

## **Chapter IX**

### **Trade and Investment Insurance System of Thailand**

## **Brief History of Export Credit Insurance in Thailand**

Export credit insurance facility is one of the financial services offered by the Export-Import Bank of Thailand (EXIM Bank). EXIM Bank is the first, and currently, the only institution in Thailand that offers such facility. Main reasons behind this facility are to provide exporters operating in Thailand with confidence in exploring and penetrating new markets as well as new customers in familiar markets, and it enables the exporters to offer their customers more favorable terms of payment.

Under this facility, EXIM Bank provides exporters with payment risk coverage for the export of any kind of products to export markets worldwide. In case merchandise is shipped out in compliance with the contract but exporters do not receive payment due to any commercial or political disruptions that obstruct the payment, EXIM Bank will indemnify exporters for the damage.

### **Institutional Framework and Organizational Set Up**

The Export-Import Bank of Thailand is a state-enterprise institution, wholly owned by the Royal Thai Government, under the supervision of the Ministry of Finance. The EXIM Bank was established by the Export-Import Bank of Thailand Act B.E. 2536, which became effective on September 7, 1993. The initial capital of 2,500 million baht was paid by the Ministry of Finance and the Bank of Thailand. EXIM Bank officially started its operation in February 1994 with the official opening on February 17, 1994.

According to the Act, EXIM Bank can engage in various financial activities including short-term and long-term trade and investment financing, export credit insurance, and any financial activities that commercial banks offer, except accepting deposits from the public.

The operations of the EXIM Bank are supervised by the Board of Directors which is comprised of 12 directors as indicated in the Act.

- Six directors are heads of six governmental departments which have the capacity to render their supports to EXIM Bank.

- ◆ Director-General, The Fiscal Policy Office, Ministry of Finance
  - ◆ Director-General, Department of Foreign Trade, Ministry of Commerce
  - ◆ Director-General, The Office of Industrial Economics, Ministry of Industry
  - ◆ Director-General, Department of Economic Affairs, Ministry of Foreign Affairs
  - ◆ Deputy Governor, Bank of Thailand
- Five eminent persons appointed by the Minister of Finance from various professions:
  - One position is for the EXIM Bank's President

The President is appointed by the Cabinet and serves on a 4-year-term basis.. The current President is M.R. Pridiyathom Devakula.

The EXIM Bank consists of 9 departments:

1. Packing Credit Department
2. Business Promotion Department
3. Treasury Department
4. Banking Department
5. Economic Information and Planning Department
6. General Administration Department
7. Management Support Department
8. Business Development Department
9. Accounting and Financial Information Department

In addition, there is an Audit Division which reports directly to the President, and currently there is one representative office in Bangkok and two branches: one branch in Bangkok and one in the Southern province.

The export credit insurance facility is operated under the Business Development Department.

### **Product Development**

EXIM Bank has, from the very beginning, set out to develop a Comprehensive Policy (D/P, D/A shipments). Our staff have gathered information regarding the export credit insurance and other related issues by visiting export credit agencies (ECAS) in the Republic

of China, Malaysia, Hong Kong, and Singapore. The Comprehensive Policy (D/P, D/A shipments) was first introduced to our exporters in November of 1994. The Policy has now been in operation for 2 years, and in May of this year, we have included Open Account (O/A) coverage to our Comprehensive Policy.

At present, we have further expanded our service and coverage, and are in the process of developing the Overseas Distributor Policy. The theme is that EXIM Bank will insure sales to buyers through a policyholder's distributor abroad. The Overseas Distributor Policy will cover only commercial risks caused by insolvency and repudiation.

### **Types, Features, Terms and Conditions of Insurance**

The D/P, D/A shipments Comprehensive Policy and the D/P, D/A, O/A shipments Comprehensive Policy offer post-shipment, whole turnover coverage for exports under D/P, D/A, and O/A terms of payment.

Both policies provide coverage for both commercial and political risks. The commercial risks include insolvency, non-payment, and refusal to take delivery of goods. The political risks include restriction or prohibition of remittance of hard currency, prohibition of importation of merchandise, revocation of the buyer's import license, and occurrence of war, revolution or riot that obstruct payment for the merchandise.

The attentive exporter should start by applying for the export credit insurance coverage. After the policy is approved and assigned to the exporter, the maximum liabilities and the buyers' credit limits will be assigned. EXIM Bank will issue insurance policy according to the agreed credit line.

Insurance premium ranges between 0.3% - 1.8% based on the buyer's country and the term and duration of payment. There is a standard premium table and it is adjusted up or down by the policyholders' loading factor which is determined by overall performance and profile of the policyholder. That is why two policyholders exporting to the same buyer may pay different rates of premium.

For coverage to become effective, policyholders are required to declare every shipment exported under D/P, D/A, or O/A, respective to their policy, to EXIM Bank and pay premium immediately. Under export credit insurance coverage for D/P and D/A, policyholders can negotiate their insured export bills, without additional collateral, at any commercial banks or at the EXIM Bank.

In case the insured are not paid due to any incident under our coverage, EXIM Bank will compensate according to the cause of loss as follows.

<b>Scope of Coverage</b>	<b>Rate of Indemnity</b>	<b>Time Frame for Payment of Claims</b>
<b>Commercial Risks:</b>		
Insolvency	85% of loss realized	Immediately upon receipt of evidence of bankruptcy or insolvency
Non-payment	85% of loss realized	Within 4 months after due date of payment
Refusal to take delivery of goods	70% of loss after proceeds from sale or auction of goods	Within one month after sale or auction of goods
<b>Political Risks:</b>		
Restriction or prohibition of remittance of hard currency	90% of loss realized	Within 4 months after due date of payment or 4 months after the buyer has made irrevocable deposit in local currency at the buyer's bank, whichever is later
Prohibition of importing of goods or revocation of buyer's import license	90% of loss realized	Within 4 months after the occurrence of the incident or after due date of payment, whichever is

		later
Occurrence of war, revocation or riot that obstruct payment for goods	90% of loss realized	Within 4 months after the incident starts, or after due date of payment, whichever is later.

### **Promotion and Marketing**

There are several methods of promotion and marketing that are regularly used:

1. Business newspaper and magazine advertisements
2. Trade fair
3. Direct phone call/fax
4. Seminar

EXIM Bank usually places advertisements regarding the export credit insurance facility in several business-related newspapers and magazines. Interested exporters calling EXIM Bank would receive basic information. This is followed by the export insurance officers visiting the exporters at their companies or factories to give details about the facility, answer related questions, and find out more about the exporters and their businesses.

There are several trade fairs held in Bangkok yearly. The fairs are organized by the Department of Export Promotion, a government body, in order to attract foreign buyers to buy Thai goods. The export insurance officers take this opportunity to visit the exporters at their booths and briefly introduce EXIM Bank's export financing and export insurance services. A few days after the fair is over, the officers will give follow-up calls to prospects and talk to them in greater depth if they are interested.

Department of Export Promotion publishes a list of Thai Exporters called Selected List. Thai Chamber of Commerce and various Trade Associations usually have lists of their members as well. With such lists in hand, the export insurance officers of EXIM Bank call up or fax to companies that are listed introducing their services as well as inviting them to apply for the service.

Occasionally, EXIM Bank would organize seminars on export related issues. Main reason for the seminars is to educate exporters regarding exports, such as export financing and various terms of payment, and EXIM Bank's facilities. Small and medium-size business entrepreneurs are target audiences. However, EXIM Bank's clients are also welcome to join the seminar if they feel that they would like to learn more about the issues.

## **Underwriting Technique**

### **Policy and Buyer Underwriting**

Under policy underwriting, the exporters will be evaluated on their operations, financial conditions, and their overall performances, to see whether they can meet their obligations. Then buyers are underwritten based on the following factors:

1. General business information
  - Type and size of business
  - Number of personnel
  - Years in business
  - Other related businesses and branches
2. Financial status
  - Initial capital
  - Net worth
  - Financial ratios
3. Operating results
  - Turnover and profit
  - Trend
  - Management capabilities
4. Financial record or history
  - Relationship with financial institution

- Business reputation
- Comments from credit information agency

#### 5. Payment record

### **Country Underwriting**

Business Analysis and Development Division is responsible for country risk monitoring and assessment, using information and news from several sources, such as Economic Intelligence Unit (EIU), several business magazines, Ministry of Foreign Affairs, Foreign Embassies in Thailand, newspaper, and Reuters. Country rating is reviewed twice a year, and special country conditions will be revised when there are important incidents occurring in **the** buyers' countries that might affect payment of goods.

### **Claims and Recoveries**

In order to receive claim compensation, the exporters need to file claim by submitting claim forms within a certain period of time. That is, six months if exported under D/P term of payment, and eight months if exported under D/A term of payment.

However, prior to submitting claim forms, the exporters are obliged to inform EXIM Bank concerning a likely loss either by phone or by submitting Notification of a Likely Loss form when the following incidents occur.

1. When the exporters know or are aware of any situation that might cause the buyers to be unable to pay for the goods when due.
2. When the buyers do not pay for the goods, whether in part or in whole within 30 days after due date.
3. When the exporters know of any news or information that might relate to receipt of payment.



The exporters are expected to do everything within their power and as recommended by EXIM Bank, to minimize potential loss, as well as to disclose all related information to EXIM Bank. EXIM Bank will pay claim compensation to exporters within a claim waiting period and after the cause of loss is proven valid.

## **Support System**

### **Credit Information Agencies**

Prior to granting credit limit to each buyer, EXIM Bank would gather buyers' information from the buyers' bank and credit information agencies. The credit information agencies that currently provide their services to the EXIM Banks are Dun & Bradstreet, Graydon, Teikoku Databank, etc.

### **Debt Collection Agencies**

Debt Collection agencies are used immediately at the time potential loss occurs. Services might be in the form of general consultation, legal consultation, or hiring them to recover the loss.

### **Reinsurance**

EXIM Bank is currently in the process of studying and searching for the most appropriate type of reinsurance.

## **Operating Results**

As of June 1997, EXIM Bank provides coverage for exports of various types of goods, such as jewelry, agricultural products, food products, frozen seafood, canned food,

garments, and furniture. The aggregate approved maximum liability is 4,204.40 million baht (USD 140.15 million) for the exports to 608 buyers worldwide.

In the first year of export insurance operation (March - December of 1995), the total exports declared was 1,398 million baht (USD 46.6 million), and the figure has gone up 101.7% to 2,820 million baht (USD 94 million) in 1996. The total exports declared for the first six months of this year are 1,958 million baht (USD 65.27 million), more than half the figure at the same period of last year. It clearly shows that the confidence of exporters towards export insurance facility is on the rise. As of today, EXIM Bank has indemnified the Insured totaling 660,966 baht (USD 22,032).

EXIM Bank insures exports to 56 countries in Africa, North and Latin America, Western and Eastern Europe, the Middle East, and Asia Pacific countries. The exports focus mainly to Western European and Asia Pacific countries.