8 August, 2012

About British Exporters Association

The British Exporters Association (BExA) is a membership organisation representing the export community -- capital goods manufacturers, international traders and their bank, credit insurance and other service providers. BExA takes a particular interest in trade finance and export credit insurance.

Draft Communication – Short-Term Export-Credit Insurance

The British Exporters Association (BExA) understands the need for the Communication, including the need to avoid a 'credit race' and to provide stability for credit insurers so that they continue to support business actively. BExA shares concerns that the 'market rate' for credit insurance premium has the potential to become uneconomic because of the activities of government-supported agencies, which do not operate with the same financial and regulatory environments as commercial insurers. Companies are increasingly multinational in their sourcing of product, and need private market insurers to stand behind them to help them win export orders in this ultra-competitive trading environment.

There is, however, an undeniable role for Export Credit Agencies to act as insurers of last resort where private market insurers have either permanent or temporary low appetites. At the same time, there is a need for extra help for SMEs for whom the minimum premium from private market insurers can be punishing, whatever the destination market. The drafting of the communication should bear these two critical principles in mind.

BExA maintains that one further principle that should be followed in this directive: that no rules should be applied to Export Credit Agencies that would not otherwise be applied to the private market excepting where the Export Credit Agency is in direct competition with the private market. At present, private market insurers are not restricted as to minimum premium, maximum indemnity etc. Where an approach to an Export Credit Agency can be demonstrated to have been a last resort (ie the exporter has failed to obtain cover from a private market insurer) or in relation to an SME, there should also not be any restrictions as to the quality or pricing of cover.

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The Study on Short Term Trade Finance and Credit Insurance in the EU\(^1\) reports ‘In fact, most Governments do not subsidise premium rates.’

**SMEs**

BExA is concerned that the short term directive, as currently drafted, does not adequately address the needs of SME and micro exporters and that the operation of Articles 4.3 and 5.2 regarding exceptions to Marketable Risk destinations do not reflect the nature of the current unavailability of cover. The focus of the directive should be to enable trade with any market to be insured by an ECA where there is limited appetite from the private market, albeit where the obligor is creditworthy. By definition, there is no need for restrictions of ECA activity or pricing where private market cover is unavailable – the ECA should be freed to offer appropriate terms. In such cases of market failure/interruption EU ECA intervention is vital to support, and not stifle, continuing - trade, and to encourage SMEs to begin exporting.

SMEs have the potential to provide the growth that Europe needs. Credit insurance acts as an enabler such that SMEs can offer attractive commercial terms to customers without taking undue risk themselves. The Study on Short Term Trade Finance and Credit Insurance in the EU\(^2\) suggests that the private market charges a minimum premium per policy in the range €1,200 to €5,000 p.a. To demonstrate the difficulty this brings for an SME, a recent case in the UK is of a family owned whisky company that received a large order from Switzerland, but the order value, at £30,000 was too much risk for the company to bear. There was no appetite in the private market, and UK Export Finance was unable to provide cover because it had not applied for the ‘exception’, presumably not having deemed it to be worthwhile.

Specifically BEXA would seek amendments to the following sections of the draft:

**Article 4.2** should automatically allow ECAs to provide cover for all markets, including exports to EU markets, to SMEs with an export turnover not exceeding EUR 2 million. This would encourage SMEs to export and in due course, once an individual SME has expanded its export volumes, provide more business for the private credit insurance market.

**Article 4.3 – Conditions for the provision of cover for exempted marketable risks**

At Article 4.3.1, the absence of cover from the commercial insurance market should represent grounds for short term cover to be made available to SME and micro exporters. The lack of cover in the commercial market could be for a multitude of reasons (ie ranging from limited commercial appetite, lack of re-insurance cover or the deterioration of the risk). In any event the failure of the commercial market should in BExA’s view constitute grounds for cover being available from the national ECA. The restriction of ECA short term activities broadly to non-OECD under the

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directive puts the EU’s SME and micro exporters at a competitive disadvantage to non-EU exporters.

The proposed maximum indemnity of 90% is low, particularly for SMEs and micro exporters for whom any uninsured element is always an issue. Whilst BExA recognises that there should be an uninsured element, an ECA indemnity of 95% would be more appropriate and effective for these categories of exporter. The EU could help SMEs by requiring ECAs to share equitably any recoveries realised after a claim has been paid, i.e. if the claim is paid at 95% indemnity, then any recovery would be shared 95%/5% with the exporter.

At Article 4.3.3, BExA is concerned that the proposed pricing mechanisms for exempted marketable risks will result in unnecessarily high premium pricing unless it is applied solely for larger exporters in situations where the ECA is in direct competition with the private market. Where there is no reasonable private market alternative, there can be no competition issue in relation to private market insurers.

Furthermore, there are difficulties in the operation of a minimum premium system. Few companies have S&P ratings. There would be confusion about how the rules would apply to unrated companies. Any minimum premium would need to allow for any first loss on the policy, the exporter’s track record, inherent risk for the sector, terms of payment (differentiating between, say 10 day credit terms and 360 day terms) and should be applied to insured value or credit limit rather than volume.

The 20% top-up provision would not benefit small businesses.

The administration fee of 0.2 to 0.5% when added to the minimum premium, would result in unrealistically expensive premium pricing if there was no private market alternative. It should be remembered that the purpose of the ECA, by offering export credit insurance, is to help companies to win export orders in the competitive world environment. Not all OECD, or even EU risks, remain ‘marketable’ and EU exporters are not simply competing against other EU suppliers.

**Article 5 Procedural Issues**

The provisions of paragraph 36 - modified list of marketable risk countries - needs to apply to risks incepting before an agreed date in order to allow contracts to be covered through to completion. Furthermore BExA would suggest that the categorisation of whether a country risk is marketable or non-marketable should be quantified by reference to macro-economic indicators, such as debt and deficit ratios to national GDP.

Whereas the private market is able to offer good cover for most countries for good quality risks, it is unrealistic to expect that there should be a Europe-wide decision about what is marketable, and that the list of marketable and non-marketable can be re-defined every few years. As the draft suggests, the patterns of availability of cover from private market insurers is fluid. It should therefore be acceptable to establish the list of countries but allow, in individual situations, exports to countries on the ‘marketable’ list to be covered by an ECA, at reasonable premium rates, if
the application is accompanied by evidence of the unavailability of short term cover from the private market.

The operation of the small company exception at paragraph 39 would seem too complicated, slow and unwieldy if the process has be to completed for each individual small value export prospect at each point in time. The small value exclusion needs to be automatic in order to encourage SMEs to trade.

Stifling trade through application of unrealistic rules when there is no private market alternative will have a negative impact on the EU’s ability to trade its way out of recession at a time when the world economy is depressed.