



THE **HUB** ADVANTAGE



Trade Credit & Political Risk
LA RIMS Meeting

www.hubinternational.com



HUB INTERNATIONAL



- Corporate headquarters in Chicago, IL
- Privately held company with partners that include Hellman & Friedman LLC
- Specialize in middle-market and large corporate clients
- Fastest growing broker in US
- Top 10 US/global broker, \$1.25B Rev in 2013
- One of the largest Management Liability Practices in CA
- Dedicated Trade Credit and Political Risk Specialists in CA

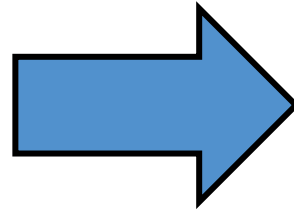


HELLMAN & FRIEDMAN LLC *Private Equity Investors*



WHAT IS TRADE CREDIT & POLITICAL RISK

WHAT IS TRADE CREDIT INSURANCE?



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WHAT IS POLITICAL RISK INSURANCE?



WHAT IS TRADE CREDIT & POLITICAL RISK INSURANCE?



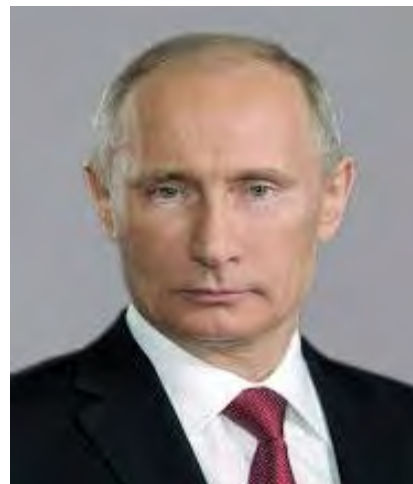
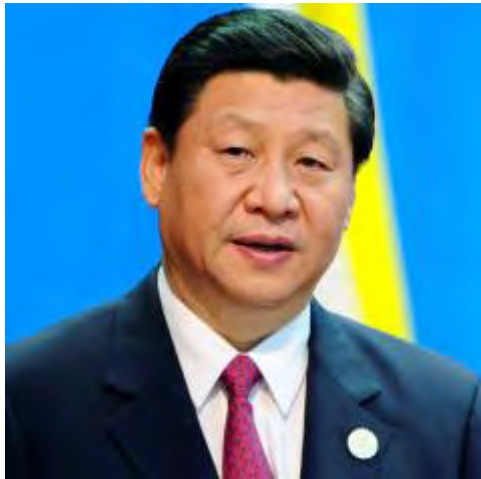
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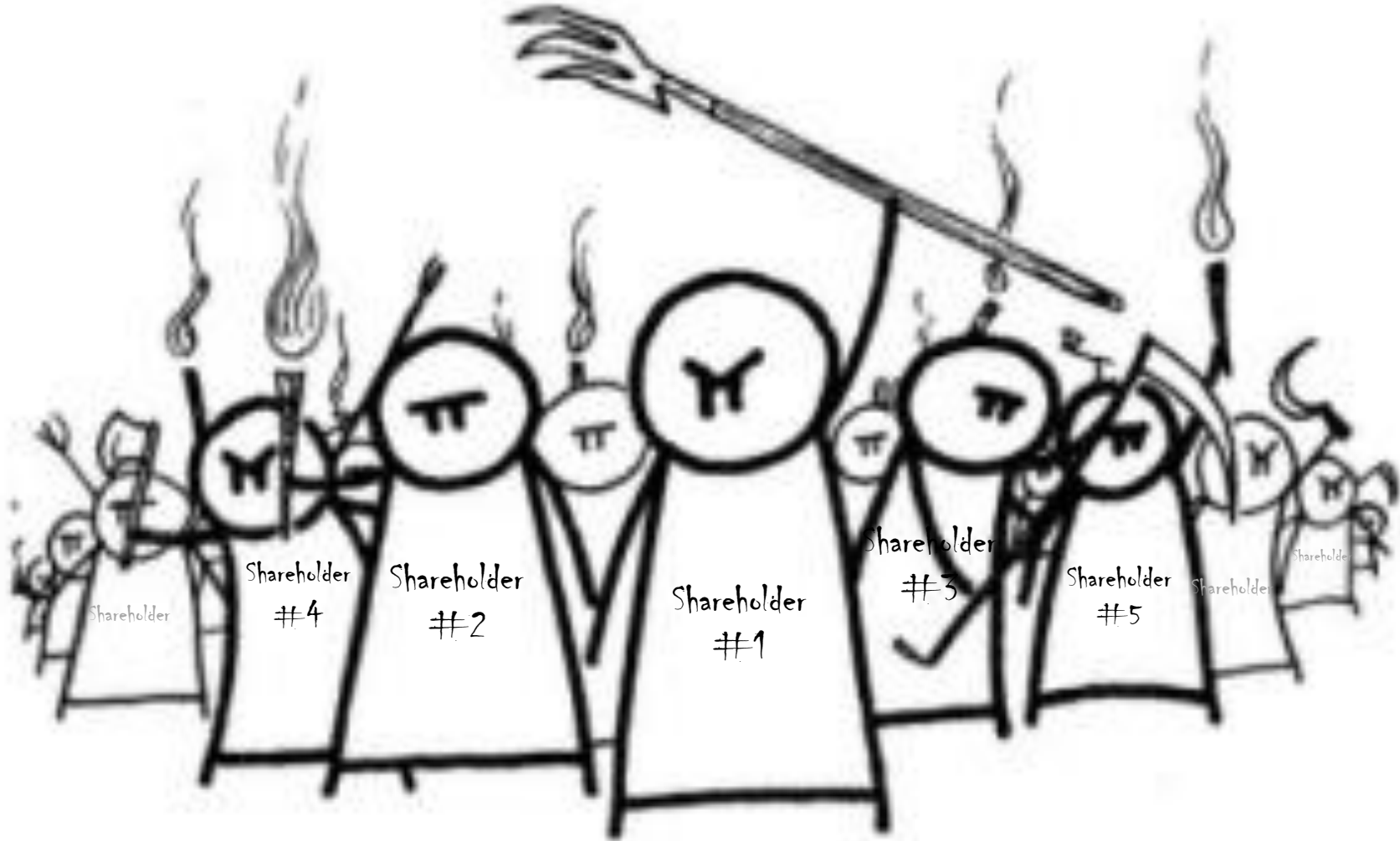
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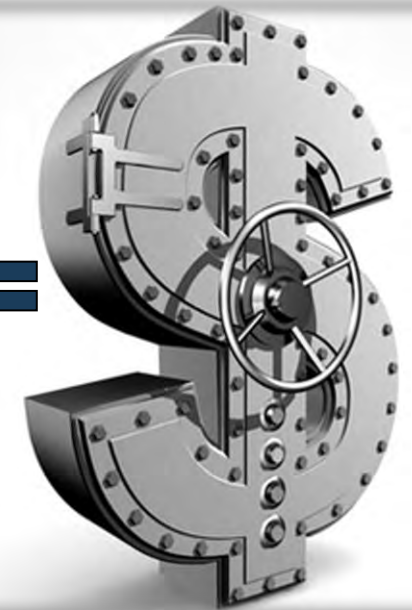
WHAT IS TRADE CREDIT & POLITICAL RISK INSURANCE?



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Trade Credit & Political Risk Insurance





TRADE CREDIT & POLITICAL RISK 101

WHY PURCHASE TRADE CREDIT / POLITICAL RISK INSURANCE?



Top reasons for purchasing Trade Credit and/or Political Risk Insurance:

- Expand sales domestic/export to new and existing customers
- Foreign investment and business income protection
- Balance sheet protection / stabilize cash flow
- Concerns about economic & political changes
- Concerned about customer concentration
- Obtain attractive bank financing or borrow against trade receivables
- Interested in replacing letters of credit (L/C's)
- Reduce bad debt reserves
- Supplement credit risk management

HUB International TRADE CREDIT INSURANCE

In today's rapidly changing world, where companies are looking for growth beyond domestic borders and return on investment is paramount to the business' survival, a growing organization cannot afford a major loss in cash flow due to default of one or more of its customers. Trade Credit Insurance provides protection for companies that sell goods or services on credit terms against the risk of non-payment due to a customer's insolvency, protracted default, political risks or acts of war that prevent contract performance and failure to perform obligations under contract. Covered perils include:

- Insolvency**
 - For the United States: Chapter 7, 11 Filing
 - Foreign bankruptcy per country of buyer's domicile
- Protracted Default**
 - Simple non-payment, usually verified by third party
 - Continued delinquency / non-payment
- Political Risk**
 - Confiscation, Expropriation, Nationalization
 - Currency Inconvertibility / Transfer Risk
 - Political Violence

The HUB Trade Credit Insurance team provides a team of dedicated specialist brokers to each client ensuring a superior experience in terms of program design, analytical support and coverage negotiation capabilities, daily program management, coverage certainty in insurance documents and proactive, experienced claims management to ensure your claims are paid quickly and accurately. Fully integrated within HUB International, HUB's Trade Credit team has the scale and flexibility to service any organization from small start-ups to the largest multinational. HUB is a member of the Worldwide Broker Network which provides boots on the ground in more than 75 countries worldwide with unmatched flexibility to service our clients where and when they need us most.

Top reasons for Purchasing Trade Credit/Political Risk Insurance:

- Concerns about economic & political changes
- Expand sales domestic/export to new and existing customers
- Concerned about customer concentration
- Obtain attractive bank financing or borrow against trade receivables
- Interested in replacing letters of credit (L/C's)
- Balance sheet protection / stabilize cash flow
- Reduce bad debt reserves
- Supplement credit risk management

Whether you want to grow your business in domestic or international markets or simply protect your cash flow from a catastrophic customer event, HUB has the tools, resources and most importantly the people to support your firm's risk management needs. We provide your business with market leading credit insurance solutions that are tailored to fit your organization.

HUB Trade Credit Specialists

Vivian De La Cruz Office: 216-568-7618 Mobile: 616-787-7510 vivian.deacruz@HUBInternational.com	Damon Walker Office: 949-423-1100 Mobile: 213-219-1991 damon.walker@HUBInternational.com	Steven Knartzer Office: 949-423-1043 Mobile: 714-214-5912 steven.knartzer@HUBInternational.com
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WHAT IS TRADE CREDIT INSURANCE?



Insolvency

- **United States: Chapter 7, 11 Filing**
- **Foreign: bankruptcy per country of buyer's domicile**

Protracted Default

- **Simple non-payment, usually verified by third party**
- **Continued delinquency / non-payment**

Political Risk

- **Confiscation, Expropriation, Nationalization**
- **Currency Inconvertibility / Transfer Risk**
- **Political Violence**

WHAT IS POLITICAL RISK INSURANCE?



Political Risk Insurance: Political risk insurance (PRI) is a tool for businesses to mitigate and manage risks arising from the adverse actions or inactions of governments. As a risk-mitigation tool, PRI helps provide a more stable environment for investments into developing countries, and to unlock better access to finance.

Equity Investments

- Governmental expropriation or confiscation of assets;
- Political violence, such as revolution, insurrection, civil unrest, terrorism or war;
- Governmental frustration or repudiation of contracts;
- Wrongful calling of letters of credit or similar on-demand guarantees;
- Business Interruption
- Inconvertibility of foreign currency or the inability to repatriate funds

WHAT IS TRADE CREDIT & POLITICAL RISK INSURANCE?



Projected Foreign Operations Balance Sheet

<u>In Millions of USD</u>	<u>Project BS</u>	
Cash & Equivalents	300.00	<u>NOT INSURED</u>
Short Term Investments	-	
Accounts Receivable - Trade, Net	1,000.00	<u>NOT INSURED</u>
Receivables - Other	-	
Total Inventory	600.00	<u>PARTIALLY INSURED (PROP)</u>
Prepaid Expenses	-	
Other Current Assets, Total	10.00	
Total Current Assets	1910.00	
Property/Plant/Equipment, Total - Net	900.00	<u>PARTIALLY INSURED (PROP)</u>
Goodwill, Net	750.00	
Intangibles, Net	100.00	<u>INSURED In USA</u>
Long Term Investments	-	
Other Long Term Assets, Total	5.00	
Total Assets	3665.00	



 EULER HERMES

ECONOMIC OVERVIEW



DAN NORTH EULER HERMES



Dan North **Chief Economist, Euler Hermes North America**

Dan North has been with Euler Hermes North America since 1996, using macroeconomic and quantitative analyses to help manage Euler's risk portfolio of more than \$120 billion in annual U.S. trade transactions. As an economist he has appeared on CNBC, Fox Business News, France 24, and Bloomberg Radio and Television. He has been quoted by Barron's, Business Week, Paris Le Monde, Tokyo Nikkei, the New York Times and the Wall Street Journal. After having predicted the 2008/2009 recession and its implications accurately, he was ranked 4th on Bloomberg's list of the 65 top economic forecasters in 2010. Mr. North holds an MBA from the Wharton School of Business.



The Outlook for the U.S. Economy

Euler Hermes Economics / Dan North
&
HUB International / Damion Walker
RIMS, Los Angeles, CA
August 20th, 2014



Euler Hermes: Global Leader in Trade Credit Insurance

- Founded in 1893
- AA- S&P Rating and A+ AM Best Rating
- Offices in 52 countries providing coverage in over 200 foreign markets
- Backed by blue-chip ownership of the Allianz Group
- Insure over \$120 Billion in US sales and over \$1 Trillion globally.
- International Risk Database monitors over 45 million companies worldwide

Credit Insurance: Protection against bankruptcy and slow payment losses

- Safer sales growth in the US or overseas
- Knowledge to better manage risk
- Improved borrowing options
- Credit function support
- Reduce bad debt reserves
- Get paid for what you sell

The Outlook August, 2014

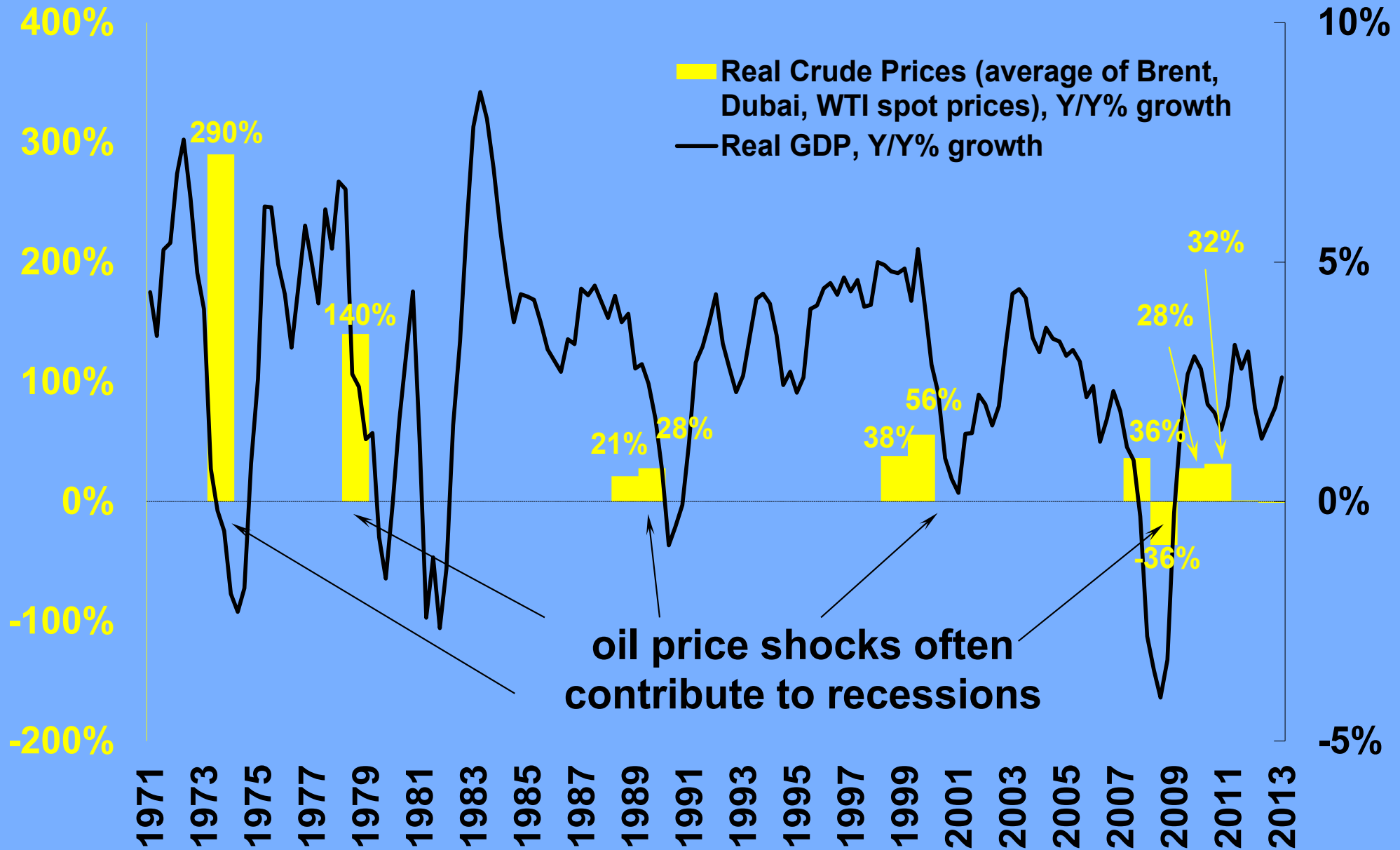
- **Cautious optimism, still weak growth, lots of risks**
- **Global growth 2.8% in 2014, vs 2.4% in 2013, most coming from emerging markets (4.3% vs 4.2%), China (7.5% vs 7.7%) and India (5.6% vs 5.0%)**
- **Eurozone (1.0% vs -0.4%)**
- **U.S. growth a modest 2.1% in 2014, vs. 2.2% in 2013, due to our debt crisis and structural unemployment**
 - **Forces and measures**
 - **Government responses**
- **Conclusions**

The four forces which started and ended the recession can help forecast the outlook:

- Oil
- Fed policies
- Fear in financial markets
- Housing

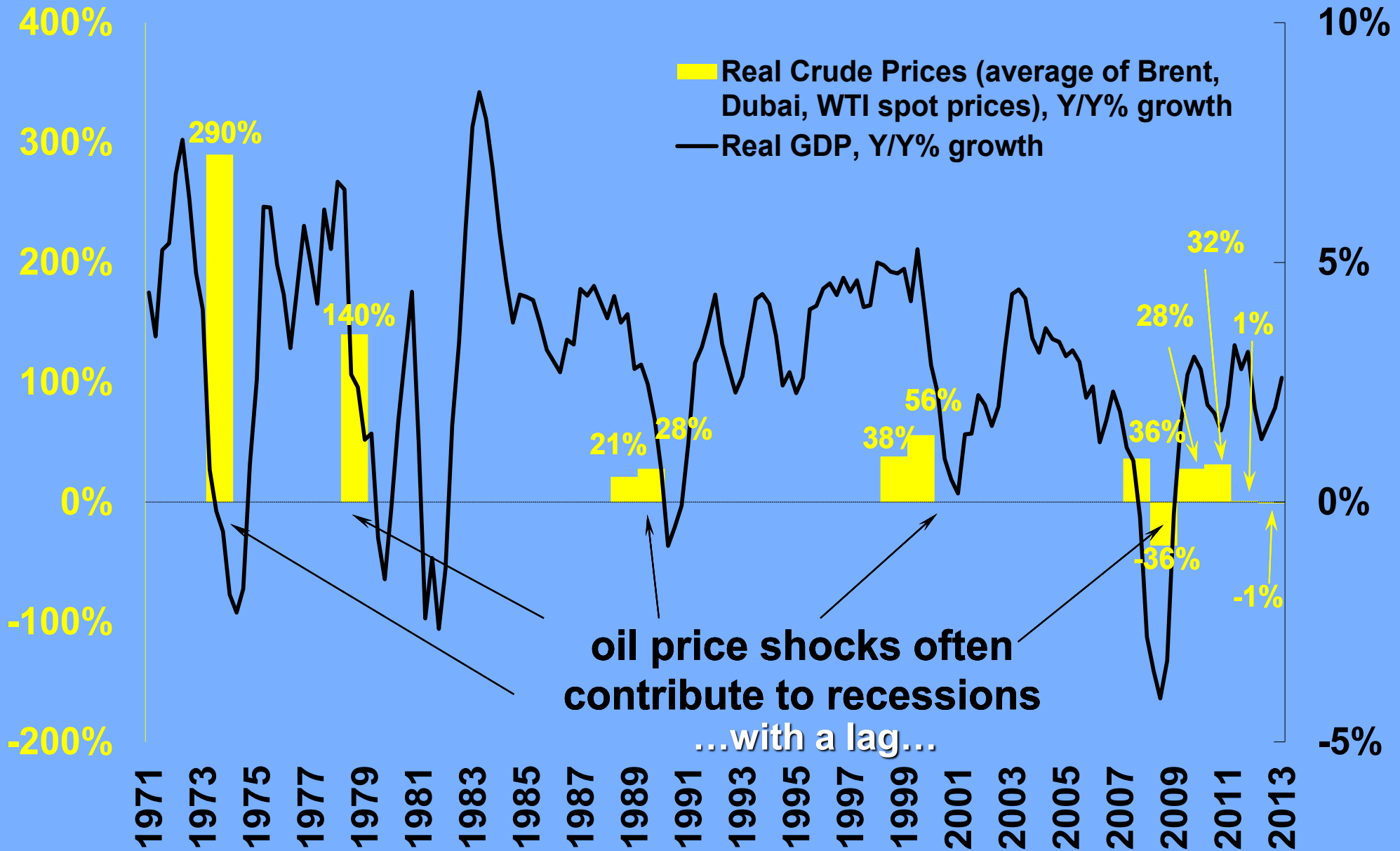
Gross Domestic Product (GDP): Everything produced by the economy. It's the "size" of the economy; \$17T, ave. growth 3.3%. Broadest measure of economic health. Use it to measure the "size" of other big numbers like budget deficit/debt..

Oil Price Shocks and the Economy



Source: Dept. of Commerce, Dept. of Labor, World Bank, EHACI

Oil Price Shocks and the Economy

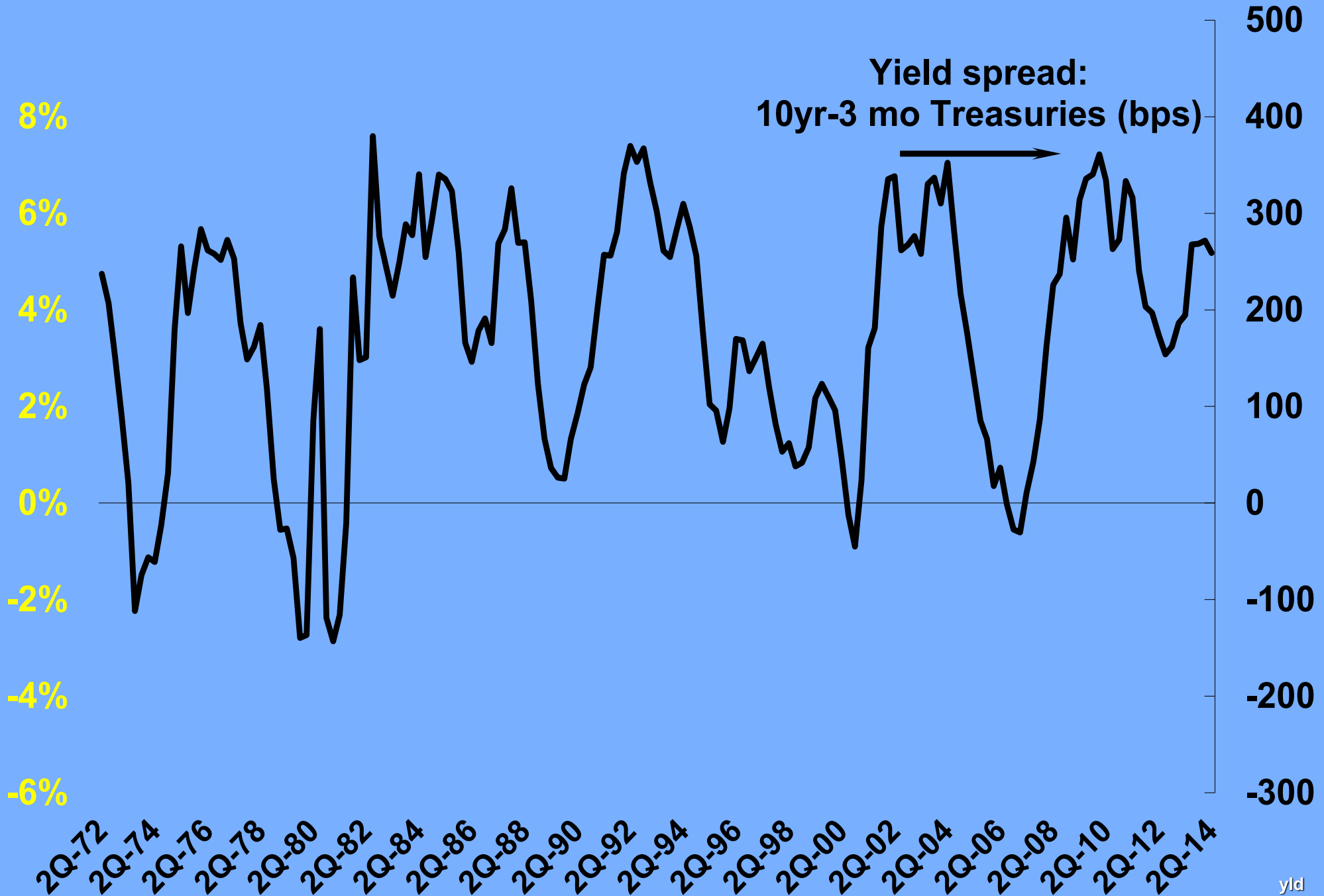


Source: Dept. of Commerce, Dept. of Labor, World Bank, EHACI

2014 ytd falling; tailwind in '14

Fed Policy

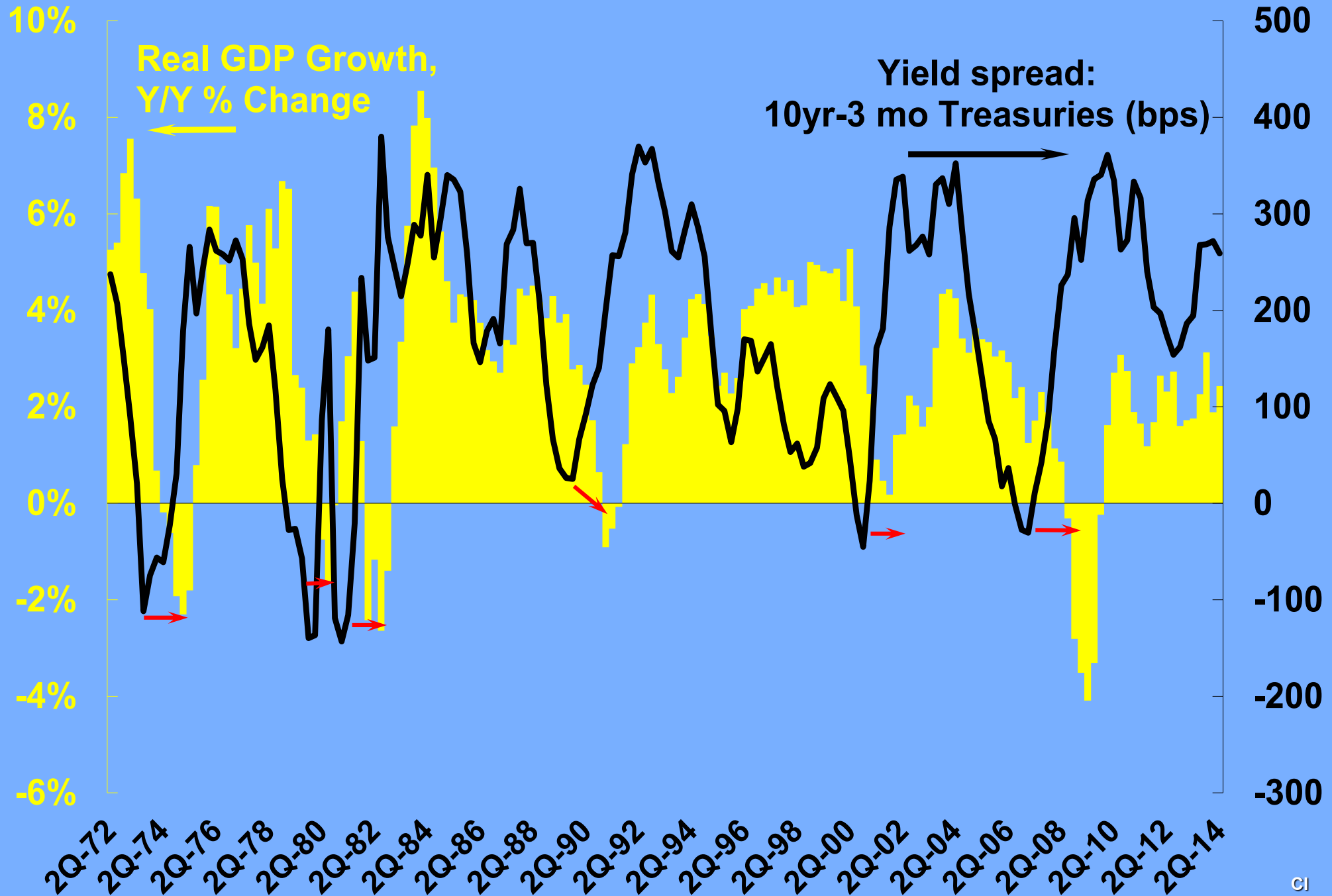
The Treasury Yield Spread (Curve) vs. GDP



source: Federal Reserve, BEA

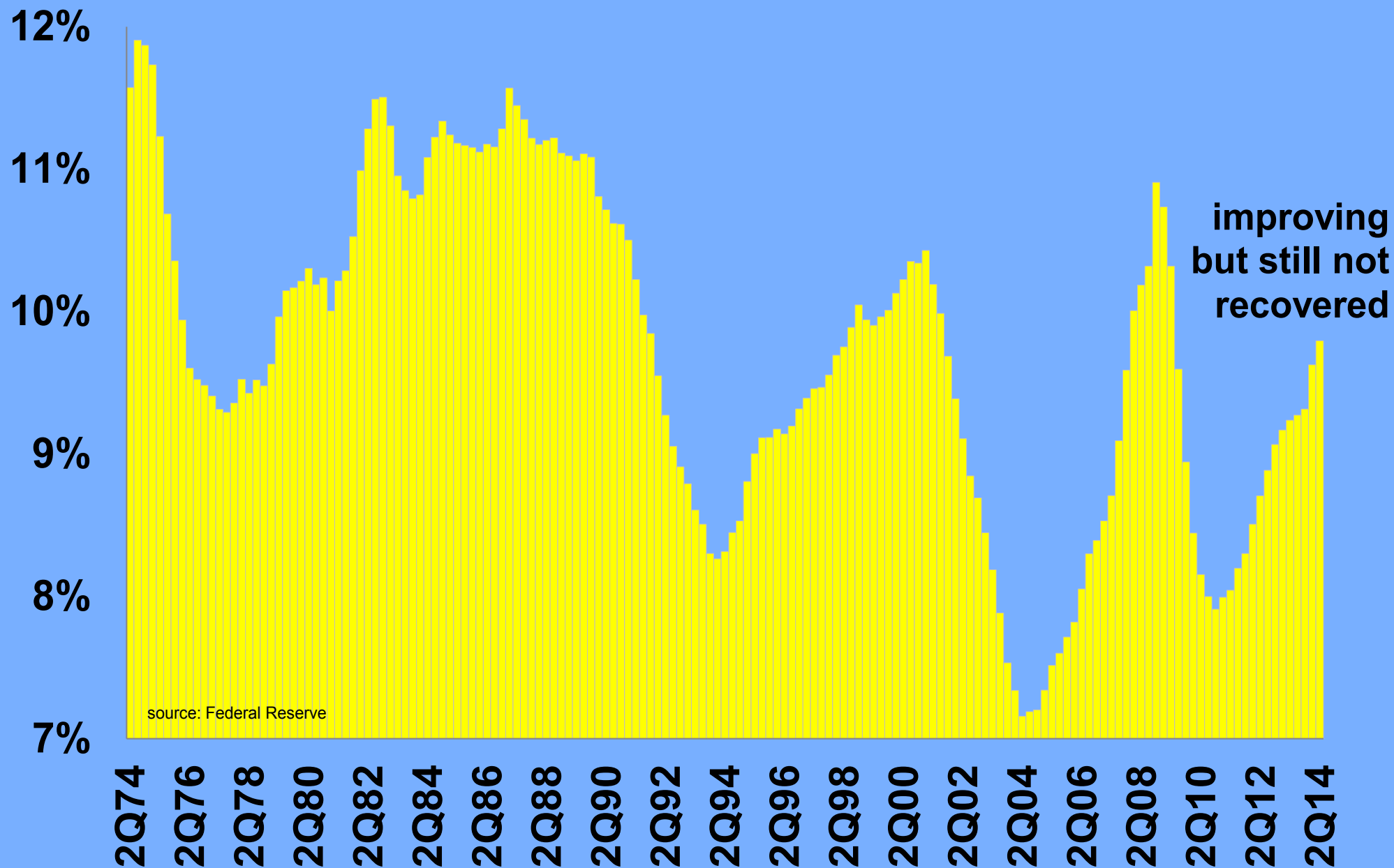
Fed Policy

The Treasury Yield Spread (Curve) vs. GDP



Fear in the Credit Markets

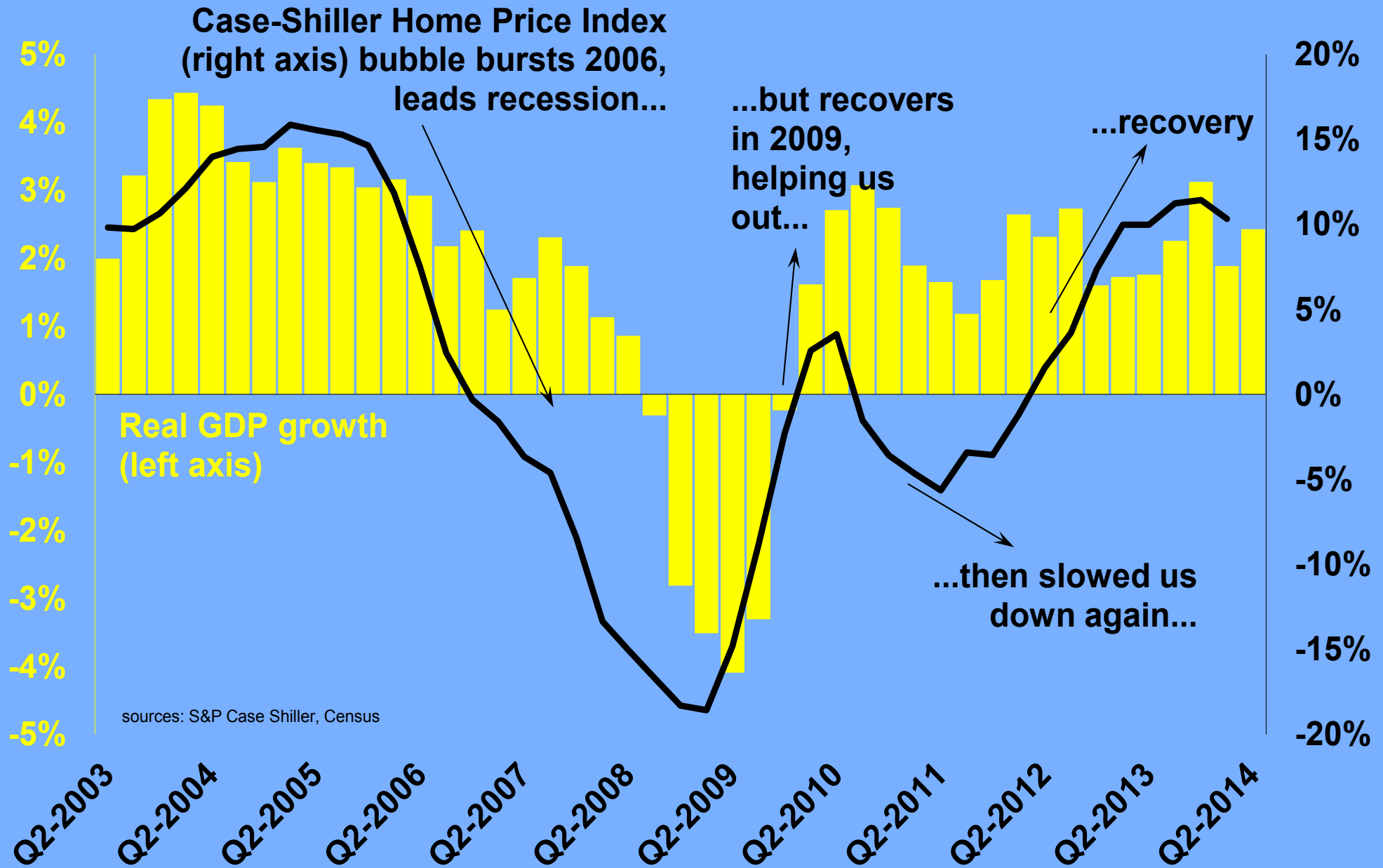
Commercial & Industrial Loans Outstanding as a % of GDP



source: Federal Reserve

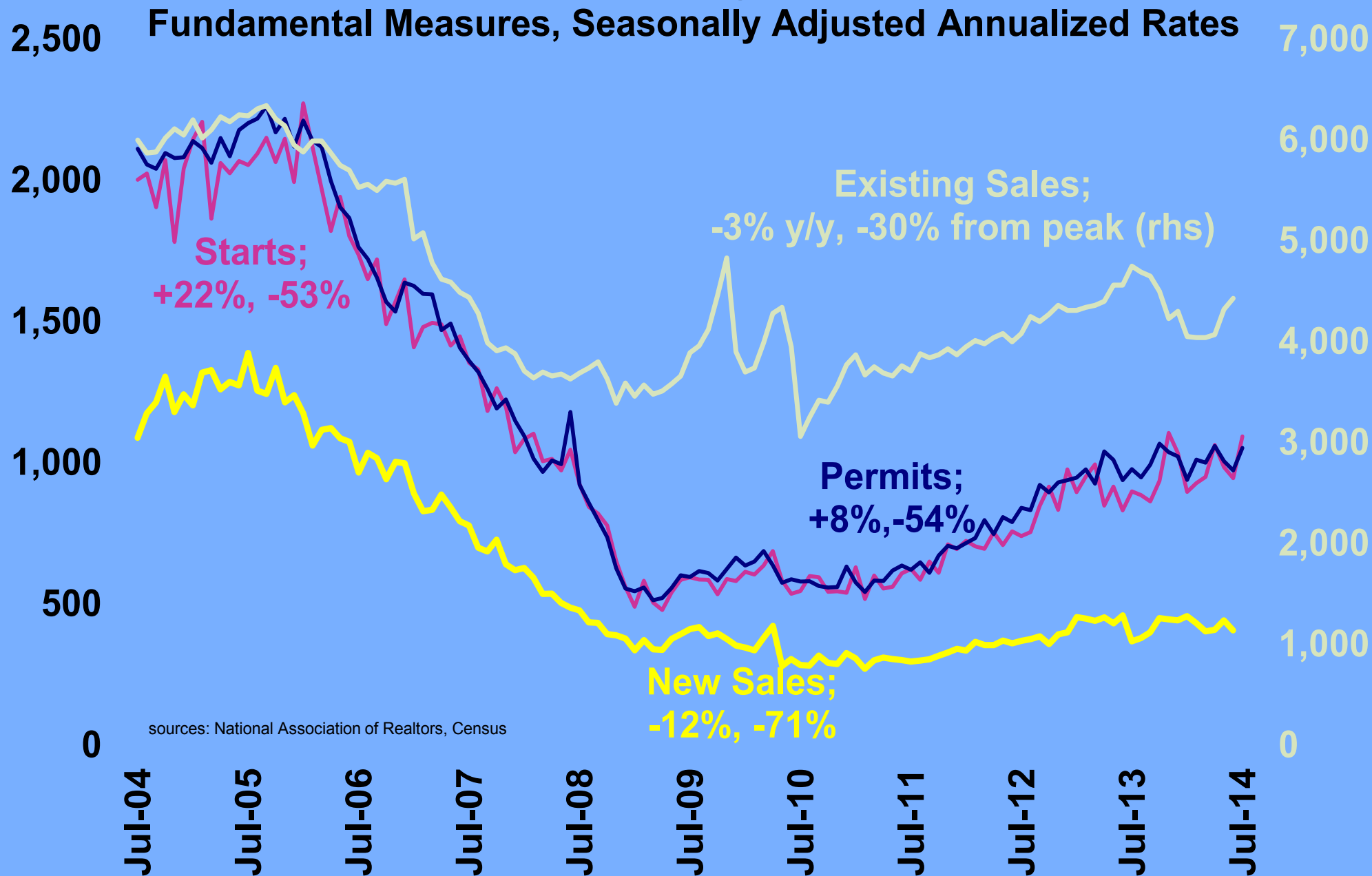
Housing

U.S. Housing Market



Housing

U.S. Housing Market



Recap

- Four forces caused/ended recession
- Oil prices slight tailwind
- Yield spread positive
- Lending good
- Housing recovering (but sporadically)
- So things are looking up, but...

Recap

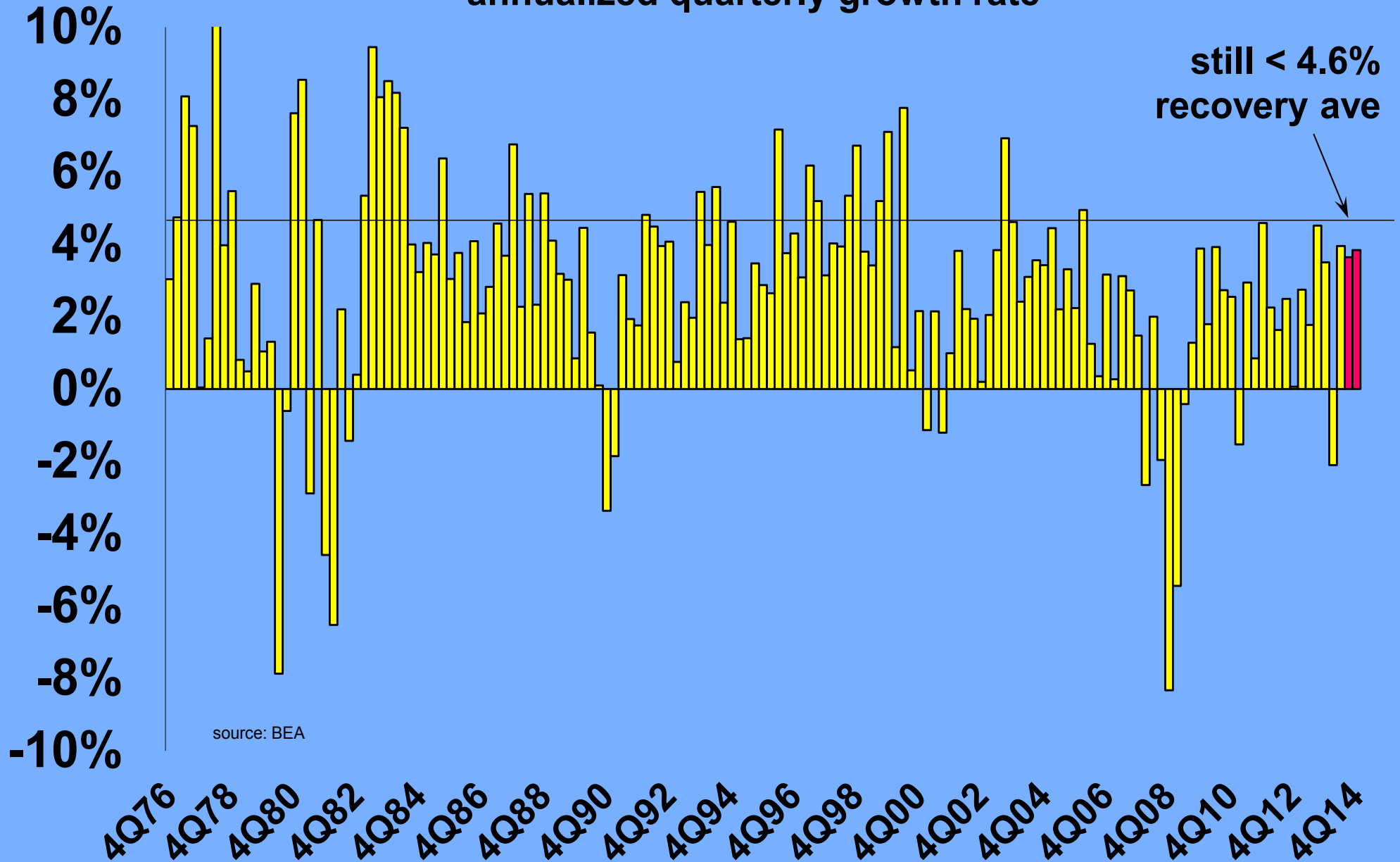
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- So things are looking up, but...

- **Headwinds:**
- **GDP, income, confidence weak**
- **Labor market with structural problems**
- **Fiscal policy with drag of taxes and debt**
- **Monetary policy with long term inflation risk**
- **Uncertainty of Dodd-Frank, true costs of Obamacare, 2014 elections**

- **Those are the forces... what do the measures say?**

GDP very weak

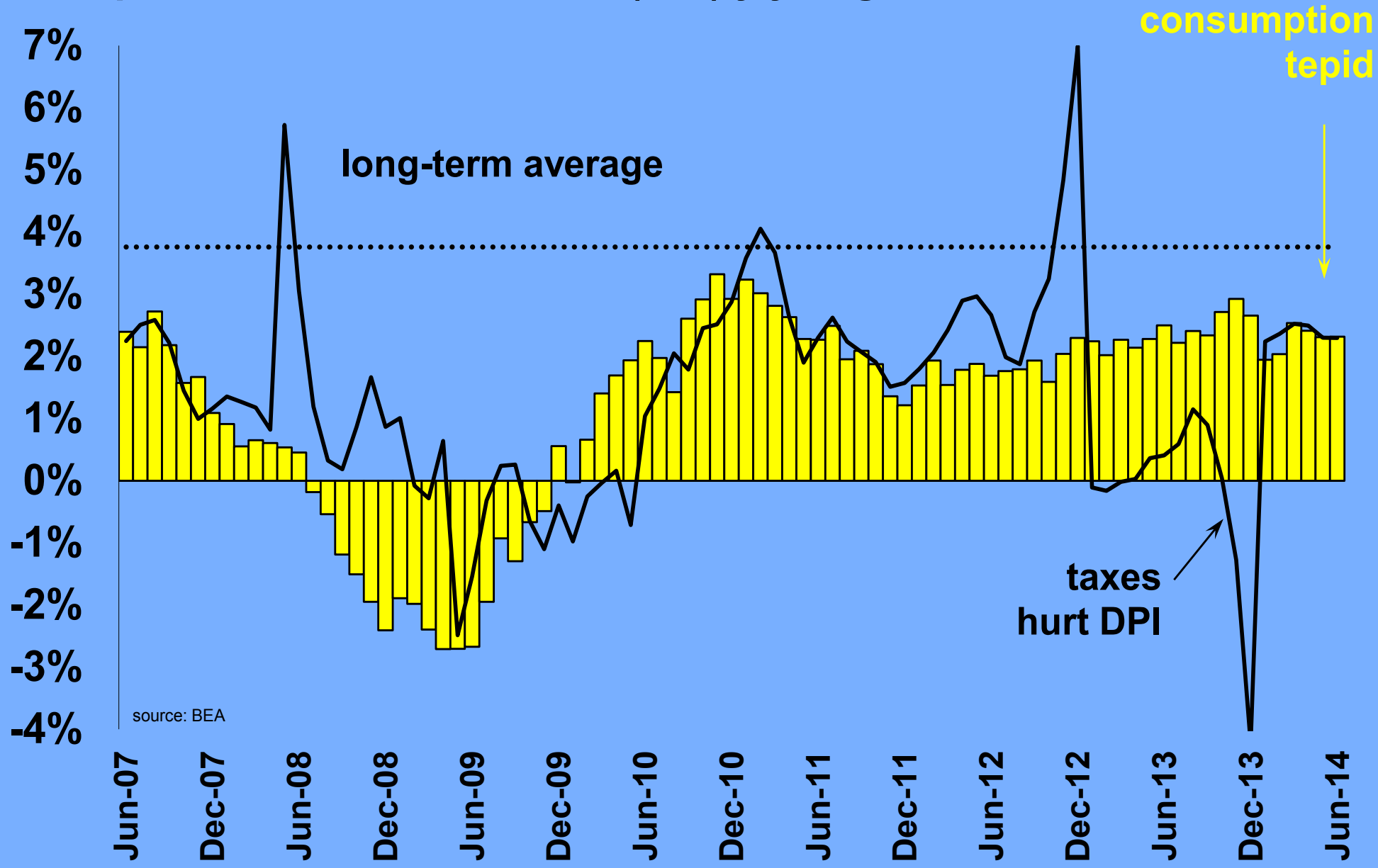
Real Gross Domestic Product (GDP) annualized quarterly growth rate



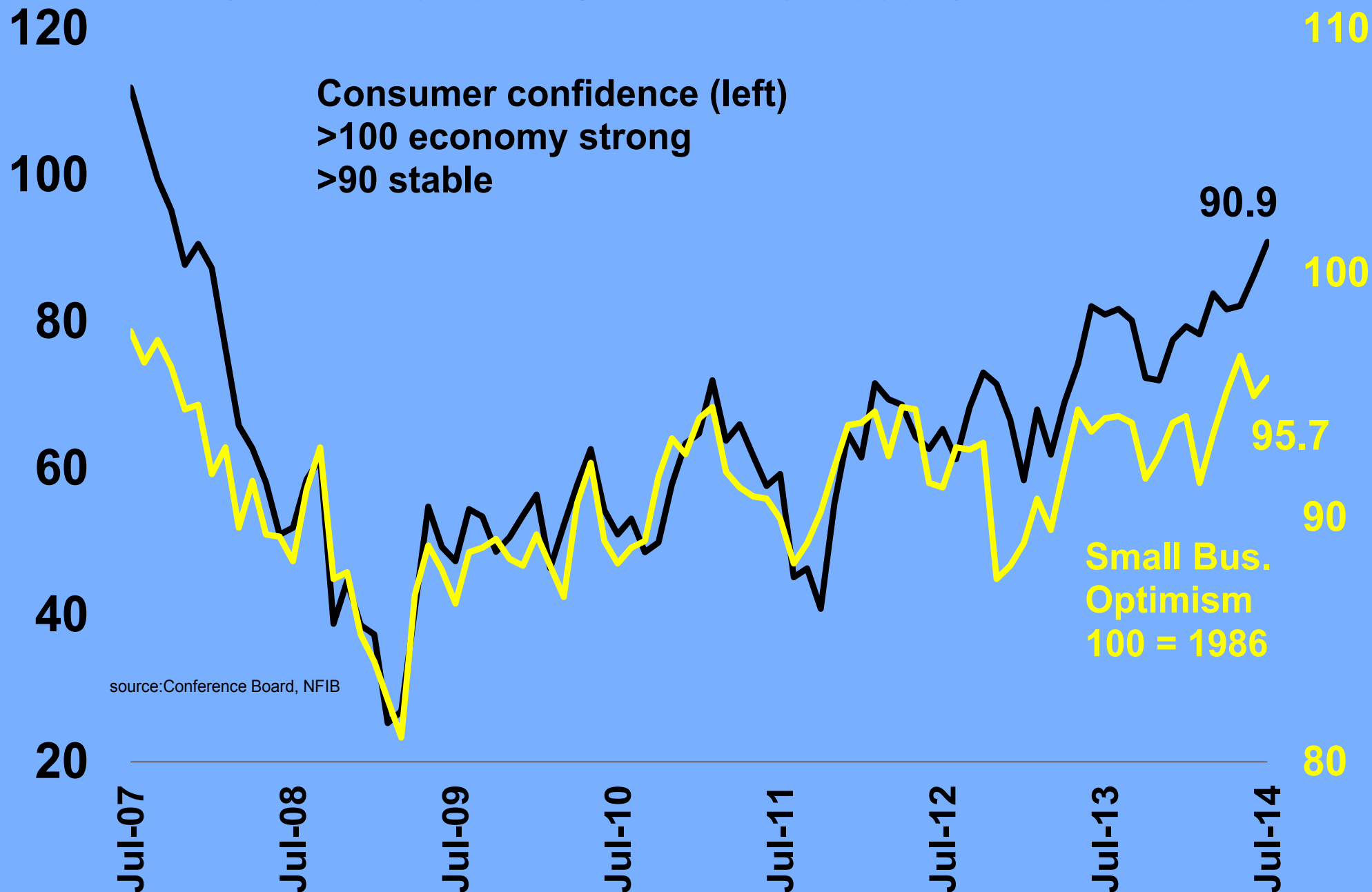
source: BEA

The Consumer... The Ability to Spend, Income

Real Personal Consumption Expenditures (PCE) & Disposable Personal Income (DPI) y/y % growth rate

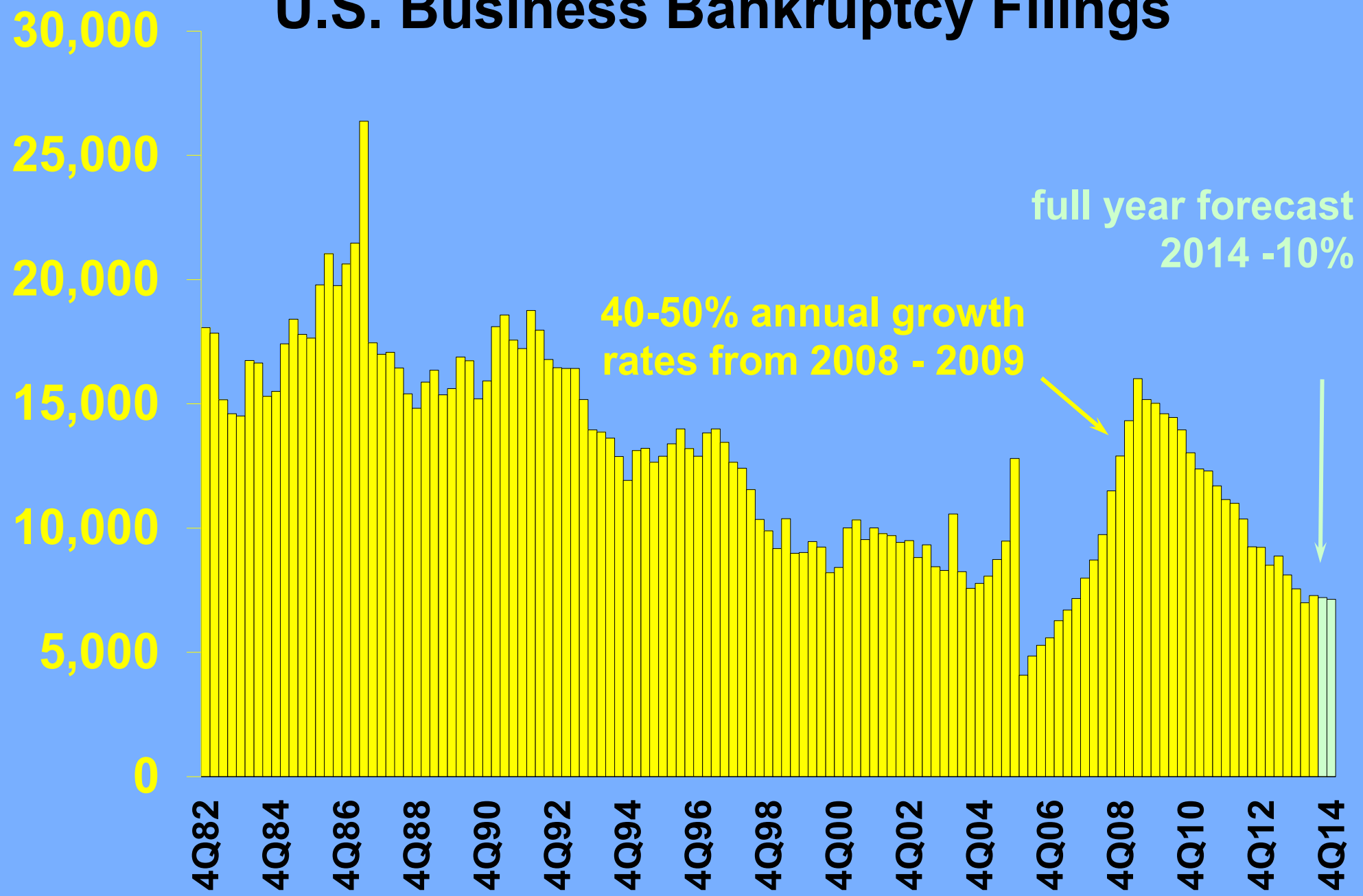


Consumer and Small Business Confidence



source:Conference Board, NFIB

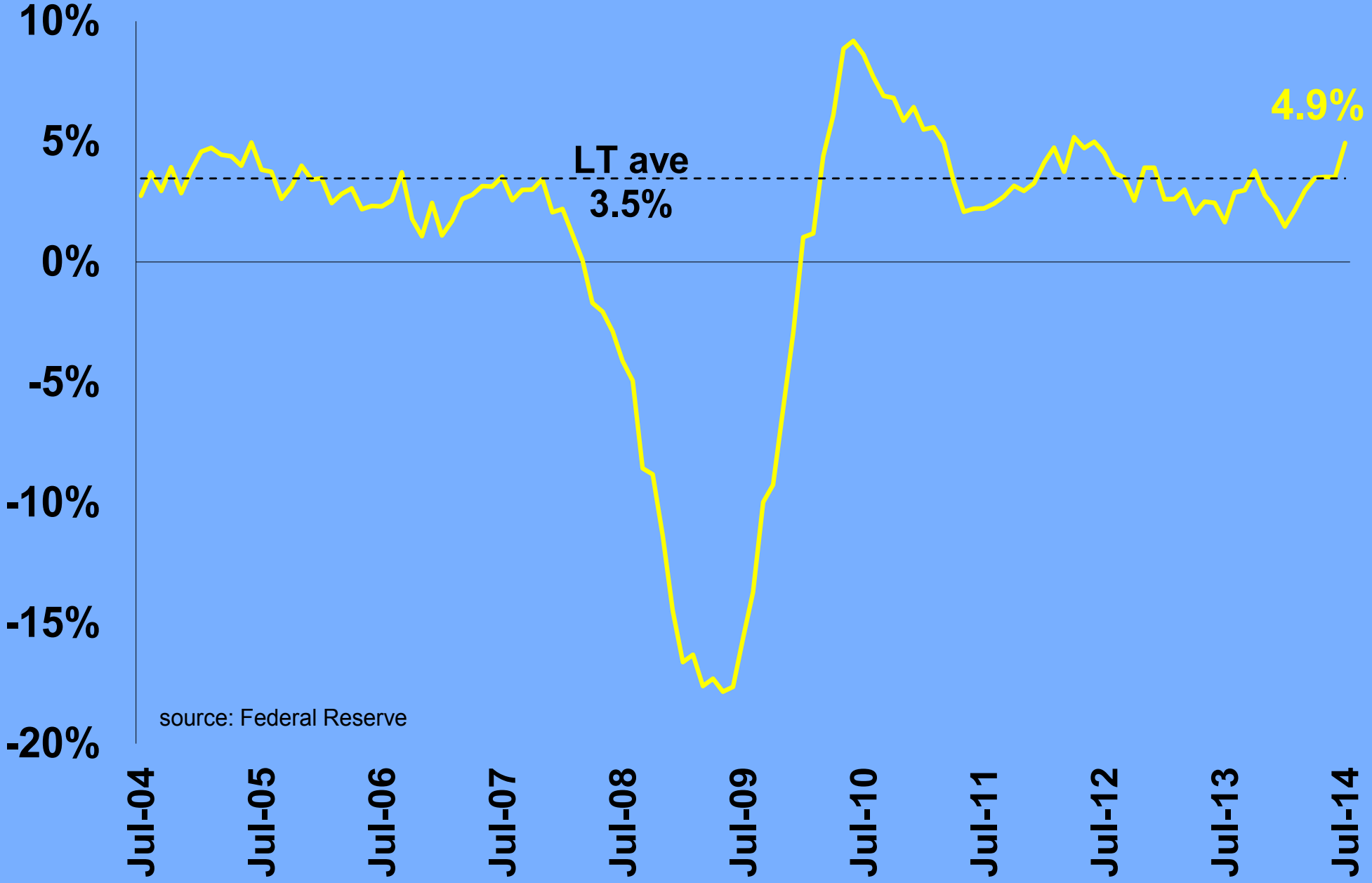
U.S. Business Bankruptcy Filings



source: Administrative Office of the U.S. Courts, Euler Hermes

Manufacturing rebounding

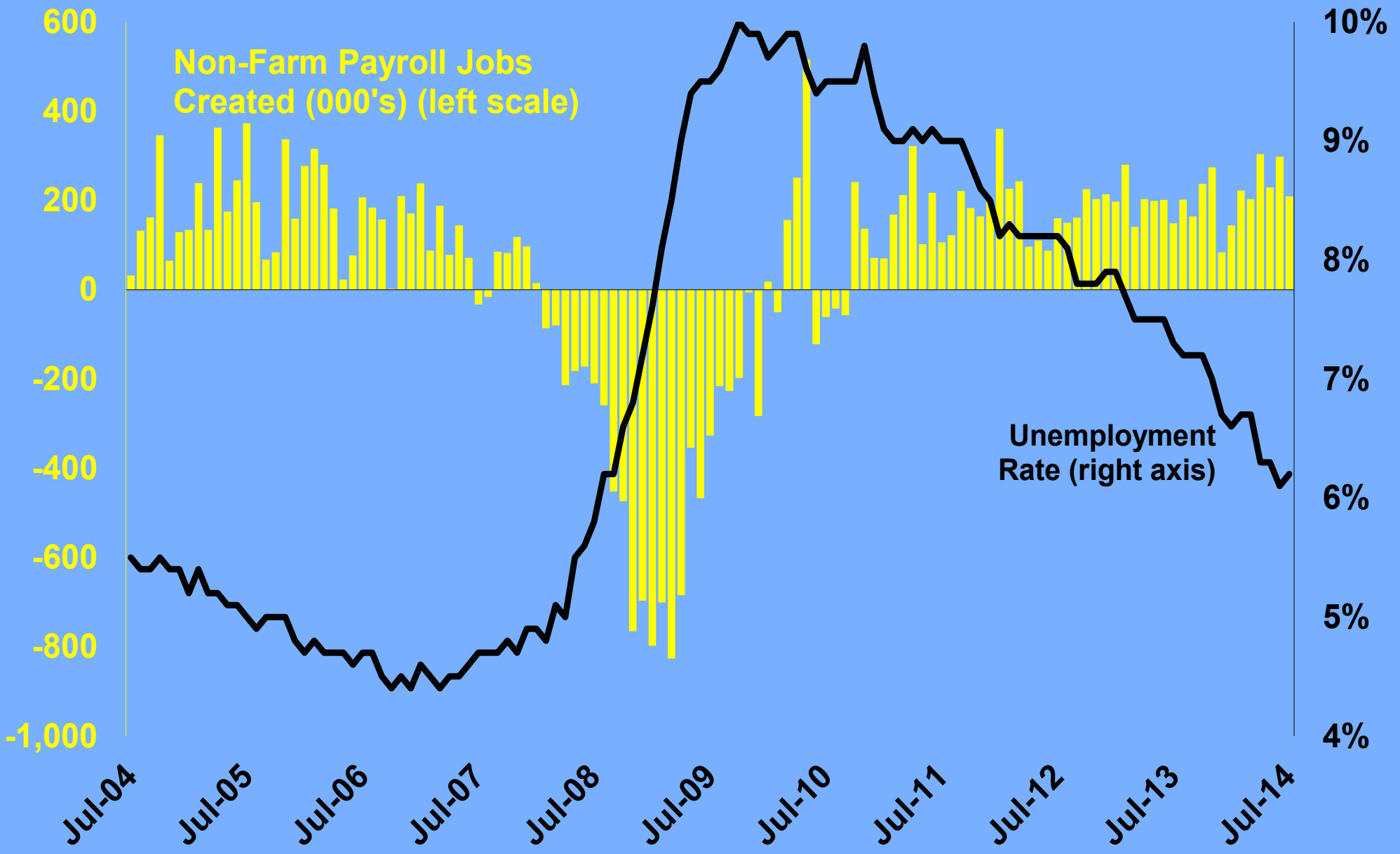
Manufacturing Industrial Production, y/y



source: Federal Reserve

But employment still worrisome

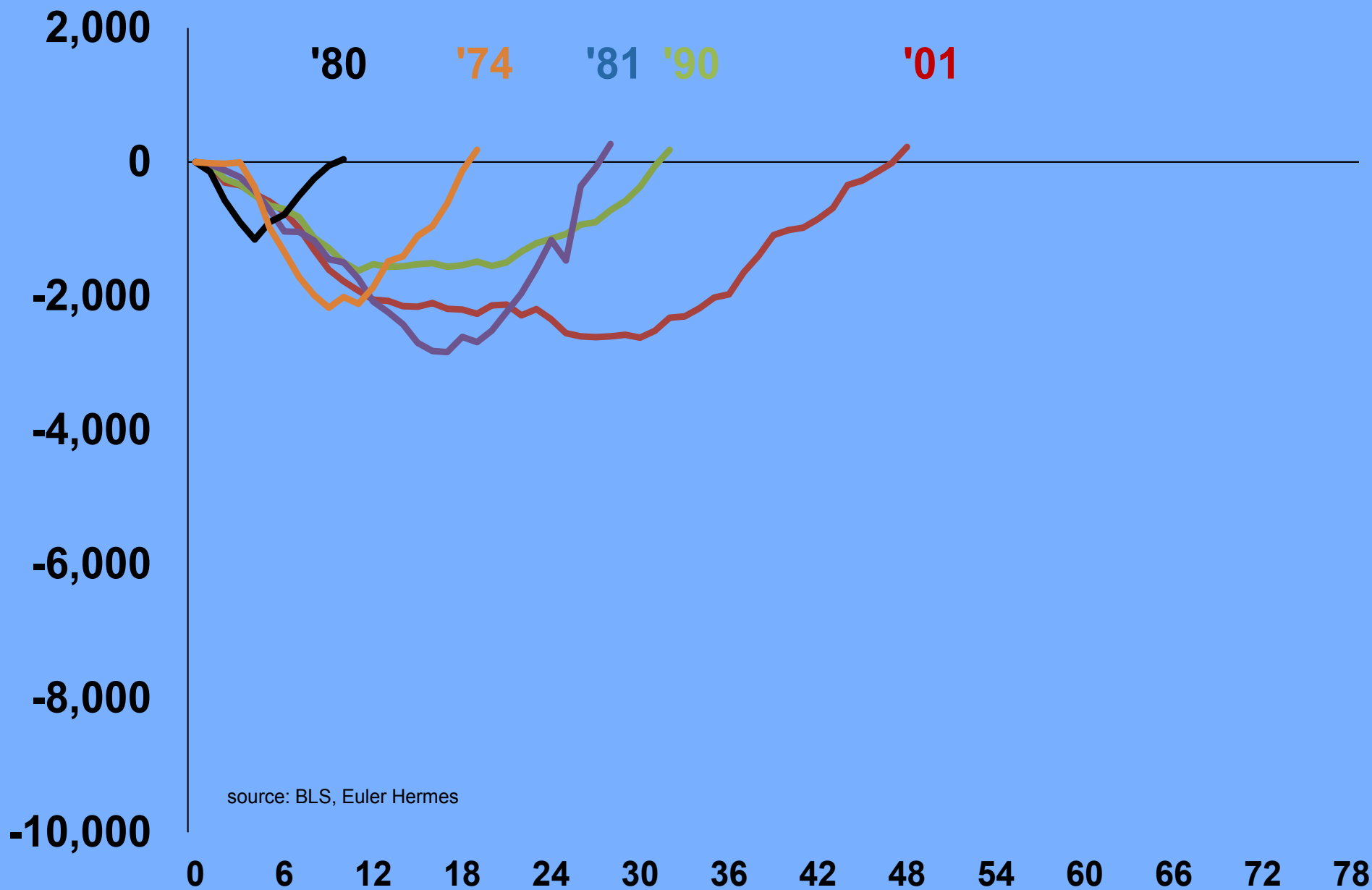
Jobs Created and the Unemployment Rate



source: Labor Department

But employment still worrisome

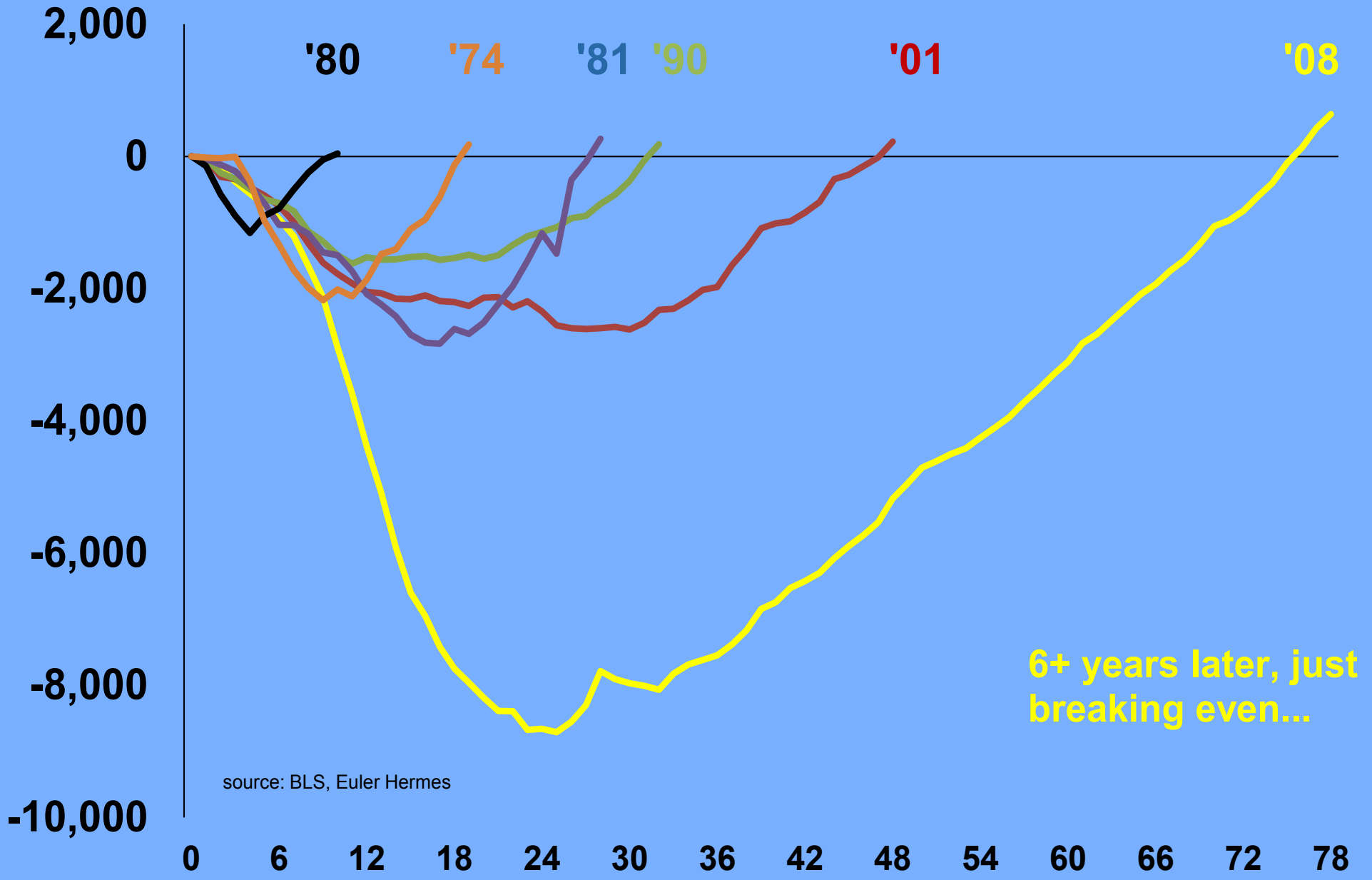
Cumulative Job Loss By Months of Recession, 000s



source: BLS, Euler Hermes

But employment still worrisome

Cumulative Job Loss By Months of Recession, 000s

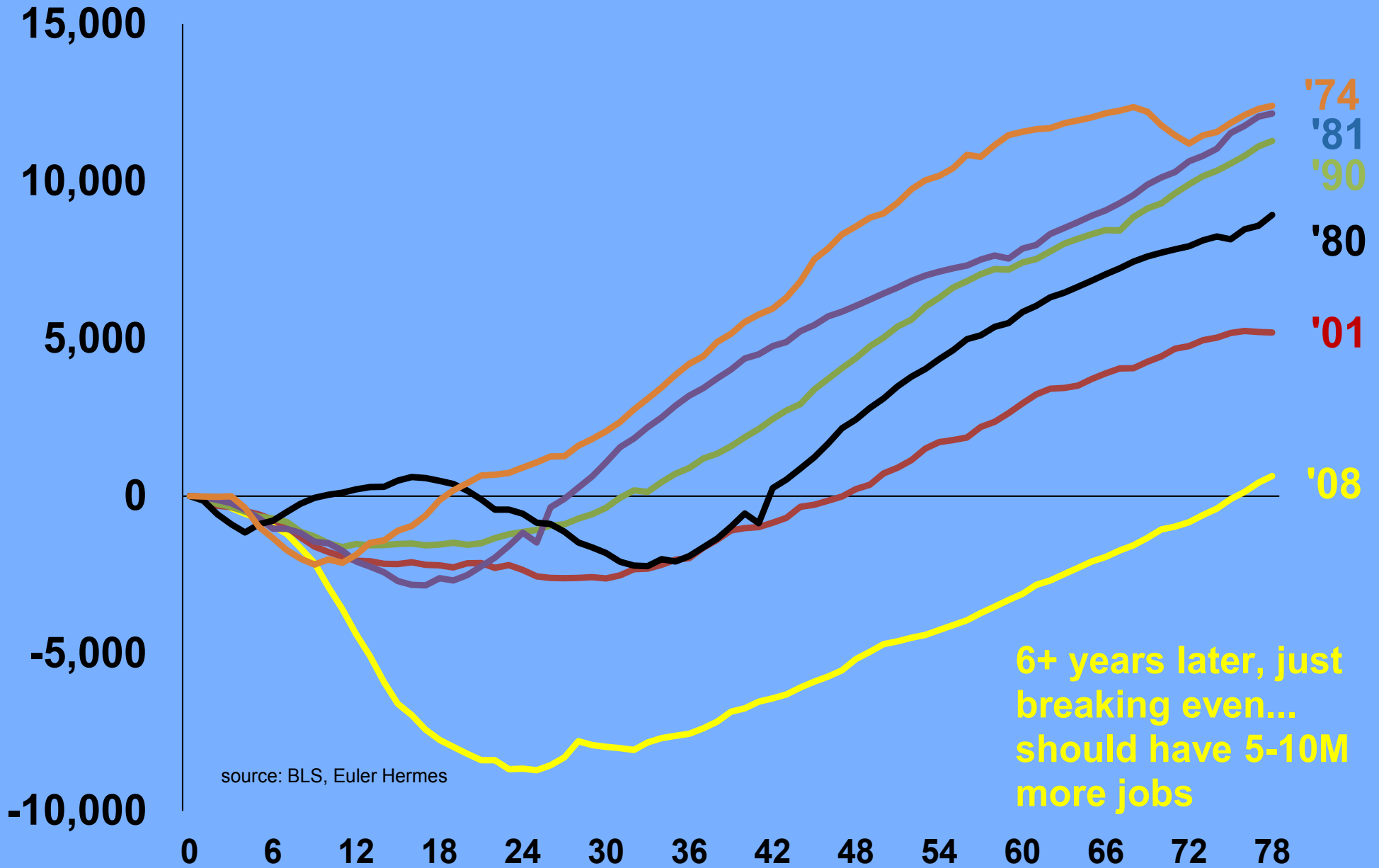


6+ years later, just breaking even...

source: BLS, Euler Hermes

But employment still worrisome

Cumulative Job Loss By Months of Recession, 000s

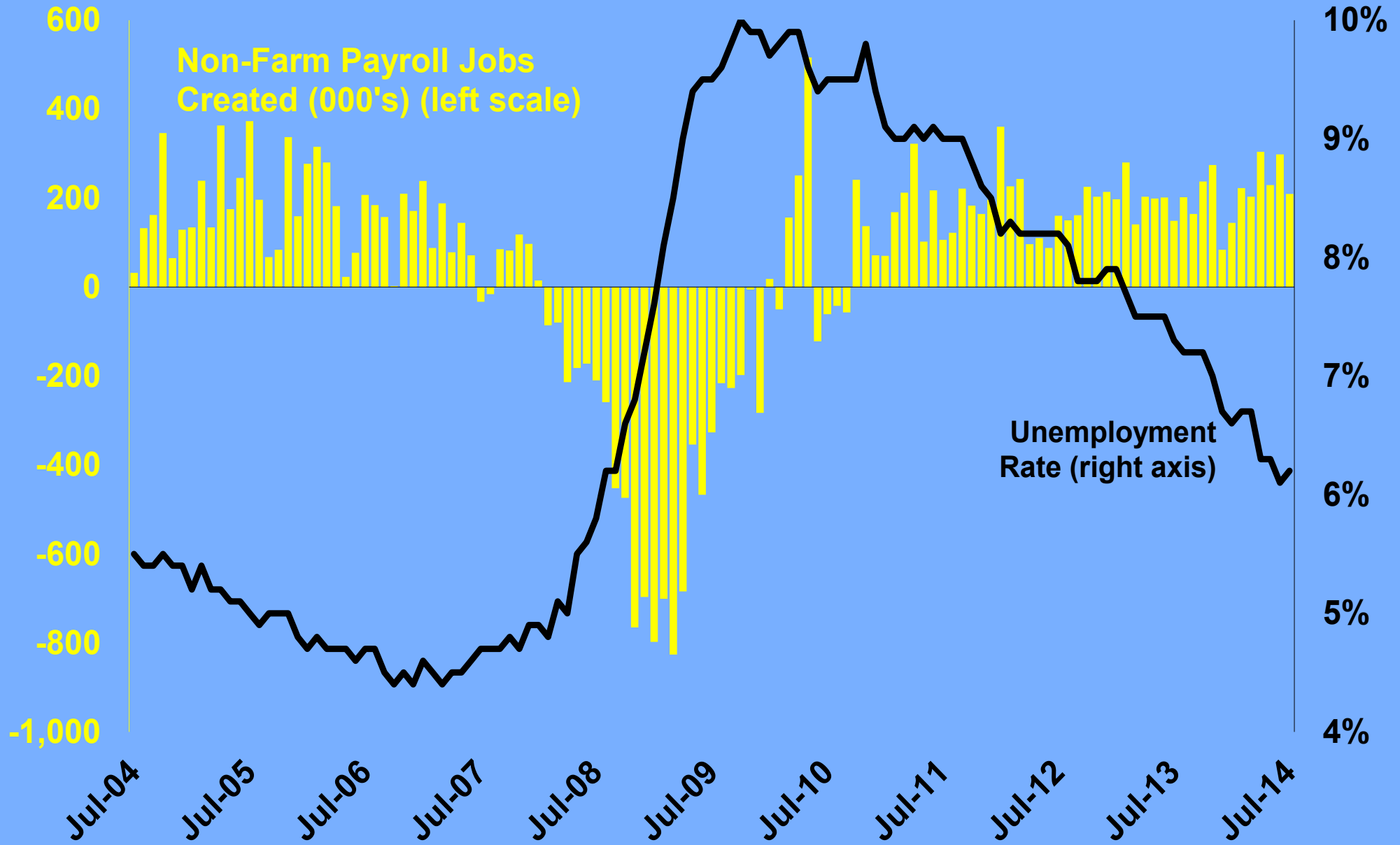


source: BLS, Euler Hermes

6+ years later, just breaking even... should have 5-10M more jobs

But employment still worrisome

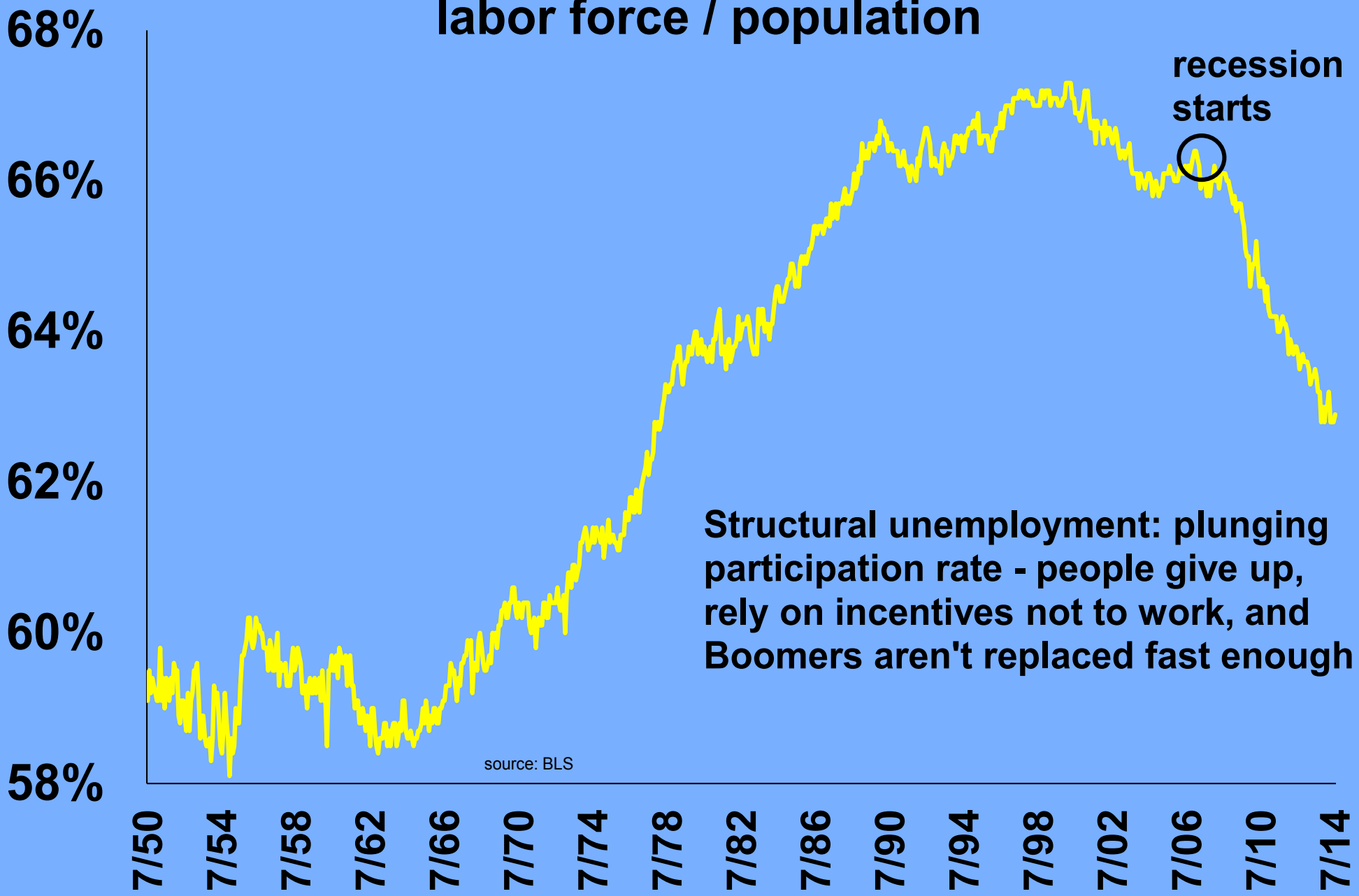
Jobs Created and the Unemployment Rate



source: Labor Department

Structural unemployment, not just cyclical

Labor Force Participation Rate labor force / population

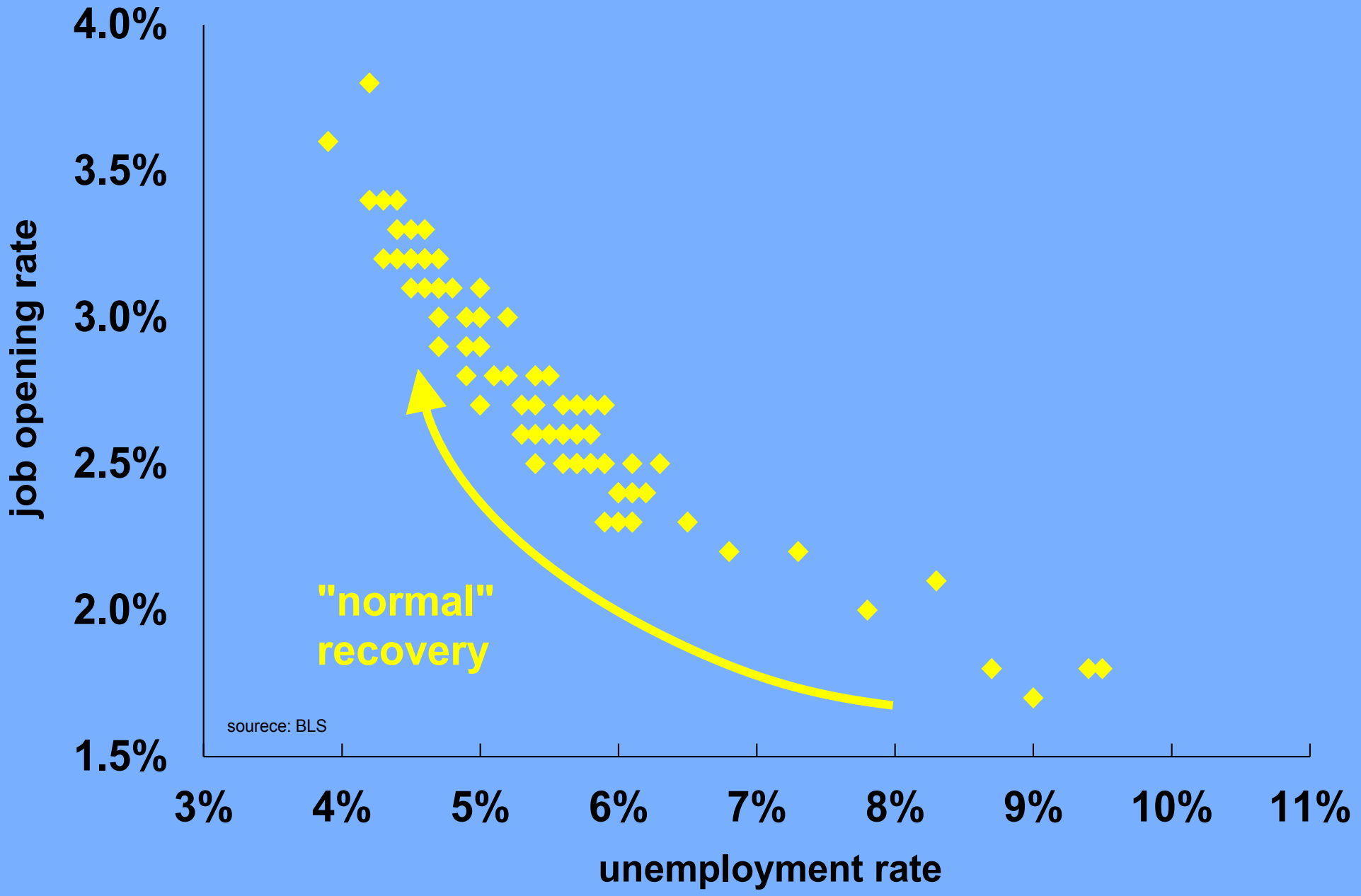


Structural unemployment: plunging participation rate - people give up, rely on incentives not to work, and Boomers aren't replaced fast enough

source: BLS

Structural unemployment, not just cyclical

Job Opening Rate vs. Unemployment Rate

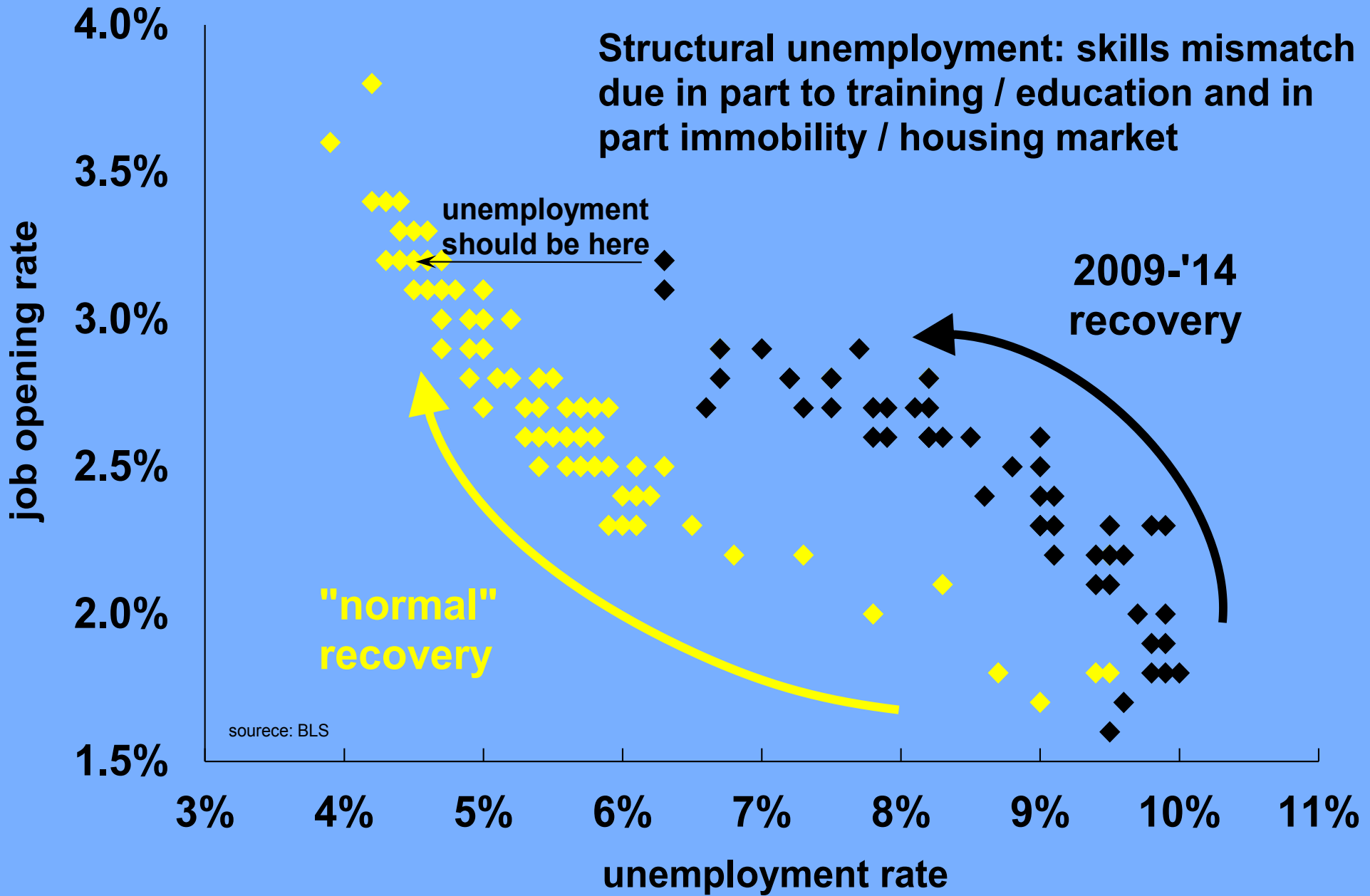


source: BLS

Structural unemployment, not just cyclical

Job Opening Rate vs. Unemployment Rate

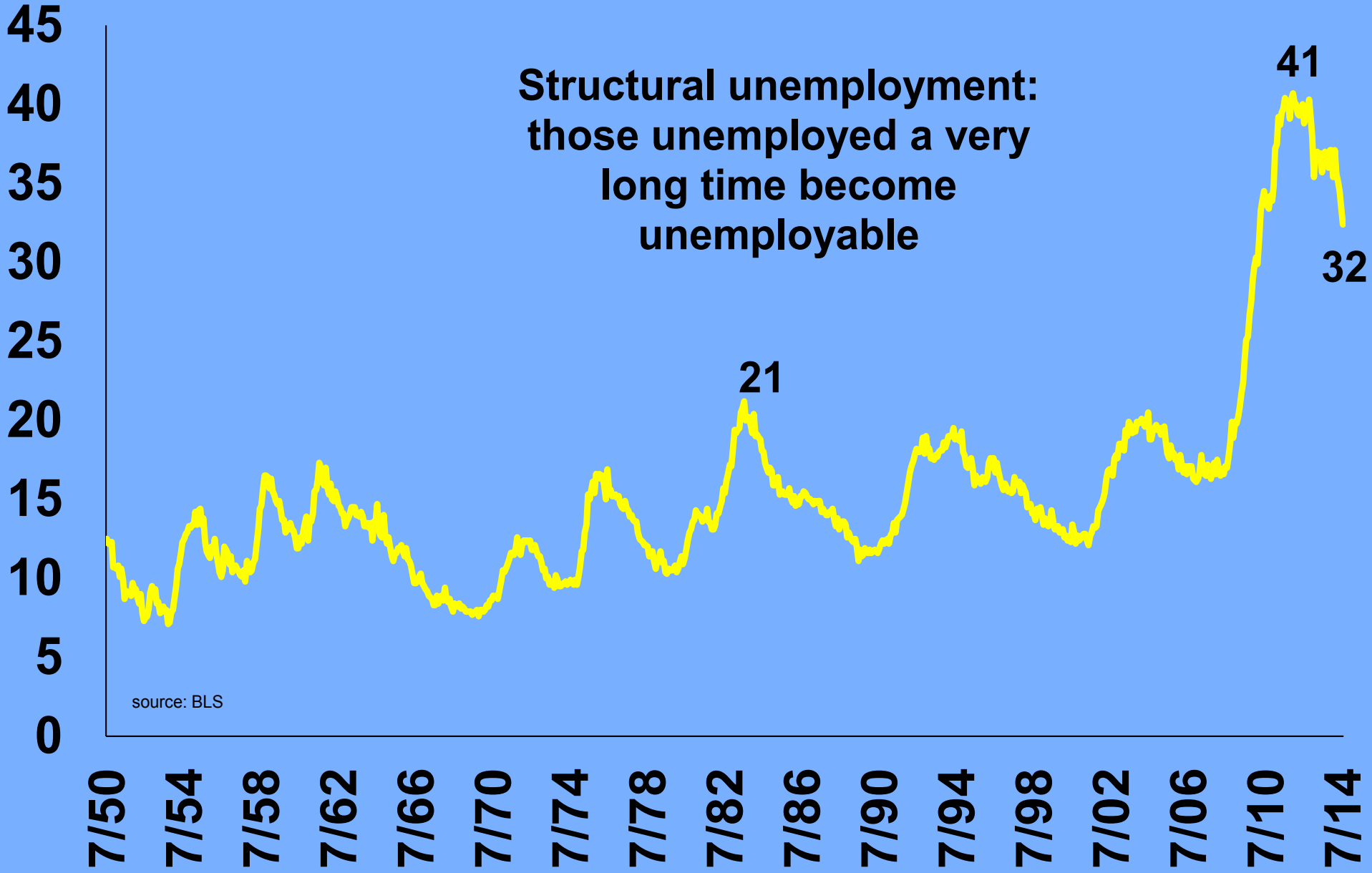
Structural unemployment: skills mismatch due in part to training / education and in part immobility / housing market



source: BLS

Structural unemployment, not just cyclical

Average Duration of Unemployment, Weeks



Structural Unemployment is a Major Impediment to Growth

- **Plunging participation rate – incentives not to work, Boomers not being replaced fast enough.**
 - **Change incentives (35 states pay > minimum wage in welfare benefits, 13 pay > \$15/hr, 6 states pay > starting computer programmer)**
 - **More skilled legal immigration**
- **Skills mismatch due in part to education / training and in part to immobility from underwater houses.**
 - **Need more vocational education / training, housing improving.**
 - **More skilled legal immigration**
- **Long time unemployed become unemployable.**

Recap

- Four forces caused/ended recession
- Oil prices slight tailwind
- Yield spread positive
- Lending good
- Housing recovering (sporadically)
- Manufacturing rebounding
- Headwinds: Weak income, confidence, structural unemployment, uncertainty

- GDP, recovery still weak
- Employment situation still terrible
- To fix it, the government has been causing two big long-term problems:
Debt & Potential Inflation

FISCAL POLICY

**Congress, Administration
Spending, taxing, borrowing
deficits/debt, budgets...**

Budget Math in Washington

- Year 1: spent \$80
- Original budget for year 2: spend \$110
- Final budget for year 2: spend \$90

- In most places spending \$10 more the second year would be an increase in spending.

- Not in Washington. This is what they call a \$20 “cut”; they wanted to spend \$110 but only get to spend \$90.

- Both sides do this every time.

Spending, Deficits and Debt

Gov't spends \$10

Gov't gets tax revenue \$8

Deficit \$2

Treas. gets loan, issues \$2 notes/bonds

Spending, Deficits and Debt

Gov't spends **\$10**

Gov't gets tax revenue **\$8**

Deficit **\$2**

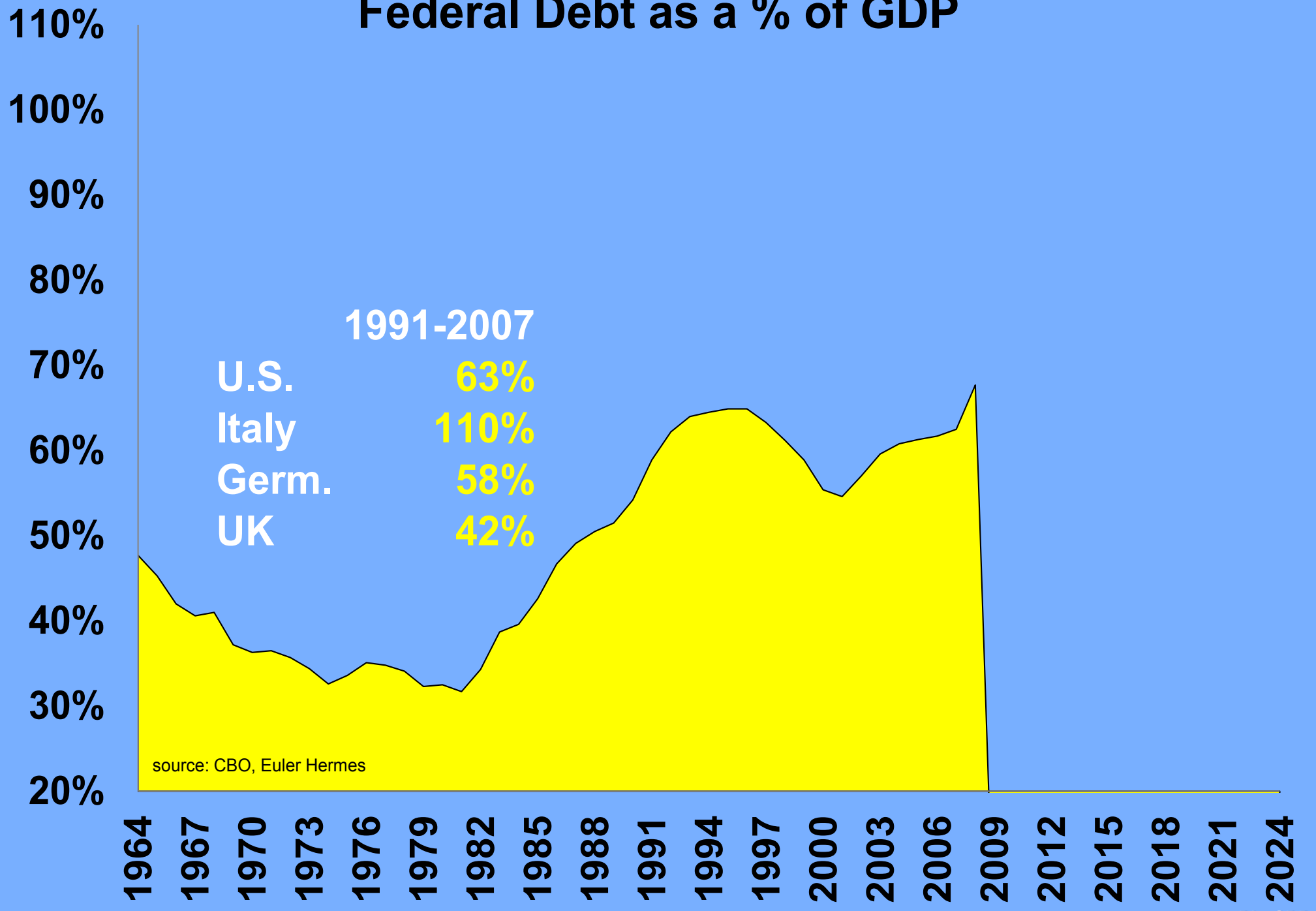
Treas. gets loan, issues \$2 notes/bonds

**This \$2 is a TAX our kids will have to pay
(and we're not paying enough tax?)**

**How big is \$2T? Don't know - measure
against size of the economy - GDP**

Accumulated deficits become debt...

Federal Debt as a % of GDP

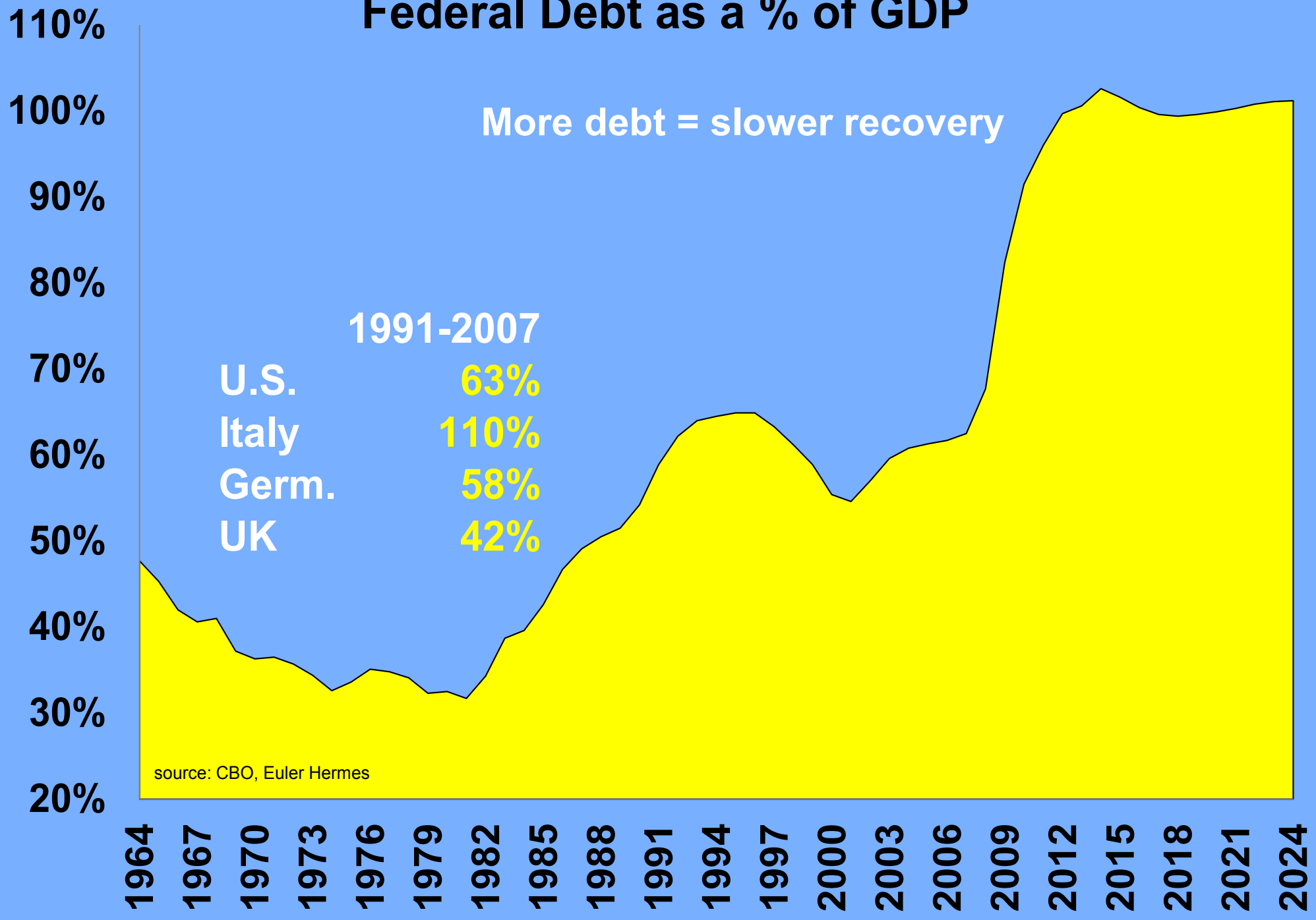


Dbt GDP

Accumulated deficits become debt...

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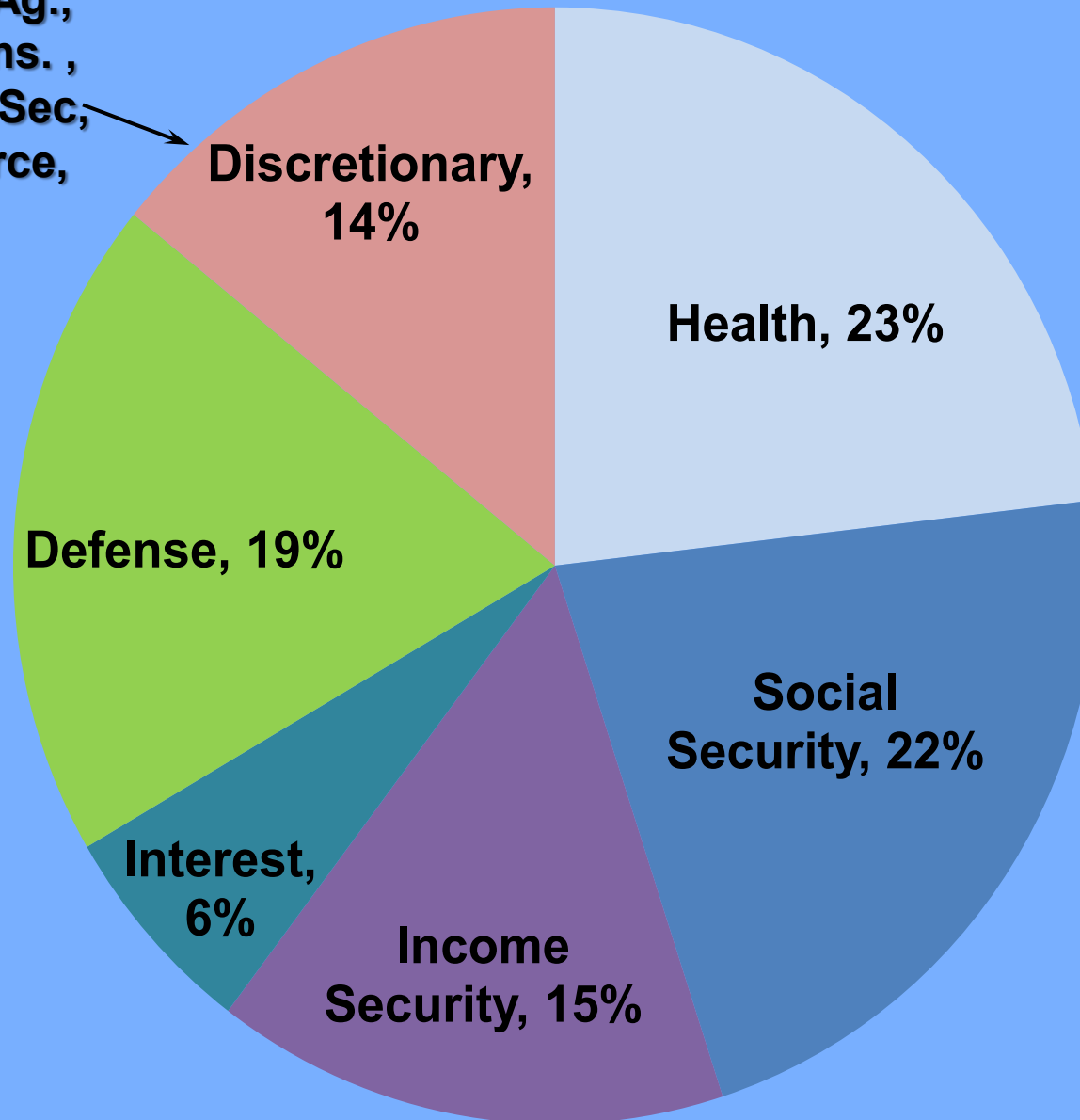
More debt = slower recovery



source: CBO, Euler Hermes

2012 Outlays, \$3.5T

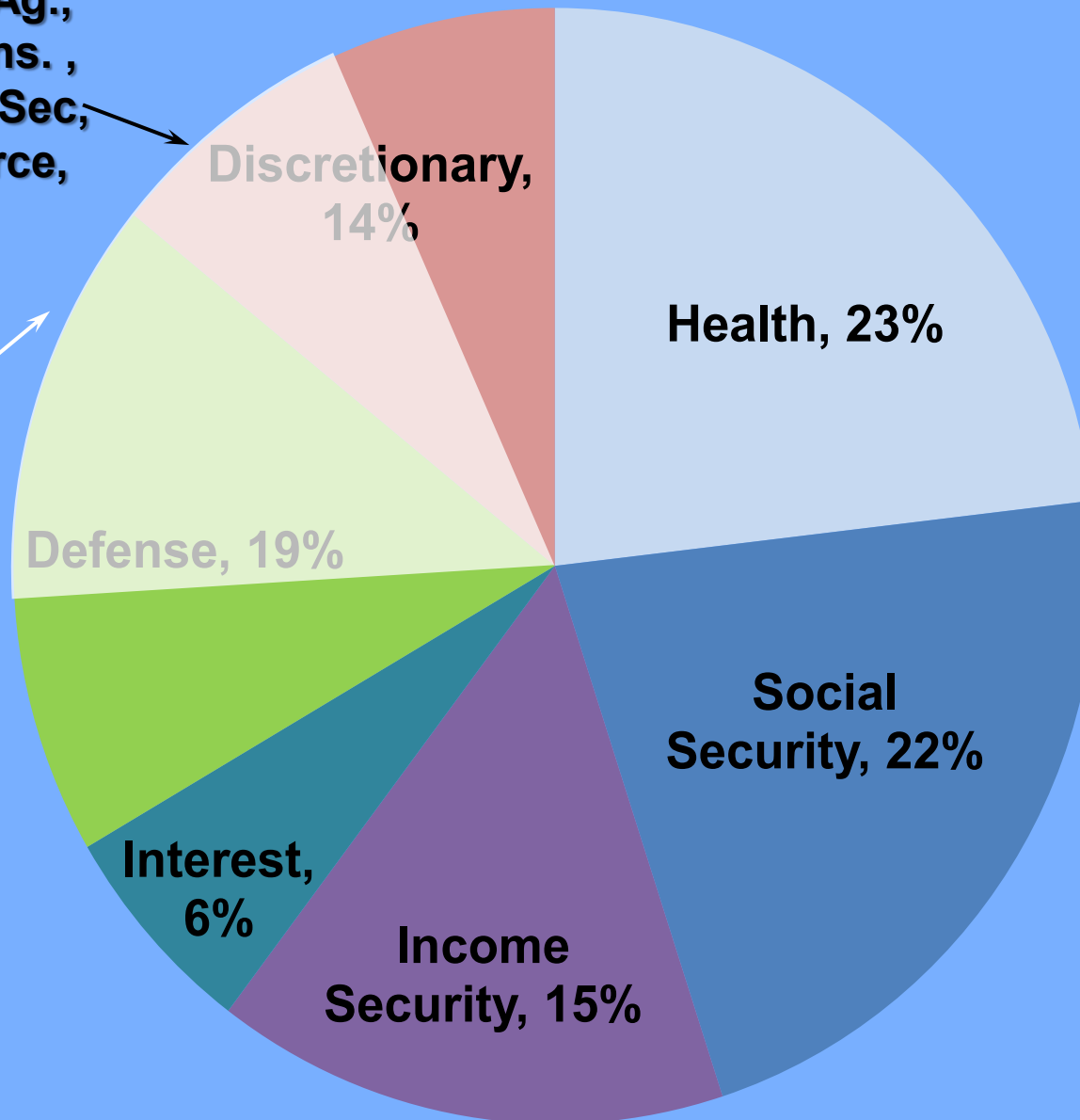
HUD, Labor, Edu. Ag.,
State, Justice, Trans. ,
Energy, Homeland Sec,
Treasury, Commerce,
Interior, EPA



2012 Outlays, \$3.5T

HUD, Labor, Edu. Ag.,
State, Justice, Trans. ,
Energy, Homeland Sec,
Treasury, Commerce,
Interior, EPA

deficit



Even w/sequester, total outlays still rise: 2013 = 3.45, 2014 = 3.52, 2015 = 3.77

Entitlements

- Entitlement spending, particularly Medicare or some other form of national healthcare, will be the issue for our time.
- One generation will not be getting the benefits they think are owed.
- Another generation will be taxed to exhaustion to try to provide them.
- 2030 Medicare fund exhausted, can only pay 85% of claims.
- 2034 Social Security trust fund exhausted, can only pay 77% of benefits (Disability fund 2016).
- But it is not hopeless, the math is simple, legal immigration could help.
- No political will to fix it.

Fiscal Policy Review

- There has been no plan, no budget for four years.
- Latest agreement to keep government running? Spend more and tax more.
- No plan to reform entitlements.
- Tax reform badly needed- world's highest corporate rate.
- Still borrowing more every day... \$billions this week alone.
- Debt is a drag and it is not coming down.
- It's not politics, it's just bad policy to burden the next generation with debt that's not even theirs.

MONETARY POLICY

**The Federal Reserve Bank,
Janet Yellen, Ben Bernanke**

MONETARY POLICY

- Lowering the short term Fed Funds interest rate usually works

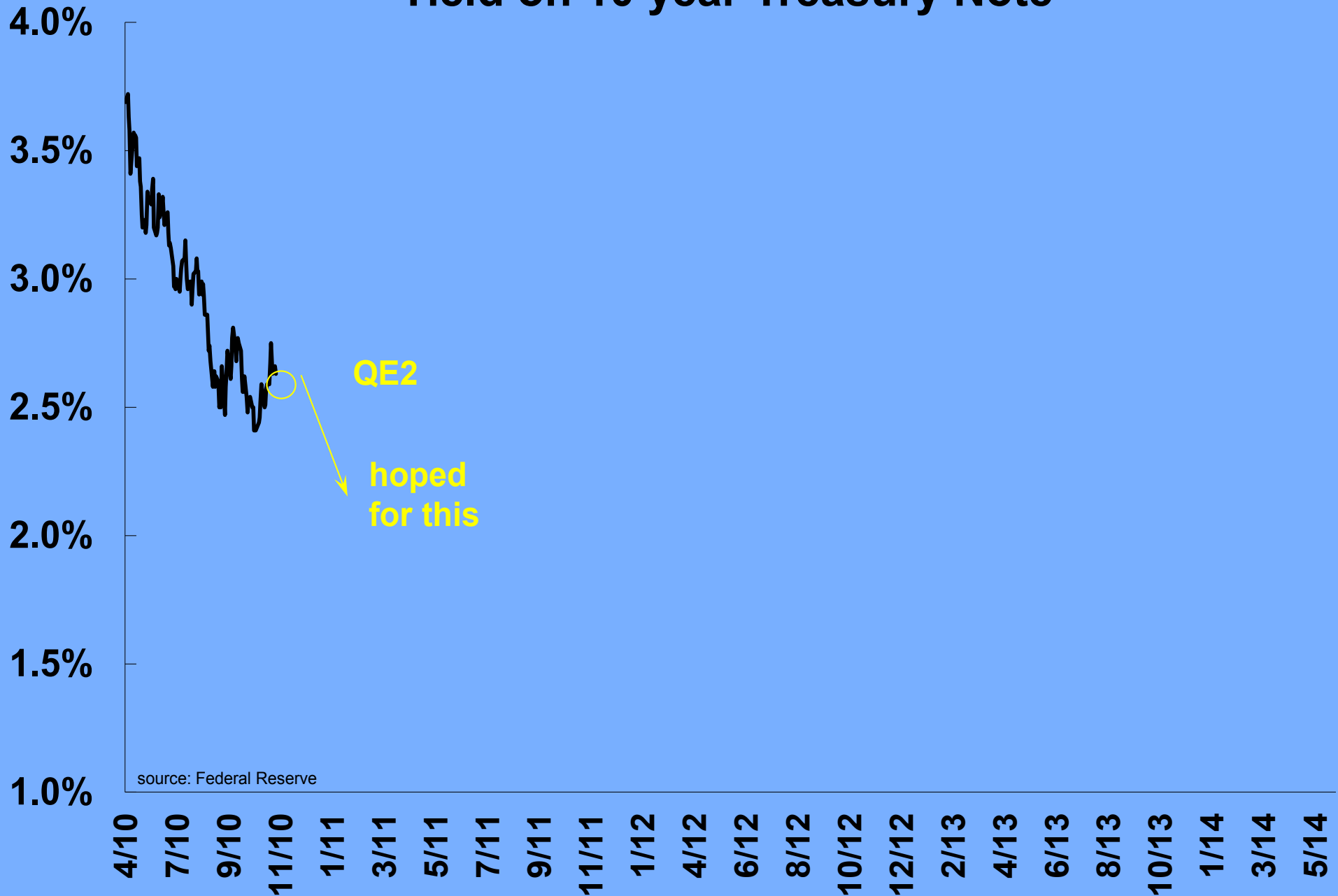
MONETARY POLICY

- Lowering the short term Fed Funds interest rate usually works
- But this time needed an extra boost, lowering long term interest rates - Quantitative Easing (QE):
- Fed prints new \$ bills
- Buys Treasury/MBS bonds in open market
- Raises bond prices, lowering interest rates (prices and rates move in opposite directions)
- Puts \$ into financial system as excess reserves
- And creates inflationary pressures

- Now tapering QE3-4 which likely had limited effect.
- Bernanke: QE2 = 15 - 45bps, each round less effective
- Rates near record lows, plenty of excess reserves – banks don't want to lend them and demand weak.

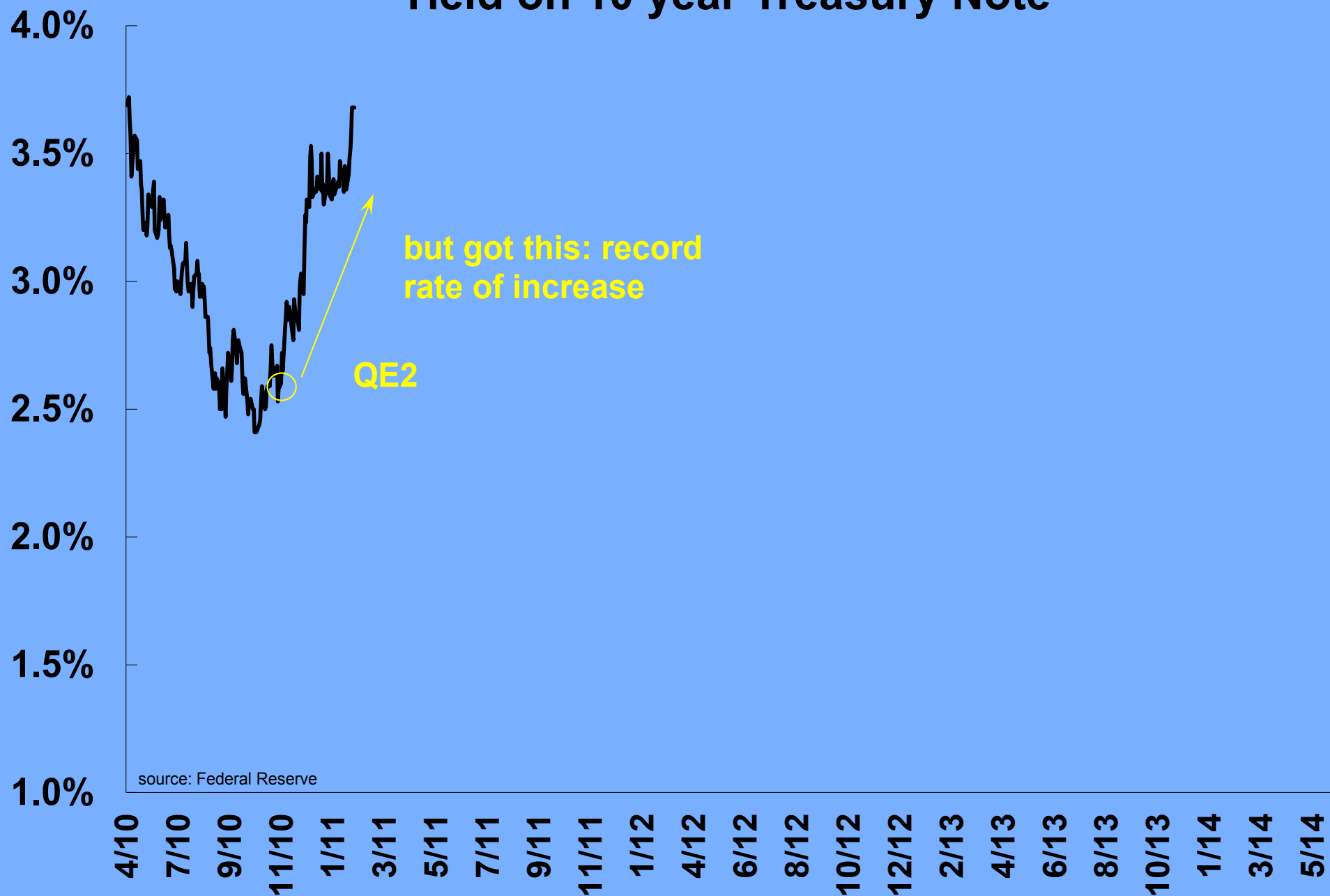
Did QE2 work?

Yield on 10 year Treasury Note



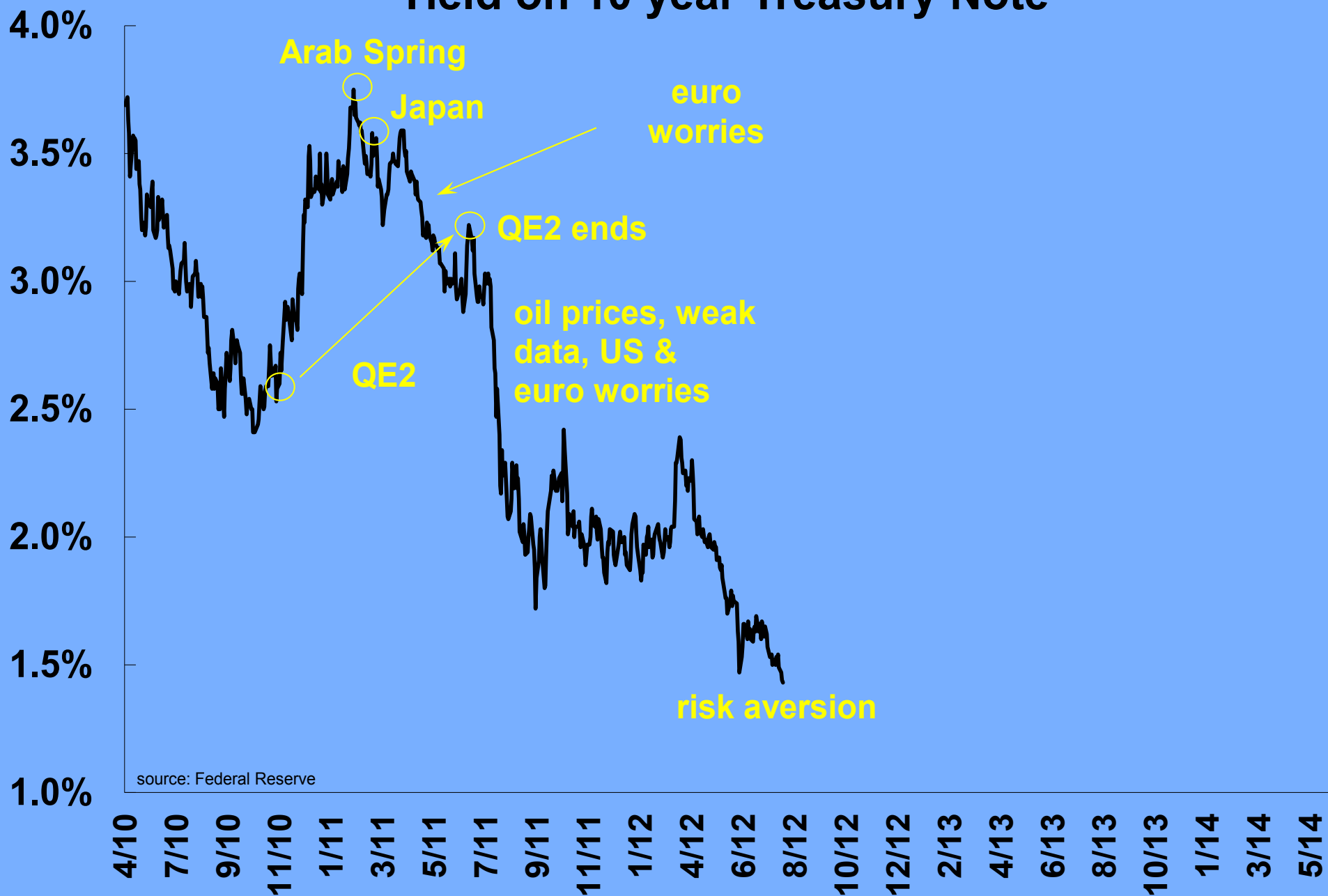
Did QE2 work?

Yield on 10 year Treasury Note



Did QE2 work?

Yield on 10 year Treasury Note



Did QE2 work?

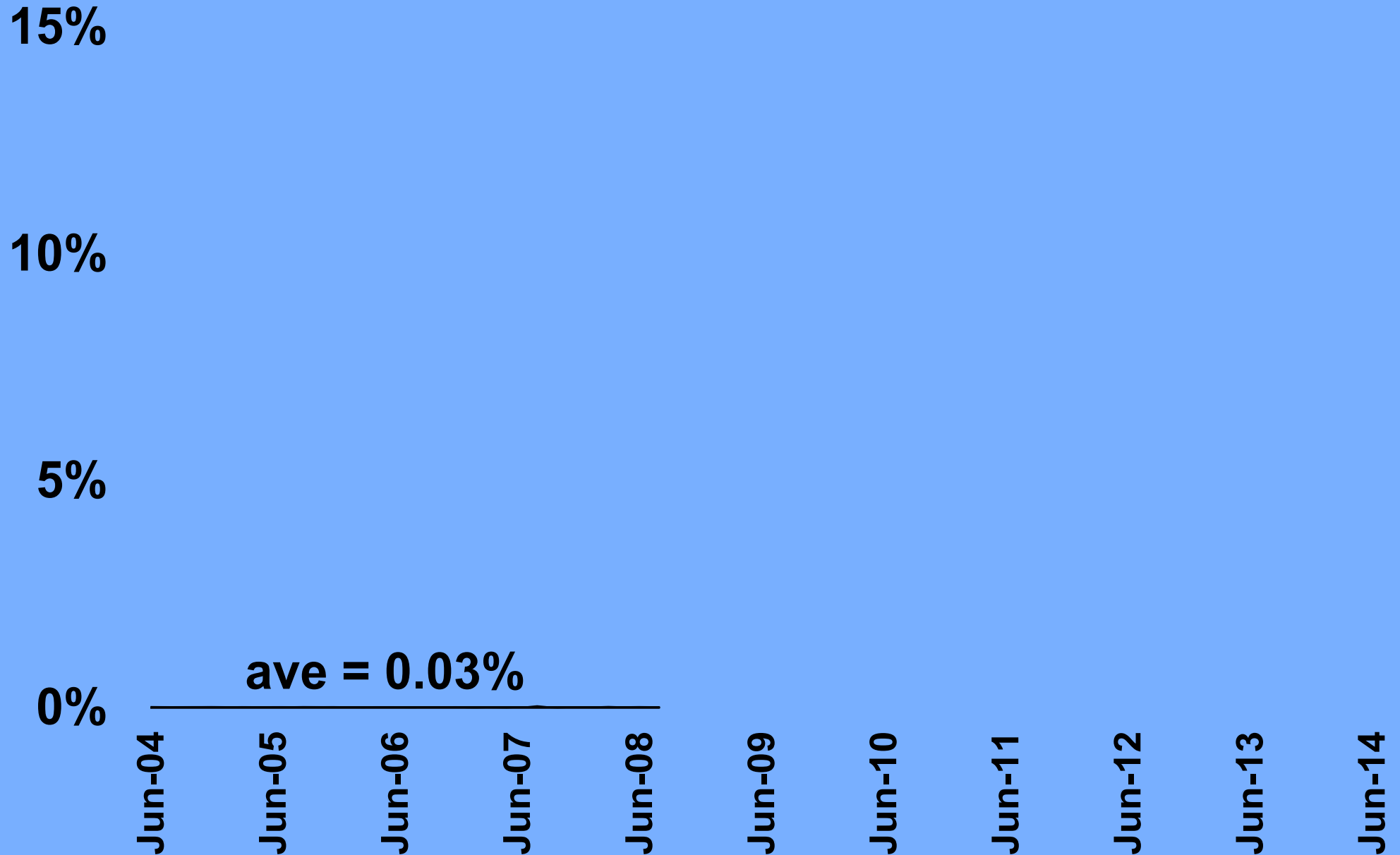
Yield on 10 year Treasury Note



QE does not work, does not address problem... already record low rates and have huge excess reserves. Banks averse to lending them and demand weak.

QE created massive amounts of unused money

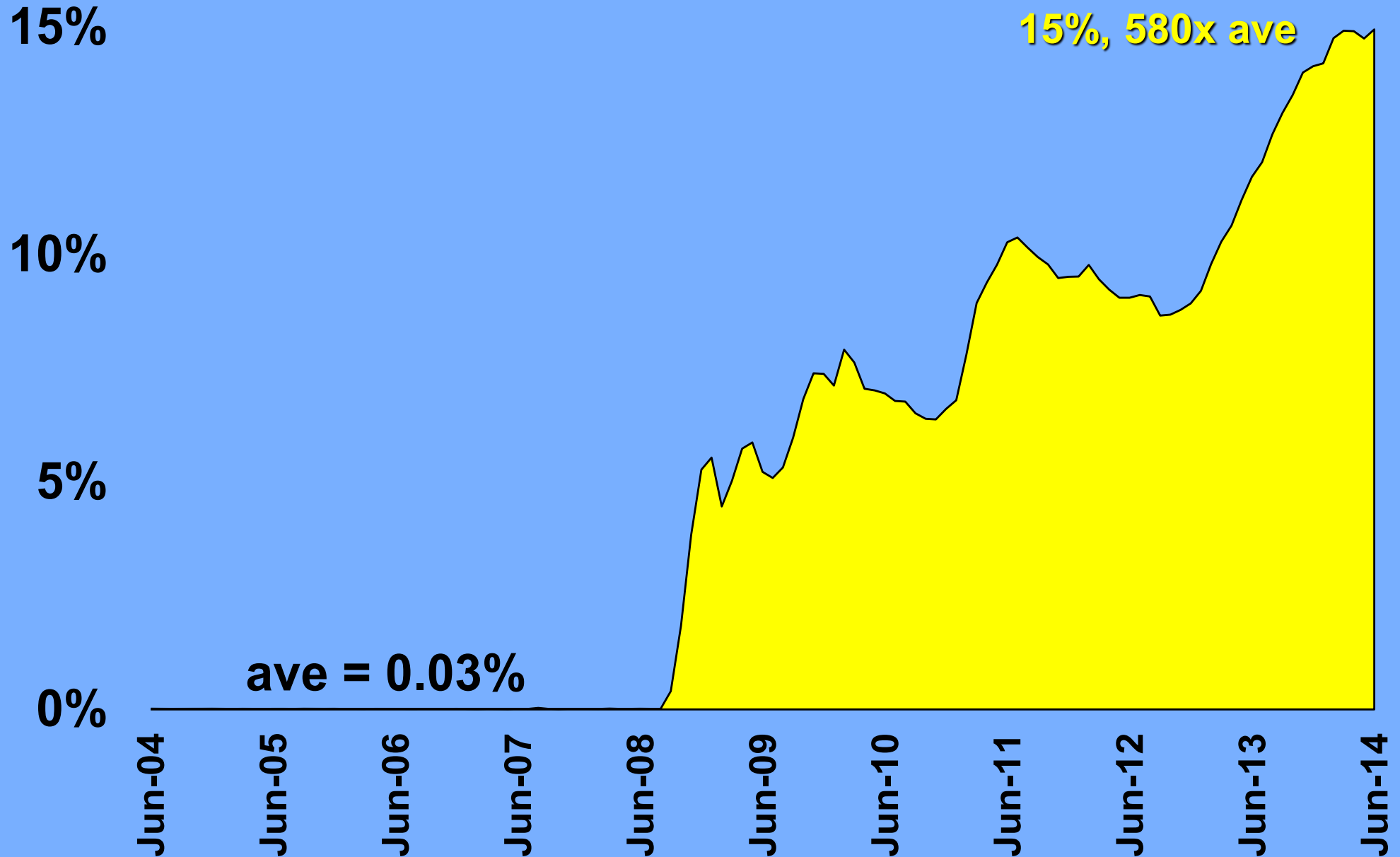
Excess Reserves as a % of GDP



source: Fed BEA

QE created massive amounts of unused money

Excess Reserves as a % of GDP

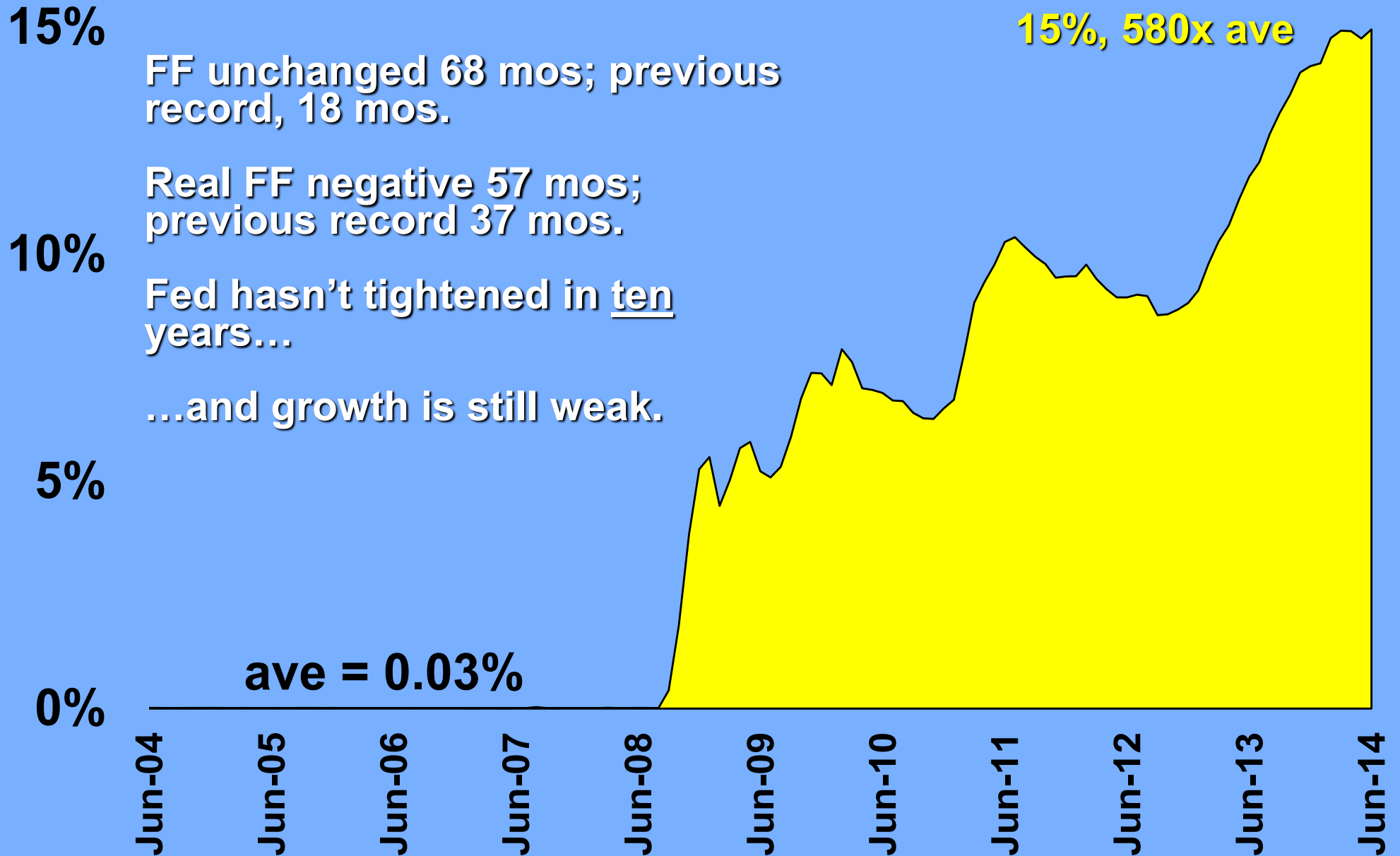


ave = 0.03%

15%, 580x ave

The futility of monetary policy

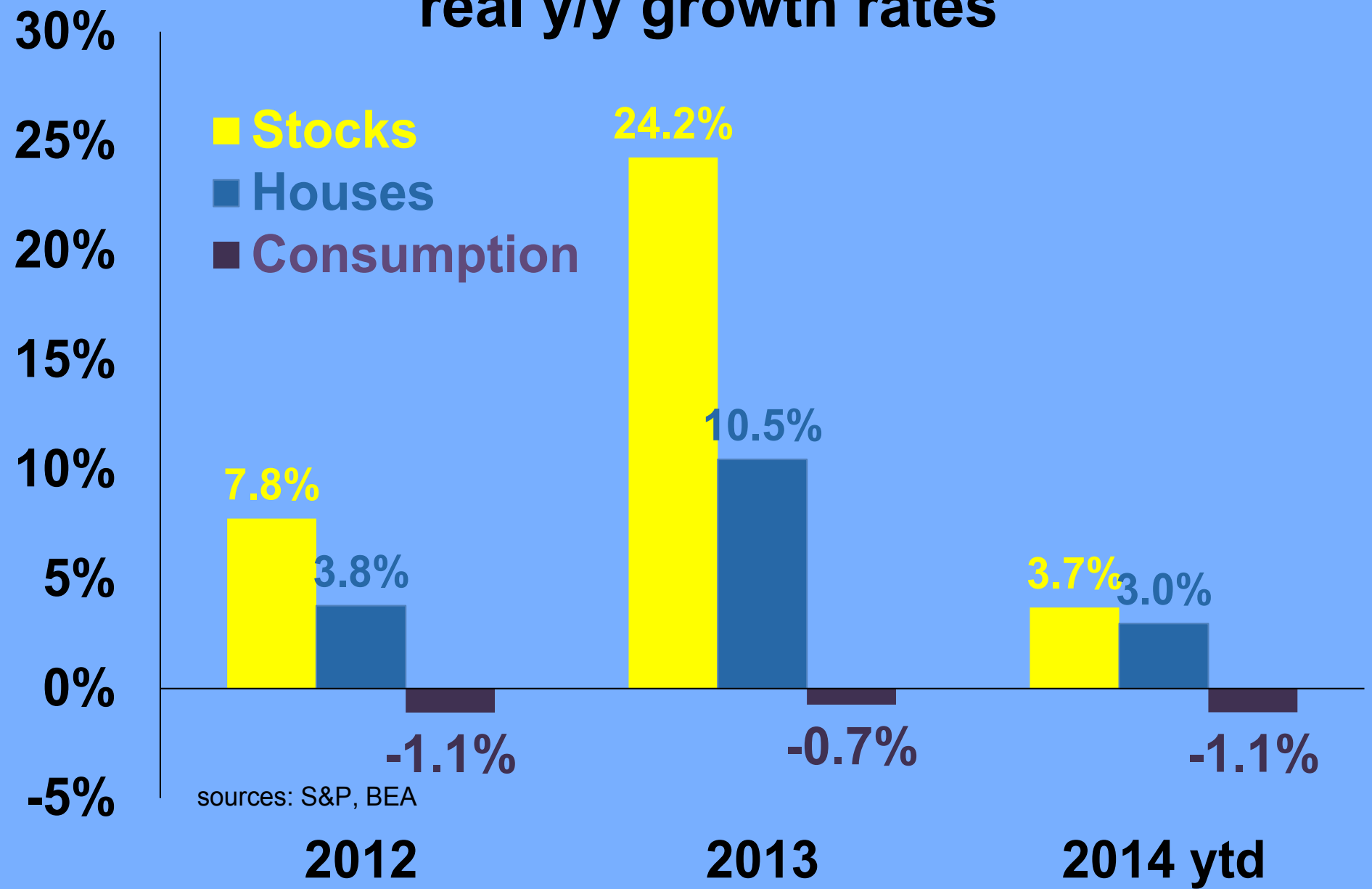
Excess Reserves as a % of GDP



source: Fed BEA

QE also meant to inflate assets, spur consumption.. didn't work, big risk reversing it.

Performance Above/Below Long-Term Averages real y/y growth rates



RECAP

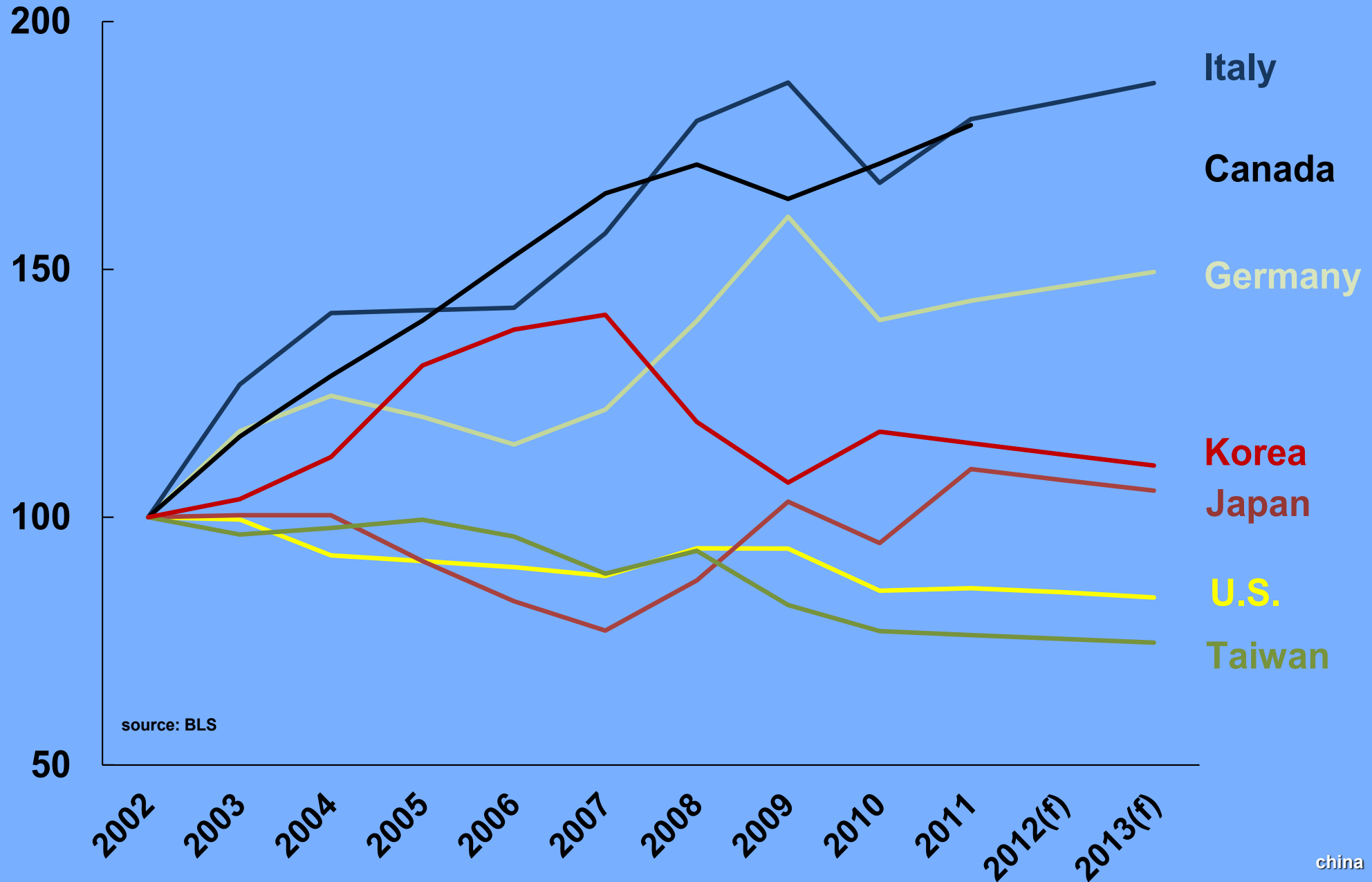
- **Monetary policy impotent w/big inflation risk. Asset inflation here now.**
- **Fiscal policy a mess but can be fixed in long term. Significant debt load and uncertainty now.**
- **Neither fixing structural unemployment caused by mis-matched skills, incentives not to work, demographics.**
- **But despite those long-term risks, stable oil prices, positive yield curve, lending, rising confidence, falling bankruptcies indicate continued modest growth.**
- **And more good news, rebound in manufacturing!**

Unit Labor Cost (ULC): labor cost to make one widget

	U.S.	Country X
Hourly wage	\$20	\$15
Hrs. to make one widget (productivity)	1	2
Unit labor cost	\$20	\$30

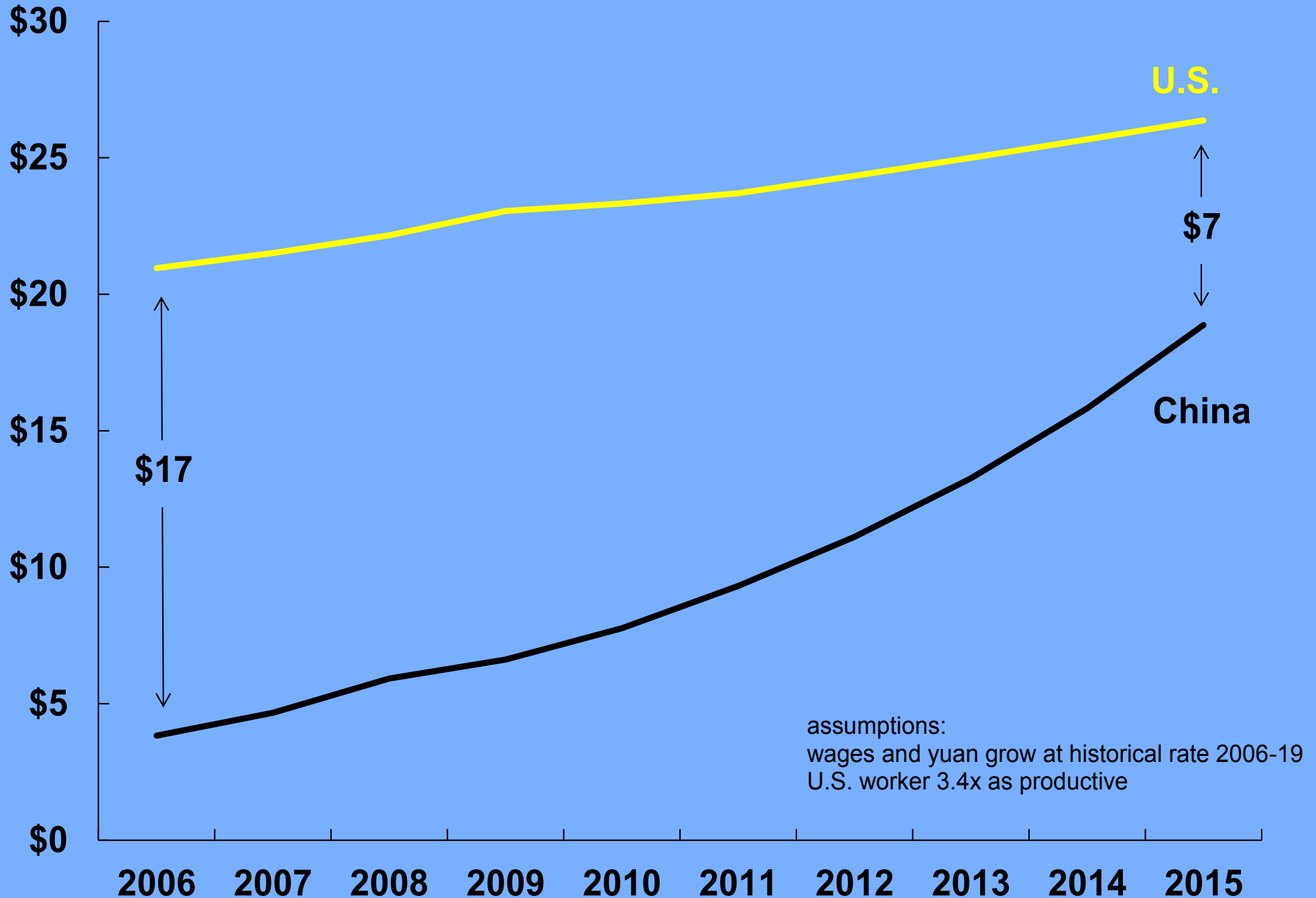
U.S. Manufacturing Very Competitive; low wage growth+high productivity=low ULC

Unit Labor Costs



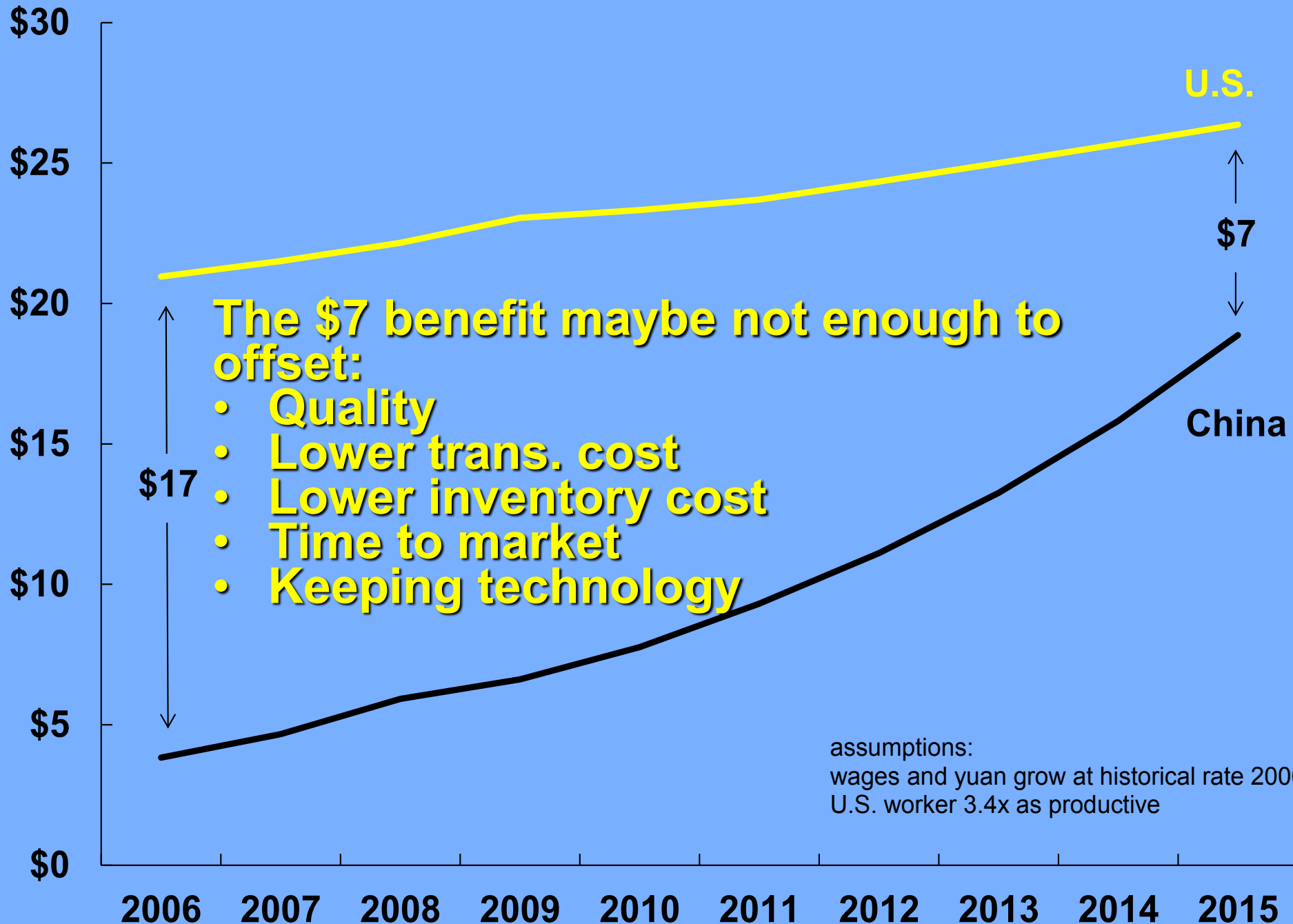
The ULC Gap with China is Closing

Effective Manufacturing Wage Gap



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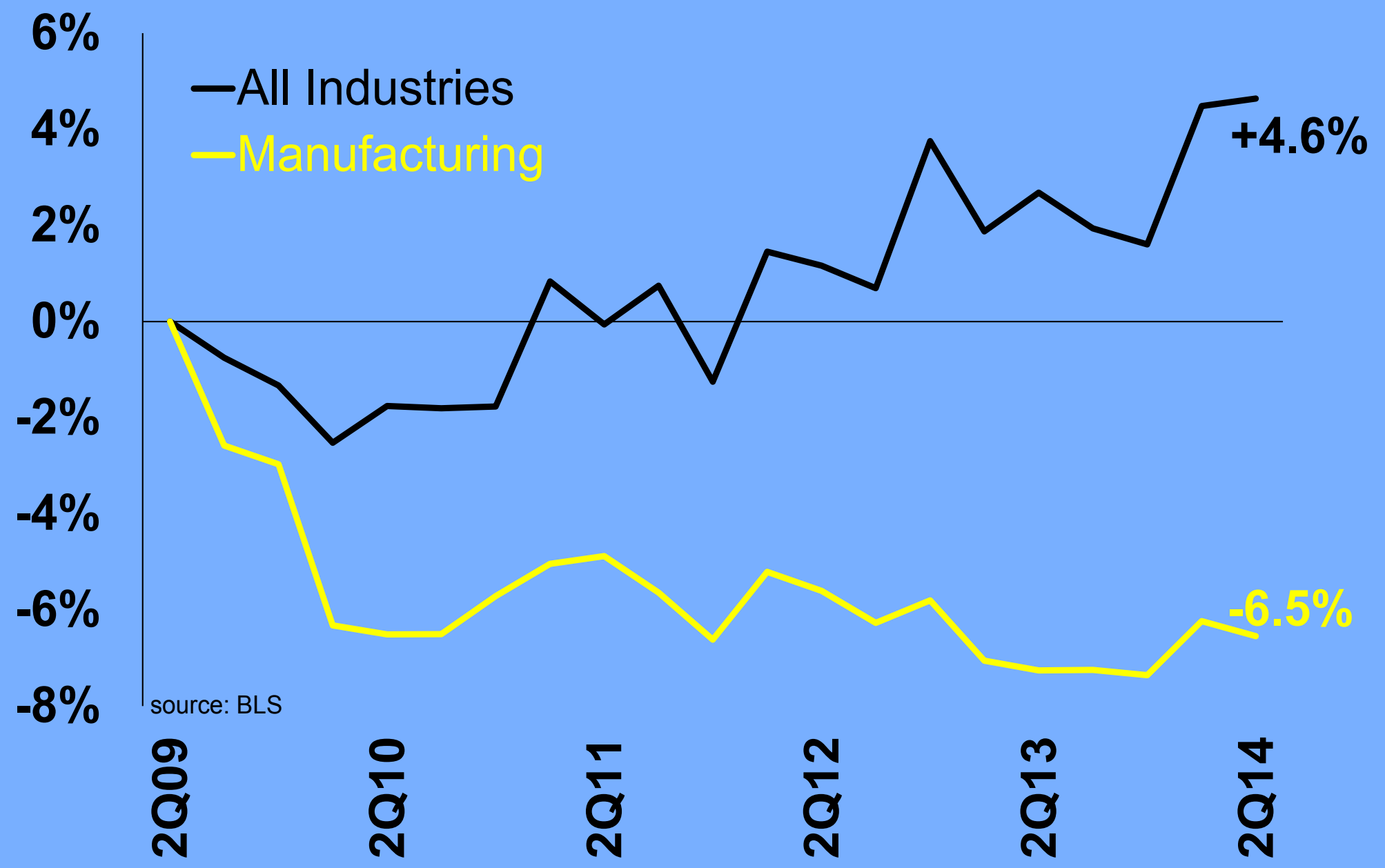


The \$7 benefit maybe not enough to offset:

- **Quality**
- **Lower trans. cost**
- **Lower inventory cost**
- **Time to market**
- **Keeping technology**

assumptions:
wages and yuan grow at historical rate 2006-19
U.S. worker 3.4x as productive

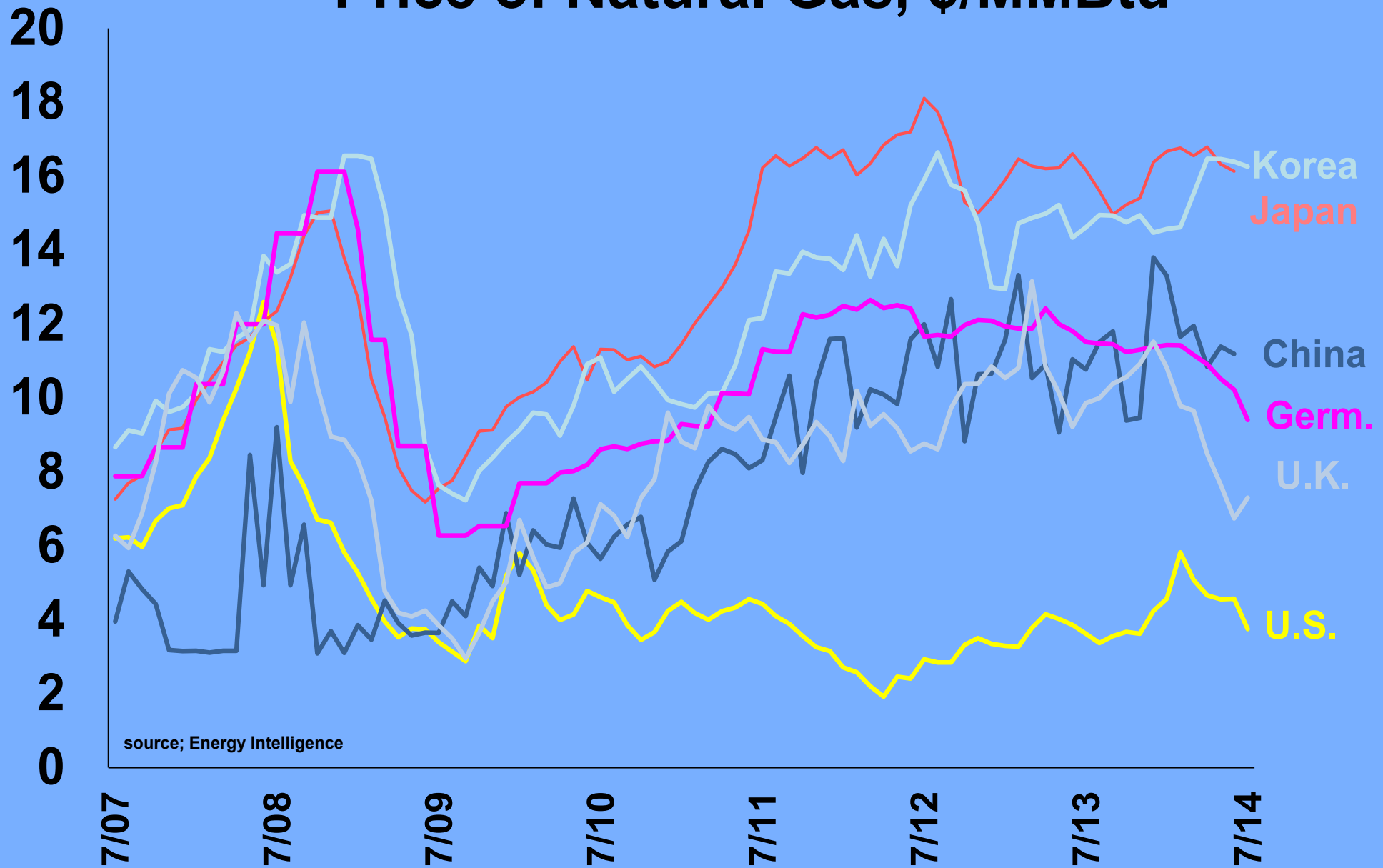
Growth in Unit Labor Costs Since End of Recession



source: BLS

Big Advantage, Cheap Energy

Price of Natural Gas, \$/MMBtu



source; Energy Intelligence

**Nat Gas cars represent huge potential.
 Only a few Nat Gas passenger cars available in US;
 Honda Civic, Dodge, Chevy, Ford pickups**

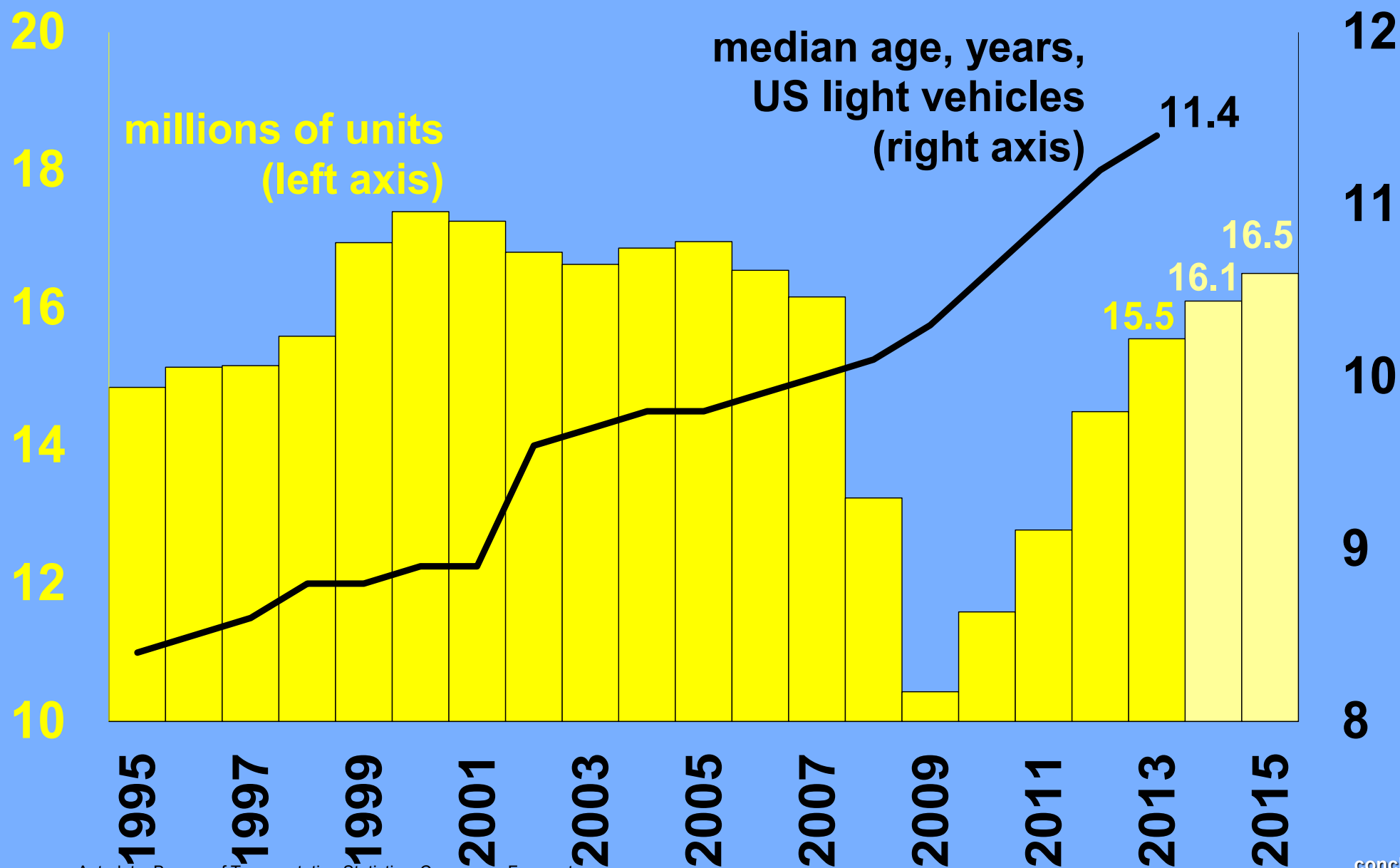
Country	Natural Gas Vehicles	%of total
Iran	3,300,000	19%
Pakistan	3,100,000	18%
Argentina	2,183,487	13%
Brazil	1,733,469	10%
China	1,500,000	9%
India	1,500,000	9%
Italy	746,470	4%
Others	2,875,326	17%
U.S.	112,000	1%
Total	17,050,752	100%

Heavy Duty Trucks:

- of all sold, 1% nat gas in 2013, 5% in 2014
- Lowe's 100% by '17
- P&G 7% to 20% in 2 yrs.
- UPS buying 1,000 by end '14
- FedEx 30% in 10 yrs.

Experiments underway in trains and planes

Auto Sales and Age of Fleet



source: Autodata, Bureau of Transportation Statistics, Consensus Forecasts

Conclusions, Global

- Global growth 2.9% in 2014, vs 2.3% in 2013, most coming from;
 - Emerging markets (4.3% vs 4.1%)
 - China (7.5% vs 7.6%) and
 - India (5.3% vs 4.4%)

- Europe (1.0% vs -0.4%)

Conclusions, U.S.

Positives

- Ultra loose monetary policy will eventually help
- Yield spread positive
- Stable oil prices
- Bank lending
- Housing market recovery
- Confidence rising slowly
- Bankruptcies falling
- Manufacturing re-birth; cheap energy, U.S. workers highly productive, slow wage growth

Negatives

- High structural unemployment
- Weak confidence, consumption, income
- Housing market small, risky
- Debt, taxes
- Future inflation risk
- Uncertainty from WDC (2014 elections)
- Geopolitical uncertainty

GDP growth a modest 2.1% in 2014, not terrible, not great...



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Thank you
for your attention.





THANK YOU



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