

CREDIT INSURANCE AS AN AID TO THE EXPORT
TRADE OF THE UNITED STATES

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CHAPTER I.

At the Ninth National Foreign Trade Convention, among resolutions adopted in the Group Meeting on Foreign Credits and Credit Information, was the following: "Resolved, that it is the sense of this conference that at the present juncture of our affairs, and what we may face in the future, it will be necessary for those who are exporting, and those who wish to enter the export field, that they must consider the necessity of a credit granting policy for the promotion of their business and for the interesting of foreign buyers."

This was a recognition of the fact that exporters of the United States must compete with European firms on a credit as well as a quality and price basis. In order to do this, however, they must have the proper facilities for the obtaining of credit information and the protection of credits granted.

It is the purpose of this thesis to discuss the service offered American exporters by credit insurance companies in the United States, and to analyze this service in the light of the statements made by its advocates that it is an important aid to the exporter in the granting and extension of credit.

The first part of this thesis deals with export trade methods and an analysis of the credit risk involved. The second part deals with the history and development of credit insurance in the United States and an analysis of the service offered by credit insurance companies. The third part deals with an evaluation of this service.

CHAPTER II.

CHAPTER II. EXPORT TRADE METHODS AND AN ANALYSIS
OF THE CREDIT RISK INVOLVED

OUTLINE: -

Methods of exporting

Direct

Indirect

Export commission house

Export merchant

Manufacturers agent

Direct exports may be financed as follows

Bank letter of credit

Revocable

Irrevocable

Irrevocable confirmed

Direct credit account with the importer

Terms of payment

Cash with order

Documents against Payment

Documents against acceptance

Open account

Credit standing of the foreign house

The credit risk analyzed

Definition

Divisions

Insolvency

Moral or commercial hazard

Breach of contract

CHAPTER II.

EXPORT TRADE METHODS AND AN ANALYSIS OF THE CREDIT RISK INVOLVED

A manufacturer may export directly to the foreign importer, or indirectly thru a middleman. In direct sales the manufacturer carries the risk as to the credit standing and solvency of the importer. In indirect sales this risk is borne by the middleman. Although there seems to be a growing tendency towards direct exporting, middlemen have been the dominant factors in the export trade of the United States. Middlemen are classified as follows: export commission houses, export merchants, and manufacturers' agents.⁽¹⁾

Export commission houses acting as buying agents for the foreign firms, charge them a commission for the purchasing of goods in the United States. These houses customarily maintain a corps of experts in buying, shipping, insuring, and financing. With these facilities they are able to relieve the American manufacturer of all

(1) "Export Merchandising"-Wyman.
"Practical Exporting"--Hough.

problems connected with the placing of his goods in foreign hands. The credit status or risk is generally assumed by the commission house.

Export merchants buy and sell goods on their own account. Their profit consists in the difference between the buying and selling price of the commodities, less the expense of handling the transaction. The manufacturer in selling thru the export merchant assumes the credit risk as to the merchant himself, and not the foreign buyer.

Manufacturers' agents are located in the foreign territory to be served. It is customary that exclusive rights be given by the exporter to these agents. The agent maintains a sales force throughout the territory, and receives a commission from the exporter on all orders turned in. It is customary for him to act as "Del Credere" agent, guaranteeing the accounts to the exporter. The exporter's credit risk then is only as to his agent.

Sales on credit, made either directly or indirectly, carry the credit risk as to the willingness and ability of the importer to pay. In direct sales the risk is carried by the manufacturer; in indirect sales the middleman carries the risk. Thus credit insurance facilities are of interest to both the manufacturer and the middleman.

If the manufacturer exports directly the sale may be financed either by a letter of credit thru a bank or by a direct credit account with the importer. Let us take up the first of these methods. When sales are financed under a letter of credit the credit risk depends upon the stability of the bank, for when a commercial letter of credit is issued by a bank, the exporter looks to this bank to discount drafts drawn under this credit. Such drafts are customarily drawn directly against the bank thru which the letter was established. Letters of credit are issued for both documentary payment and documentary acceptance shipments.

The procedure under a letter of credit is as follows. The exporter A calls upon the importer B to establish a letter of credit. The importer B then goes to his bank X and asks for the letter of credit to A. The bank X grants this, at the time authorizing bank Y (the exporters bank) to accept drafts drawn upon bank X by A. Bank Y notifies A of the establishment of the credit, and A draws his drafts upon Bank X, discounting or selling them to bank Y.

There are three classes of letters of credit: those revocable and not confirmed; those irrevocable and not confirmed; those irrevocable and confirmed. The general understanding of the term revocable, as applied to letters of credit, is that it may be cancelled at the option of the issuer. Confirmed is accepted as meaning confirmed by the advising bank.

A revocable letter of credit is an authorization from bank X to the exporter A to draw drafts against it up to a stipulated sum.

The letter of credit however provides that the bank X may revoke the letter at any time prior to the presenting of the draft drawn against the credit. This revocable clause makes this type of credit of little protection to the exporter.

Irrevocable but not confirmed letters of credit are the same as revocable, except that they can be cancelled only by the mutual consent of both the issuer and the one in whose favor the letter is drawn.

Irrevocable confirmed letters of credit are the most acceptable to the exporter. Under this type the credit is confirmed by bank Y, and the exporter generally draws his drafts directly against bank Y instead of bank X. The chief credit risk to the exporter is then the solvency of the bank with whom the letter of credit is lodged.

Financing under a confirmed irrevocable letter of credit is a good method of financing from the exporter's viewpoint. The importer,

however, has certain objections to this type of financing, the most important of which is the following: an importer buying under a letter of credit is virtually remitting cash with order, for when he establishes credit thru his bank his account is debited for the amount of the credit. Other objections are the length of time taken to establish the credit, and the cost of having to work thru two banks.

Financing in this manner is acceptable to the exporter, but since it does not actually constitute an extension of credit we shall eliminate this system of financing from the future
(1)
discussion.

So much for the financing of exports thru a bank by means of a letter of credit. Let us now take up financing methods under a direct credit account with the importer. The credit risk under this form of financing varies with the terms of payment, and the credit standing of the foreign house.

(1) Page 538- Ninth National Foreign Trade.
Convention Minutes.

The terms of payment in foreign trade are cash with order, documents on payment, documents on acceptance, and open account. Shipments which are financed cash with order involve no credit risk to the exporter. However, only a small portion of our foreign trade is thus financed. Cash orders are principally obtained in that type of trade where the monopolistic character of the commodity allows the exporter to demand this form of payment.

Sales, documents against payment, provide for the payment for the goods before documents transferring the title to the goods are surrendered to the importer. Payment for documents may be made either at port of exit or port of entry. The credit risk under this type of financing is largely the moral or commercial hazard, which will be defined later in this chapter.

Sales, documents against acceptance, provide for the passing of the title of the goods to the importer upon his acceptance of drafts drawn against him. After acceptance the credit risk depends upon the importer's solvency and willingness to pay the

draft when due. The risk under this method of financing increases with the length of time that the draft runs.

Open account sales carry the maximum of credit risk. The custom is now prevalent to offer the importer cash discounts where open account sales are made in order to encourage a prompt remittance on account.

Since most of these methods of financing export sales involve the credit risk, in one or more of its phases, it might be well for us to analyze this risk. It may be defined as the uncertainty of receiving payment for goods which are delivered to another party upon a mere promise to pay. There are three phases of the credit risk: First is the insolvency risk, The buyer is unable to pay because of insolvency or bankruptcy. Second is the moral or commercial hazard. The buyer refuses to accept the shipment and a trade dispute arises. Trade disputes are generally based upon claims of inferiority of product or breach of sales contract by the exporter, and

may arise from a genuine grievance or from the importer's desire to conceal from the public his inability to pay. Third is the breach of contract risk. The buyer altho solvent, refuses to pay a draft due on a proved and acknowledged claim.

CHAPTER III.

CHAPTER III.

HISTORY AND DEVELOPMENT OF CREDIT INSURANCE
AND AN ANALYSIS OF THE SERVICE OFFERED

OUTLINE: -

Development of credit insurance
Organized in 1919
Began operations in 1921

Method of operation
Thru an attorney-in-fact
Legal department
Master policy
Nomination for insurance
Individual insurance certificate

Duties of the member
Pool ledger experience
Notify exchange of change in information
Maintain a premium deposit

Rights of the member
To one market guide
Explanation of market guides
To insure accounts
Computation of premiums
Termination
Voting

Duties of the Exchange
Insure accounts
Pay losses from insolvency
Refund savings
Termination

CHAPTER III.

HISTORY AND DEVELOPMENT OF CREDIT INSURANCE AND AN ANALYSIS OF THE SERVICE OFFERED

Foreign credit insurance in the United States is new in the field of insurance. In the spring of 1918 a plan for the insurance of foreign credits of manufacturers within the United States was presented to a group of exporters by the president of the Illinois Manufacturers Association. In February, 1921, a company began operations organized under this plan. This company is a mutual reciprocal organization, having the official endorsement of the Illinois Manufacturers Association, and functions under the caption, "American Manufacturers Foreign Credit Insurance Exchange." The company operates thru an attorney-in-fact the "American Foreign Credit Underwriters, Inc", and starting with about 100 members has over 1000 at the present time.

The agreement with the attorney-in-fact provides that the attorney, for a compensation of 30% of earned premiums, pay all costs and expenses of operating the exchange (except taxes) insurance and attorney fees, court costs, telegrams, cable tolls, the per diem allowance and expenses of the Trustees, and all other necessary costs and expenses of handling, investigating, adjusting, and paying claims and losses.

The liability of the Exchange is then limited to 30% for operating expenses, the other 70% of the earned premiums applying as a reserve against losses incurred on the policies issued. Re-insurance contracts are entered into by the Exchange providing that other companies take over a portion of all of the excess loss. The customary contract provides that the company with which re-insurance is taken assume all excess losses over a fixed maximum not over \$1000 to \$2000, up to a fixed maximum normally not over \$400,000. Some contracts provide for the original insurer's participating in excess losses.

Membership in the Exchange is by application. A firm, in order to be eligible for membership, must be incorporated and operating in the United States, have an insurable interest in the goods sold, and have a net worth of at least \$20,000. These provisions are made so as to protect all the members inasmuch as this is a mutual Exchange.

The cost of membership is \$250 per year, which entitles the subscriber to all departments of the service as follows:

- (1) The ability to get a rating on any buyer in any part of the world.
- (2) The privilege of insuring credit extensions to foreign buyers in any part of the world, guaranteeing the full invoice value of the merchandise against the insolvency of the buyer. The obligation of the Exchange to renew insurance certificates further emphasizes the value of the insurance protection.
- (3) The automatic and immediate advice of any change in the credit rating of any and all of their customers in any part of the world, regardless of whether insurance has been requested or issued on credit shipments to such buyer.
- (4) A copy of either market guide. In case both guides are desired, \$100 additional is charged.

The services of the company may then be divided into two main classes, credit rating or information, and insurance. Since the Exchange is the only company in the United States, undertaking to insure foreign credits, this thesis will deal with the services offered by the Exchange.

The founders of the Exchange realized that the credit risk in any credit transaction is directly dependent upon the integrity and financial standing of the foreign firm. They knew that for years members of certain industries had found it to their mutual advantage to exchange their ledger experience on foreign customers. These firms operated thru a central organization to whom they gave information, and from whom they demanded certain things in return. The founders of our present foreign credit insurance system realized the value of this method of obtaining credit information. They also saw, after a study of domestic credit insurance companies, that there must be credit information

upon which to base their judgment for the fixing of insurance premiums. The Exchange therefore combined the pooling of credit information and the underwriting of credits with in one mutual company.

Insurance, as written by the Exchange, is on the basis of a unit coverage. Under this protection the member is allowed to select those shipments which he wishes to cover by insurance, instead of having to cover all shipments. This method of operation calls for the issuing of a Master Policy, under which a certificate of insurance is issued for each shipment covered. An exporter holding a master policy makes application for insurance upon a form known as a Nomination for Insurance, and insurance is furnished in accordance with this application upon an individual negotiable insurance certificate. The procedure and regulations covering the nomination for insurance and the issuing of the insurance certificates will be taken up later. (1)

(1) Copies of forms may be found in the appendix.

There is no limit placed upon the face value of the master policy issued by the Exchange. There is, however, a single account limit placed upon each individual foreign firm, which varies with the credit standing of the firm. This limit is of two kinds: first, a limit on the total amount of coverage available to all members of the Exchange selling to that buyer; second, a limit on the total amount of insurance available to any one member of the Exchange at any one time. These limits are determined by an analysis of the data relative to the firm. The main factors governing the assignment of the maximum lines of credit are:

- (a) The financial responsibility represented.
- (b) The nature, extent, and respective proportions of known resources and obligations.
- (c) The moral risk.
- (d) The lines of merchandise handled, and facilities for turnover.
- (e) The tendency to restrict purchases to a few suppliers.
- (f) The number of known sources of supply.

An individual member's shipments to a foreign firm are counted as debits against that firm,

and remittances received, as credits to that firm's maximum line. A member may obtain insurance only up to the amount of the maximum individual limit, and the total insurance issued to all members must be within the insurable limit. The limits are placed by the Exchange, as it has a more adequate means, than any individual member, of understanding the strength of the buyer.

One of the most important duties of a member of the Exchange is to contribute to the Exchange all general information and ledger experience contained in his own records relating to the foreign buyer. All details in this connection are taken care of by the Exchange, which maintains a permanent staff of file checkers. The extracts from the records of the members are placed upon a file conclusion folder under the member's code number. These records are kept exclusively for the use of the Exchange in deciding upon insurance risks. Membership of the Exchange comprises

representative exporters of nearly all lines of business, and thus the files contain information relative to a vast number of importers of products of the United States.

After the member's files are checked, he is required to keep the Exchange notified of any new information acquired. A special form is provided by the Exchange for the use of the member in notifying them.

Another duty of the insured is to maintain with the Exchange a premium deposit (minimum \$50) against which the amount of the actual premiums is debited. This account is balanced monthly. The application provides that the Exchange shall maintain with each member a separate account, so that there is no accumulation of joint funds.

Another duty of the insured is to stand assessable, in case of need, for an assessment up to 100% of the amount of earned premiums paid for insurance over the period for which the policy is issued, usually one year. This protects the Exchange in case an undorseen number of losses occur, and is in accordance with the mutual plan of the Exchange.

The first right of the insured is to one copy of the market guide published by the Exchange. This guide is published in the interest, and for the exclusive use of, members of the Exchange. It contains the names, addresses, line of merchandise handled, and credit ratings of buyers listed with the Exchange. This information is indexed alphabetically and geographically, the guides thus presenting to the member a pre-analyzed market for his products in the countries covered. The guides are not sold, but are loaned to the member, and are revised and republished at intervals as part of the Exchange service. Latin America and Orient Australia are the two world zones now covered. The individual credit files of the members forms the basis for the rating, but this information is supplemented by the staff of credit investigators maintained by the Exchange. This staff calls upon international banks, non-member trade and export houses, etc. The Exchange also maintains a number of foreign correspondents who gather information upon

the ground, and keep the Exchange notified as to any changes within their own particular territory.

The last number of the Latin American Guide carried credit information upon over forty thousand importers of these countries. The Orient-Australia volume had listings upon about fifteen thousand firms. Each foreign firm listed in the volumes has assigned a basic rating -- at present either A, B, or C -- representing respectively first, second, or third grade rating classification, and indicating high, good, or fair type of risk. Buyers who cannot be thus rated are given either an X or XX rating.

The X classification is used where the files of the Exchange contain insufficient information upon which to rate the firm. It is also used where the information available is of such a conflicting nature that it is deemed unwise to assign a definite rating at the time. The X classification does not mean that the buyer is an un-insurable risk; it merely indicates that inquiry should be

made of the Exchange as to the latest information relative to the firm in question.

The XX classification is given where the Exchange feels that the standing of the firm is such that it would be unwise to insure its account. Reasons for the rating will be given to individual members upon application to the Exchange.

All credit ratings and classifications are subject to change. This is only natural, as additional information is added to that already on hand as it is received by the Exchange from various sources. The Exchange undertakes to report automatically to the members interested any change in the ratings of those firms with whom they do business. A specimen confidential notice is given in the appendix.

Another privilege of the member is to insure accounts of foreign customers which have ratings with the Exchange. This insurance must be in accordance with the maximum insurance limits as already defined. The premium rate upon this insurance is dependent upon: the credit status of

the firm, the economic conditions within the country, the terms of sale, the period of time of account, special items, such as the marketability of the commodity shipped. The credit status of the buyer is approximately indicated by the rating symbol as given in the guide. The economic conditions of the country in which the buyer is located, in conjunction with the credit status of the buyer determines into which of the "classes of accounts" (five in all), as shown by the table of premium rates, the buyers rating falls.

The terms of sale (draft or open account) also make a difference as to the premium rate. As an insurance risk, a transaction which is closed by acceptance of a sight or time draft is naturally more desirable than one on which open account terms are applied. In practice, if a firms basic rate is high or 1%, the minimum actual premium rate governing the insurance of a sight or time draft of two months usance, would be 1% of the value of the shipment, while on an open account transaction with the same buyer

and for the same period of coverage the minimum actual premium rate would be 1-1/4%.

The period of time for which coverage is granted is also a vital factor in the determining of the actual premium rate. Each insurance certificate insures against insolvency for a specified period. This period is always stated in multiples of even calendar months, the minimum period being two months. An estimate is made by the member of the approximate time for which coverage will be required the time being reckoned from the date of shipment to the time when the remittance should be received. In case it is desired to have protection while goods are in process of manufacture a certificate may be issued taking effect any date prior to the actual shipping date of the commodity. The table of rates indicates the various rate increases for the periods of coverage between the two months minimum and the six months maximum for which certificates are issued.

Special underwriting factors such as commodity shipped and other items relative to

the individual account are, in certain cases, taken into account by the Exchange when determining the premium rate. The excess charge is not fixed by rule, but is decided by the judgment of the Exchange officials.

The Exchange is prepared to serve its members either on an insurance of all or partial accounts. Slightly preferred rates are given to members who make it a policy to insure all shipments.

For insurance on a shipment amounting to \$1000 to a buyer rated "high" other circumstances being such as to bring the buyer into a Class I account (full account insurance) the premium charge is:

On sight or time draft terms up to	Usance	Rate	Premium
	2 months	1%	\$10.00
	3 "	1-1/8	11.25
	4 "	1-1/4	12.50
	5 "	1-1/2	15.00
	6 "	1-7/8	18.75
On open account terms up to	2 "	1-1/4	12.50
	3 "	1-3/8	13.75
	4 "	1-1/2	15.00
	5 "	1-3/4	17.50
	6 "	2-1/8	21.25

If a member under-estimates the period of coverage necessary, or for any other reason the time allowed in the original insurance certificate should prove insufficient to bring the transaction to its conclusion, the master policy provides that the Exchange is obligated to grant to the member automatically such renewal insurance as may prove to be necessary.

For renewal premiums a charge of one eighth of one percent is charged for the first calendar month, one fourth of one percent for the second and third months, and one half of one percent for the fourth to eighth calendar months inclusive. After the eight month the account must be placed in the hands of the Exchange for collection and renewal premiums cease.

Payments received by members on insured accounts when reported in time to the Exchange are deducted from the amount originally insured, and renewal premium is then charged on the actual balance outstanding at the time of renewal. If the member fails to report in time, the renewal premium

is charged on the amount of the original insurance.

According to a ruling of the board of trustees, no original insurance certificate shall be written for a premium of less than \$1.50. The minimum charge on a renewal insurance certificate is 19 cents, on one eighth of the \$1.50 minimum original premium.

By way of illustration of the application of the premium rate let us assume the case of a member insuring a \$2000 shipment to a Mexican customer whose primary rate is 1%, terms of sale being 60 days sight draft.

In the original nomination of shipment three calendar months period of insurance is requested, dating from time of shipment January 1st. This protects the account until April 1st, by which date he should normally receive his funds or at least an advice of payment for the draft from his bank. The premium charge on the original certificate would be 1-1/8% of \$2000 or \$22.50. However, on April 1st the member

is still without receipt of payment, or, due to unforeseen delay, has learned that the draft was not accepted until February 15th, so that it will not actually fall due until about April 15th. The Exchange after awaiting 6 days for receipt of notice from the member, will advise him that his insurance certificate is automatically renewed until May 1st. The premium consideration for this first renewal would be $\frac{1}{8}$ th of 1% of \$2000 or \$2.50 making a total premium (original and renewal) of \$25.00.

Continuing the illustration, if on May 1st. the member advises the Exchange that it had been necessary to grant a months extension to the customer and the draft consequently will not fall due until about May 15th. the Exchange will then advise the member that his insurance certificate has again been automatically renewed until June 1st. On this second renewal for one month the premium charge will be $\frac{1}{4}$ of 1% of \$2000, or \$5.00 making a total premium (original and renewal) of \$30.00.

Still using the same illustration, if on or before May 1st. the member reported to the Exchange that the customer had paid \$1000 of the \$2000 draft on maturity date and had been granted a month extension for the remaining balance of \$1000 due May 15th, the Exchange would then advise the member that automatic renewal had been granted for the outstanding balance until June 1st. On this renewal the premium charge would be $1/4$ of 1% of \$1000 or \$2.50.

A third privilege of the member is to terminate the policy by 60 days notice in writing at the end of any policy period.

A fourth privilege is that of casting one vote in electing each member of the board of trustees. This is in accordance with the mutual organization of the company.

So much for the duties and privileges of the member. Let us now take up the duties and privileges of the Exchange, one of the most important duties being to insure all accounts

presented to it by members, provided that the nomination is "in order" and the account insurable.

Let us see what constitutes an application for insurance "in order".

As stated earlier, the member wishing insurance makes an application for it upon a nomination for insurance form. A copy of this form will be found in the Appendix. Upon examination of the form it will be seen that it may be used either for a nomination for actual insurance, or merely for a rate inquiry. If a member is already acquainted with the approximate credit rating of a foreign buyer as set forth in the market guide, he may submit the nomination for insurance without first inquiring as to the credit rating of the customer; otherwise he may make a rate inquiry and if this is satisfactory insure the account later.

Upon this nomination of shipment form the member places any subsequent information regarding the foreign firm, to that which the Exchange received

from the members books upon his admittance to membership in the Exchange. In case it is impossible for the Exchange to answer immediately the nomination, a special form is sent to the member stating this and promising notice of credit status as soon as obtained. Since rating as given in the foreign guides is indicative of the credit status only at the time guides are published the member will find it to his advantage to verify it at the time that actual use is to made of the rating. Provisions are made which enable members to make their rate inquiry by wire if this seems advisable.

In response to a nomination for rate inquiry, the member is advised that either:

- (a) The buyer is insurable for the amount asked or a specified portion thereof, at a specified basic rate, or
- (b) The buyer is rated un-insurable for reasons stated, or
- (c) The buyer is rated as insurable, but the insurable line is temporarily closed, or
- (d) That information is so incomplete or conflicting that the Exchange is unable to give a rating at the time.

The Exchange will undertake to secure cable reports from foreign correspondents in cases where the member desires this information. The charges in such case are at actual cost.

All basic rate and insurable line quotations made by the Exchange are for immediate acceptance and subject to change if not so accepted.

In addition to sending information on rating changes, the Exchange each month notifies all interested members as to the amount of the insurable line open on their customers.

When a nomination for insurance is made, the member does not have to supply the Exchange with a copy of the invoice of goods, but only agrees to furnish such a copy in case it is called for.

Each credit insurance certificate is negotiable and issued in duplicate. These two copies plus a file copy are mailed to the member as soon as issued.

Provisions are made for the automatic renewal of the policy as already stated. This gives the Exchange a fairly definite check upon the account

against which insurance has been issued, for in all probability if a member has received payments he would have notified the Exchange to keep from having to pay the renewal premium.

The member reports the receipt of payments upon a special form prepared for this purpose, the Pay experience form. The automatic renewal clause remains in force until cancelled by one of the following:

- (a) Final payment of account has been reported.
- (b) Member has notified Exchange in writing that renewal is no longer desired.
- (c) A claim in connection with the account has been admitted against the Exchange.
- (d) Eight renewals have taken place, after which the account has been taken over by the legal department for collection.

A second duty of the Exchange is to pay any losses from insolvency on insured accounts, provided that they are presented with satisfactory proof of loss. The policy states clearly what will be considered as constituting insolvency under the contract. There are ten provisions as given under the insolvency clause of the policy quoted below. A brief comment of the writer is given below each provision.

"A foreign debtor shall be considered insolvent under the terms of this policy when it shall be established that:

- (a) The aggregate of the property of such debtor at a fair valuation shall not be sufficient in amount to pay his debts and such debtor shall have failed to pay his debts as they matured without legal excuse therefore.

Note:- This covers a case where there is an insufficiency of assets at a fair valuation to meet the liabilities, and failure on the part of the debtor to meet the maturing obligations.

- (b) A voluntary petition in bankruptcy or insolvency shall have been filed by the debtor according to the laws of the country in which the debtor resides or has his business establishment or the debtor shall have been adjudicated a bankrupt or insolvent.

Note:- This covers both voluntary and involuntary bankruptcy.

- (c) The debtor shall have made an assignment of his assets for the benefit of his creditors.

Note:- This includes all forms of assignments and liquidations, informal as well as formal, for the benefit of his creditors.

- (d) The debtors stock in trade shall have been sold under a writ of execution.

Note:- This relates to a judicial sale of assets.

- (e) A writ of execution or attachment in the jurisdiction where the principal place of business of the debtor is located shall have been returned unsatisfied.

Note:- This covers a case where the debtor has insufficient assets, and provides that a writ of execution returned unsatisfied shall constitute insolvency under the policy.

- (f) The debtor shall have compromised with the majority in number and amount of his creditors for less than the amount of his indebtedness to them.

Note:- This is similar to the provisions of our bankruptcy law with regard to compositions, except that it does not require any judicial action, or confirmation. Hence, the debtors making a compromise out of court with the majority in number and amount of his creditors constitutes insolvency.

- (g) A receiver for the debtor shall have been appointed and confirmed in a bankruptcy or insolvency proceeding.

Note:- This needs no explanation.

- (h) A certificate shall have been made by the attorneys for the American Manufacturers Foreign Credit Underwriters, Inc, to the effect that the amount is "not collectible at law", which certificate may be based upon evidence submitted either by the member or by the underwriters.

Note:- This provision is aimed to cover difficult or doubtful cases, It

(h) cont.

Note:- cont.

sometimes happens that the foreign debtor, although insolvent, is able to carry on his business without paying his debts, and because of judicial delays has little to fear from litigation. This provision enables the member to get a settlement upon the statement of the legal department without the trouble and expense of useless litigation.

(i) The debtor shall have transferred or sold in bulk his stock in trade without having made due and proper provisions for the full settlement of his indebtedness.

Note:- This covers a transfer of stock in trade made in disregard of the creditors, and is similar to the "Bulk Sales Law" which has been enacted in many states.

(j) The debtor shall have absconded.

Note:- This covers the debtor who disappears without leaving sufficient assets to meet his obligations.

The member usually has little trouble in presenting proof of the actual bankruptcy or insolvency of the debtor. In the case of bankruptcy, insolvency, or assignment to creditors, a letter from the referee or receiver or committee of creditors is sufficient.

In all cases where the evidence of loss is not easily obtainable, the member has the facilities of the legal department of the Exchange. The member may, by registering the claim with the legal department, either force collection or secure evidence that the account is uncollectible at law. When the member is satisfied that a loss has occurred he should communicate with the Exchange and secure from it a Proof of Loss form. This is then filled out and returned to the Exchange for its
(1)
action.

The Exchange does not itself operate a legal department but undertakes to offer legal facilities to its members under a contract with the international law firm of Marvin and Pleasant. This contract was entered into because it was realized by the Exchange that the cost would be excessive to build up a firm of international lawyers, and it was also realized that such a firm as a part of the Exchange would be unable to do any business for firms not members of the Exchange.

(1) See appendix for form/118.

Marvin and Pleasant have their head office in New York, their staff consisting of 26 lawyers in the home office. Branch houses are established in London, Paris, Havana, Milan, Mexico City, and Chicago. In addition they have 14 associate offices and over 3100 foreign correspondents. This firm in addition to private practice, and its contract with the Exchange is foreign council for the United States Department of Commerce.

The service offered by Marvin and Pleasant may be summarized as follows:

- (a) Supplying the Exchange with information regarding buyers in dangerous condition throughout the world, and making investigations regarding the legal standing of insured buyers abroad.
- (b) Diverting shipments which are in course of transit to a buyer who has become insolvent, or whom bad credit information has been received against after the account has been insured.
- (c) Reselling merchandise abroad in order that the Exchange may avoid loss through insolvency of probable insolvency of a foreign buyer.
- (d) Passing on loss claims submitted by members.
- (e) Securing proof on behalf of members, that an insolvent or uncollectible condition exists.

- (f) Collecting salvage on behalf of the Exchange in those cases where loss claims have been admitted and paid.
1. Serving on creditors committees and dealing with offers of compromises.
 2. Prosecuting debtors who have effected fraudulent compromises, or have gone into fraudulent bankruptcy.
 3. Dealing with the receivers of or trustees of bankrupt estates.
 4. Putting embargoes or attachments on property of debtors where the total amount was originally uncollectible at law.
- (g) Handling of insured claims on behalf of members, in an endeavor to collect against the foreign debtors, either by pressure or by litigation.
- (h) The collection of uninsured accounts for members or for any other clients.
- (i) The handling for clients, whether members of the Exchange or not, of all foreign legal matters such as, foreign incorporations, patents and trade marks.

A third duty of the Exchange is to refund to members pro rata any surplus in the way of dividends at the end of the various fiscal periods.

The Exchange also has the option of terminating the master policy with 60 days written notice at the end of any fiscal period.

CHAPTER IV.

CHAPTER IV.

EVALUATION OF CREDIT INSURANCE SERVICE

OUTLINE:-

Protection against credit risk

Insolvency

Direct insurance

Moral or commercial hazard

Moral force- examples

Breach of contract

Moral force

Collection facilities

Credit information

Sources of credit information

Exporters ledger

Exporters salesmen

Importers references

Banks

Commercial agencies

Exchanges of information

Insurance Exchange.

Market guides as a merchandising aid

Mailing list

Advertising

Sample orders

Traveling salesmen

Objections to the insurance as offered

Pooling of ledger experience

Lack of stock companies in the field

Expense of insurance premiums

Insolvency only insured against

CHAPTER IV.

EVALUATION OF CREDIT INSURANCE SERVICE

Altho the foregoing chapter contained an analysis of the service offered American exporters by foreign credit insurance no attempt was made to give a detailed evaluation of this service. It will be the purpose of the present chapter to do this. A study of credit insurance reveals that this service is of value to the exporter in three ways: it provides him protection against the credit risk; it supplies him with credit information; and it furnishes market guides which serve as a distinct merchandising aid.

In the preceding chapter it was pointed out that credit insurance provides a 100% coverage against insolvency, and since the particulars relating to that coverage have been fully presented, it will not be necessary to discuss further the insolvency division of the credit risk. Credit

insurance however, does more than this for it also offers a protection against the moral hazard. Information comes from so many sources that it is practically impossible for a foreign firm to deceive the Exchange.

For example, a certain Mexican importer submitted statements from local agencies, and a bank report, to the effect that he had a capital of \$65,000 and the best of credit standing. Investigation revealed, however, that he had five creditors to whom he owed amounts ranging from \$1000 to \$5000, a fact that probably would not have been found out in time except for the pooling of the credit information of a number of firms. ⁽¹⁾

Instances have tended to show that there is small doubt that a foreign firm, when informed of the character and nature of the Exchange, will attempt to keep his credits good with members of the Exchange, realizing that if he does not, he will eventually be denied credit by a large number of firms in the American market. A few specific instances of this will serve to strengthen our conclusions upon this point.

(1) Examples of moral force from Safer Exporting August 1922- February 1923.

1. A St. Louis member of the Exchange, in advising the Exchange that a certain customer in Mexico City had paid her bill in full, added the following comment: "We believe that she would have further delayed payment but for the fact that we mentioned when writing to her that we had become members of the American Manufacturers Foreign Credit Insurance Exchange, and we did not want to report her as being slow pay to the membership at large through you."

2. A New England concern had rather an interesting experience recently in speeding up a slow account. A shoe dealer in Central America bought a bill of goods totaling some \$1,200.² Presumably because of a heavy decline in prices, the buyer left the goods at the Custom House refusing to accept the shipment on the plea that the merchandise was not up to sample. The following quotation from the members letter shows the culmination of the action.

"We wrote them that their plea was unfounded, and we should insist upon payment of the draft, and

that unless it received immediate attention, as members of the American Manufacturers Foreign Credit Insurance Exchange it would be our duty to report to them the unsatisfactory conditions, and that their rating, which was first-class at the present, would automatically become questionable. They made no reply to the letter, but immediately, or within a few days after receipt of it, they paid the full amount of the draft, and we really believe that it was the argument used that brought about the prompt settlement."

3. A representative of one of the members in Havana, was encountering difficulties in effecting collection of an account there, and called upon Mr. Wupurd the Havana agent of Marvin and Pleasant on his recent trip to Cuba. Mr Wupurd called with him on the buyer, and explained to him the way in which the Exchange functioned, and the importance to him of maintaining his credit with the Exchange. The buyer was astonished to learn that any organization of American exporters was watching his business so carefully. He made an appointment with

his bankers, to discuss the situation and then arranged to effect the liquidation of his account in a series of payments. In settling his account, the debtor asked the member's representative to use his influence with the Exchange, in order that his present good rating might not be changed.

4. The Quaker City Rubber Company, after presenting their papers sixteen times, and been unable to obtain payment from a firm. Upon the advice of the Exchange the company wrote the buyer advising him of the functions of the Exchange. Word was promptly received from the buyer that he would accept the draft for payment plus storage charges. The buyer also frankly admitted the unbusiness like methods followed and apologized for the same.

The Exchange endeavors in every way possible to promote the moral force of the Exchange. For example, it encourages members to print on their letter heads a statement of their connection with

the Exchange. In order to facilitate this each member is offered the use of the Exchange's electrotype which is set us as follows:

Member of
American Manufacturers
Foreign Credit
Insurance Exchange

A member of the Exchange, commenting on this feature remarked: "With the pioneering work that is now being done by the Exchange in all parts of the world, looking towards the education of the foreign buyer on the subject of the activities of our Exchange, the member will undoubtedly find it to his advantage to imprint his letter heads, with evidence of his membership in the Exchange, and take steps which will make the foreign buyer realize that he is dealing with a member. Such realization on the part of the buyer is a very effective deterrent against non-performance of contract, because he is beginning to realize that his credit can be severely injured if an unfavorable experience of a member is listed in the files, and if the legal

department is compelled to take steps against him."

The Exchange then offers protection against the moral hazard division of the credit risk, and with the increase in the number of members and scope of the Exchange there seems little doubt but that this force will continue to increase, and eventually play an even more important part than at the present time.

The Exchange also offers protection against the third division of the credit risk, The breach of contract. The moral force of the Exchange acts as a deterrent to breach of contract. Probably the most important service acting to minimize the loss from a breach of contract is the collection and legal facilities offered by the Exchange. These facilities are of course available to exporters outside of the Exchange, but at a cost about 25% higher than to members.

In case of breach of contract or trade dispute involving legal services the member of the Exchange is entitled to the services of the law firm of Marvin and Pleasant at a nominal rate. Thus instead

of having to write directly to the foreign firm of lawyers he has at his disposal the services of a reliable and responsible law firm in the country which will undertake to make collections from the importer for him. Acting thru this firm the exporter receives all of his correspondence translated into English without charge; and since the firm of Marvin and Pleasant is composed of highly paid and trained men, and has the highest type of correspondents abroad, it can handle the matter with dignity, thus causing less offense to the foreign firm, who might be slow pay and yet offer potentialities for future development to the American firm.

There is one other way in which the credit insurance services offered protect against the credit risk. It tends to prevent the foreign firm from overbuying. Many exporters have agreed that the habit of overbuying is one of the worst evils existing in the export trade, and represents a hazard that must be overcome if the operation of the export department is to be successful. Unquestionably many foreign buyers visiting our markets have

a complete check on their requirements and buy accordingly. The principle trouble is with the firm which is interested in placing orders anywhere just so that it may obtain credit.

Only last year a buyer from a foreign firm succeeded in receiving \$32,000 credit from firms in New York, where statements from the local bankers indicated that he should receive \$10,000 or less. Exporters in New York had no way of knowing that he had received credit against this statement from a number of firms and in view of the statement extended from \$5000 to \$6000 credit against it.

The Exchange in such cases has a chance to pick up the fact that the foreign firm is overbuying, thus the nominations for insurance as they are sent to the Exchange. This service will become even more important with the growth in the membership of the Exchange.

So much for the value of the services offered as protection against the credit risk. A second value of the service to the exporter is that it

furnishes him with credit information. It is true that there are various other sources from which an exporter can obtain credit information. But all these other sources have a certain amount of weakness. A brief discussion of these other sources will not be irrelevant here, because it will indicate the comparative strength of the information supplied by the Exchange.

One source of information is the exporters own ledger. The value of this information varies with the length of time and the number of transactions consummated. Its weakness lies in the fact that it is easy for the exporter to draw from his ledger experience a false picture, for the importer may be deliberately manipulating his credit standing so as to mislead particular exporters: he may have a good record with some firms and a bad record with others.

A second source from which an exporter may receive credit information is from his salesmen, and branch houses. But it is only natural that

information furnished by the salesmen should be optimistic. The same is largely true of the branch houses, altho probably not to so large an extent, because there is likely to be competition between branch houses for the minimizing of losses.

A third available source of information is in the references sent by the customer. The principal objection to this information is that good references are so easy to obtain. The foreign firm will naturally give as references only those firms with which he has a good credit standing.

A fourth source of information is in the reports of banks. Bank information must be discounted to some extent, for some of the most costly failures have been those upon which the banks have given excellent credit information. An example of one trade practice used upon American exporters by one foreign firm will serve to point out the weakness of relying entirely upon bank information.

A firm of importers in Mexico City began buying in the American market by placing a few

small sample orders. These orders were followed by a re-order of a small amount. The banks meanwhile had been giving the credit status of this firm as good, with a good capital rating. Remittance was promptly made for the sample orders and the other re-orders, and with this as a basis a large extension of credit was asked for. In those cases where it was granted the goods were shipped and refused by the Mexican firm on the grounds of inferiority of product or poor packing. A compromise was entered into by the firm in which it bought the goods from the American firm at a reduction, the exporter standing the loss.

It is not our purpose here to belittle the reliability of bank information but merely to show its inadequacy and to illustrate the importance of the interchange of ledger experience as conducted by the Exchange, which would quickly have revealed this bad practice.

A fifth and probably the best source of information is the commercial agencies. The two well-

known domestic commercial agencies, Dun and Bradstreet, maintain foreign services. The Dun agency requires an applicant for information to be a subscriber to their regular foreign service. The fees charged vary from \$3 to \$10 per report, and from \$50 for a twenty report subscription to an average of \$1.25 per report for a subscription service of 500 reports or more. The Bradstreet reports are practically the same except that Bradstreet will supply individual reports to non-subscribers provided that they are reputable merchants. As a rule the information obtained from these agencies is compiled over a sufficient period of time to be reliable. The chief objection to this information is that usually it is not as up to date as that of the Exchange.

A sixth source of credit information is that supplied to members of the Foreign Credit Interchange Bureau of the National Association of Credit Men. This is a mutual interchange of credit information similar to that of the Exchange which we have been

discussing. The chief weakness of this information is that it is not kept as well up to date as that of the Insurance exchange, since no provision is made for a report from members as to pay experience of firms whose deals are consummated.

We see then that each of these sources of information has in it some weakness. The credit information of the Insurance Exchange on the other hand, because it is secured from a vast number of sources, over a long period of time, and is constantly kept up to date, has fewer weaknesses. It is specific, adequate, and reliable and its cost is nominal as compared with that of the mercantile agencies.

We have now to consider the third value of the Exchange service, that of the market guides as a merchandising aid. An exporter given a potential market for his products always wants to know what foreign houses are handling his product, which of these houses is buying in the American

market, and what the financial and moral responsibility of these houses is. The rating guide gives the exporter this information, without his having to read thru lengthy reports, and the information is up to date. It is true that various other lists of buyers in foreign markets are available to the exporter, but these do not differentiate between the good and the bad, and also are oft-times not up to date. The guides of the Exchange, however, because they point out the credit standing of foreign firms serve as a selected mailing list, and tend to reduce costs in the promotion of foreign trade thru the mails. Thus the market guides by eliminating un-profitable and expensive clerical work, save the cost of sending expensive advertising to firms who will not make good customers.

It has been customary for certain foreign firms to prey upon exporters by asking for samples from them. The guides furnish information which aids the exporter in making a judicious response to requests for samples. This is a valuable merchandising aid for shipments of samples are oft-times

very costly to the exporter, especially if many are sent.

The guides again act as a merchandising aid in the matter of planning salesmen's itineraries. The cost of sending out salesmen into the foreign field is very high, and any saving in the time or effort expended by the salesmen is to be regarded as a distinct saving. The salesmen when approaching firms pre-selected from the market guide, may have in mind suitable credit terms as determined advisable from a study of the guide, and thus compete from the first approach upon a credit as well as quality and price basis.

One member of the Exchange, Brockton and Rand Co. claims that in soliciting business in Latin America it used the names of shoe merchants rated 1% and 1-1/8% and that they secured seven very satisfactory sample orders as a result, and thus opened up a profitable South American business.

Up to this point this chapter has been pointing out the advantages of credit insurance service to the exporter, as against the advantages of this

service however, there are certain objections, which it will be well to cover. One objection raised by the exporter is that of having to turn over to an Exchange, where others have equal use of it, information gathered over a period of years at a large expense. In considering this question the exporter is likely to lose sight of the fact that it is the co-operation of the many that makes for success. If the exporter is so inefficient that he cannot meet his competitors terms, it means that he is only holding his trade because of some monopoly, privilege or power. The member in pooling his ledger experience is not only giving information, but also receives the data compiled by many other firms with equal expense to them.

Another criticism of credit insurance is the lack of stock-companies in the field. The chief objections to the mutual company are the assessment feature, and the power given to the attorney-in-fact. Undoubtedly there will be stock companies in the field after sufficient information is available for the predication of rates, but before stock

companies can enter the field the present insurance laws which do not permit the combining of two lines of insurance in one company, such as Marine and Credit Insurance, must be reversed.

A third objection to credit insurance is that the expense of an insurance premium places an additional burden upon export business. Reverting to our previous discussions on premiums we see that the Exchange has a basic premium of 1%, 1-1/8%, and 1-1/4% for a period of sixty days, depending on the credit rating of the firm in question. The loss experience of the Exchange during the year 1922 was a trifle less than 1%. Thus this premium charge seems adequate from the point of view of the Exchange. This premium when compared with charges made by banks for collections, and reserves set aside by firms for bad debts shows that the cost of this insurance is indeed nominal.

A fourth and perhaps the most important criticism of credit insurance is that solvency only is insured, and rejection of goods and trade disputes

are not insured against. It is quite natural that insurance against rejection and trade disputes should seem very desirable to the exporter, because in such a case he would be out of the transaction as soon as the shipment was made. Ordinarily the tendency is to place the entire blame for rejection upon the importer and such cases unquestionably need some kind of insurance. However, if insurance were available for this risk, there are two additional risks that might arise: first, that the buyer and seller would get together to force the merchandise upon the insurance company; and second, that the seller would become lax in the filling of export orders, knowing that he was fully protected against any loss occasioned thereby.

Rejections on account of condition of goods harmed in transit could be more nearly met if combined with marine insurance. If this were the case the home office would know more nearly the condition of goods upon arrival and the reasons for rejection,

because the representatives of the marine insurance company would necessarily have to know the condition of goods on arrival. This would tend to minimize rejection losses except those primarily dependent upon quality and nature of goods.

In spite of the fact that only insolvency is insured against by the Exchange, the rejection and trade dispute hazards, as we have already pointed out, are minimized by the moral force of the Exchange, a moral force which is bound to play, as the Exchange increases in size, a more important part in the building up of uniform trade practices and the elimination of fraudulent buyers from the American market.

CHAPTER V.

CHAPTER V.

CONCLUSION

To one who has become enthusiastic over the services, both actual and potential, which foreign credit insurance can render, its future appears quite certain. An exporter in order to compete in foreign trade must be able to compete upon a credit basis with those countries which have made it a practice to extend adequate credit terms. In order to compete and offer credit terms the exporter must have financial facilities, which are available thru banking machinery established in the United States; credit information which he may obtain from a number of sources; and insurance facilities for the transfer of the credit risk to specialists.

Credit insurance facilities available to the American exporter offer services in the obtaining of credit information, and the insurance of accounts sold. In credit information service the exporter

receives information compiles from the experience of over a thousand firms, supplemented by additional information from banks and other sources. This information is put up in a concise form that enables the exporter to use it in the formation of his mailing lists, the planning of trips for his traveling salesmen, and in the passing upon requests from foreign firms for sample orders. This information is kept up to date and comes at a cost which in comparison to other services is reasonable.

The exporter as an insurance against the credit risk is supplied with 100% insurance against insolvency. The moral force of the exchange helps to alleviate the moral or commercial risk, and the collection services offered by the Exchange, at an expense less than to non-members firms, tend to promote a minimum of loss in the salvaging of accounts. The costs of this insurance against insolvency are nominal, being determined on a cost plus basis, any saving in the costs being returned to the members of the Exchange.

Since credit insurance tends to reduce the total of loss in foreign trade it is economically sound. Any loss or risk causes an increase in the cost of production, and any cost of production is eventually borne by the ultimate consumer. In the development of a new petroleum field a geologist is justified in that he decreases the risk in drilling for new wells. Credit insurance performs the same service for the export trade. This reduction of risk results in cheaper costs of production which in turn is reflected, all other factors being equal, by cheaper prices to the ultimate consumer.

In passing it might also be well to mention the service of credit insurance in the reduction of worry and fear to the exporter. Writing on this point B.Olney Hough, editor of the American Exporter says: "Undoubtedly the credit insurance idea has a strong appeal to a great number of American houses which are a little distrustful of their own ability in the export field. We have considered

it worth while recommending a consideration of foreign credit insurance to such manufacturers, that they may undertake the expansion of their business in foreign markets with more confidence⁽¹⁾."

Credit insurance is still in its infancy just as casualty insurance was a few years ago, but facts seem to indicate that in the future it will come into its own and play an even more important part than at the present time. It appears then that through the development of the facilities which have been described the great mass of potential exporters can safely enter into competition with foreign firms upon a credit basis.

(1) Personal Communication to the writer.

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APPENDIX

AMERICAN MANUFACTURERS FOREIGN CREDIT INSURANCE EXCHANGE

Specimen listings from Oriental-Australian Market Guide.

AUSTRALIA

Melbourne	Line of Business	%
City Mercers and Hatters	Hats and mens ware..	1-1/8
Cole, E.W. 301 Bourke St.....	Books	1
Copper, E.H. 61 Williams St.....	Paper	1-1/4

CHINA

Shanghai

China Merican Co.	Import export	XX
China Press, 41 Canton Road	Publishers	1
Chong & Co, E.	General Mdse.....	1-1/4

INDIA

Bombay

Bhagirathi Stores, Abdool St....	General Mdse.....	X
Breul & Co, Farbes Bldg.....	Cotton Goods.....	1
Bulsaria & Bros, Dhan H	Hardware	1-1/4

JAPAN

Tokio

Narwia & Co	Woolens	1
Nichibei Shoten	Bicycles.....	1-1/8
Nishimura Shoji Co. Ltd.....	Weaving Mills.....	X

PAY EXPERIENCE

AMERICAN MANUFACTURERS FOREIGN CREDIT UNDERWRITERS, INC.
130 William Street
New York

Date January 28th. 1925.

We have received payment on the following account.

Insured ..X..... Not Insured

Name Garcia y Gonzalez (S en C)

Address Havana, Cuba (Lamperilla 44)

Certificate No. 20259-A

Amount Paid \$4,987.20 Date Paid 1/24/25

Payment in FullX.. Or on account

Invoice date.....

Terms

If not insured give

Amount

RemarksVery Prompt

.....

Signed John Doe & Co. /s/.....

B.C. /.....

Exp. Date

THE RATE QUOTATION FORM

CHICAGO

NEW YORK

AMERICAN MANUFACTURERS FOREIGN
CREDIT UNDERWRITERS, INC.

New York City, .Oct. 15, 1924.

John Doe & Co.,
1144 Fulton Street,
Chicago, Illinois.

Gentlemen:

Replying to your inquiry regarding
Garcia y Gonzalez (S en C) Havana Cuba
we beg to advise that this account is at
present insurable at a basic rate of 1-1/4%
for an individual amount up to \$5000.

If you desire Insurance Certificate
please at once submit your Nomination of
Shipment, Form No. 102 to this office.

The basic rate quoted represents the
rate at which the Exchange is today prepared to
grant insurance on this buyer for a period of
two months on draft terms. For actual rate applic-
able to a longer coverage period or to open
account terms, please refer to printed table
of premium rates.

This rate quotation is, of course,
for immediate acceptance and is subject to
change at any time.

AMERICAN MANUFACTURERS FOREIGN
CREDIT UNDERWRITERS, INC.

By

AMERICAN MANUFACTURERS FOREIGN

CREDIT UNDERWRITERS, INC.
130 William Street
New York

CONFIDENTIAL NOTICE

December 19, 1924.

BUYER Garcia y Gonzalez (S en C) .. Havana Cuba
Lamparilla 44
Wholesale D.G. &
Mfr. Shirts.

RATE CHANGED FROM $1\frac{1}{2}$ TO XX

Our records show that you are interested in this buyer, but his notice must not be construed in any way as an acceptance or binder on any rate inquiry or nomination that may have previously been submitted.

any recent information you may have received regarding this buyer should be submitted to the New York office of the Exchange.

If you are no longer interested in this buyer, kindly notify us.

**APPLICATION AND CONTRACT AT THE
AMERICAN MANUFACTURERS FOREIGN CREDIT INSURANCE EXCHANGE
CHICAGO, ILL.**

156. We, the undersigned, hereby make application for membership in the American Manufacturers Foreign Credit Insurance Ex-
157. change and for Master Policy of Foreign Credit Insurance issued at said Exchange, which form with its stipulations, statements and
158. warranties are agreed to by us, and we further agree that the final ratings of the AMERICAN MANUFACTURERS FOREIGN
159. CREDIT UNDERWRITERS, Inc., shall govern exclusively all shipments under said Master Policy of FOREIGN CREDIT
160. INSURANCE.

161. NAME _____
162. ADDRESS _____
163. BUSINESS CLASSIFICATION _____
164. ESTABLISHED _____
165. USUAL TERMS OF FOREIGN SALES _____
166. APPROXIMATE AVERAGE YEARLY EXPORT SALES _____
167. OUR MEMBERSHIP IN THE AMERICAN MANUFACTURERS FOREIGN CREDIT INSURANCE EXCHANGE IS UNDER
168. THE FOLLOWING DESIGNATED ANNUAL BASIS: _____

169. It is mutually agreed that the guides issued yearly are for our own use exclusively and that the same will not be sold, rented,
170. loaned or given to any other person, firm, corporation or organization; such guides to remain the property of the American Manufac-
171. turers Foreign Credit Underwriters, Inc.

172. **KNOW ALL MEN BY THESE PRESENTS, WHEREAS,** the undersigned hereby designated a SUBSCRIBER desires to
173. secure protection against loss due to the insolvency of foreign debtors resulting from the SUBSCRIBER'S bonafide sales, resales,
174. consignments or shipments of merchandise, by the exchanging of private contracts by and through the American Manufacturers For-
175. eign Credit Underwriters, Inc., as Manager and Attorney-in-fact for the American Manufacturers Foreign Credit Insurance Exchange.

176. NOW, THEREFORE, We, the undersigned, as a SUBSCRIBER at the AMERICAN MANUFACTURERS FOREIGN
177. CREDIT INSURANCE EXCHANGE, hereby appoint the AMERICAN MANUFACTURERS FOREIGN CREDIT UNDER-
178. WRITERS, Inc., a corporation, our Attorney for us in its name as our Attorney, and in our place and stead to make, subscribe, issue
179. change, modify, reinsure or cancel contracts exchanging foreign credit insurance and/or insurance and indemnity and agreements for
180. such exchange of contracts, containing such terms, clauses, stipulations, statements and warranties, as it shall deem best: PROVIDED,
181. HOWEVER, that the total insurance and indemnity exchanged for us, together with taxes, department fees, adjusters and Attorney's
182. fees, Court costs and all other expenses of every kind, shall in no event render us liable during any contract year for more than once
183. again our earned premium for such year; earned premium as herein used shall mean the premium charged us for insuring our foreign
184. credits arising from our specific shipments of merchandise, to demand, collect, receive, and receipt for all moneys due us for credit to
185. our account as a SUBSCRIBER; to give, waive or receive all notices or proofs of loss; to adjust and settle all losses and claims on such
186. contracts or other evidences of indemnity; to perform or waive all agreements or stipulations of any such contracts; to appoint the
187. Insurance Superintendent or like official of any State, or in lieu thereof a duly accredited agent, as our agent, upon whom service of
188. process may be made with the same force and effect as if made upon ourselves; but only in relation to any foreign contract or claim
189. hereby authorized; to appear for us in any suits, actions or proceedings and bring, prosecute, defend, compromise, settle or adjust
190. same; to perform every act not herein specifically mentioned that we could ourselves do in relation to any foreign sale or contract hereby
191. authorized.

192. Our attorney shall automatically renew all negotiable foreign credit insurance certificates at the prescribed renewal premium
193. rates until instructed in writing by the SUBSCRIBER that further renewals are not required; renewal premiums to be charged to
194. SUBSCRIBER'S premium account at the Exchange.

195. We hereby agree to furnish our ledger and sales experience on any foreign buyer when called upon by the Exchange so to do;
197. said ledger and sales experience and its source to be for the confidential use of the Manager and Attorney-in-Fact.

198. An Advisory Committee consisting of seven SUBSCRIBERS or their representatives, shall be elected to serve for one year
199. at the annual meeting of SUBSCRIBERS, of which the Attorney shall give each SUBSCRIBER at least ten days' notice in writing
200. and which shall be held on the second Tuesday of January of each year; voting to be by ballot, each SUBSCRIBER or his proxy having
201. one vote, vacancies on the Advisory Committee may be filled by the remaining members or our Attorney.

202. There shall be no joint funds, but a separate individual account shall be kept by our Attorney with us and with each SUB-
203. SCRIBER; said account to be open to our inspection. Our Attorney shall provide for the safe keeping of SUBSCRIBER'S funds.
204. If at any time losses occur impairing the reserve on policies required by law to be maintained, or in the absence of such lawful re-
205. quirements, if in the judgment of the Advisory Committee, then the Advisory Committee and our Attorney may create a reserve
206. fund from savings accruing at the Exchange or refund same to SUBSCRIBERS from time to time as they deem best.

207. Our Attorney shall receive as his full and entire charge thirty percent of the earned premiums paid by us. In consideration of
208. such payment it shall meet and pay all costs and expenses of operating the Exchange, except taxes, fees of insurance or other like de-
209. partments, attorney fees, court costs, telegrams, cable tolls, the per diem and expenses of the Advisory Committee and all other
210. necessary costs and expenses of handling, investigating, adjusting and paying claims and losses.

211. Disbursements from funds of SUBSCRIBERS shall be by check, signed by our Attorney. Our Attorney shall give such bond as
212. may be required by the Advisory Committee. If at any time, losses should occur in an amount sufficient to require for their payment
213. any part of our contingent liability, herein provided for, we will, upon demand, pay an amount adequate to defray our portion of such
214. losses, subject always to the limitations hereinbefore set forth.

215. This Contract and the powers herein conferred is strictly limited to the uses and purposes herein expressed, and to no other
216. use or purpose and is continuous, but may be terminated at the expiration of any contract year by the undersigned or by the Attorney,
217. by either giving to the other sixty days' notice in writing and thereupon our Attorney shall speedily adjust our account and return to
218. us any funds standing to our credit in our deposit premium account.

219. The intent and purpose of this instrument is to clothe our Attorney with the power necessary to enable us through it to exchange
220. contracts of foreign credit insurance and indemnity with other SUBSCRIBERS.

221. The personal pronoun used herein shall apply whether the undersigned SUBSCRIBER is a person, firm, co-partnership or cor-
222. poration.

223. The undersigned hereby make a deposit of \$ _____ as premium deposit with our Attorney and earned premiums there-
224. after are subject to monthly adjustment.

225. IN WITNESS WHEREOF, we have hereunto set our hand and seal this _____ day of _____

226. _____ 19_____
227. Approved and Accepted _____ (Seal)

228. AMERICAN MANUFACTURERS FOREIGN
229. CREDIT UNDERWRITERS, Inc. _____

230. By _____
Ass't Secretary

231. _____
Representative