on-line shops with a money-back-guarantee for on-line customers. It offers people who are buying on the Internet both trust and security. The "seal of approval" provided for an online-shop confirms that the said shop abides by certain consumer protection principles (encryption, privacy policies, etc.). The main events covered by this guarantee policy received by the customer (i.e., the beneficiary) are the non-delivery of product, non-refund in case of contract withdrawal and fraud.

Trusted Shops was launched in January 2000. By now, some 250 shops have been certified, more than 1,000 applications have been received and we have officially covered about 250,000 transactions. The list of certified shops includes names such as Dell Computers, Compagnie Coloniale, Lycos Europe, InstallShield, etc. –major players in the field. We believe that it shall continue to develop rapidly in spite of the current slowdown in B2C on-line shopping. We are currently present in Germany, France and the UK, and expect to expand to the rest of Europe within the next two years or so. Furthermore, Trusted Shops has received support from the European Union for its alternative dispute resolution approach.

Trusted Shops is of course open to SMEs from developing countries. They could also become certified as European consumers like to have the possibility to buy without risk, quality products, different and/or cheaper than the ones they get from their traditional suppliers.

Trusted Trade

Trusted Trade was founded in May 2000 as one of the B2B divisions of Gerling's e-commerce holding company Tradesafe.com GmbH.

Trusted Trade's first milestone was to provide traditional credit insurance for digital marketplaces. Digital marketplaces are electronic trading platforms on the internet. The software enables its participants to exchange information on products and prices, to find products and to canvass for new business partners. Digital marketplaces can effectively assist Small and Medium-Sized Enterprises in developing countries to reach customers in developed countries and help them to globalize their trade.
In this context, Trusted Trade's online credit insurance secures companies against loss of receivables and financial backlash. The most significant value proposition of Trusted Trade is generated by providing real-time information on the credit worthiness of every member in a marketplace. Trusted Trade allows SMEs to evaluate the creditworthiness of their buyers. Between October 2000 and today, Trusted Trade has connected ten international marketplaces from the food-, plastics-, transportation-, freight- and IT-industry to its insurance service.

The second milestone was to become a multi service provider by developing a portfolio of information-, insurance- and financing products. With this portfolio of services, Trusted Trade could significantly reduce the integration costs for digital marketplaces and provide marketplace traders with one stop shopping for their B2B trade security needs. Thus, the debt collection service of Naminter was digitalized and made available online.

The Trusted Trade status report, as the third product, enables buyers to view information about their outstanding receivables on the marketplaces and to apply for a higher credit limit. In terms of the value chain, the combination of credit insurance with a financing component produces an attractive online product similar to factoring, a key cash flow component for SMEs. As factoring activities are currently being developed within Gerling, Trusted Trade will be set to provide online financing for digital marketplaces in the future.

Due to the lack of online spot trading on public marketplaces, private marketplaces have evolved as a more successful business model. They have consequently gained the attention of Trusted Trade.
Private marketplaces are run by a limited number of companies in order to procure or sell goods. Their focus is to bring business relations with existing suppliers or clients online but also to expand these business relations with a larger number of companies including SMEs. Through enhancement of the existing credit insurance product, they can use the Trusted Trade solution to secure their trade as well. This requires further analysis of the companies internal credit management processes as well as understanding the customer's needs.

Trusted Trade has proved, that the automation of credit management processes by the electronic exchange of data enables companies (and particularly SMEs) to save costs and outsource services.

Today, Trusted Trade acts as a mediator in matching the credit insurance market's needs with existing e-services. In a subsequent step, Trusted Trade's expertise will contribute to develop SMEs customer-centred solutions.

eCredible

eCredible started in December 1999 within the NCM Group with the support of several strong partners, including McKinsey and IBM.

eCredible is exclusively devoted to helping its customers stream line their credit management process by offering a scalable modular suite of credit management services like :

- Authentication and verification + credit checks : eCredible verifies in record speed that buyers are bona-fide companies that are creditworthy and assigns credit limits.
  eCredible also offers security infrastructure for web sales.

- Dunning and collection : eCredible monitors that invoices are paid on time.
  If not, it sends reminders automatically by e-mail, fax or letter (in the buyer's preferred language).
  If written reminders are unsuccessful, more personal phone calls will follow.
  In extreme cases, a world-wide network for collection agencies will help.

- Credit monitoring : available credit for each buyer is continually monitored and adjusted if necessary.

- Payment guarantee : eCredible reimburses the seller on a buyer's insolvency or 60 days after invoice due date.

All these services are fully automated : An automated link is configured and set up in less than one month between eCredible and each customer which generates and exchanges all needed information, data, etc…

Thanks to this specialization and the high degree of automation, eCredible can be offered to SMEs at competitive prices, cheaper and faster than "in house" credit management.

For the SMEs, it also results in the following benefits :

- increased sales to new markets (increased trust and reliability of business partners)
- increased speed and efficiency
- reduced DSO (days of sales outstanding)

And last but not least, for financial institutions, eCredible offers the ability to provide to SMEs at lower cost receivables based funding in a secured manner, without taking on additional risks that would harm the financial institution risk profile :

- by taking over the credit risk associated with the SME part of the receivables portfolio,

- by helping them to determine credit terms and credit limits for new SMEs in a most effective and cost efficient manner,

- by giving them access to an international network of lawyers and debt collection agencies,

- by providing them with state-of-the-art web security infrastructure.

Tradecover

A new concept in export debt protection, Tradecover, the first B2B on-line debt protection service, is designed toward the open market of international trade exchanges and offers immediate coverage against the risk of non-payment (in the frame of the contract), giving the companies the flexibility of determining the appropriate level of security they seek, according to the level of risk they anticipate.

Trade Cover has been specially created to help companies in developing countries to sell and export their products and services to OECD countries.

Initially it is being offered in the Asia/Pacific region, where the first contracts have already been signed. Once this testing stage has been completed, we shall – slowly – expand to other regions.

This Internet product differs from traditional credit insurance. It resembles the normal practice of credit lines applications. The contract holder buys a cover line, with the following features:

- a tailor made contract designed from a workstation;
- access to immediate sign-up (on-line);
- instant cover in the framework of the contract.

The price is, naturally, higher than that of a traditional comprehensive credit insurance cover, since the risk is far larger and generally more concentrated.

The application procedure is extremely simple, and is carried out entirely on-line.
The contract holder must inform (a) what Global Cover Line (GCL) he wishes to have, i.e., the total sum of the Individual Cover Limits (ICL) he would like to cover and (b) what is the Maximum Liability (MXL) he wishes to establish (i.e., maximum indemnity payable in respect of each twelve-month contract period). He shall immediately receive an answer with (a) the total cost of the Tradecover contract, an all-comprehensive amount payable in advance, and (b) the Maximum and Minimum Individual Cover Line he would be working with.

As soon as the contract is signed, the contract holder may request Individual Cover Lines.
All of this takes place over the Internet.

Some standard rules are in place (but are also modifiable in case of special needs from contract holders) :

- GCL: maximum 20,000,000 € or US$ (minimum 100.000)
- MXL: between 5% and 50% of GCL, with top stop at 5,000,000 € or US$
- ICL: maximum 25% of GCL
- Currency: € or $US
- Contract period: 12 months

Similar to the normal credit insurance policies, the SMEs having subscribed such Trade Cover contract can transfer the benefit of their contract to their bank(s) or factor(s) providing an excellent guarantee and protection for these financiers.

In summary, Tradecover offers the following advantages:

- Simplicity:
  - selection of only two parameters
  - access to immediate cover
  - speedy and minimal administration
- Flexibility:
  - choice of protection level according to perceived risk
  - at any time during the contract, possibility of increasing Tradecover parameters
- Costing adapted to contract holder’s needs
- Permanent monitoring of buyer risks
- Access to better financial conditions when transfer of contract’s benefit
- Free collection service for covered debts
- In full collaboration with brokers/banks/partners
- Directly sold by Gerling Credit Group or in collaboration with fronters (but always with the full technical support and reinsurance from Gerling Credit Group).

Bank Trade Cover

We thought it was crucial to go one step further due to the importance of the role of the Financial Institutions in the development of international business trade transactions definitely vis à vis SMEs..

This is why starting from the Trade Cover concept, we have created another new and specific application and contract which gives banks, factors, or financial institutions the opportunity of an online subscription to cover the invoices of the SMEs they finance without taking the risk of the buyer's default.

These financial institutions have the choice to cover all or some of their own clients.

The subscription of such special contract can be confidential if they wish - which means that they even can get cover without this information being given to their clients.

Of course, financial institutions get better conditions than individual companies subscribing to a Trade Cover contract but the banks, factors, … can pass the benefit of their global contract to their clients.

As a result, SMEs got an enhanced service from their financial partners : straight forward online protection at competitive cost and access to better financial conditions normally reserved to low level risks and/or to large and well rated companies only.

Conclusion

The above mentioned products constitute the core of the Gerling Group's Internet Strategy, in the B2C and the B2B areas.

SMEs in developing countries already have or will have access to these products directly from us and our fronters and/or via their local or international financial institutions (like Banks, Factors,…).

Combined with our e-service, we believe they place us among the leaders in online security of business transactions, the development of which we want to contribute and in setting new industry standards.