

CHAPTER II – SYNOPSIS

FUNDAMENTALS OF TRADE INSURANCE

- General Principles
- Purposes and Objectives
- Types and Features of Export Credit Insurance
Political/Country Risk

GENERAL PRINCIPLES

- Break Even or Operate at a Small Profit
- Support Only Reasonable Assurance of Repayment
- Appropriate Risk Sharing
- Supplement to Private Sector Financing
- Speedy Underwriting
- Rapid and Fair Claims Processing
- Limit Risk through Reinsurance/Coinsurance
- Adequate Capital/Cash

PURPOSES OF TRADE INSURANCE

- Encourage Expansion of Exports by:
 - ▶ Reducing Risks of Exporting
 - ▶ Improving Access to Export Financing
- Expand Non-Traditional Exports
 - ▶ Diversify Markets
 - ▶ Add Export Products

PURPOSES OF TRADE AND INVESTMENT INSURANCE

- Improve Balance of Payments
- Increase Employment
- Increase Banks' Knowledge of Export Credit
- Improve Financial Skills of Exporters
- Meet Officially Supported Foreign Competition
- Support Exports Deemed in National Interest
- Increase FX by Support of National Firms' Foreign Investments

TYPES OF TRADE INSURANCE

- Pre-Shipment Insurance
- Post-Shipment Insurance
 - Short-Term Post-Shipment Insurance
 - Medium/Long-Term Post-Shipment Insurance
- Performance Bond Coverage
- Other
 - Lease Insurance
 - Inflation Risk Insurance
 - Exchange Risk Insurance
 - Trade Fair Insurance
 - Local Cost & Third Country Cost Insurance

FEATURES OF POST-SHIPMENT INSURANCE

- Eligible Exports
- Eligible Exporters
- Eligible Buyers
- Insurance Coverage
- Risks Covered
- Amount of Coverage

ELIGIBLE EXPORTS

- Foreign Exchange

- Type of Product
 - ▶ Use
 - ▶ Perishability
- Size of Transaction
- Foreign Content

ELIGIBLE EXPORTERS

- Nationality
- Experience
- Commercial Reputation
- Risks

ELIGIBLE BUYERS

- Location
- Public/Private
- Creditworthiness
- Risks

RISKS COVERED

- Commercial Risks
 - ▶ Insolvency
 - ▶ Protracted Default
- Political Risks
 - ▶ War Risks
 - ▶ Government Intervention
 - ▶ Export/Import Embargo
 - ▶ Cancellation of Export/Import Licenses
 - ▶ Conversion and Transfer Risks

AMOUNT OF COVERAGE

- Percent of Transaction Covered

- Exporter Retention
 - ▶ Commercial Risk
 - ▶ Political Risk
- Interest
- Whole Turnover
- Deductible for Claim Payments
- Aggregate Policy Limit

APPLICATION PROCEDURES

- Approval of Exporter
- Approval of Buyer
- Discretionary Credit Limits (DCL)
- Special Buyer Credit Limits (SBCL)

DETERMINING PREMIUMS

- Exporter Experience & Portfolio
- Export Credit Insurer's Premium Policy

DETERMINING PREMIUMS Exporter Experience & Portfolio

- Premium Schedule/Negotiability
- Number and Types of Buyers
- Countries
- History of Export Credit Losses
- Terms of Payment
- Minimum Payment
- Payment Procedure

DETERMINING PREMIUMS Premium Policy

- Accounting for Risk
- Financial Condition

- National Interest
- Competition
- International Agreements

EVALUATING COMMERCIAL RISK

- Underwriting the Buyer
- Underwriting the Exporter
- Evaluating Credit Information
- Evaluating Commercial Reputation
- Analyzing Financial Statements
- Assessing Security & Guarantees

EVALUATING POLITICAL RISK

- Country Limitation Schedule
- Objective & Subjective Factors
- Country Ratings
- Maximum Exposure Limits per Country