Providing the perfect tools

Duferco – umbrella trade/insurance facility

Arranger:	**ABN AMRO, Texel Finance**
Borrower:	**Duferco**
Amount:	**$60 million**
Insurer:	**Exporters Insurance Company (EIC)**
Purpose:	**To provide a structure to finance and insure specific trades in the steel market undertaken by Duferco**

Providing finance to commodity traders is a specialized product area. And coming up with a structure that allows a trader to operate with considerable flexibility so that it can handle numerous specific trades while at the same time still giving full security and comfort to the bank providing the finance has always been a tough call. This structure described below, for an international steel trading group, provides a truly viable framework of umbrella insurance for a portfolio of pre-export finance transactions in a tough working environment.

This $60 million trade finance facility involves four parties: ABN AMRO Bank, Exporters Insurance Company (EIC), Duferco, one of the world's largest steel trading and production groups and Texel Finance, a corporate/trade finance advisor and arranger and a Lloyd's accredited broker.

The facility is based upon an insurance policy issued by Exporters to ABN and Duferco, which has two parts. In the first part, Duferco is the obligor and the benefit of the insurance is given to ABN as a provider of trade credit lines to Duferco. In the second part, the obligors are customers of Duferco and the benefit of the insurance is given to Duferco as insured and ABN as assignee.

Carola Marseille of ABN's global commodity finance group says. "The cover gives an incentive to the trader to originate transactions in emerging markets with the knowledge that the bank will finance it based on the insurance company's partial participation." The transactions insured can be pre-payment facilities or sales on credit terms.

The facility is global and multiyear, so that Duferco can approach market opportunities in the knowledge that:

- a sufficiently large bank credit facility, underpinned by insurance, is available,
- indicative credit approval of obligors can be given by EIC,
- the policy language need not be negotiated for each transaction and,
- transaction finance will be available.

Above all, trade finance, and particularly commodity finance, is a people business, and individuals create trade structures and hone them to make them work. There are many unsung heroes of the trade finance arena. With this particular arrangement, the principal creators of the transaction were Andy Lennard of Texel Finance and Raul Oldeman of ABN AMRO. At Duferco, Tom Patrick played the leading role, and at EIC Malcolm Davies was the key character involved.

Says Andy Lennard at Texel: "This transaction had a great many challenges that needed overcoming in order to make all the parties concerned happy. For Duferco, it was not just a question of risk mitigation but also the availability of the finance. The bank concerned, ABN AMRO, had to overcome both the underlying trade structures as well as getting comfortable with the insurance product. And for Exporters, it was the underwriting of the ongoing transactions. For Texel it was the creation and structuring of both the insurance and finance that made it feasible and ultimately attractive."

To date, this innovative structure has allowed Duferco to complete five transactions, the largest single deal being for $8 million. So far a total of $30 million of the facility has been used covering the sourcing of steel products from Romania, Russia and Ukraine.

The facility was developed with two distinct operations in mind. First, ABN is the insured and is covered for specific facilities it grants to Duferco. Exporters receives copies of the facility agreements on which it participates in the risk. "This enables ABN AMRO to increase the financing to its customer without increasing the total credit exposure," says Marseille.

Second, Duferco is the insured and the bank is assignee for the remaining part of the insurance. Cover is provided for risks on debtors of Duferco, mainly suppliers in emerging markets. "This gives Duferco a great incentive to offer its pre-export finance deals to ABN AMRO, while the bank enjoys the cover of Exporters," says Marseille.

The policy designed for Duferco has the following features:

- As noted above, the dual purpose of the policy is to cover (a) the insured's default on its bank facilities and (b) non-payment/non-performance risks on its debtors;
- The insured can place transactions under the policy even though the credit term extends beyond the two year risk attachment period, which ends at policy expiration in June 2005. The total aggregate amount is $60 million.

For all parties, this structure produces significant benefits.

Benefits of the product for Duferco:

- Better and faster access to insurance cover and funding for structured deals, which gives it an edge over competitors;
- It cements its relationship with a first-tier bank;
- Combined know-how of insurance and finance offered in one package.

Benefits to the bank:

- Improved Raroc (risk adjusted return on capital) by laying off the implicated loss for commodity trade facilities, thus allowing to leverage on the added-value or the risk management of transactional finance;
- By teaming up with an insurer who is an important player in the commodity market, originating attractive structured deals whilst mitigating its risks substantially.

Benefits of the product to the insurer:

- Increases visibility by working closely with a major bank as a beneficiary of its insurance, thereby adding funding to the insurance product.
- Enhances reputation as a captive with the ability to tailor policies to the specific needs of its members.

Benefits of the product to the broker:

- Combination of insurance and finance, and increased synergy in two different markets.
- Closer relationship with all parties.
- Provides capability to work with longer dated transactions.

Duferco, was established in 1979 to exploit the advantages of emerging markets steel production/trading. It has grown to a multinational steel trader and producer. The group has production capacities in Belgium, Italy, Eastern Europe, the US, Guatemala and South Africa and a total production of approximately six million tons of both flat and long steel products. Its trading activities move an equal tonnage of steel and some 12 million tons of steel related materials. ■