



Credit Insurance Policy Analysis

Policyholder: PaxCo

Prepared for: Best Bank US

Prepared by: FGI Worldwide LLC

Date: August 30th 2019

Information Sources

The information in this report was provided by

- Chris Brown - SVP at Best Bank US ("Bank")
- Debra Rogers - PaxCo ("Policyholder")
- Euler Hermes ("Carrier")
- FGI Proprietary Monitoring System ("TRUST")

Policy Documentation

Policyholder has an active comprehensive policy #5122250 dated August 1, 2019 – July 31, 2020 covering insolvency, protracted default and political risks. This policy was a renewal for a similar policy #5100050 dated August 1, 2018 – July 31, 2019

Loss Payee: We confirm that the Bank is named properly as a beneficiary on the policy. **We recommend that the Bank be named as an "Additional Named Insured" giving it more rights than just a beneficiary.**

Policy terms include:

Maximum Liability – Policy provides \$1 million maximum claim payment during the policy term. **Although the amount is sufficient to cover the bank debt as of August 5th, we recommend to increase the Maximum Liability by 20-30% to accommodate any future growth.**

Aggregate First Loss Deductible – Policy requires Zero deductible which is ideal for a financing deal. Therefore, no recommended reserve needed by the bank.

Non-Qualifying Loss Amount – Policy requires a minimum of \$2,500 to file a claim. Since the smallest invoice is \$10,000, we believe that this condition is acceptable.

Maximum Terms – Policy states 90 days, however there are different maximum terms per country that override the 90 days **especially for South Korea (60 days).**

Co-Insurance – Policy states 90% however there's a lower coinsurance % for Philippines of 80%. **Since Philippines represents a large portion of the exposure, we recommend, going forward, to adjust the effective advance rate if the co-insurance is under 90% for the applicable country such as Philippines.**

Delayed Effect of Withdrawal or Reduction of Cover – Policy provides a 30-day grace period from date of reduction and calculation. **Bank to confirm that 30 days is sufficient for the Policyholder to complete a pending order.**

State of Default Reporting Requirements – Policyholder is required to report debtors that are in a state of default monthly within 15 days from the end of the following month.

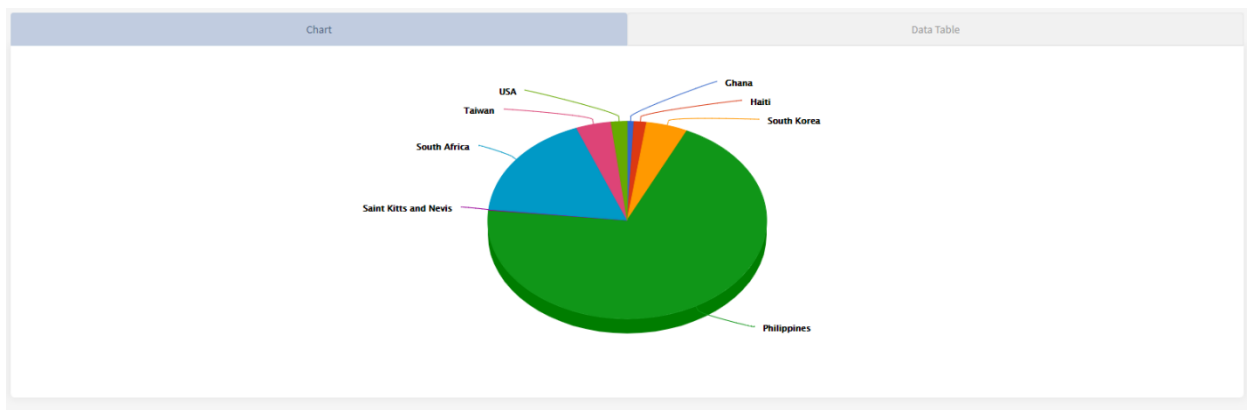
One of the State of Default situations that needs to be reported occurs when receivables are 60 days past due and over \$10,000. Any customer with an active limit has to be reported to the Carrier with a past due balance of 60 days past due, over \$10,000. TRUST cannot confirm that a past due reporting requirement has been fulfilled during this policy period. **We recommend that the Bank engage insurance monitoring technology or read only access from Euler to ensure Policyholder complies with monthly past due reporting.**

Endorsements include:

Work in Progress Endorsement – Policy provides coverage for the cost incurred for products that haven't shipped if the debtor is insolvent. **While this is a great feature of the policy, we recommend that the Policyholder and Bank to confirm that they are comfortable with the 15-day Pre-credit Period.**

Preferential Payment Endorsement – Policy provides 36-month preferential payment window. While this is a great feature of the policy and the period is fair, this feature is only available for debtors in the US and Canada. Preferential rights are more common in North America; however, we notice that more countries are adapting these rights. **We recommend that the Bank and Policyholder check if preferential rights are available in the debtors' countries and to expand this endorsement.**

Political Risk Endorsement – Political risk coverage is offered only for South Korea and Philippines. **We recommend the coverage to be expanded to other countries if the plan is to expand the business.**



Insurance AR Tracking Sheet dated August 5th 2019

Insurance Tracking Sheet was provided to FGI to review in lieu of a month end borrowing bases:

As of August 5th 2019, six debtors were indicated on the Tracking Sheet which consisted a total of \$920,589.96 of insured AR.

TRUST confirms that:

- All limits presented to the Bank on the tracking sheet were accurate as of that date except for BoxClever Press Limited and Gaia Editions. **Both limits expired with the previous policy ending July 31st and they were never renewed.**
- For the covered debtors, all of them were within the insurance coverage and no shortfalls were identified.
- Since then, most limits have been cancelled by Policyholder which will need to be cross-referenced with a more recent AR report to confirm that there are no current shortfalls.

- On the August 8th 2019 aging report, Gaia Editions invoice #4746 has 90 day terms instead of the 60 day terms on the tracking sheet. **Therefore, the claim window deadline is incorrect.**
- Furthermore, the Maximum terms allowed for Ghana is indicated as 60 days. **Since the Gaia Editions invoice #4746 has 90 day terms, this invoice would not be eligible for claim filing.**
- **Since Gaia Editions and BoxClever Press Limited are not in Philippines or Korea, political coverage is not available on their invoices.**

Aging Report dated August 8th 2019

AR aging report was provided to FGI to review:

As of August 8th 2019, Policyholder has a total AR of \$1,725,855.56 of insured AR.

TRUST confirms that:

- Only four debtors have active coverage under the Policy and only the additional debtor, LIBRARY PUBLICATIONS, INC. has coverage under the policy.
- **Humanoids, Inc. who had an outstanding receivable on August 5th was cancelled by the Policyholder on August 28th 2019.**
- Also, TERRE VIVANTE was cancelled by Policyholder on August 28th 2019.
- There are nineteen debtors with no sufficient coverage or any coverage as the following:

Debtor	Country	Carrier	Requested	Granted	Status	Recent AR	AR GAP	Effective Date	End Date	Coverage Type
PYRAMYD NTCV	Philippines	Euler	USD 0	USD 0		USD 389,112.85	USD 389,112.85	08/01/2019		Not Covered
BAREFOOT BOOKS INC.	Philippines	Euler	USD 0	USD 0		USD 165,286.41	USD 165,286.41	09/03/2019		Not Covered
DUJARDIN	Philippines	Euler	USD 0	USD 0		USD 144,168.04	USD 144,168.04	09/03/2019		Not Covered
LEDUC S EDITIONS	South Africa	Euler	USD 0	USD 0		USD 123,233.58	USD 123,233.58	09/03/2019		Not Covered
BoxClever Press Limited	Taiwan	Euler	USD 0	USD 0		USD 70,474.32	USD 70,474.32	08/01/2019		Not Covered
GROUPE EYROLLES SA	South Africa	Euler	USD 0	USD 0		USD 58,774.80	USD 58,774.80	09/03/2019		Not Covered
Charlesbridge Publishing, Inc.	South Africa	Euler	USD 0	USD 0		USD 55,669.80	USD 55,669.80	08/01/2019		Not Covered
F A Davis Company	South Africa	Euler	USD 0	USD 0		USD 51,299.51	USD 51,299.51	08/01/2019		Not Covered
Kidsbooks LLC	Philippines	Euler	USD 0	USD 0		USD 42,394.93	USD 42,394.93	08/01/2019		Not Covered
KAISEI-SHA LTD. (K.K. KAISEISHA)	Haiti	Euler	USD 0	USD 0		USD 25,288.80	USD 25,288.80	09/03/2019		Not Covered
Llewellyn Worldwide, Ltd.	Philippines	Euler	USD 0	USD 0		USD 16,548.00	USD 16,548.00	09/03/2019		Not Covered
Gaia Editions	Ghana	Euler	USD 0	USD 0		USD 13,398.18	USD 13,398.18	08/01/2019		Not Covered
National Geographic Society	South Africa	Euler	USD 0	USD 0		USD 9,669.67	USD 9,669.67	09/03/2019		Not Covered
First Maestro Foodservice	Philippines	Euler	USD 0	USD 0		USD 7,698.58	USD 7,698.58	08/01/2019		Not Covered
Saint Mary's Press of Minnesota	Saint Kitts and Nevis	Euler	USD 0	USD 0		USD 2,189.81	USD 2,189.81	08/01/2019		Not Covered
SIMON & SCHUSTER, INC.	South Africa	Euler	USD 0	USD 0		USD 1,870.10	USD 1,870.10	09/03/2019		Not Covered
South Atlantic Meats	South Africa	Euler	USD 0	USD 0		USD 971.00	USD 971.00	08/01/2019		Not Covered
University of South Carolina	South Africa	Euler	USD 0	USD 0		USD 300.00	USD 300.00	09/03/2019		Not Covered
Sourcebooks, Inc.	South Africa	Euler	USD 0	USD 0		USD 20.00	USD 20.00	09/03/2019		Not Covered

Current Policy

During FGI's review, The Policy was renewed and new Euler policy # 5122250 dated August 1, 2019 to July 31, 2020 was issued. **Policy terms outside of pricing and sales remain the same, however the country schedule has been reduced to 3 countries.** Specified maximum terms and co-insurance should be reviewed by the Bank for any future receivables after August 8th, 2019.

Recommendations

- Bank to engage a monthly compliance monitoring system to ensure Policyholder complies with monthly past due reporting as well as the approved limits.
- Bank is advised to request Policyholder to request coverage on any outstanding receivables. It may be worth mentioning that we have examined requesting limits on some of the debtors outside this Policy and we were able to receive coverage. For example, we have received \$100,000 limit for BAREFOOT BOOKS INC and \$15,000 for DUJARDIN
- Any new coverage should be in place at the time of invoice date. Euler backdates coverage to the first of the month.
- Claim countdown should reflect the proper deadline calculations.
- Claim countdown should reflect the same dates and terms on the corresponding aging report.