SECTION 3

TRADE AND INVESTMENT INSURANCE SYSTEMS IN INDIVIDUAL COUNTRIES

Chapter I

Trade and Investment
Insurance System of the United States of America

TRADE AND INVESTMENT INSURANCE SYSTEM IN THE U.S.

- U.S. Export-Import Bank (Ex-Im Bank)
- Private Export Credit Insurance Companies
- Overseas Private Investment Corporation (OPTIC)
- State/Local Facilitating Organizations

U.S. EX-IM BANK

- Brief History
- Organizational Setup
- Types of Insurance
- Overview of Features
- Short-Term Multi-Buyer Policy in Detail
- Financial Institution Policy in Detail
- Product Development
- Marketing & Promotion
- Underwriting Techniques
- Commercial Risk Management
- Country Risk Management
- Claims & Recoveries
- Support System
- Operating Results

HISTORY OF U.S. EX-IM BANK

- Created in 1934 to foster U.S./Soviet Union trade
- Established under present law in 1945 to support exports, reconstruction of Europe & Asia
- Credit Reform Act of 1990
- Supplement not compete with private capital

- Full Faith and Credit of the U.S.
- Reasonable assurance of repayment
- FCIA* established 1961; Ex-Im Bank assumed operations 1991

EX-IM BANK CURRENT FOCUS

- Support Clinton Administration Strategy for Continuing Export Growth by:
- Emphasizing exports to developing countries
- Aggressively countering trade subsidies of other governments
- Stimulating small business transactions
- Promoting export of environmentally beneficial goods & services
- Expanding project finance capabilities

ORGANIZATIONAL SET-UP OF U.S. EX-IM BANK

- 448 Employees of which 45 in Export Credit Insurance (E.C.I.)
- Board of Directors
- -5 Person appointed by President, with consent of U.S. Senate
- (Chairman, Vice Chairman and 3 additional Board Members)
- -(ex officio) Secretary of Commerce & U.S. Trade Representative
- 10 Departments
- 4 Key Departments report to EVP, including ECI
- Reorganization pending
- Small & New Business
- Working Capital Guarantees
- Insurance
- Business Development
- Structured Export Finance
- Medium & Long Term Loans & Guarantees
- Americas, Asia/Africa, Project Finance, Aircraft & Credit Administration Divisions
- Finance Policy (Country Risk)

* Foreign Credit Insurance Association

- Resource Management

TYPES OF INSURANCE OFFERED BY US EX-IM BANK

- Short-Term Multi-Buyer
- Short-Term Single Buyer
- Bank Letter of Credit
- Financial Institution Buyer Credit
- Medium-Term Single Buyer
- Leasing
- Small Business Environmental
- Umbrella (for Small Business)

U.S.EX-IM BANK INSURANCE FEATURES

- Protect against losses on credit sales
- Policy can be assigned to facilitate financing
- Address needs of exporters and financial institutions
- One buyer or many
- Commercial and political coverage, or political only
- Short-term and medium-term
- Policies for Small Businesses

U.S.EX-IM BANK ECI GENERAL POLICIES

- Restrictions on sales
- No sales for military use
- Only to "Marzist-Leninist" country if President deem to be in National Interest
- Country Limitation Schedule
- Countries where coverage available
    - Open
    - Off-Cover
- Special terms & conditions for coverage

- Public vs Private
- Short Term vs Medium/Long Term
- Bank/Government Guarantees
- Exceptions

- Reasonable Spread of Risk
  - Insure all eligible export credit sales (excluding confirmed L/Cs & Cash in Advance)
  - Political only coverage for sales to subsidiaries/affiliates
- U.S. Content
  - Mandate to support sale/lease of U.S. goods & services
  - ST at least 50% exclusively of U.S. origin
  - Goods shipped from the U.S., no value added after ship

MT	Foreign Content	Coverage
	Up to 15%	All of financed portion
	16-50%	Only U.S. content
	More than 50%	No coverage available

U.S.EX-IM ECI RISK-SHARING

- Exporter Retention
- ST Commercial Risk = 90-95%
- MT Commercial Risk = 90% (of financed portion)
- ST Agricultural Commodities = 98%
- Political Risk = 100%
- Deductible (first dollar loss)
- Not for single sale or small business

- ST MULTI-BUYER POLICY
- Two coverage options
  - "Split coverage" 100% political risk, 90% commercial risk, plus first loss deductible

- "Equalized coverage" 95% of both political & commercial risk, plus first loss deductible

- Documented interest covered
- Eligible Exports
    - Commodities, agricultural commodities
    - Raw materials
    - Consumer durables
    - Spare parts
    - Services (by special endorsement)
- Term
    - up to 180 days
    - agricultural products, fertiliser, consumer durables to 360 days
- Premiums
- Minimum premium in advance of $500
- Single composite rate for all shipments, determined by
    - Insured's sales profile
    - History of export credit losses
    - Terms of payment
    - Number & type of buyers
    - Countries
- Claim after 180 days default
- Discretionary Credit Limit (DCL)
- Credit Information DCL
- Ledger Experience DCL
- Special Buyer Credit Limits
- Reporting Requirements
- Rescheduling
- Claims
- Recoveries

ECI PROGRAM POLICIES FOR BANKS

- Buyer Credit Policy
- Bank Letter of Credit Policy

BUYER CREDIT POLICY

- Single or Revolving Sales Basis
- Excludes L/C Transactions
- Comprehensive Cover - 90% (political & commercial)
- Political Risks Only Cover
- Policy Period up to 12 Months
- 2 Policy Formats
    - Private Sector: non-documentary
    - Public sector: documentary
- Financial Institution Eligibility
- Allows Banks to Obtain Commercial and Political Risks Cover on Credits Extended
- Directly to Overseas Buyers of U.S. Goods and Services
- Interest Covered

BANK LETTER OF CREDIT POLICY

- Single Transaction or Revolving up to Policy Limit
- Irrevocable L/Cs Only
- Comprehensive Cover Only
    - 100% for sovereign issuers
    - 98% for agricultural products
    - 95% for all others
- Convertibility Currency Denomination
- Policy Period
- Interest
- Subject to Documentation Standards
- Pre-Presentation Agreement Option
- Allows Banks to Expand their Correspondent Bank L/C Relationships

- Eligibility

PRODUCT DEVELOPMENT AT U.S.EX-IM BANK

Responsive to

- Political mandate
- Foreign competition
- Willingness of U.S. Financial Institutions to meet U.S. export financing needs
- New financing techniques
- Address marketing needs, administrative costs

MARKETING & PROMOTION AT U.S. EX-IM BANK

- Brokers
- 95% of sales through Brokers
- Commissions
    - -MT 10% of Premium
    - -ST 8% of Premium
    - -Small Business Multi-Buyer 40% of Premium
    - -Single Buyer 10% of Premium
- Ex-Im Bank Offices
    - -New York, Chicago, Miami, Houston, Long Beach
    - -Staff: 3-5

UNDERWRITING TECHNIQUES: COMMERCIAL RISK

- Exporter's Experience with Buyer
- Ex-Im Bank's Experience with Exporter
- Credit Reports
    - -One for up to $100,00
    - -Two for up to $250,000
- Financial Statements
    - -Unaudited F/S $250,000 to under $1 million

- -Audited F/S $1 million and up

- Decision Making
    - -Loan Committee for MT, Board for large or policy issues
    - -ST in Insurance Div.

UNDERWRITING TECHNIQUES: POLITICAL RISK

- Country Risk Division of Financial Policy
- Country Risk Ratings for all US GOVERNMENT Programs to determine subsidy
- Methodology
- Committee
- Quantitative & Qualitative
- Relate to Credit Ratings for Major Credit Rating Agencies

CLAIMS & RECOVERIES

- Claims Division processes claims/recoveries for all Ex-Im programs
- Few claims since debt crisis in developing countries
- Rejected claims due to non-declaration of shipment and non-payment of premium

U.S.ECI SUPPORT SYSTEM

- Brokers
- Ex-Im Bank Regional Offices
- Commercial Banks
- Umbrella Policy Administrators
- Associations
- Coalition for Employment for Exporters (CEE)
- Small Business Exporters Association (SBEA)
- Bankers Association for Foreign Trade (BAFT)
- Export Assistance Centers (EACs)
- State/City Program

U.S.EX-IM BANK OPERATING RESULTS

- Supported 1.5% of U.S. Exports (1996)
- Exposure US$55.8 billion (without ST ECI)
- Statutory limitation US$75 billion

Authorizations	-FY1996	(of which ECI)
-Number	2,422	(1,1914)
-Amount	US$11,518bn	(US$3,868bn)
-Export Value	US$14,597bn	(US$3,997bn)
-Subsidy	US$894mm	(US$148mn)

Profit (Loss) US$1,241mn(1996) (US$1,318mm) (FY1995)

ECI UNDERWRITING RESULTS

	FY94	FY95	FY96
■ Authoriszations(US$mn)	4,273	4,555	3,868
-Small Business	37%	37%	37%
■ Policies Authorized (#)	1,576	1,961	1,895
-Short Term	1,369	1,676	1,566
-Medium Term	107	285	329
Underwriting Activity(#)	7,428	7,864	7,090
-Short Term	7,067	6,999	6,251
-Medium Term	361	865	839
-Average Processing	8 days	9 days	14 days
Export Underwriting	1,561	1,594	1,684
-Average Processing	9 days	10 days	8 days

ECI OPERATING RESULTS

	FY94	FY95	FY96
■ Shipments Covered (mn)	2,773	2,432	2,300
-ST Exporter	1,808	1,748	1,770
-ST Bank	774	476	231
-Medium Term	919	209	299
Geographic Region	(FY1996)	%	
-Latin America	1,181	51	
-Europe & Canada	520	23	
-Asia	472	20	
-Africa & Middle East	127	6	

- Top 3 Markets: Mexico, Brazil & Canada = 38%
- Top 10 Markets = 60%

U.S.PRIVATE SECTOR ECI

- Private Sector Insurers
- American Credit Indemnity (AIC) - Euler Group
- Maryland Netherlands Credit Insurance (NCM)
- AIG Global Trade & Political Risk Insurance (AIG)
- CNA Credit
- FCIA Management Co. (FCIA)
- Exporters Insurance
- U.S. Ex-Im Bank
- 2nd in premium, 6th or 7th in income
- Large Reinsurance Capacity
- Characteristics
- Lover premium rates than U.S. Ex-Im
- More flexibility in products covered
- Limited term (maximum 3 years generally)
- Non-U.S. presence
- Serve large company market

OPIC INVESTMENT INSURANCE

- Programs
    - -Investment Insurance
    - -Loans and Financial Guarantees (all risk)
    - -Investment Fund Guarantees
    - -Contractor Bid, Performance, and Advance Payment Guarantees
    - -Contractual Disputes Coverage (with public sector buyers)
    - -Assets and Business Income Cover
    - -Customs Bond Coverage
- Underlying Bi-Lateral Agreements
- OECD Countries Ineligible
- Political Risks Only
- Currency Inconvertibility
- Expropriation
- Political Violence

Rules of the Game: A Summary

- Applicant/Recipient must be:
- 51% voting share ownership in the private sector
- U.S. owned or controlled investor or lender

Projects must be:

- Registered before investment made or irrevocably committed
- Developmental
- New, or for expansion/moderization
- In approved countries
- Able to show positive effects on U.S. economy

Projects must not:

- Result in negative effect on U.S. employment and loss of U.S. jobs
- Result in negative impact on U.S. trade
- Adversely affect the environment

- Contribute to violation of internationally recognized workers rights

Extent of Coverage

- Maximum term of 20 years
- Maximum 90% coverage
- Maximum of 270% of initial investment
- Applicant can choose:
    - -All political risks covered, or selected risks to be covered
- OPIC cover backed by
    - -Reserves of over $2.4 billion
    - -Full faith and credit of the U.S. government

STATE/CITY PROGRAM

- Joint effort of Ex-Im Bank & State/City offices
- 33 state and local government offices & private sector

Objectives:

- Support SME companies in exporting
- Lower cost to market
- Create Jobs - expand local tax base
- Programs: Working Capital Guarantee & ECI
- Delegated Authority to commit ST insurance
- Ex-Im Bank trains staffs

Chapter II

Trade and Investment
Insurance System of Canada

Export Development Corporation (E.D.C.)

EDC HISTORY & OVERVIEW

What is EDC?

- Canada's official ECA
- Financially self-sustaining Crown corporation that operates on commercial principles

EDC Mandate

- EDC offers a range of financial and risk management services, including export credit insurance, sales financing and guarantees.

History of EDC

- 1944 Export Credits Insurance Act established Canada's first export credit agency - Export Credits Insurance Corporation (ECIC)
- 1946 joined Berne Union (remains member to date)
- 1960 Act amended to provide long-term financing for sales of capital goals
- 1969 Act changed to Export Development Act
- 1972 began to conduct Treasury operations and by 1976 ceased to borrow from Government
- 1993 Ed Act modified to extend powers to allow
    - domestic insurance
    - equity
    - working capital guarantees

EDC Today

Commercial Orientation

- self-sustaining (not reliant on Parliamentary appropriations)
- assess risk according to commercial principles (no subsidies or grants)
- operate on a user-pay basis

    premiums and fees for insurance

    all loans fully repayable with interest

- generates profit

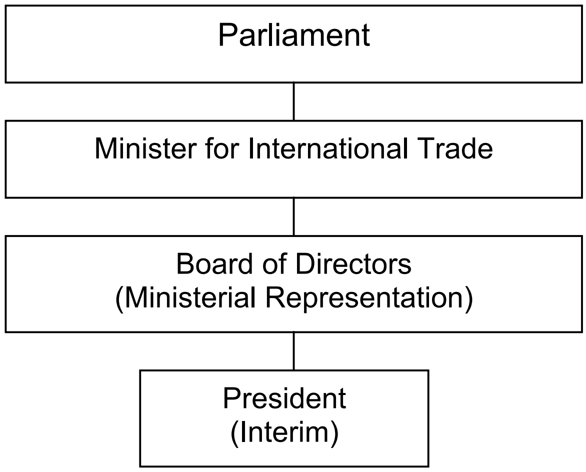
Multiservice ECA

- Most official ECA's act solely as insurers/guarantors for their national government's account
- EDC is a multi-service ECS offering both insurer/guarantor and direct lending services under one roof

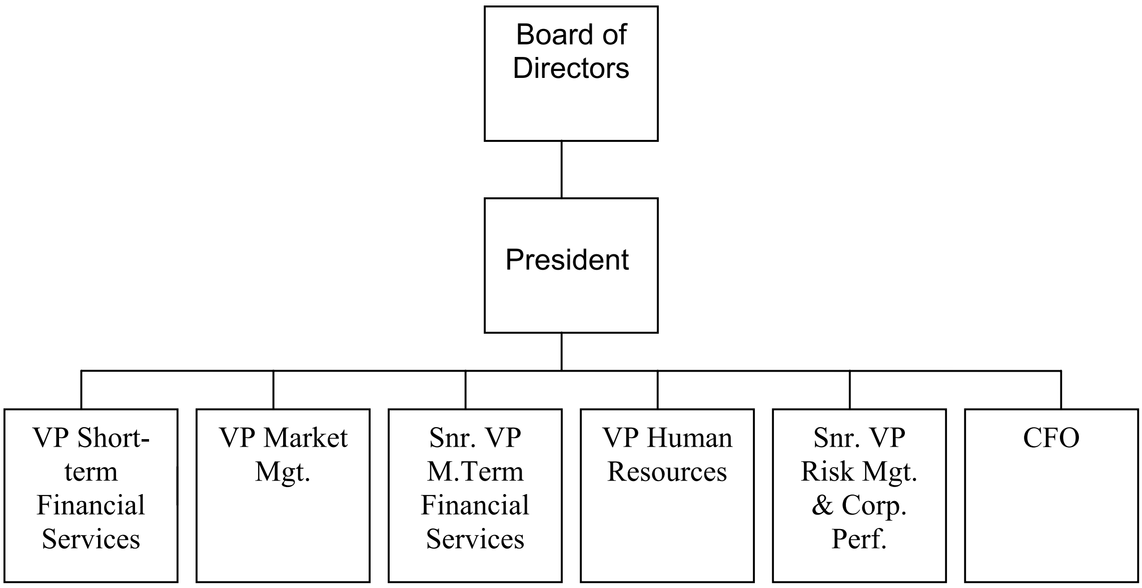
International ECA Competition

	Canada	U.S.	Japan	Germany	U.K.	France	Italy	Italy
Official ECA	EDC	EXIM	EID/MITI	HERMES	ECGD	COFACE	COFACE	SACE
Other Gov't Institutions		OPIC CCC	JENM	KFW C&L	CDC			Medio-credito
Eca Programs								
Lending	√	√	x	√	x	x	x	X
Credit Insur.	√	√	√	x	√	x	√	√
FII	√	x	√	x	x	√	√	√
Guarantees	√	√	√	x	√	√	√	√
Relation to Gov't	Crowa Corp.	Gov't Agency	Gov't Depart.	Gov't Bank	Private-on behalf of Gov't	Gov't Depart.	Private-on behalf of Gov't	Gov't Agency
Source of Capital	In house Treasury Operations	Gov't Budget	Gov't Account	Borrows in Capital Markets	Gov't Account	Gov't Account	Gov't Account	Gov't Account
Commercial Orientation	√	x	x	√	x	x	x	x
Cashflow US$mn-1995	156.22	-145.20	574.77	0.21	34.9	337.70	-139.90	-1,744.28
Cashflow US$mn-1996	273.76	-105.60	674.55	0.80	583.30	583.87	832.40	-508.74

Corporate Reporting Structure



Organizational Structure



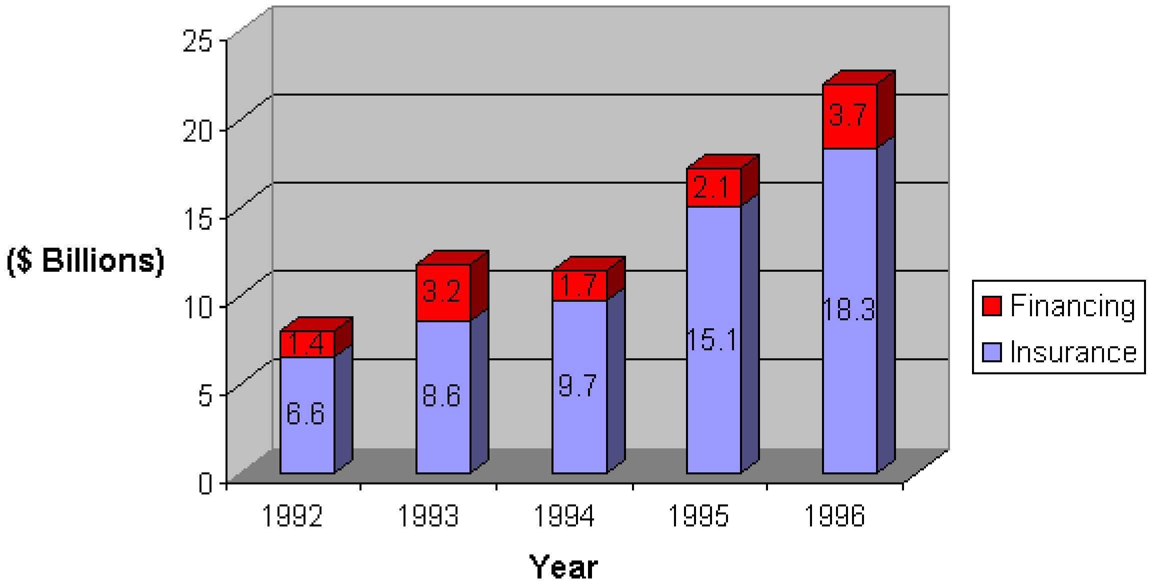
Corporate vs. Canada Account

- Sect 10 (Corp.) vs.Sect 23 (Can.) of Export Development Act
- EDC as Canada Account agent for the Government (paid an admin.fee)
- Cabinet Authority (>$50mn) vs Ministerial Approval

Track Record

- Exports: EDC has supported more than $100 billion since the start of 1996 (6% of Canada's total export volume)
- Every region of the globe (137 countries in 1996)
- Every region of Canada
- Every sector of the Economy

EDC Business Volume (1992-1996)

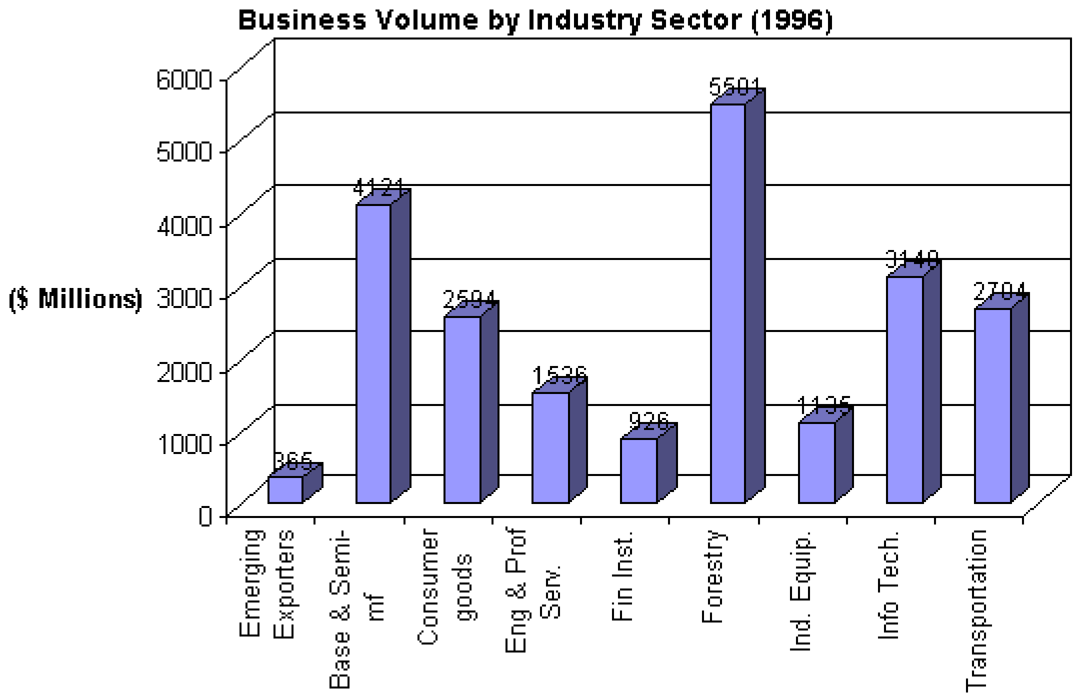


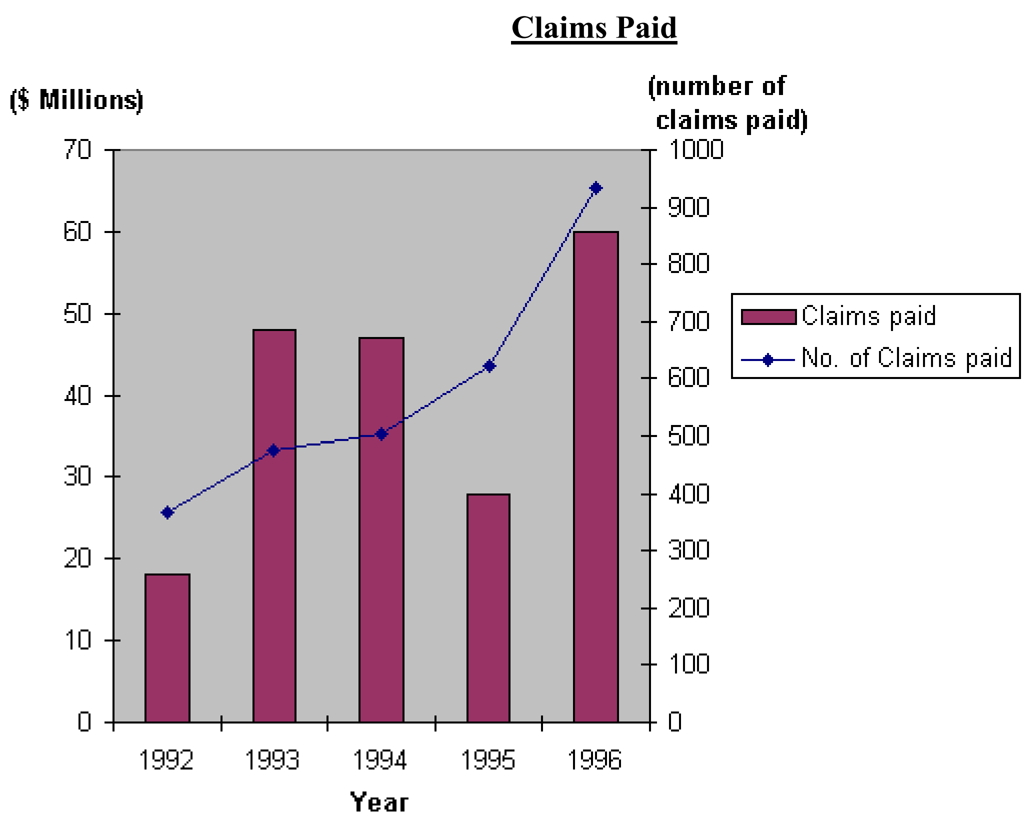
Where We Do Our Business

(Diagram EDC Volume by Geographic Market (1996))

(Diagram EDC Volume as % of Cdn. Export (1995))

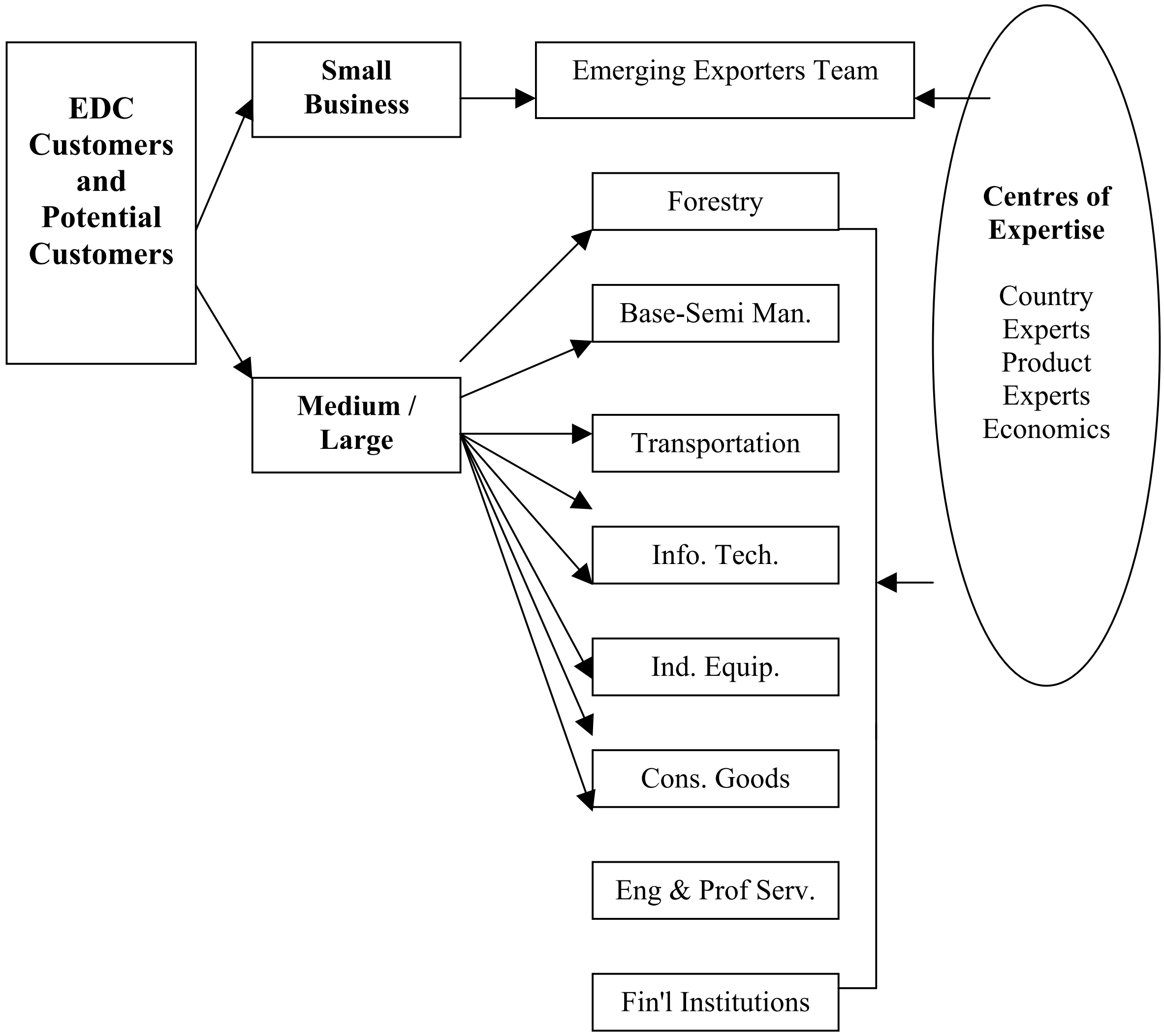
Business Volume by Industry Sector (1996)





EDC's New Structure

Customer Focused Teams



EDC - Overview of Financial Services

Financial Services

(1996 - $Billions)

• Credit Insurance	$15.8
• Financing	$3.7
• Foreign Investment Insurance	$1.5
• Performance Security	$1.0

Coverage for Letters of Guarantee

- 90% coverage to the exporter for:
  -Wrongful call of a letter of guarantee; and
  -Rightful call outside exporter's control
- 100% coverage to the bank for:
  -Any call of a letter of guarantee
  -EDC requires recourse to the exporter
- Used to free up working capital funds

Coverage for Surety Bonds

- Surety Bond Insurance
  -Up to 85% coverage to surety company against exporter's non-performance
  -Proof of default required before payment, hence reduces risk for exporter
  -Typical in North America
  -Flexibility for non-traditional industries and markets
- EDC Surety Bonds
  -Applicable where current programs do not suit transaction
  -Primarily with sovereign buyers

Foreign Investment Insurance

90% coverage against political risks	**Period of coverage:**	**Types of investment & coverage:**
Expropriation	Up to 15 years	Equity: Capital & retained earnings
Transfer of funds		Loan: Principal & interest
War, Revolution, Insurrection		

Financing Eligibility Criteria

- Exporter

  -Business operating in Canada

  -Technically & Financially capable of completing transactions

  -Benefits to Canada requires 50% Canadian content minimum - If less than 50%, will look into other factors, such as if create more jobs, etc.

- Buyer/Borrower

  -Creditworthy

  -Acceptable country

  →No Iraq, Libya

- Project

  -Technical & commercial viability

Financing Services

Types of Services:

- Direct Buyer Loans
- Lines of Credit
- Note Purchase

Direct Buyer Loans

- Tailored to commercial contract
- EDC disburses funds on behalf of the borrower
- Meets the credit needs of foreign buyers
- Competitive interest rates & fees

Lines of Credit

- EDC pre-negotiated terms with foreign institution
- We disburse funds on behalf of the borrower
- Fast turnaround
- Over 40 lines around the world
- Ideal for small to medium-sized transactions

Note Purchase

- We buy promissory notes issued by the buyer
- Available for sales in commercial markets
- For small to medium-sized supplier credit transactions

Emerging Exporter Team

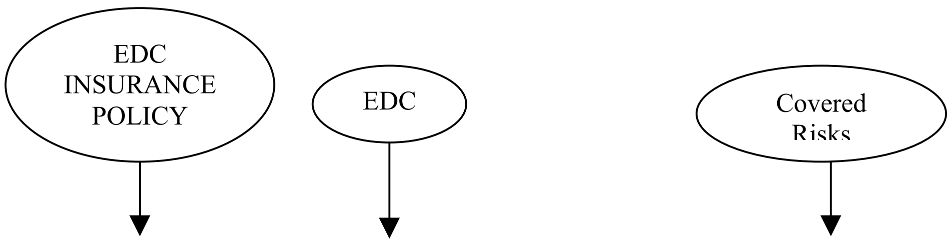
- SME Need
  ✓Responds to need for quick turnaround, standardised product and account management
- EDC Role
  ✓Provide a centralized, automatic and rapid client service
- Benefits
  ✓Higher customer satisfaction
  ✓Dedicated attention to the client base
  ✓Targeted marketing
  ✓Lower overhead
- Status
  ✓Launched March 27, 1995

Responding to Customer Concerns

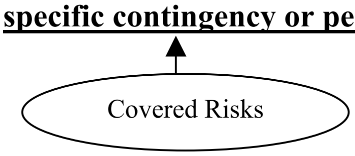
- More than 62% of credit approvals done within 24 hrs
- Short-term policies for SME's issued over the phone
- Toll-free number to reach underwriters directly

<u>Short-Term Insurance</u>

What is Insurance & Who are the Parties?



Coverage by **<u>contract</u>** whereby **<u>one party</u>** undertakes to indemnify **<u>another</u>** against **<u>loss</u>** by a **<u>specific contingency or peril.</u>**



What is Short-Term Insurance?

Short-term insurance covers exporters against non-payment of their short-term export receivables through the issuance of whole turnover credit insurance policies

- Covers all (most) credit sales - allows some selections if exporters have reasonable spread of buyers
- Standard cover rate 90%
- 1 or 2-year term (1-2 years policy /duration of policy)
- pay-as-you-go - non-refundable
  -monthly declaration or quarterly, pay at time of declaration - be flexible

Short-Term Insurance Policies

- Comprehensive Insurance
  - -Global Comprehensive Insurance Policy (or Export Credits Insurance Policy for smaller exporter) - 90-95% of EDC business
  - -Shipments or Contracts - EXPR can choose either one
  - -Services
- Political Risk Only Insurance
  - -Global or Selective
- Documentary Credits Insurance

What Losses do we Protect Against?

The majority of EDC's policies protect our clients against losses that can occur when they extend credit to their buyers.

- Insurance is purchased to protect against a loss resulting from an event occurring at a future date, which is unforeseen, unexpected and beyond the insured's control
- We generally cover 90% of the loss incurred
- By indemnify we mean that we put the exporter back in the same position as he was before the loss. The insured can not be put back into a better position after the loss

Risks Covered - Credit Insurance

Commercial Risks	**Political Risks**
Buyer insolvency	Conversion & transfer difficulties
Default (non-payment)	War & related disturbances
Repudiation of goods by buyer (non-acceptance)	Cancellation of import/export permit
Contract cancellation by buyer	Moratorium on country's external debt

What Must the Insured do to be Protected?

- **In order to be protected our clients must have:**
  -an insurable interest (either a contract or a receivable)
  -complied with the terms & conditions of their policy (including paying premium)
  -acted in good faith

Why Credit Insurance?

- risk management
- cost effective provisioning
- bank financing
  - credit quality enhancement
- competition
  - level the playing field
  - competitive advantage

Underwriting - Premium Rates

- Basic Premium Rates
  -Based on Matrix which takes into account
  - Commodity Classification
  - Country Risk
  - Terms of Payment
  - Volume

- Other Underwriting Factors
  - Spread of Commercial/Political Risk
  - Severity of Risk - Individual Credit Limites
  - Historical Incidence of Loss - Industry and Exporter
  - Exporter Risk

- Contracts Policies - Pre-Shipment Cover Rates
  - Length of Pre-Shipment Period
  - Salvage Value

Underwriting - Other Issues

- Discretionary Limits
- Use of Deductibles
  - First Loss Deductible
  - Per Buyer Deductible
  - Non-Qualifying Losses
- Setting the Maximum Liability

Sources of Credit & Financial Information

<u>Traditional</u>

- credit agency report
- specific industry agency report
- bank report
- trade references
- SEC (10Q & 10K)
- annual reports
- investment brokers

<u>Not so Traditional</u>

- Investment Brokers, Vulture Funds
- Bond & Credit Rating Agencies (e.g.S&P, Moody's, DBRS)
- Electronic Media (e.g.Bloomberg, Lexis Nexis,Reuters)

- Financial databases on CD-ROM (e.g. Amadeus - Europe, FAME - UK, PC-Plus - USA/Canada, DIANE - France, JADE -Japan, Worldscope - Europe, Moody's USA & Int'l)
- Industry specialists and trade supplier group associations
- Country specialists

Product Development, Promotion and Marketing

Product Development

Products vs Solutions

- EDC transition from a product-driven company to a solution-driven company
- Multiplicity of products = confusion?

Flexibility with Existing Product Range - Examples

- Coverage of domestic and international sales
- Large buyers only policy
- Multi-country policy

Separate Products vs Separate Delivery Example of SME's

- EDC's Research on SME's concluded:
  - No patience for "red tape"
  - High priority on fast service
  - Lower priority on individualized underwriter relationship

Product Differences

- Claim waiting period in case of default (4 vs 6 months)

Delivery and Administration Differences

- One underwriting team (not industry sector specific)
- Underwriting Team vs individual underwriter
- Product delivery over the phone (1-800 numbers)

- Coast-to-coast coverage during business hours
- No monthly declaration if no insured sales

Recent New "Products"

- Master Accounts Receivable Guarantee (MARG) --for small exporters, provides BANKS with guarantee on loans against receivables
- Grow Export Program--joint working capital guarantee program with Canadian Imperial Bank of Commerce for small high-tech companies
- Northstar Trade Finance--short-term policy tailored to cover medium-term credits (up to 5 years)
- Medium-Term Documentary Credits Policy--broadened short-term DC policy to cover medium-term LC's (up to 5 years)
- Bank Aval Policy--policy in development to cover Canadian banks on foreign bank avals rather than Letters of Credit

Promotion and Marketing

Selling Features of Credit Insurance

- Asset protection
- Enhanced access to bank operating lines
- Increased sales

  -Alternative to more secure terms (ILC or payment in advance)

  -Longer terms

  -Increasing buyer limit

  -New market penetration

Direct Selling vs Selling Through Brokers

- Cost effectiveness
- Product understanding
- Relationship with customers
- Access to certain (larger)potential customers

EDC Marketing Force

- 8 offices across Canada
- Approximately 30 Business Development Managers

Promotional Tools

- Sales Collaterals (Brochures)
- Advertising
- Direct Mailing
- Workshops
- Word of Mouth

Commercial Risk Management

Short-Term Commercial Risk

Commercial risk is defined as non-payment (financial distress or unwillingness to pay) by a buyer of its obligation to a company supported through EDC's short-term credit insurance program.

Emphasis:

Maximizing automation

- Decision models & limits
- Automatic surveillance & support
- Mainframe-to-mainframe

Management Unit - Organization

- Credit Surveillance and Analysis Department - reports to V.P., Short-Term Financial Services
- Services all Short-Term Insurance Business Teams
- Staff of 40

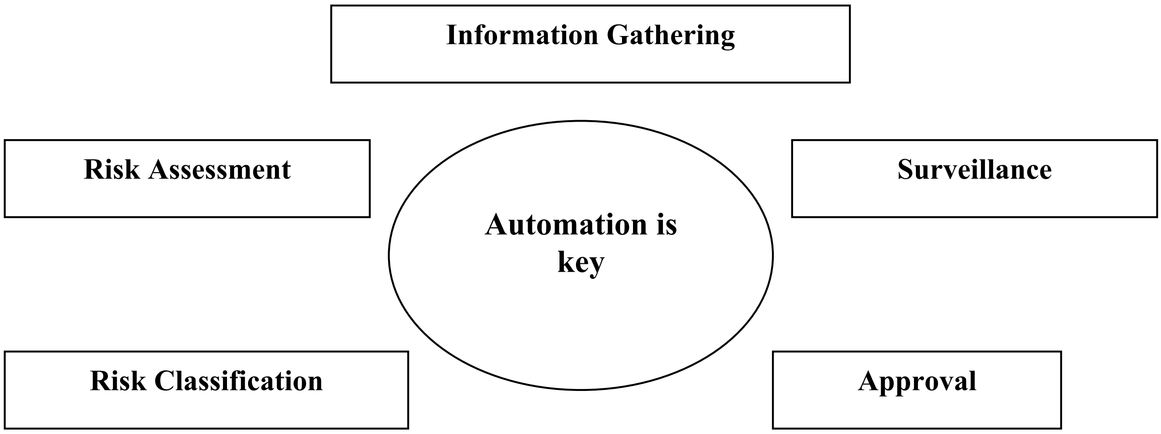
  -Buyer High Risk Unit (17)

  -Automated Credit Facilities Unit (6)

  -Client Credit Processing/General Admin./Buyer Low Risk (15)

  -Director of Credit and Assistant (2)

Commercial Risk Management - Approval Process

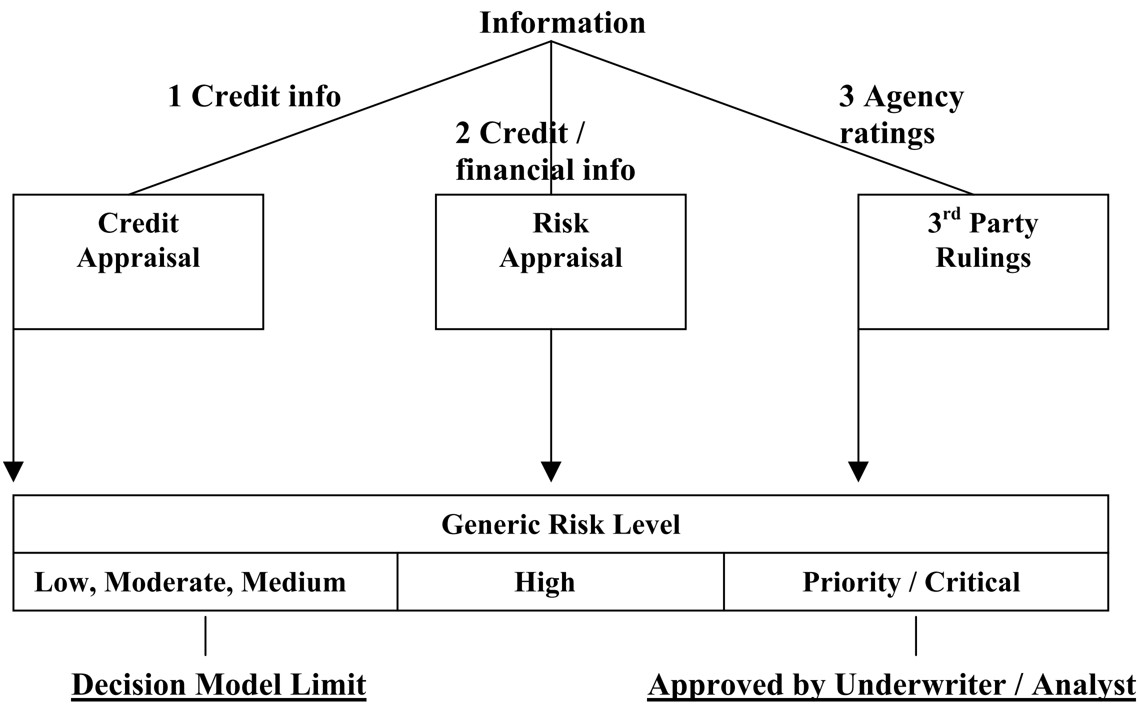


Approval Process - Information

Means of data collection

- Mainframe-to-mainframe links
- On-line access to news services
- Credit & Financial databases on CD-ROM
- Credit agency reports via fax
- EDC Client/Buyer

EDC Risk Assessment



Credit Appraisal Focus & Model

- Years in business
- Business Reputation
- Management Quality
- Banking Experience
- Trade & Payment Data
- Third Party Credit/Financial Ratings
- Credit Appraisal

Plus

- Financial Appraisal Focus/Ratios
  - -Liquidity
  - -Leverage
  - -Coverage
  - -Operating
  - -Financial Condition

Rating (Third Party) Models

Agencies who assess the credit & financial health of a company to perform as a going concern.

Examples:

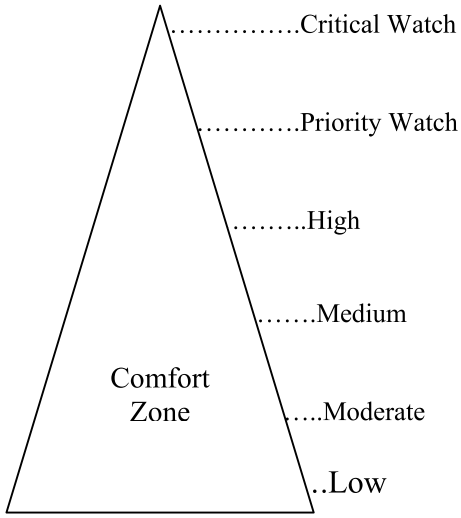
Bond Rating Agencies:

- Moody's Investors Service Inc.
- Standard & Poor's Corporation

Credit Rating Agencies:

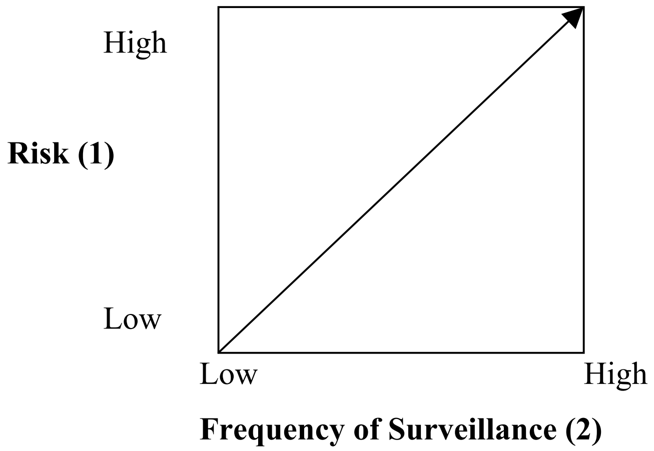
- Dun & Bradstreet (Int'l)
- Lumbermens (USA)
- Japanese Credit Agency (Japan)
- Novcredit (Italy)

Portfolio Risk Level



Companies	Exposure
1%	2%
2.5%	3%
11.5%	20%
85%	75%

Automated Surveillance Matrix & Workflow Management



(1) Influenced by exposure, industry sector and country risk

(2) Reflects type & frequency of surveillance as well as level of effort and expense

Surveillance Risk Focus

	Companies	**Exposure**
Tier 1 *Higher Risk* Intense Effort	5%	10%
Tier 2 *Large Exposures* Moderate Effort	10%	70%
Tier 3 *Comfortable Risk* Low Effort	85%	20%

Higher Risks Require:

- Detailed financial analysis
- Industry risk considerations
- Country risk considerations

Through:

- Company visits
- Electronic news media
- EDC's automated risk assessment tools
- Credit and trade groups
- Industry specialists
- Country specialists

Problem Accounts Require

- Fast experienced attention
- In-depth financial analysis
- Visits
- Negotiations

- Credit considerations on future supply
- Third party discussions
    - -Trade suppliers
    - -Banks/Insurers/Factors
    - -Landlords

Buyer High Risk Unit Supports Business Teams

- Dedicated portfolio managers
    - -Commercial high risk expertise
    - -Industry high risk expertise
    - -Country high risk expertise
- Provides risk assessment & acceptance support on additional high risk exposure
- Handles problem accounts - working out rescheduling & credit needs
- Monitors high risk/large dollar exposures

Automated Credit Facilities Unit

- Establishes credit & surveillance standards
- Enhances decision models and provides validation (discriminate analysis, etc.)
- Group risk management
- Reports on Short-Term Insurance operational performance
- Controls automated appraisals & model limits

Benefits to Automated Commercial Risk Management

Since 1990:

- Credit application response time
  -(2 days vs. 12 days)
  -65% processed within 24 hours vs. 20%
- Consistency
  -The rate of approvals on initial requests for credit increased by 22%
  -The rate of revolving approvals (vs. specific) on initial requests for credit improved by 8%
- Greater business volume

-As at July 31, 1997, insured volume is expected to exceed $20 b vs. $3.3 b in 1990.

- Greater risk appetite

  -Decision models accommodate the majority of comfortable risks thus allowing more time to address higher risk credits

- Improved net commercial claims

  -Significant improvement to gross and net claims since the introduction of automation

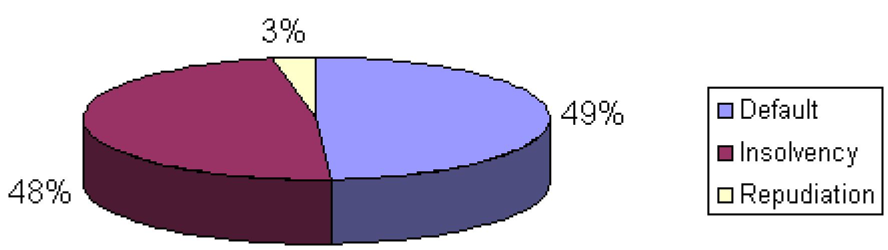
Claims & Recoveries at EDC

Presentation Overview

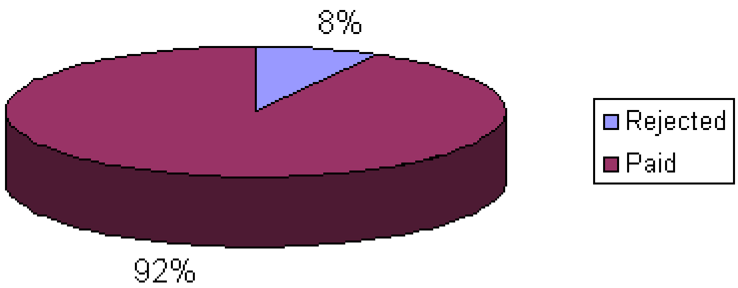
- Scope of claims work
- Mandate & Structure
- Loss Mitigation
- Claim Review & Payment
- Recovery

Claims by Risks Incurred

As a percentage of all commercial risks



Claims Rejected



Organizational Structure of CARD

- Department reports to Vice President and Controller of Finance
- Ten Claim Services Managers (CSM) reporting to a Team Leader
- CSM responsible for claim processing AND debt recovery
- CSM aligned to Business Teams

Mandate of Claims Department

- Loss Mitigation - assisting clients
- Payment of all reasonable claims quickly
- Recovery of indemnities paid

Loss Mitigation

- Clients must report overdues to EDC at 90 days OD (Global Comp policies)
- EDC will assist clients prior to Admissibility - Without Prejudice basis
- Failure to mitigate Loss could result in denial of liability by EDC (Exclusion under the policy)

Claim Submission by Client

- Completion of Declaration of Loss on one page Claim Payment Application form.
- Application form combined with detailed instructions for each data field
- Documentation is to be attached

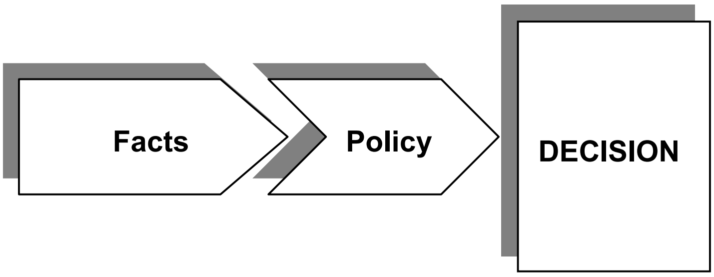
- Upon receipt at EDC, claim submission entered on database; all claim processing is done on- line
- Data links to upstream systems for control & validation

Claim Review – Documentation

Customer Supplied	EDC Supplied
▪ Proof of Debt ▪ Credit Requirements ▪ Other	▪ Policy Coverage ▪ Credit Approval (if applicable)

Claim Review - Interpretation

- Linkage of underwriting intent with the facts of a loss
- Policy, endorsements, EDC credit approvals reviewed
- EDC relies on that which can be demonstrated



Calculating the Loss

- Calculation of Loss can vary with risk
- Limitations on insured Loss does occur
- Consistency in underwriting practice very important

Sample Calculation

Invoice total	$1,000
Overshipment	250
Net loss Admissible	750
Deductible	100
Shared Loss	650
EDC@90%	$580

Recovery of Indemnities

- Policy requires customer to take all reasonable measures
- Working with EDC, customer should have recovery under way prior to admissibility of loss
- Cost-Effectiveness is the Key

- All costs shared "pro rate" after approval by EDC
- Recoveries shared "pro rate" with the insured loss being in priority to non-insured loss

Tools of Recovery

- Standard (Commercial) risks:
  -Under $1,000,000 - to a collection agency
  -Over $1,000,000 - legal action
- EDC takes assignments of all debts under $50,000 & directs to an agency
- Direct involvement by EDC when viewed as "value added"
- All actions must be approved by EDC

Summary

- Strong support of customers, even before admissibility judged
- Customer is serviced by one CSM to promote industry knowledge and customer specific knowledge
- All claim decisions are fact-based
- Recovery decisions are always based in cost-effectiveness
- Customer Satisfaction Index for claim service is high

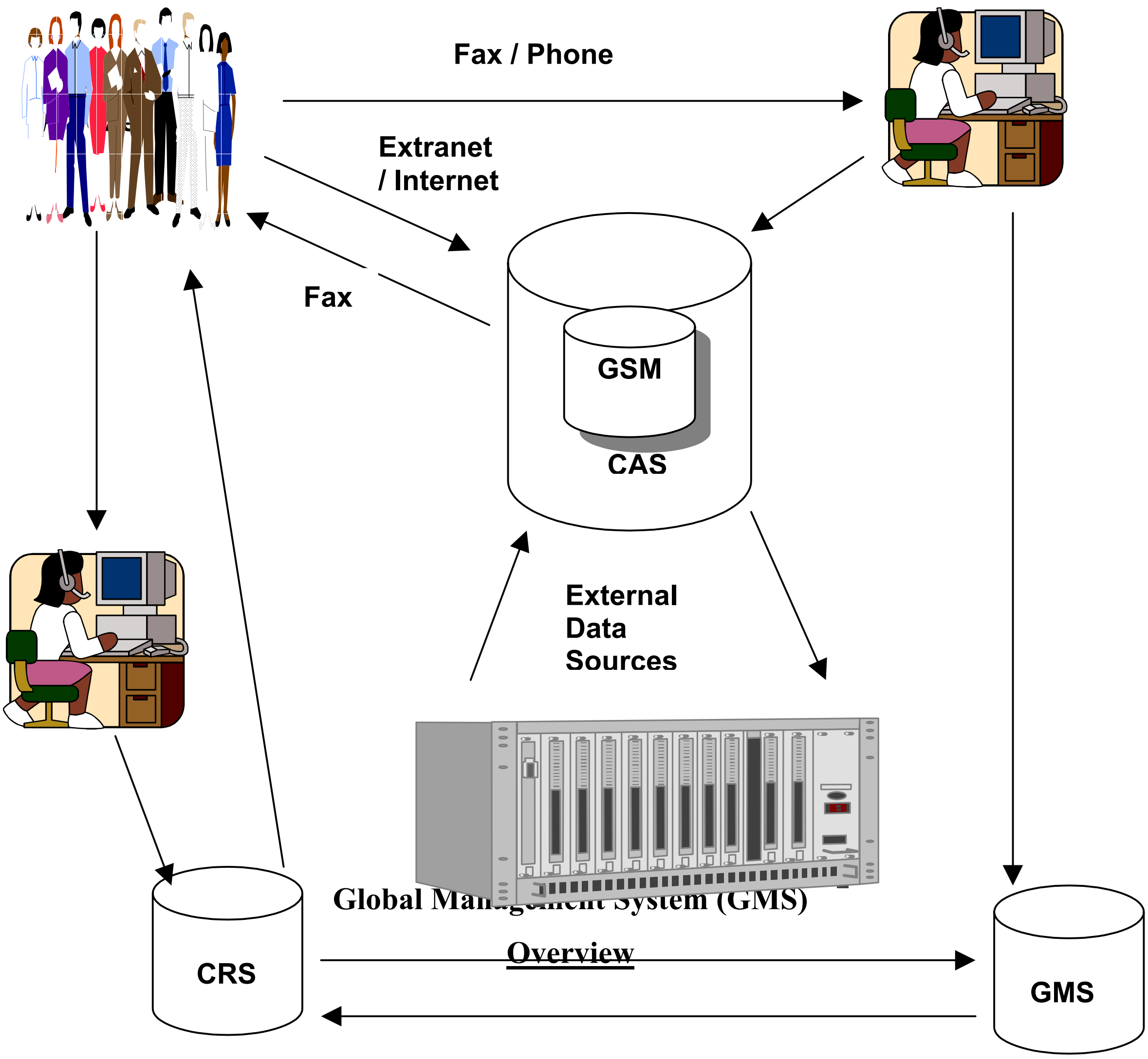
Credits Insurance Support Systems

Overview

EDC uses several key systems to support the delivery and management of Credits Insurance.

- The Global Management System (GMS) is used to underwrite and administer Credits Insurance.
- The Credit Administration System (CAS), with the integrated Decision Support Model (DSM) is used to manage EDC's short-term credit portfolio.
- EDC Direct provides customers with a PC-based interface to CAS.
- The Claims & Recoveries System (CRS) is used to process claims and recoveries.

Used in concert, these systems enable EDC to serve its customers with greater efficiency and effectiveness



Global Management System (GMS) Overview

The Global Management System (GMS) was originally introduced in 1984 with a view to meet the following business objectives:

- Provide an integrated support system to deliver and manage Credits Insurance.
- Support the Credits Insurance workflow in an efficient and effective manner.
- Standardize the rate calculation process used to underwrite Credits Insurance.
- Enhance customer services using automated facilities.
- Provide timely billings to customers.
- Provide consistent and reliable data to meet the reporting needs of the Corporation.
- Provide underwriters with user-friendly access to policy information.

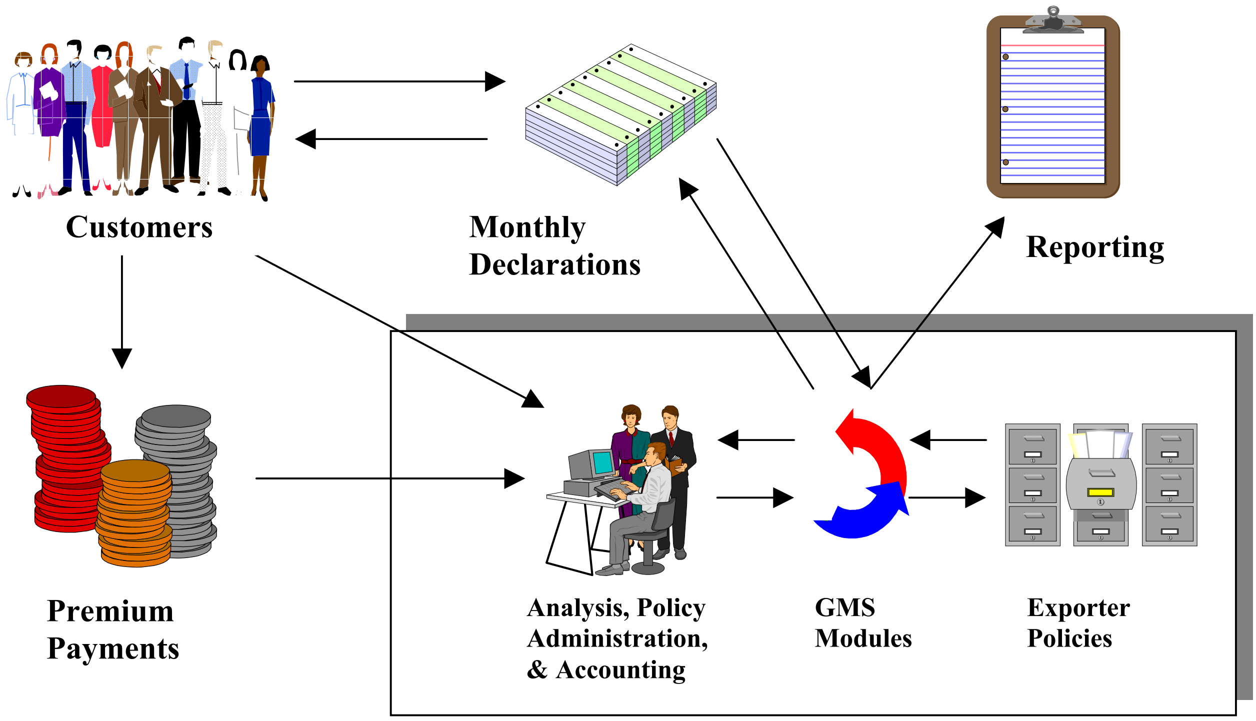
GMS has successfully been applied to manage EDC's growing business

Diagram :"Volume of Credits Insurance supported"

Diagram: Premiums Collected

Diagram: Active Declaring Policies

Today GMS is used to manage all aspects of Credits Insurance including the following:



Credit Administration System (CAS)

<u>Overview</u>

Credit Administration System

Background

- Award winning Mainframe application developed by EDC
- Designed to help STFS analyze and administer EDC's short-term credit portfolio
- First implemented in 1990 as an electronic credit & financial database
- Addition of EDC's Decision Support Model (DSM) in 1992

Credit Administration System

Key Features

- Stores up-to-date credit and financial information on companies that have exposure with EDC
- Direct data transfer of credit and financial information from external sources
- Records all credit decisions
- Keeps track of EDC's exposure
- Enables policy holders to interface with the system using EDC Direct
- Automatically generates letters to inform clients about credit decisions
- Performs credit, trend, and risk analysis
- Generates credit decisions for companies with low, moderate, and medium risk
- Produces risk levels and sets global limits for companies that are stored in the database
- Records and tracks outstanding and overdue payments between exporters and their customers

Volume and Turnaround Time

(diagram Volume and Turnaround Time)

Credit Activity

(diagram Credit Activity)

Policyholder Credit Requests

(diagram Policyholder Credit Requests)

Extranet Using EDC Direct

Overview

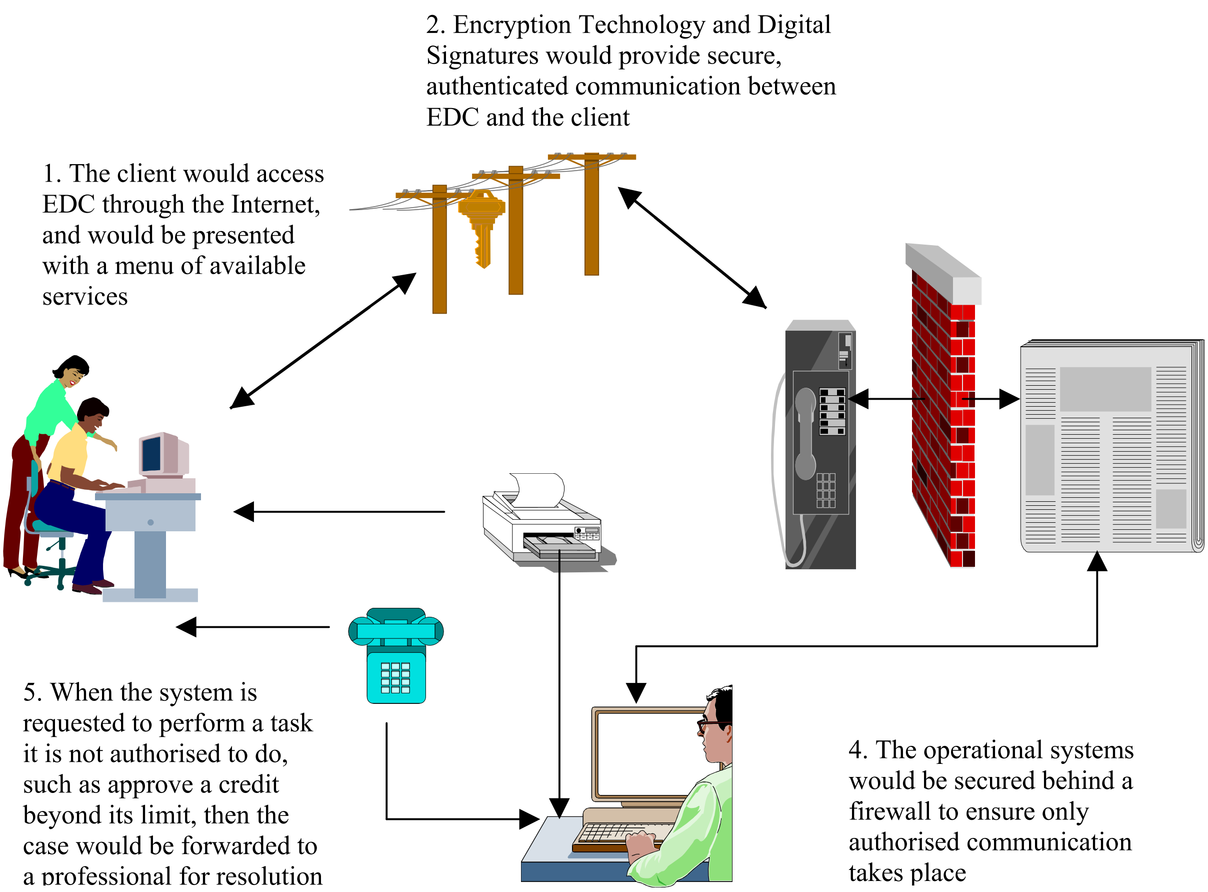
EDC Direct Web Interface

(diagram EDC Direct Web Interface)

What is EDC Direct?

- Enables customers to interface with EDC's Credit Administration System (CAS)
- Built with Internet-based technologies, the service is currently available through a private network
- Secure and reliable data transfer

EDC Direct



EDC Direct Future Enhancements

Policyholders will have direct access to:

- Statement(s) of account(s)
- List(s) of Approved Credit
- Application forms for Small & Medium Enterprises (SME'S)
- Submit declaration forms & claim applications
- Report overdue & problem accounts

Claims & Recoveries System (CRS) Overview

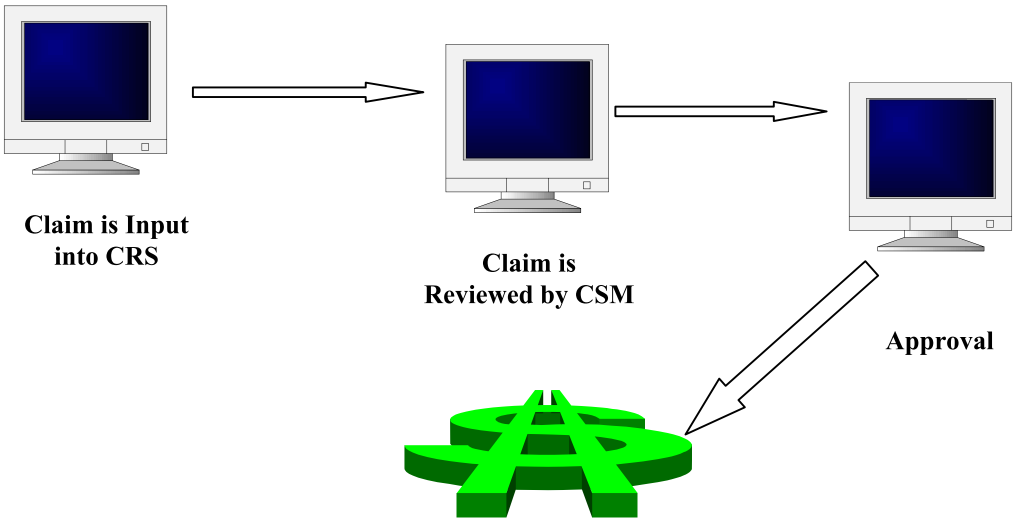
What is CRS?

- CRS is a major corporate control system used for the following purposes:
  On-line claim processing and approvals
  On-line recovery processing
- All claims are stored and processed by CRS (i.e. paper files only exist as keepers of paper)
- CRS is linked to all underwriting, accounting and corporate control systems

CRS - History

- CRS went into production in 1988
- CRS was the first automated system at EDC for processing claims
- The application helped EDC leap from a manual process to a fully automated, on-line processing and approval system
- The implementation of CRS resulted in cost-effective improvements to the claims and recoveries business process

Claim Process on CRS



CRS - Controls

- All delegated authorities for approvals are controlled through CRS
- CRS is table driven allowing easy modifications to authority levels, products, and program controls
- The linkages to upstream and downstream systems provides strong control over the claims process

Summary

The use of these support systems has resulted in several benefits, including those outlined below:

- A built-in flexibility to evolve with the business and to support increased volumes
- Build-in features that enhance Corporate control over the approval & payment processes
- Constant improvements in the speed and delivery of services to EDC's customer
- Accurate baseline date that allows for robust reporting both for operational and strategic considerations
- Lower operating costs

Operating Results

Customer Satisfaction

- Annual survey of customers' satisfaction with EDC services
- Composite score (out of 10) rates overall satisfaction and likelihood to recommend

		CSI Score
1995	Actual	8.5
1996	Target	8.6
1996	Actual	8.8
1997	Target	8.8

Customers Served

- Increasing number of customers served is priority for EDC shareholder and EDC

		Customers Served
1995	Actual	2,462
1996	Target	2,900
1996	Actual	2,965
1997	Target	3,6000

Business Volume

- A key measure of EDC's service in meeting the needs of customers is volume of business concluded

		Business Volume ($Billions)
1995	Actual	17.2
1996	Target	20.5
1996	Actual	22.0
1997	Target	27.5

Productivity

- Productivity is measured by the volume of business supported per dollar spent on administration

		Productivity Ratio
1995	Actual	302
1996	Target	317
1996	Actual	367
1997	Target	400

Profitability

- Ability to operate on a self-sustaining basis and ability to take more risk on behalf of EDC customers both depend on EDC's ability to operate profitably

		Net Income ($Millions)
1995	Actual	44
1996	Target	45
1996	Actual	112
1997	Target	226

Chapter III

Trade and Investment Insurance System of Japan

International Trade and Investment Insurance System of JAPAN

A TABLE OF CONTENTS

1. **INTRODUCTION (Outline of Trade and Investment Insurance System)**

(1) Brief History of EID/MITI's Insurance System

1950 Establishment of *General Export Insurance System* to cover the losses by exporters due principally to preshipment risks
The Export Credit Insurance Law and the Export Credit Insurance Special Account Law were enacted.

1951 Establishment of *Export Proceeds Insurance System* to cover the losses suffered by exporters due to inability to reclaim export payment.

1953 Establishment of *Export Bill Insurance System* for losses in case where the cargo exchange bills can not be paid along with bill maturity.
The Export Credit Insurance Law was renamed as the Export Insurance Law.

1956 Establishment of *Overseas Investment Principal Insurance System* for risks along with acquisition of stock or other shares overseas.

1957 Establishment of *Overseas Investment profit Insurance System* for risks along with remittance to Japan of fruits of overseas Investment.

1970 Combining Overseas Investment Principal Insurance and Overseas Investment profit Insurance to *Overseas Investment Insurance and* expanding coverage to wider range of Investment such as long term loans and property rights.

1974 Establishment of *Exchange risk Insurance System* for exchange risks such as long term deferred export proceeds.

1977 Establishment of *Export Bond Insurance System* for losses incurred due to demand from overseas orderer for unfair calling of bonds.

1981 Expansion of General Export Insurance, Technical and Other services and Supply Contract Insurance were introduced.

1987 Establishment of *Prepayment Import Insurance System* for losses related to the prepaid amount of imports and also expansion of Export Proceeds Insurance, Intermediary Trade Insurance System were introduced. The Export Insurance Law was renamed as *the Trade and Investment Insurance Law.*

1991 Establishment of *Short-term Comprehensive Insurance* for losses covering risks- both inability to export and collect of the export proceeds for individual exporters who made supplementary agreement with EID/MITI.

1993 Combining General Export Insurance, Export Proceeds Insurance and Intermediary Trade Insurance and integrating into a single insurance policy as a General Trade Insurance

1993 Establishment of *Overseas Untied Loan Insurance System* for losses due to the uncollectible long-term loans.

(2) Institutional Framework and organization Set Up

(1) Law Scheme of EID/MITI's insurance System

The International Trade and Investment Insurance system is operated by following statutes with the Trade and Investment Insurance Law as its organic act.

(a) Trade and Investment Insurance Law (Law No. 67 for 1950)

This Law is a fundamental part for the trade insurance system and stipulates the purpose, definition, the type of trade and investment insurance, the premium rate and contract limitation.

(b) Trade and Investment Insurance Law Enforcement Ordinance

(Cabinet Ordinance No. 141 for July 1953)

This ordinance prescribes the type of cargo, the basic premium rate, and the percentage of indemnity.

(c) Insurance Policy Clause

This policy Clause describes the terms and condition of contract such as the scope of indemnity and amount of loss etc. in each type of insurance.

(d) Supplementary Agreement

Under the comprehensive Insurance scheme, EID/MITI made special agreement with export association on behalf of individual exporters. This agreement describes the details of Insurance contract.

(e) Rules for Underwriting

This rules are very important as it prescribes our cover policy for each country in detail such as Total Commitments Limit, Insured Percentage, Usance Period (of payment), and Requiring ILC(irrevocable letter of credit)

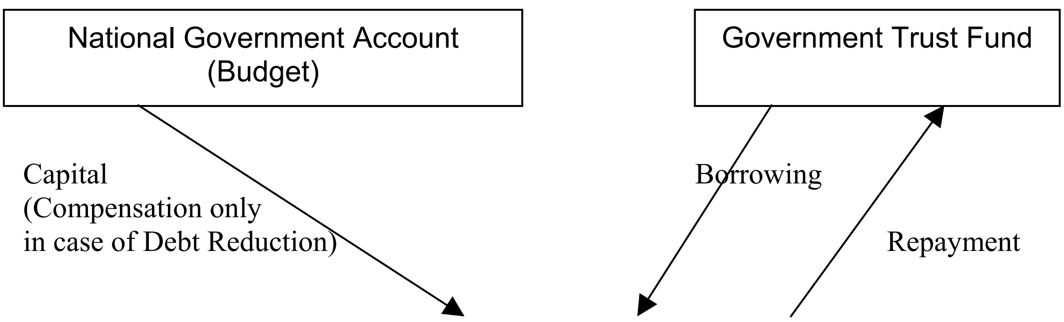
(f) The Trade and Investment Insurance Special Account Law (Law No.68 for 1950)

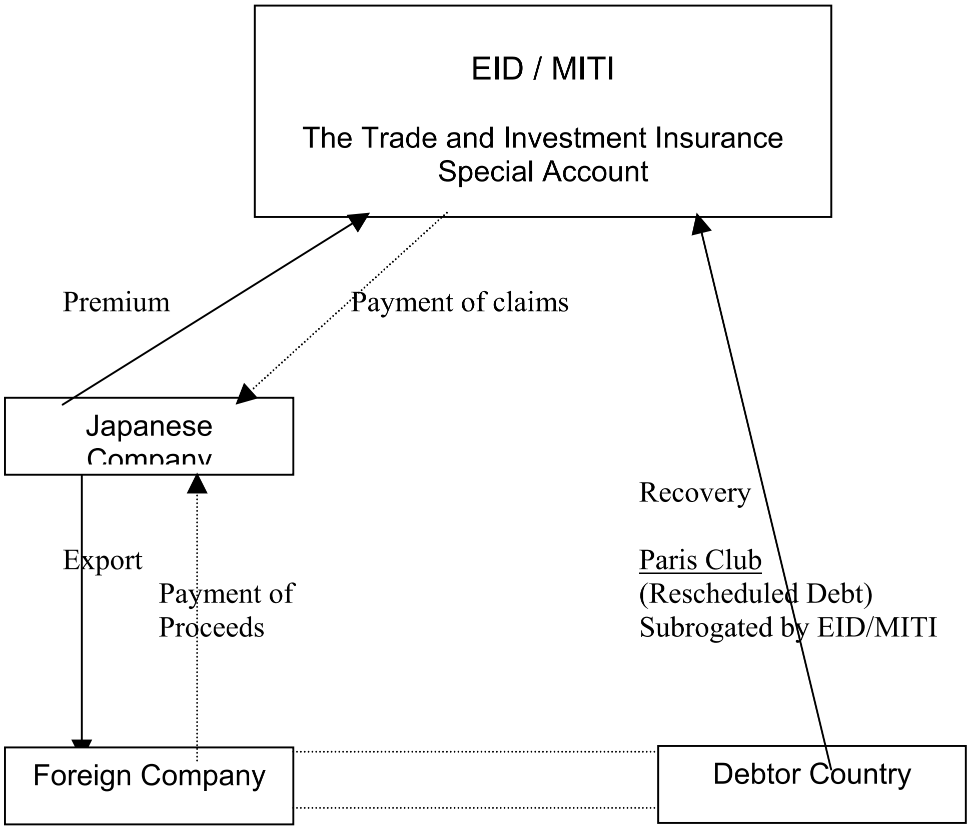
The International Trade Insurance system is operated by a special account premised on self-paying basis (principal of balancing income and expenditure) and this law stipulates the accounting procedures.

(g)The Trade and Investment Insurance Special Account Law Enforcement Ordinance (Cabinet Ordinance No. 205 for June 1950)

The Ordinance prescribes the method of profit and loss account in the special account and the like.

<u>(2) Structure of The International Trade and Investment Insurance Special Account</u>





(3) Organizations

The Export, Import and Investment Insurance Department of Ministry of International Trade and Industry (EID/MITI) is a authority which carries out establishing and amending the insurance system, making decisions on policies concerning the operation of insurance and underwriting policies for individual countries, and conducting negotiations on rescheduling. And simultaneously, EID/MITI is the underwriting organization in Japan actually engaged in insuring export credit and outward investment and in underwriting political risks in a significant way in such transactions. EID/MM is a real underwriter, which is issuing policies, collecting premium, giving limits and paying claims.
Japan Trade and Investment Insurance Organization (JTIO) is entrusted a part of work which relates to EID/MITI's insurance business activities.

Export, Import and Investment Insurance Department

Ministry of International Trade and Industry

Ministry of International Trade and Industry

International Trade Administration Bureau

Trade Insurance Division	Overall coordination of each division of trade and investment insurance Accounting for a trade and investment insurance special account
Executive Director of Debt Relations and Underwriting Policy	Coordination of debt relations with foreign countries and other related activities
International Affairs and Country Policy Office	Analysis of country risk Collecting and exchanging information with overseas institutions
Policy Planning Office	Planning of various measures for trade and investment insurance
Short Term Insurance Office	Evaluation and underwriting of short-term insurance, credit supervision, appraisals and recoveries relating to commercial risk
Claims and Recoveries Office	Credit control, appraisals and recoveries relating to political risk
Information Systems Office	Use and development of computer system
Long Term Investment Insurance Division	Evaluation and underwriting of long-term insurance with a policy period of two years or more
Overseas Investment Insurance Office	Evaluation and underwriting of Overseas investment insurance and Overseas Untied Loan Insurance
Project Finance Office	Evaluation and underwriting of transactions relating to project financing
Paris Office	
New York Office	

2. Types, Features of EID/MITI's Insurance System

(1) The insurance system is generally operated based on seven types of insurance policies

1. **General Trade Insurance**

   Combination of General Export Insurance, Export Proceeds Insurance and Intermediary Trade Insurance - initiated in 1992

   [General Trade Insurance System]

   General Trade Insurance

   - Specific (Individual) Insurance
   - Comprehensive Insurance (Blanket coverage)
     - ♦ For individual commodities and associations:
       - Facilities and Equipment
         (Machinery, Electric cable, Automobile, Rolling stock, Ships)
       - Consumable goods
         (Steel, Chemicals, Textile)
     - ♦ For individual firms:
       - General short-term insurance
       - Technical cooperation
       - Loan contracts

2. **Exchange Risk Insurance**

3. **Export Bill Insurance**

4. **Export Bond Insurance**

5. **Prepayment Import Insurance**

6. **Overseas Investment Insurance**

7. Overseas United Loan Insurance

(2) Reason for Indemnity Under General Trade insurance

Politica1 Risk

(a) Imposition of restrictions or prohibition of foreign exchange transaction in a foreign country.

(b) Imposition of restriction or prohibition of imports by the country of destination

(c) Interruption of foreign exchange transactions due to war, revolution, or civil unrest in a foreign country.

(d) Inability to export goods to the country of destination due to war, revolution or civil unrest in that country.

(e) Interruption of transportation to the country of destination due to occurrences arising outside of Japan.

(f) Debt rescheduling agreement between the governments concerned or delay of foreign currency remittance which is imputed to the paying country.

(g) Any other occurrences arising outside of Japan which cannot be imputed to the relevant party to the export contract etc..

(h) Imposition of export restrictions or prohibition based on the Foreign Exchange and External Trade Control Law. (only Pre-shipment risk)

Commercial Risk

(i) In cases where the other party to the export contract, etc. a foreign government, foreign local government entity or similar body, the unilateral cancellation of the relevant export contract, etc. by the relevant other party or the cancellation of the relevant export contract, etc. by the insured due to the excessive requests from the other party. (only pre-shipment risk)

(j) Bankruptcy of the other party to the export contract, etc. or loan contract, etc.

(k) Any reason similar to the bankruptcy of the other party to the export contract, etc. (only pre-shipment risk)

(l) Delay of six (6) months or more in the performance of obligations by the other party to the export contract, etc. or loan contract Only post-shipment)

EID/MITI treat cases that fall in compensation conditions of (a) to (h) of the policy as **Political Risks**, Which cannot be imputed to the relevant party to the export contract etc., or loan contract- while cases that fall in compensation conditions of (i) to (l) are treated as **Commercial Risks**, treated as risks whose cause the party to the export contract etc., shall be held accountable for.

The relationship of the risks to be indemnified and reason for indemnity is as follows;

- <u>Inability to export (pre-shipment)</u>

  Condition (a) to (h) [Political Risks]

  Condition (i) to (1) [Commercial Risks]

- <u>Inability to Collect (post-shipment)</u>

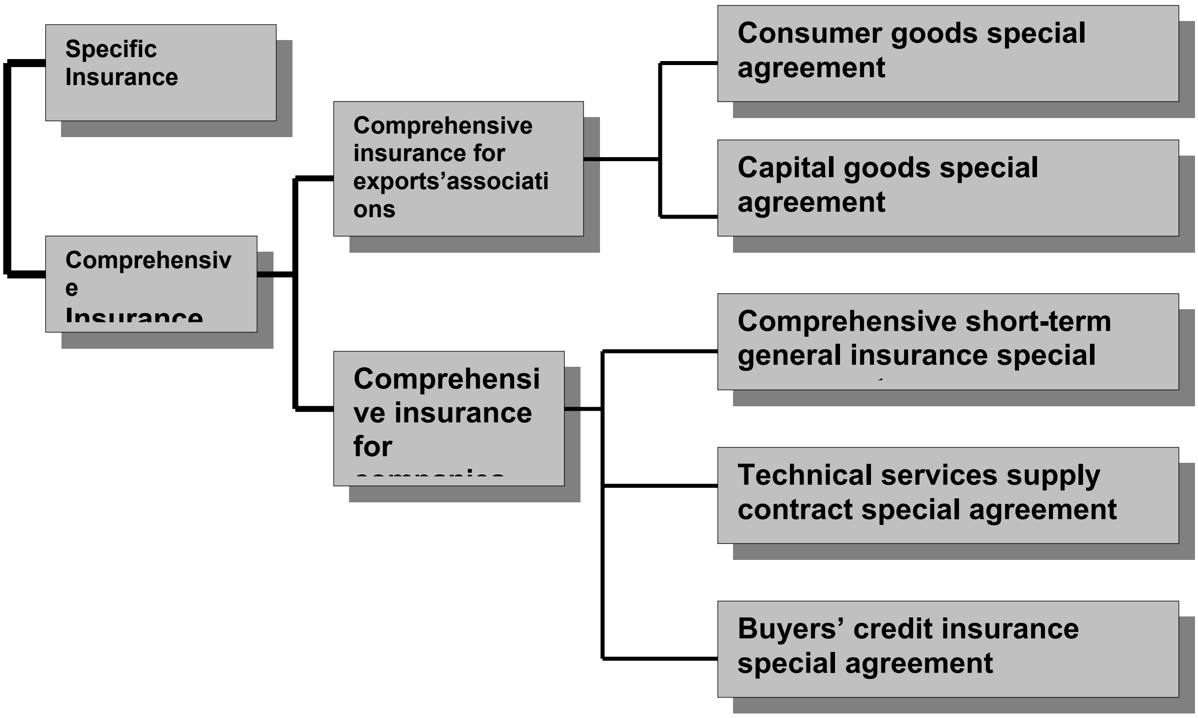
  Condition (a) to (g) [Political Risks]

  Condition (j) to (l) [Commercial Risks]

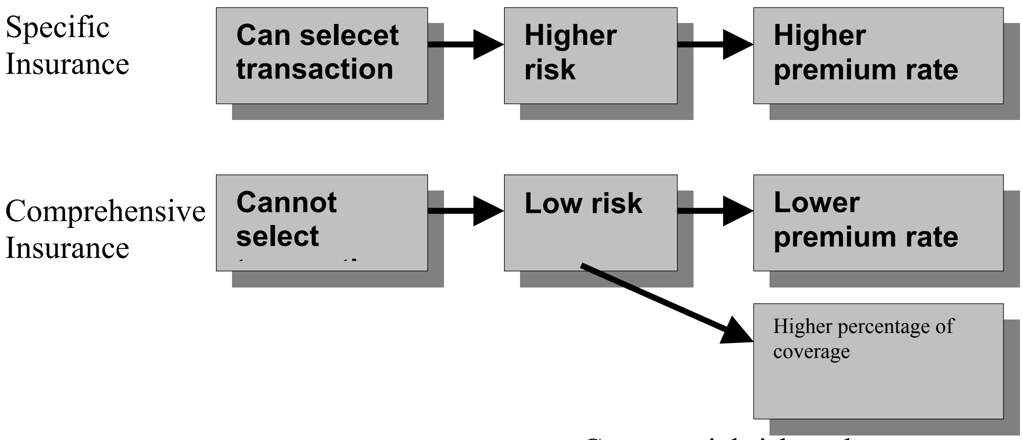
Specific Insurance and Comprehensive Insurance

Specific Insurance---Persons who intend to apply for insurance coverage select transaction for insurance and apply.

Comprehensive Insurance---Persons who intend to apply for insurance coverage apply in respect to all export contracts to be signed within a certain period of time



Advantage of Comprehensive Insurance



Commercial risk under
General Trade Insurance
(Pre-shipment),
Export Bond
Insurance ---% higher

Exporters' Associations and Goods Covered

by Comprehensive Insurance for Capital Goods

Name of Association	Special agreement goods	Lower limit of export contract value
Japan Machinery Export's Association	Plant machinery, electric machinery	¥25 million or more
Japan Rolling Stock Exporter's Association	Rolling stock	¥10 million or more
Japan Ship Exporter's Association	New or remodeled ships	¥50 million or more
Japan Electric Wire and Cable Exporter's Association	Electric wire and Cable	¥10 million or more
Japan Automobile Manufactures Association, Inc	Automobiles	

Insured Amount of Comprehensive Insurance for Capital Goods

Classification	**Pre-shipment**	**Post-shipment**
Political risk	80% of export proceeds (FOB)	97.5% of export proceeds (90 %) for intermediary trade)
Commercial risk	80% of export proceeds (FOB)	90% of export proceeds (80% for intermediary trades)

Exporter' Association and Goods Covered

by Comprehensive Insurance for Consumer Goods

Name	Special agreement goods	Lower limit of export contract value
Japan Cotton Textile Exporter's Association	Cotton yarn and fabrics	¥150,000 or more
Japan Silk and Synthetic Textile Exporter's Association	Silk fabrics, synthetic cloth	¥150,000 or more
Japan Woolen and Linen Textiles Exporter's Association	Wool and hemp products	¥150,000 or more
Japan Textile Products Exporter's Association	Textile produces	¥150,000 or more
Japan Iron and Steel Exporter's Association	Iron and steel	------
Japan Galvanized Iron Sheet Exporter's Association	Galvanized iron and steel sheet	------
Japan Wire Products Exporter's	Steel wire products	------

Association		
Japan Chemical Exporter's Association	Chemical Products	US$ 10,000 or more

Insured Amount of Comprehensive Insurance for Consumer Goods

Name of Association	Pre-shipment	Post-shipment
	Political risk Commercial	Political risk
Japan Cotton Textile Exporters Association	30% of export prceeds	30% of export proceeds
Japan Silk and Synthetic Textile Exporter's		
Japan woolen and Linen Textiles Exporter's Association		
Japan Textile Produce Exporter's Association	30%, 40% or 60% of export proceeds	30%, 40% or 60% of export proceeds
Japan Iron and Steel Exporter's Association	30% of export proceeds	30% of exports proceeds
Japan Galvanized Iron Sheet Exporter's Association		
Japan Wire Products Exporter's Association		
Japan Special Steel Exporter's Association	40% of exports proceeds	40% of export proceeds
Japan Chemical Exporter's Association	30% of exports proceeds	30% of exports proceeds

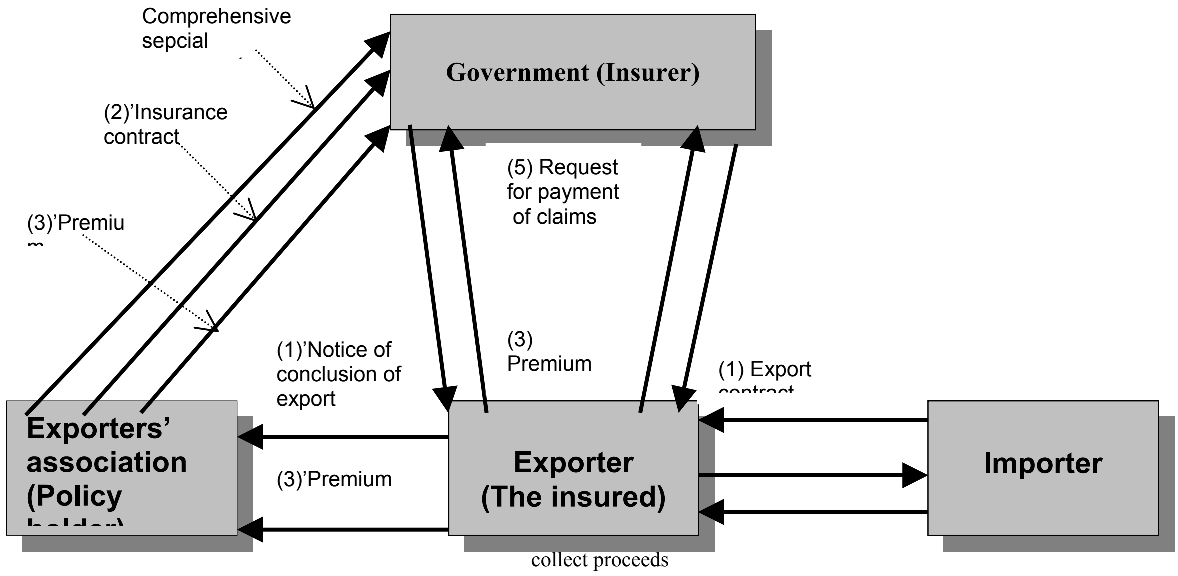
Parties Concerned with Insurance Contract

Insurer--------Parties who assume obligations to pay insurance claims when an insured occurs. For Trade Insurance, the insurer is the government.

The insured ----Parties who incur losses and hold insurable benefits when an insured risk occurs. For Trade Insurance, the insured is an exporter

Policy holder---Parties who sign an insurance contract and assume to pay premiums

For Comprehensive Insurance for an exporters' association, the policy holder is not the insured but an exporters' association and the insured is an exporter.



Comprehensive
sepcial
Government (Insurer)
(2)'Insurance
contract
(5) Request
for payment
of claims
(3)'Premiu
(1)'Notice of
conclusion of
export
(3)
Premium
(1) Export
Exporters'
association
(Policy
Exporter
(The insured)
Importer
(3)'Premium
collect proceeds

Premium Rates for general Trade Insurance

1.Basic Premium Rates (Unite %)

Classification	Transactions covered	Pre-shipment		Post-shipment	
		Political risk	Commercial risk	Political risk	Commercial risk
Special Insurance	Export contract	0.208	0.043	0.253	0.033
	Technical service supply or loan contract	------	-----		
	Intermediary trade contract	------	------	0.316	0.033
Comprehensive Insurance	Comprehensive insurance for consumer goods	0.029	0.010	0.042	
	Comprehensive insurance for consumer goods	0.059	0.021	0.038	0.008
	Short-term general insurance				
	Technical service supply contract	------	------		
	Buyers' credit insurance				
	Intermediary trade contract	------	------	0.048	0.008

2. Calculation Method for Premiums

Premiums = Insured amount for political risk x Premium Grade of political risk x Premium grade by country + Insured amount commercial risk x Premium Rate for commercial risk.

Premium Rate by Country

Discount or extra premium rates are applied according to the degree of risk.

Rate classification and rate applied for each country.

(1) Specific General Trade Insurance (political risk)--- 8 grade from 0.5 to 5.0

(2) Comprehensive General Trade Insurance (political risk) --- 8 grades from 0.5 to 0.8

(3) Export bill insurance---9 grades from 1.0---3.0

(4) Prepayment Import Insurance---5 grades from 0.8 to 2.0

Grade \ Type of Insurance		Specific General Trade Insurance	Comprehensive General trade Insurance	Export bill Insurance	Prepayment import Insurance
Lower risk	A	0.5	0.5	1.0	0.8
	B	1.0	1.0	1.2	1.0
	C	1.5	2.0	1.4	1.3
	D	2.0	3.0	1.6	1.6
	E	2.5	3.8	1.8	2.0
	F	3.0	4.5	2.0	
	G	4.0	6.0	2.2	
	H	5.0	8.0	2.5	
Higher risk	I			3.0	

Example of Premium Calculation

Date of export contract: December 5, 1996 (TTB¥11.65/US$)

Export contract amount: CIF US $ 1,500,000.00 (FOB US $ 1,495,000.00)

Payment term s: DP$% days after BL date

Date of Shipment: March 15, 1997

Rating of buyer: Grade EA

Importing country/paying country: Grade D

- General trade insurance (Specific)

	Insured Value	Insured Percentage	Premium Rate	Multiplication Ration by Country	Premium Amount
Pre Shipment-Country Risk	¥166,916,750	95.0%	0.208%	2.0	¥ 659,654
Commercial Risk	¥166,916,750	60.0%	0.043%	1.0	¥ 43,064
Post Shipment-Political Risk	¥167,475,000	97.5%	0.253%	2.0	¥ 826,237
Commercial Risk	¥167,475,000	90.0	0.033	1.0	¥ 49,740
Total					¥ 1,578,695

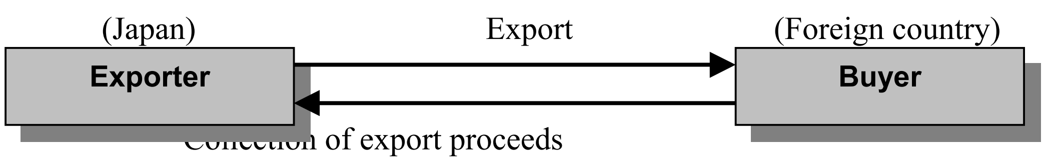
- Short-term Comprehensive Insurance

Comprehensive Insurance for capital goods

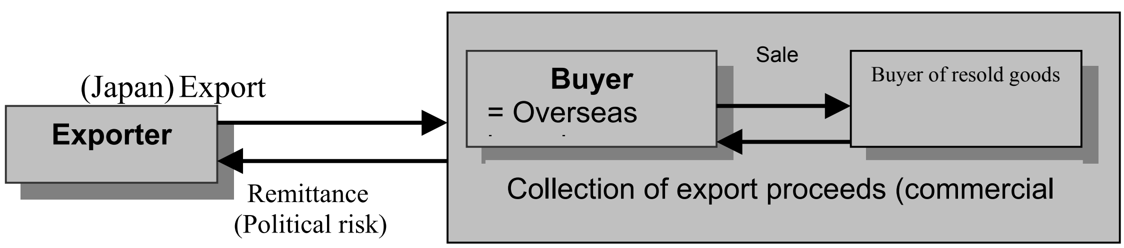
	Insured Value	Insured Percentage	Premium Rate	Multiplication Ratio by country	Premium Amount
Pre shipment-Country Risk	¥166,916,750	80.0%	0.059%	3.0%	¥ 236,354
Commercial risk	¥166,916,750	80.0%	0.021%	1.0%	¥ 28,042
Post Shipment-Political Risk	¥167,475,000	97.5%	0.071%	3.0%	¥ 347,803
Commercial Risk	¥167,475,000	90.0%	0.015%	1.0%	¥ 22,609
Total					¥ 634,808

Transactions Covered by Short-term General Insurance

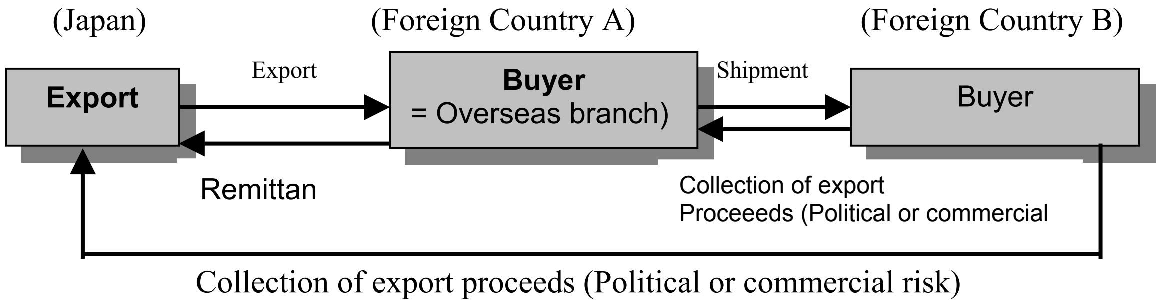
(1) Export contract



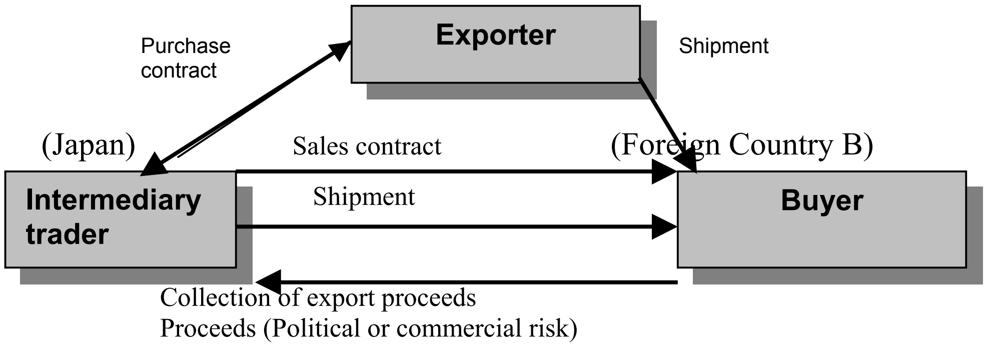
(2) Resale contract



(3) Entrepot (Transit) trade contract



(4) Intermediary trade contract

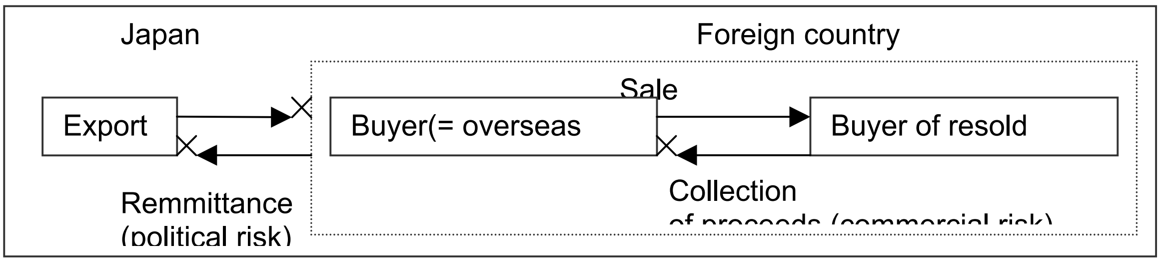


Options of Short-term Comprehensive Insurance

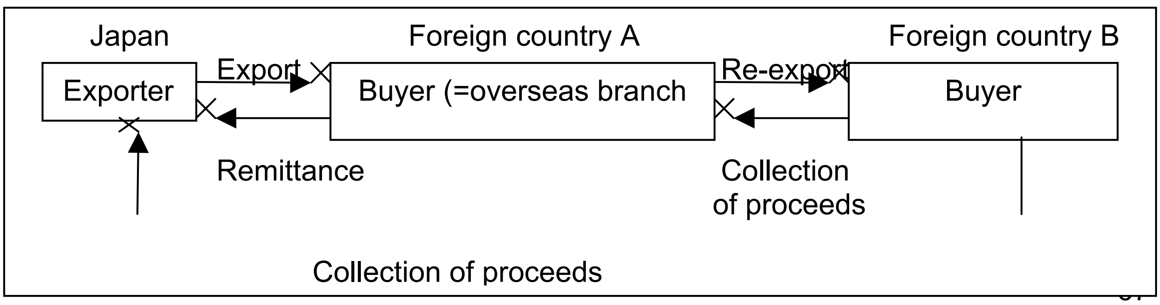
I. Contracts subject of insurance

1. 100% intermediary trade contract (without Japanese goods)
2. Resale contract and re-export contract

Resale contract



Re-export contract



II. EM/EF rating buyer's commercial risk after shipment

(Insurable usance) Six months or one year

III. Result rating

1. Discount of premium by insurance records: Discount of comprehensive rate or insured amount

2.Discount/surcharge by loss rate: Holder of a special agreement or divisions of holder

IV. Special agreement--------------One special agreement for all the export contracts

-----Independent Division

-----Specific merchandise

Premium Rates for Short-term General Insurance

1 Basic Premium Rates

Type of contract	Type of risk	Pre-shipment	Post-shipment
Export	Political	0.059%	0.038%
	Commercial	0.021%	0.008%

2.Calculation Method for Premium

Premium to be paid = Insured amount for political risk × Premium rate × Premium grade by Country
(Political)
Pre-shipment

+ Insured amount for commercial risk × Premium rate × Premium grade by country
Post-shipment (Commercial risk)

+ Insured amount for political risk × Premium rate × Premium grade by country
Pre-shipment (Political risk)

+Insured amount for commercial risk × Premium rate × Premium grade by country
Post-shipment (Commercial risk)

+ Discount or extra premium rate

Example for Calculating Premiums of Short-term General Insurance ---(I)

1. Precondition

(1) Export contract

Importing country	Date of contract	Scheduled date of shipment	Contract amount	Payment method
Political risk Premium grade By country ---0.5	January 10, 1994	March 1,1994	US$5000,000	D/A 90 days after B/L

(2) Date of insurance contract: January 11, 1994

(3) Insurance Period : 50 days form the date of the insurance contract to the scheduled date of shipment and 90 days from the scheduled date of shipment to the Payment date for export proceeds

(4) Buyer's Rating: EA rating in the foreign buyers list, Premium grade by country

: for commercial risk Pre-shipment --- 1.0 (in all cases)

Post –shipment --- 1.0

(5) Exchange rate: TTB opening price on the date of the export contract ---¥ 111.45/US$

Example for Calculating Premiums of Short-term General Insurance ---(II)

2. Calculation of Premiums

(Contract Amount)		(Exchange rate)		(Insurable value)
US$500,000	X	¥111.45/US$	=	¥55,725,000

Preshipment

(Insured percentage) (Insured amount) (Premium rate) (Premium grade by country for political risk)

¥ 55,725,000 X 80% = ¥ 44,580,000 X 0.059% X 0.5 = ¥ 13,151 1

(Premium grade by country for commercial risk)

¥ 55,725,000 X 80% = ¥ 44,580,000 X 0.021% X 1.0 = ¥ 9,361 2

Postshipment

(Premium grade by country for political risk)

¥ 55,725,000 X 95% = ¥ 52,938,750 X 0.071% X 0.5 = ¥ 18,793 3

(Premium rate for commercial risk A) (Premium grade by country) for commercial risk)

¥55,725,000 X 90% = ¥ 50,152,500 X 0.015 X 1.0 = ¥ 7,523 4

Premium to be paid (1+2+3+4) = <u>¥ 48,828</u>

Rate Review of Short-term General Insurance

-Application of discount or extra premium rates is based on the results of the past three years (calculated using the moving average method).

-In principle, the rating moves up or down one rank every year.

However, when the rating moves up or down four ranks or more,

the rating should only be moved two ranks.

-This procedure is applied from the fourth fiscal year after the special agreement has been concluded.

Loss rate	**Adjustment percentage of insurance results**
0 ~ 19	-50%
20~ 39	-40%
40 ~ 59	-30%
60 ~ 79	-20%
80 ~ 97	-10%
98 ~ 102	-0%
103 ~ 110	+10%
111 ~ 120	+20%
121 ~ 140	+40%
141 ~ 160	+60%
161 ~ 180	+80%
181 ~200	+100%
201 or more	+100% or more

Short-term Transaction and Medium and Long-term Transaction

Short-term transaction--- Transaction in which the proceeds of an export contract are paid within two years after shipment

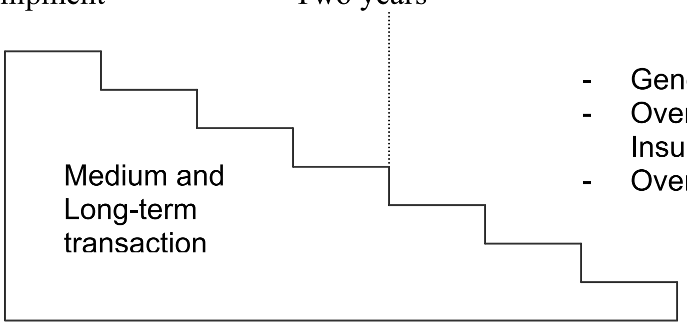
Shipment Within two years

Short-term transaction

-Specific insurance for General Trade Insurance
-Comprehensive insurance for an exports' association for General Trade Insurance
-Short-term Comprehensive insurance
-Export Bill Insurance

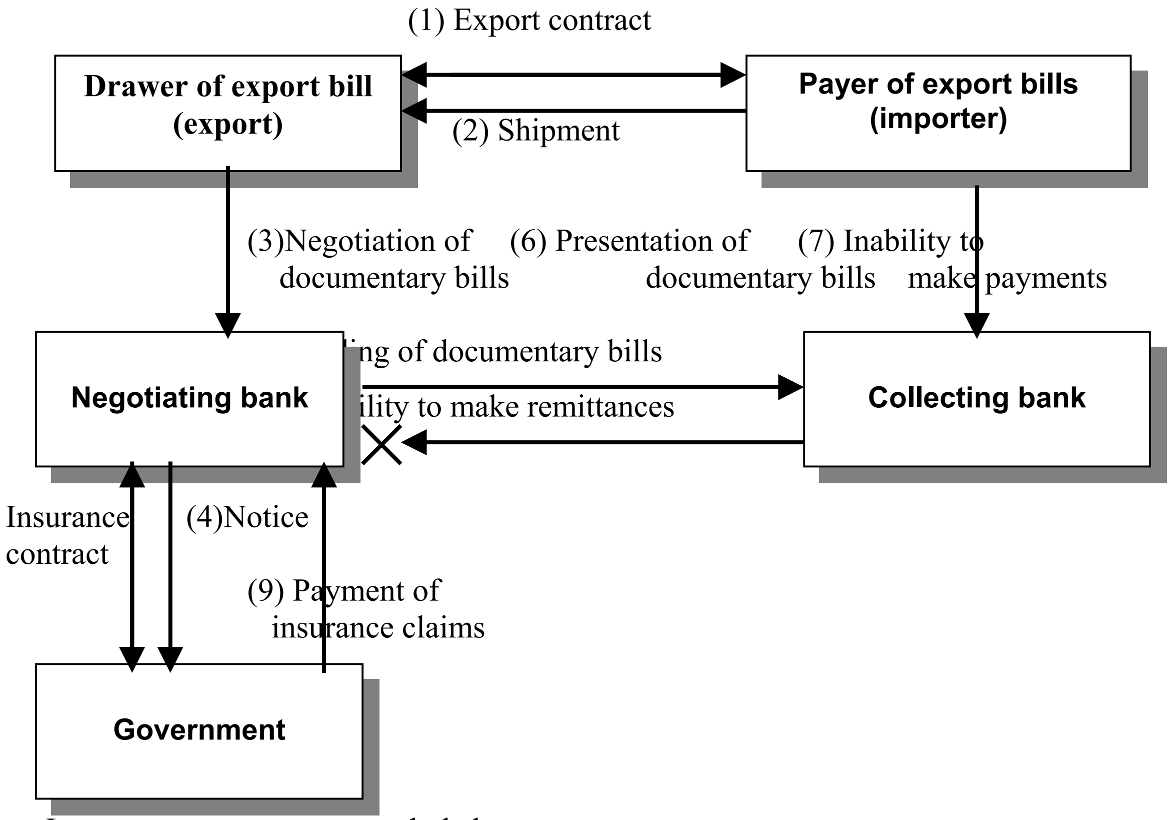
Medium and Long-term Transaction --- Transaction in which the proceeds of an export contract are paid two years or more after shipment. Such transitions should comply with the OECD guideline. Furthermore, the case below is classified as follows: when 20% or less of the proceeds is paid separately at a later date as a retention, this portion is classified as a transaction whose payment is made two years or more after shipment and the portion which is paid within two years from the first day for calculating the number of days is classified as a short-term transaction.

Shipment Two years



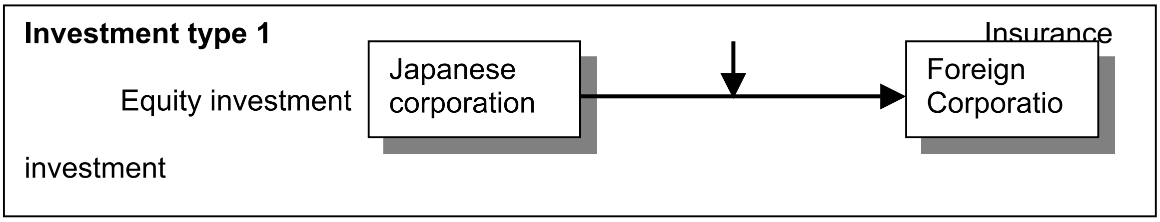
- General Trade Insurance
- Overseas Investment Insurance
- Overseas Loans Insurance

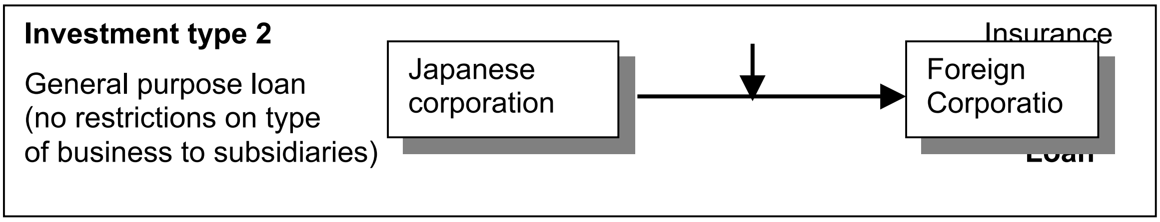
Outline of Export Bill Insurance

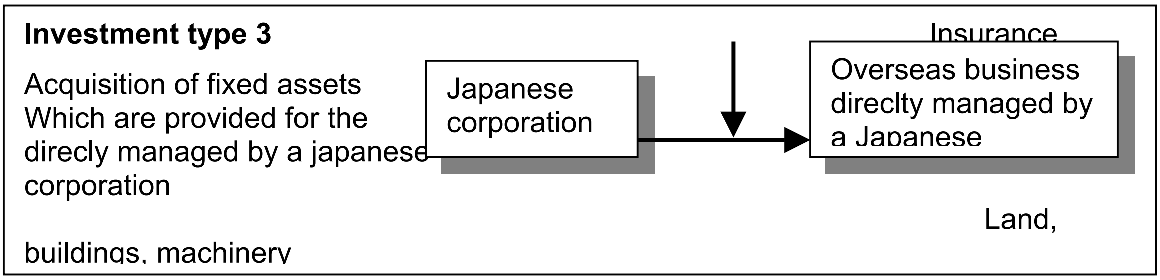


Insurance contracts are concluded at
The beginning to each fiscal year.

Overseas Investment Insurance Investments Covered

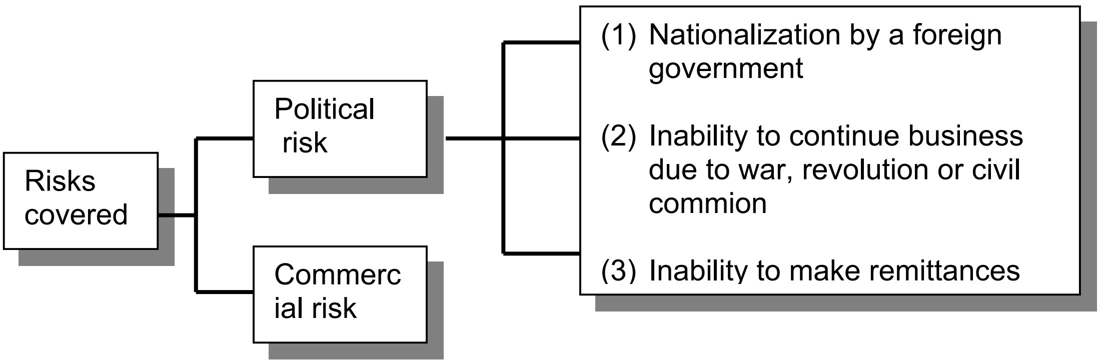




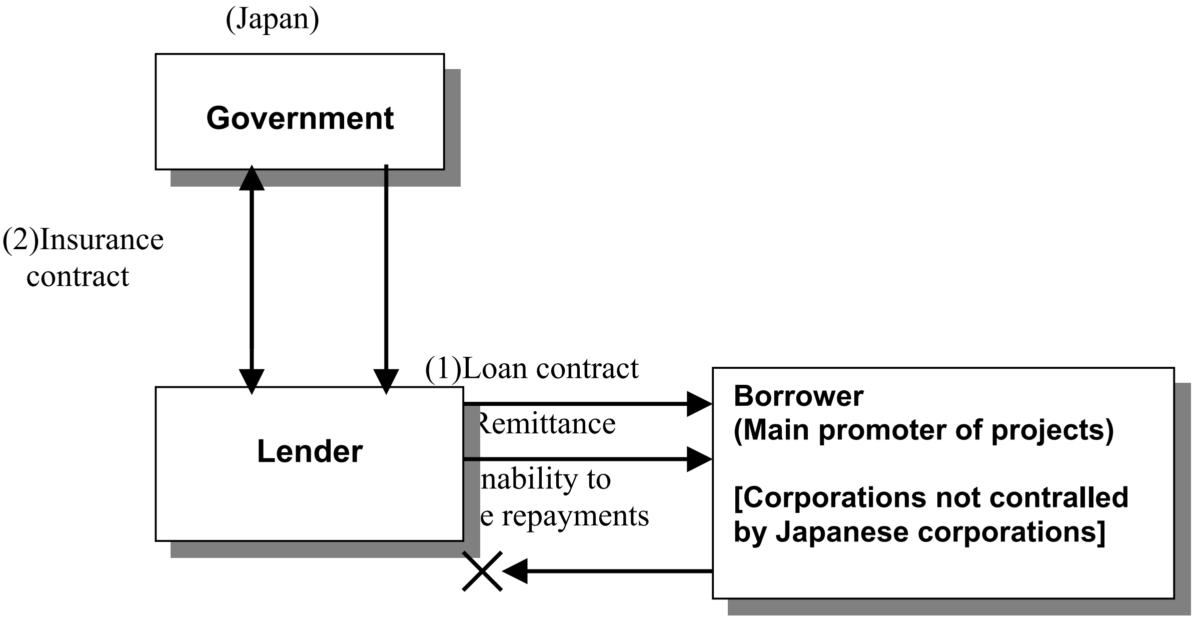


Investment type 4 Surety obligations of the investment type2.

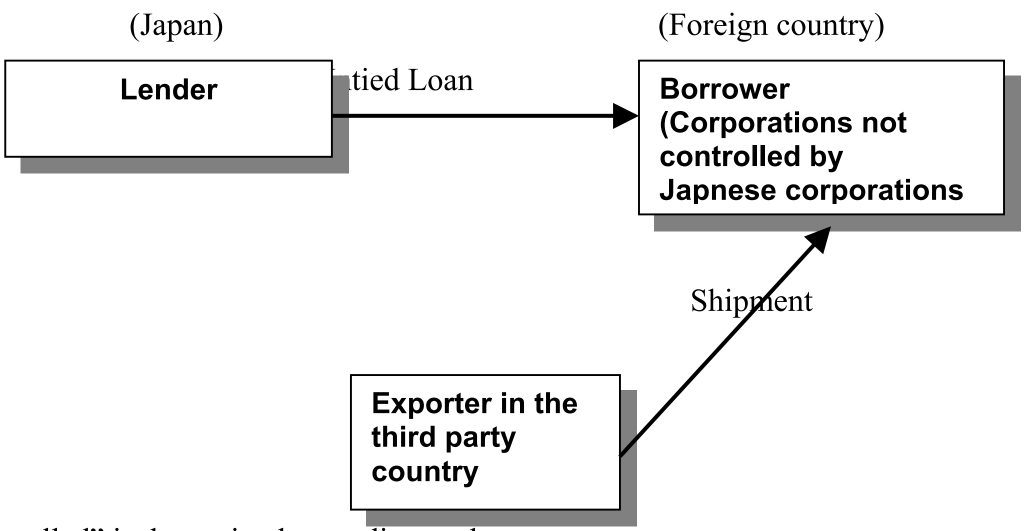
Risks Covered by Overseas Investment Insurance



Outline of Overseas Loans Insurance

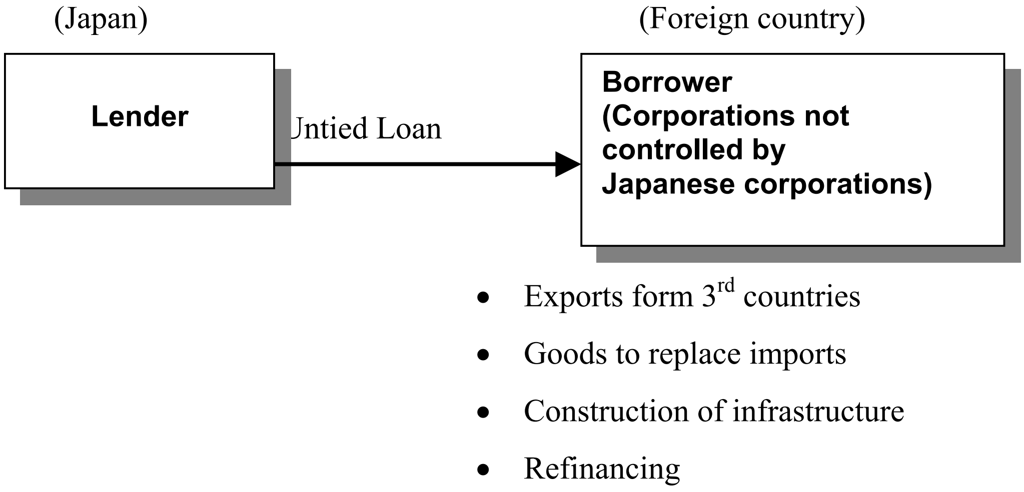


Loans Covered by Overseas Loan Insurance (1)

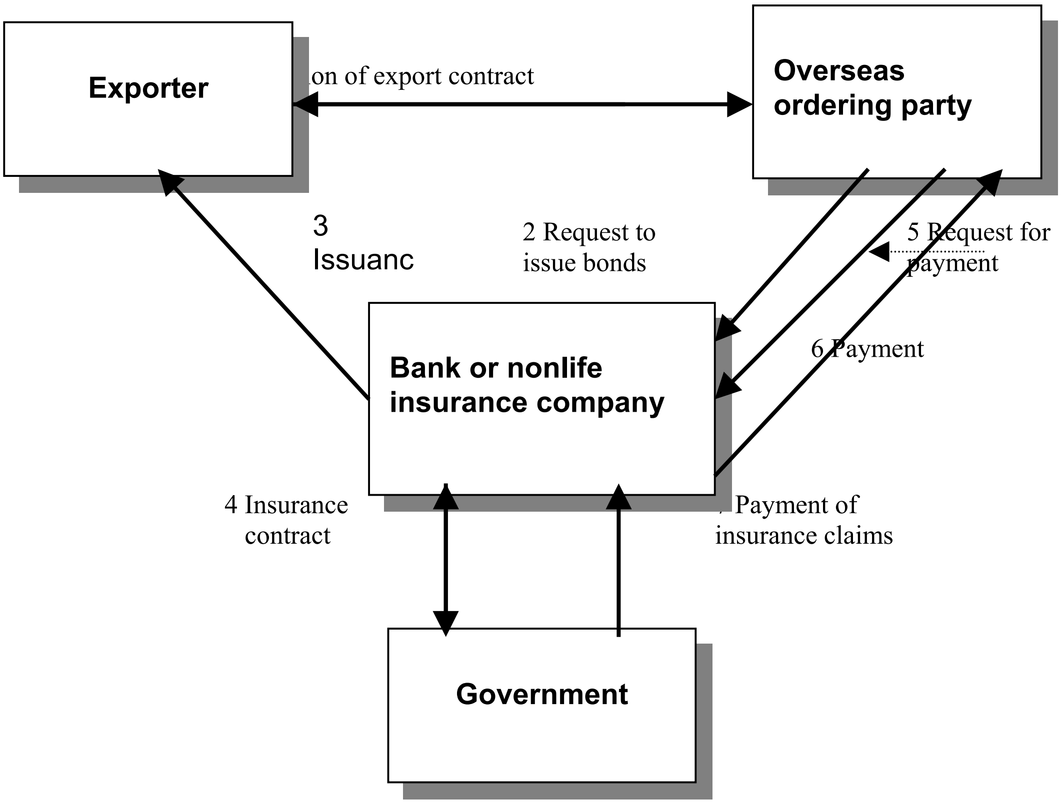


"Not controlled" is determined according to the percentage of shares held (50% or less) or the percentage of executive officers (50% or less)

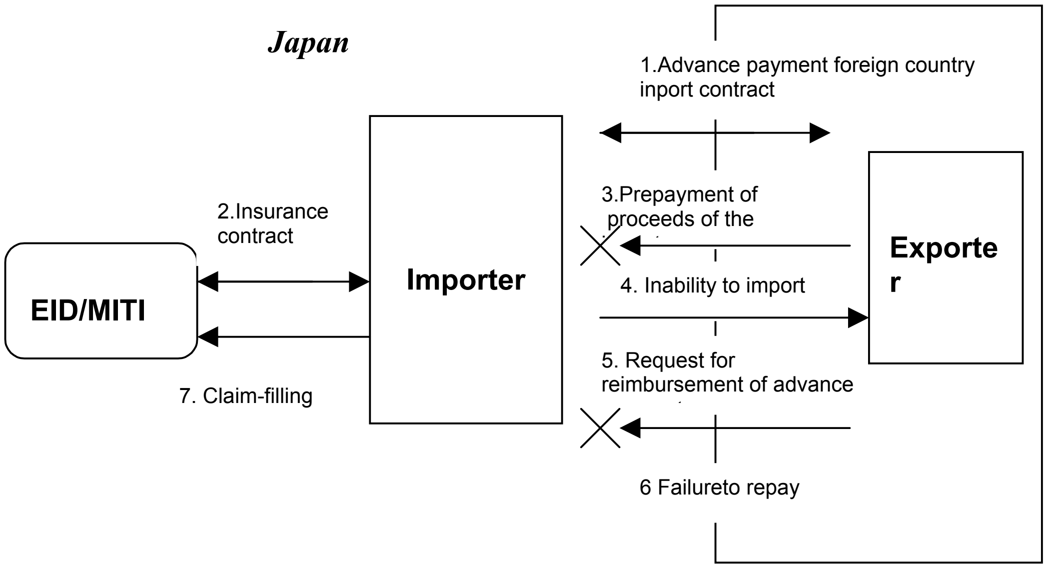
Loans Covered by Overseas Loan Insurance (2)



Outline of Export Bond Insurance



Outline of Prepayment Import Insurance

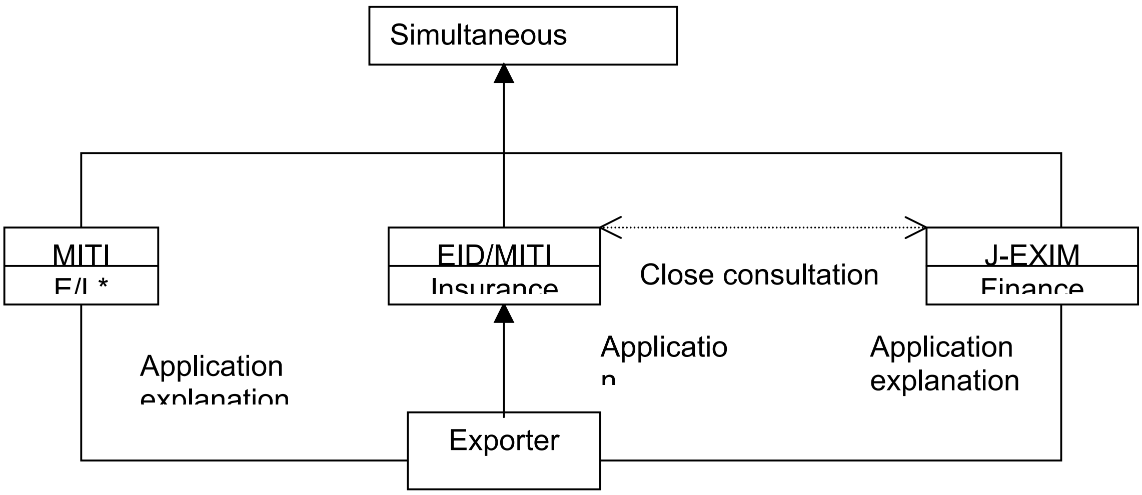

Japan
1.Advance payment foreign country inport contract
2.Insurance contract
EID/MITI
Importer
Exporte r
3.Prepayment of proceeds of the
4. Inability to import
5. Request for reimbursement of advance
6 Failureto repay
7. Claim-filling

[APPENDIX-I]

Relationship between
The Export, Import and Investment Insurance Dept.
Ministry of International Trade and Industry (EID/MITI)
And
The Export-Import Bank of Japan (J-EXIM)

1. The Export Credit Agencies (ECA) in JAPEN and Their Functions
    1) EID/MITI: export insurance and export credit policy
    2) J-EXIM : finance

2. Cooperation between the EID/MITI and the J-EXIM

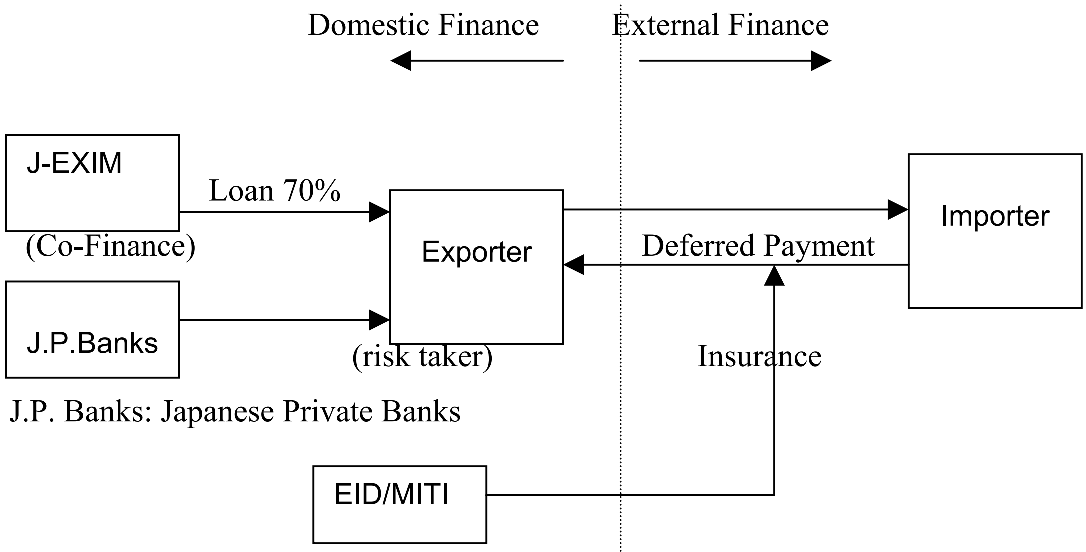


Three main policies are as follows:

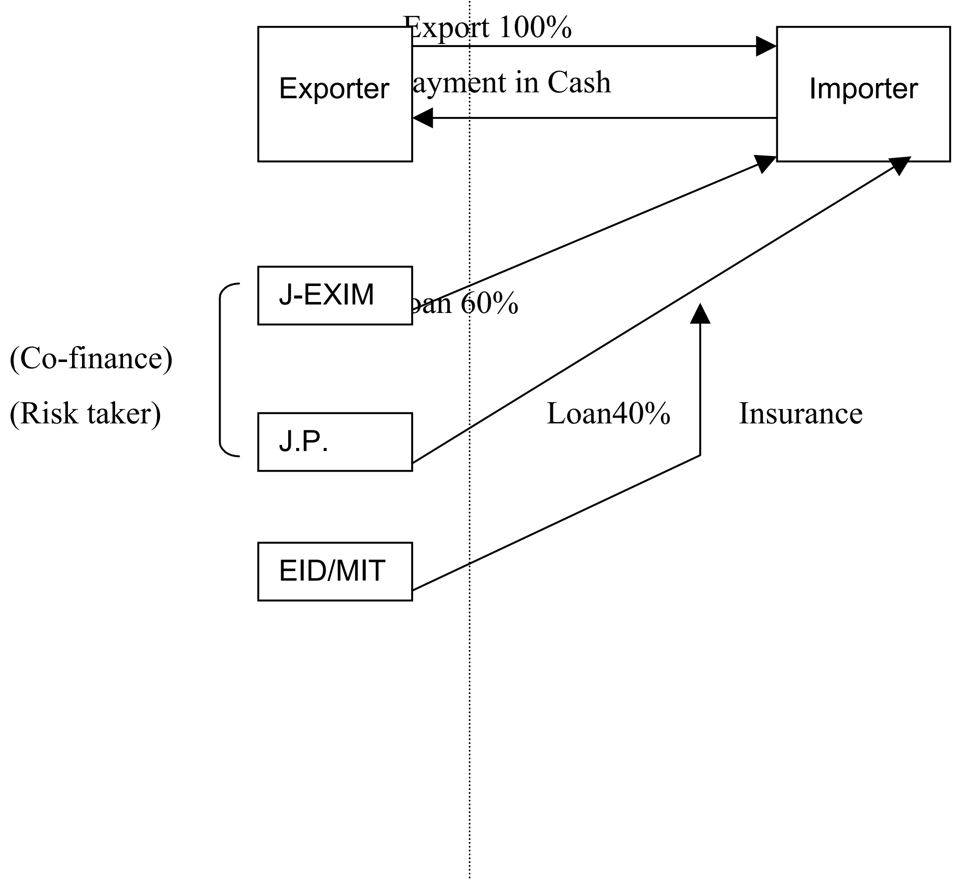
1) to provide insurance covering medium/long (more than two-year) term trade contracts.
2) to apply arrangement on guidelines for officially supported export credits of OECD
3) to provide insurance in cooperation with J-EXIM (on pure finance, no pure cover).

*E/L : Export License approved by Export Division of MITI

3. Basic Pattern of Supplier's Credit



4. Basic Pattern of Buyer's Credit



3. Development, Promotion and Marketing of Products

(1) Development of New Products

1) Short -Term comprehensive Insurance

This type of insurance , which provides comprehensive insurance for cooperation, was established in July 1991. This insurance covers trade contracts in which the settlement period for proceeds is less than two years and comprehensively covers political risks involving the inability to export and collect proceeds, as well as other wide-ranging commercial risks. In addition, it covers risks contingent on an intermediary Contract, Resale Contract (in the same country) and Resale Contract (Transit Trade).

2) Overseas United Loan Insurance

This insurance covers losses incurred by Japanese financial institutions, Trading companies or other entities through their inability to collect on loans, etc., or through their performance of surety obligations or their inability to collect amount to be acquired by exercising the right of indemnity due to political risks (inability to remit funds due to war, civil war, restrictions or prohibition of foreign exchange transactions in a country in which such loans have been extended) or commercial risks (for example, the bankruptcy of a party to whom such loans have been extended or a delay of six months or more in the performance of obligations by such party), when such financial institutions, trading companies or other entities have extended long-term loans (those which do not contribute to an increase in exports from Japan and are extended to foreign cooperation not controlled by a Japanese cooperation, foreign government of foreign nationals) for projects to benefit economic development in developing countries.

(2) Introduction of New Underwriting Scheme for Market Promotion

1) Covering for Medium an Long – Term commercial Risk without Letter
of Guarantee (NO-L/G)

In principle, EID/MITI requires the applicants for medium-and long-term commercial and political risk insurance to have a L/G issued by the government or a First-class bank.

This principle is based on a concept that L/G secures both commercial risk an political risk.
Reason for securing political risks

- Government-guaranteed Medium and Long-term transaction would be recognized without any trouble even if it is debt goes to rescheduling.
- Also, in case if war or revolution etc. in host country, we are expecting the debt to be treated by new government favorably as an official debt.

However, as developing countries undergo privatization, it becomes very difficult to obtain a government L/G. For this reason it is time for EID/MITI to consider the possibility of covering political risks as well as commercial risks without government L/G. Then we have to prepare several basic components inside EID/MITI for covering commercial risks, as a checking body, for risk assessment of each buyer in detail, and rating system for commercial risk accordingly with the credit worthiness of buyer.

Therefore, we can not cover commercial risks without L/G instantly under the present circumstances.

We intend to make an effort to accumulate our experience and know how concerning commercial risk. So we are going to cover only reliable cases. We have started to cover with this system since last year.

2) Exchange Rate Compensation System

EID/MITI introduced new compensation system for the Exchange Risk in the Export Proceeds Insurance.

For the Export Proceeds Insurance, which covers the risk of uncollectable export proceeds, EID/MITI has been using yen exchange rate based at the time of the contract.

However, in developing countries, due to their rapid growing economies, the lack of proper infrastructures are a serious concern for the further development in these countries. Under such circumstances, the exporter or contractor used to keep their books in dollar terms, but if yen were further depreciated against US dollar from the contract time, the exporters will not be able to recover the risk in dollar terms.

To reply to this request, EID/MITI has introduced New Exchange Rate Compensation System. For the time being, we are applying this system for the medium and long term businesses mainly for the project finance case. We now can cover the fluctuation of yen up to twice the amount of the insured value at the time of the contract.

Moreover, together with the above system, we also introduced a comprehension system to cover the loses for the fluctuation of interest within some range. Now the interest portion of insurable value can be changed up to 20% of the application rate in response to the fluctuation of the market rate.

The Interrelation between Exchange Fluctuation and Trade Insurance (Insured Value = $ 100 million)

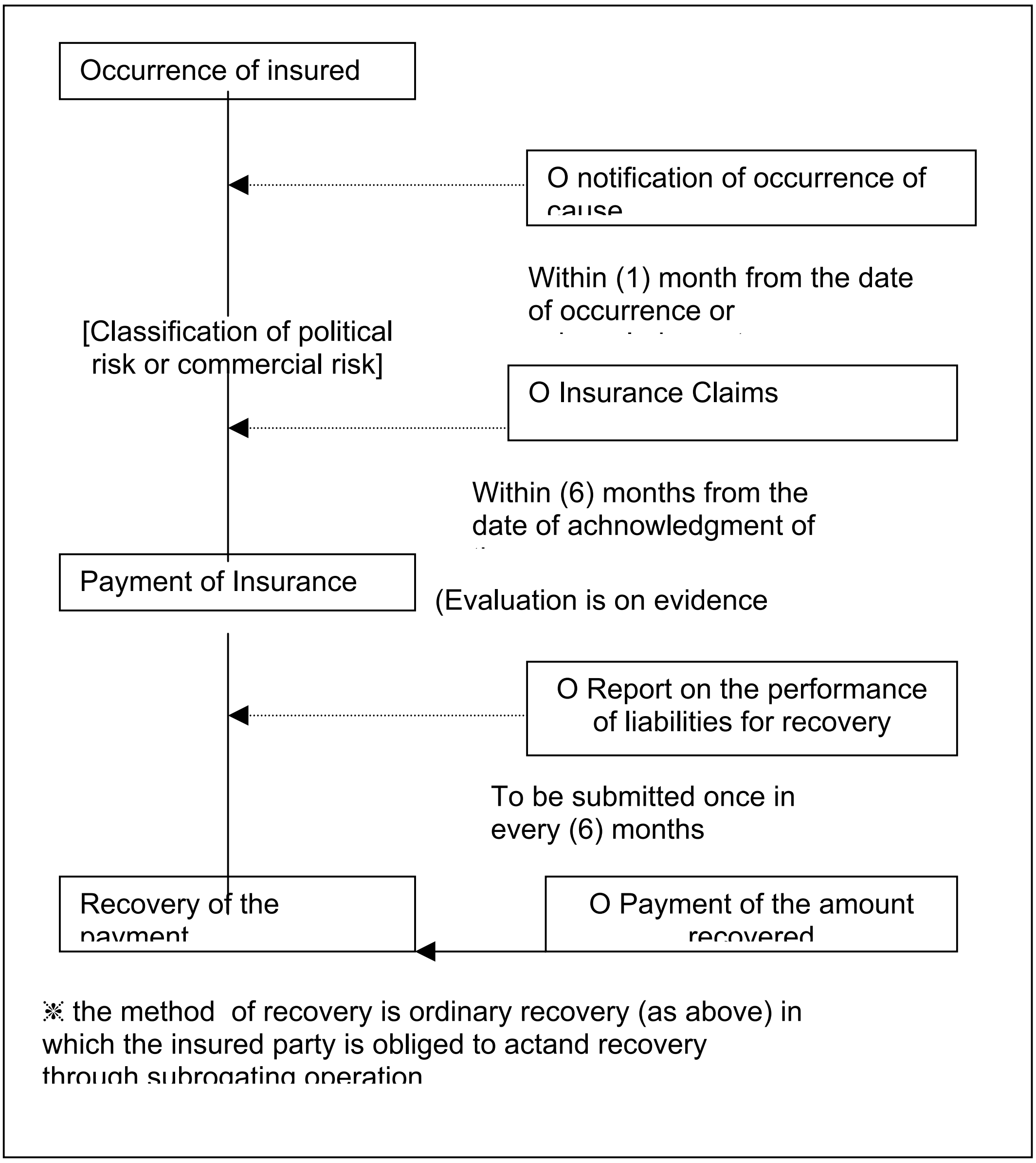
Time of the contract (1 $=¥ 100)		Occurrence time of Insured Risk / Depreciation (1 $=¥ 120)		Occurrence time of Insured Risk / Appreciation (1 $=¥ 80)	
Loss Amount		¥ 12.000 million ($ 100m)		¥ 8,000 million ($ 80)	
Claims Amount		Applied rate	Claims	Applied Rate	Claims
	Former System	1 $ = ¥ 100	$ 1 m - ¥ 100 m	1 $ = ¥ 80	$ 1 m - ¥ 80 m
	New Exchange Rate compensation System	1 $ = ¥ 120	$ 1.2 m - ¥120	1 $ = ¥ 80	$1 m - ¥ 80 m
Ratio of Coverage ※					
	Former System	83 %		100 %	
	New Exchange Rate Compensation System	100 %		100 %	

※ Ratio of Coverage = Insurance Amount / Loss Amount

4 Claim and Recovery

(1) Insurance Claim and Recovery (with Focus on Political Risks)

1) Procedures for Insurance Claim and Recovery
(an example of General Trade Insurance)



2) Obligation for Claim and Recovery

O After submission by the insured of the notification, EID/MITI will determine whether the cause of damage is due to political risk or commercial risk. In principle, such determination will be made on the basis of such occurrence of insured cause being attributable to the responsibility of the party or parties to the export contract.

In principle, the insured is to request insurance claim payment within six (6) months after the occurrence of insured cause.

The insured will be obliged to recover the loss after the insurance claim payment, keeping EID/MITI informed of the performance of his obligation, and making efforts in exercising the right of damage compensation demand.

As a consequence of such efforts, the insured will be required to make payment to the national treasury of any money recovered (general scheme of recovery).

Also, in contrast to this obligation of the insured, EID/MITI is also adopting the method of acquiring the right of credit in connection with the causes arising from the Paris Club rescheduling, making such credit a portion of remittances form the debtor country (recovery through subrogating operations).

Recovery of credits through subrogating operation amounted to 60.1 billion yen, or about 61%, of the total amount of 98.3 billion yen recovered in FY1995. On the basis of the number of claims, such recoveries accounted for approximately 13,000, or 58% of the approximately total about 22,000 cases.
O The credit to be acquired by the government is in principle all credit of the Paris Club rescheduling. Until the present, the government has made such efforts with twenty-two (22) countries.

3) Recovery through Subrogating Operation

As mentioned in (2) above, in the Japanese Trade Insurance system, the insured is obligated to expedite and recover the insured commercial debt. Regarding the Paris Club rescheduling, obviously such expediting efforts are not always proving fruitful due to the policies of the debtor country which restrict foreign exchange remittances.

The government (EID/MITI) acquires the credit of the insured when insurance claim payments are made, and conducts high level negotiations with the country's government for expediting and recovery.

Upon acquisition of credit, the insured and the government are to agree to the sharing of any amount recovered at a certain ratio, thus making credit management on individual settlement basis unnecessary and simplifying payments to national treasury.

Method for Calculating Claims Payable for General Trade Insurance

I Inability to export goods

Loss = Amount which cannont _Value of disposal _ Expenses which have _ Expected profit
Amount be collected of goods not been paid

Claim payment = Loss amount X 95% ≤ Insured amount

II Inability to collect proceeds

Loss amount = Amount which cannont be collected

$$\text{Claims payable} = \text{Loss amount} \times \frac{\text{Insured amount}}{\text{Insurable value}}$$

Method for Calculating Recovery to inability to collect export proceeds

1. When recovery is made in respect to inability to collect export proceeds

$$\left(\left(\text{Amount recovered} - (A - B) \times \frac{\text{Amount recovered}}{\text{Loss amount}}\right) \times \frac{\text{Claims paid}}{\text{Loss amount}}\right.$$

2. When recovery is made through the disposal of goods which cannot be exported

$$(\text{Resale amount} - \text{Appraised amount of the goods}) \times \frac{\text{Claims paid}}{\text{Loss amount}}$$

3. When recovery is made in respect to inability to export goods

$$\text{Amount collected} \times \frac{\text{Claims paid}}{\text{Loss amount}}$$

(Note)

(2) Current Status of Insurance Claims and Recovery in JAPAN

1) Occurrences of trade insurance claims

On viewing the recent occurrences of trade insurance claims in Japan in terms of causes that can

be indemnified, the majority of insurance claims on a total claim amount basis were for political

risks, accounting for about 98%, in the amount of 211.6% billion yen out of the total amount of insurance claims in FY 1995 of 215.5 billion yen, while 890 claims, approximately 75% of total claims in term of numbers of claim cases, were for political risks.

When examined in terms of insurance types, 773 claims, or about 65% of that total number of claims, were for Export Proceeds Insurance, which accounted for 82% of political risk claims themselves, in terms of claim case numbers.

On a total insurance claim amount basis, Overseas Investment Insurance, entirely comprised of political risks, accounted for 71% of the total insurance claim amount, amounting to 153.2 billion yen, or as high as 72% of the political risk claims.

[Table: Share of Political Risk of Total Occurrence of Trade Insurance Claims]

(units: hundred million yen)

		FY 1994		FY 1995		P.RISK/ TOTAL %
		TOTAL	P.RISK	TOTAL	P.RISK	
General Export Insurance	(A)	28	4	13	8	61.5
	(B)	2	2	12	12	99.4
Export Proceeds Insurance	(A)	1428	1461	773	728	94.2
	(B)	929	919	580	554	95.5
Export Bill Insurance	(A)	181	6	221	1	0.5
	(B)	6	-	9	-	0.3
Overseas Invest. Insurance	(A)	16	16	32	32	100.0
	(B)	74	74	1532	1532	100.0
Prepayment Import insurance	(A)	0	0	2	0	0
	(B)	0	0	2	0	0
Intermediary Trade Insurance	(A)	70	65	144	121	84.0
	(B)	15	15	21	19	89.3
TOTAL	(A)	1723	1507	1185	890	75.1
	(B)	1026	101	2155	2116	98.2

(A) Number of Claims, (B) Total Amount of Claims

Although there had been a considerable decrease in the number of insurance claim cases in FT1995 over the previous year, the total amount of insurance claim payment had doubled due to drastic increase in Overseas Investment Insurance.

2) Current Status of Insurance Claim Payment

Payment of insurance claims in Japan amounted to 57.1 billion yen in FY 1995, a considerable decrease of 23.5 billion yen, or about 30%, from the 80.6 billion yen total of FY 1994. Most insurance claim payments were for political risk claim, which amounted to 56.3 billion yen, or 99% of total payments in FT 1995 and 79.5 billion yen, or 99% in FY 1994.

Regarding individual types of insurance, payment of claims under Export Proceeds Insurance accounted for 88% or total payments and payment of political risk related claims accounted for 87% of total payments.

[Table: Share of Political Risk Claims of Total Payment of Insurance Claims]

(units: hundred million yen)

		FY1994		FY1995		P.RISK/ TOTAL %
		TOTAL	P.RISK	TOTAL	P.RISK	
General Export Insurance	(A)	119	100	51	39	76.5
	(B)	2	2	3	3	92.1
Export Proceeds Insurance	(A)	647	645	1006	1003	99.7
	(B)	756	752	504	499	99.1
Export Bill Insurance	(A)	185	2	61	0	0
	(B)	7	-	2	0	0
Overseas Invest. Insurance	(A)	16	16	32	32	100.0
	(B)	29	29	54	54	100.0
Prepayment Import Insurance	(A)	1	0	2	0	0
	(B)	-	0	2	0	0
Intermediary Trade Insurance	(A)	9	6	35	26	74.3
	(B)	12	12	9	7	84.0
TOTAL	(A)	977	769	1185	1100	92.8
	(B)	806	795	571	563	98.6

(A) Number of claims, (B) Total amount of claims

As mentioned above, most insurance claim payments were for political risk claims, while the majority of current payments are due to the Paris Club rescheduling. This applies to No. 6 of Reason for Indemnity of Article 3 of the General Trade Insurance Policy.

Insurance claim payments arising form rescheduling decreased to 57.3 billion yen in FY 1994 and to 35.6 billion yen in FY 1995, whereas they represented high weight ratios of 71% and 62% of total payments in FY1994 and FY 1995, respectively. In FY1991 and FY19892, Insurance claim payments for causes other than rescheduling had high weight ratios, due to the influence of the Gulf War and the collapse of the former Soviet Union.

[Table: Trade Insurance Claim Payments in the past five years]

(in hundred million yen)

	FY1991	FY1992	FY1993	FY1994	FY1995
TOTAL PAYMENT	3,419	1,482	1,280	806	571
COMMERCIAL RISK	76	16	17	11	8
POLITICAL RISK	3,343	1,466	1,263	795	563
NON-RESCHEDULIING	2,379	948	502	233	215
RESCHEDULING	1,041	534	778	573	356

3) Collection of Claimable Assets (Recovery)

Collection of claimable assets in Japan amounted to 98.3 billion yen in FT1995, a considerable increase of 13.0 billion yen form the 85.3 billion yen in FY1994. Most collections were of political risk claims, which amounted to 97.0 billion yen, or 98% of total collections in FY1995.

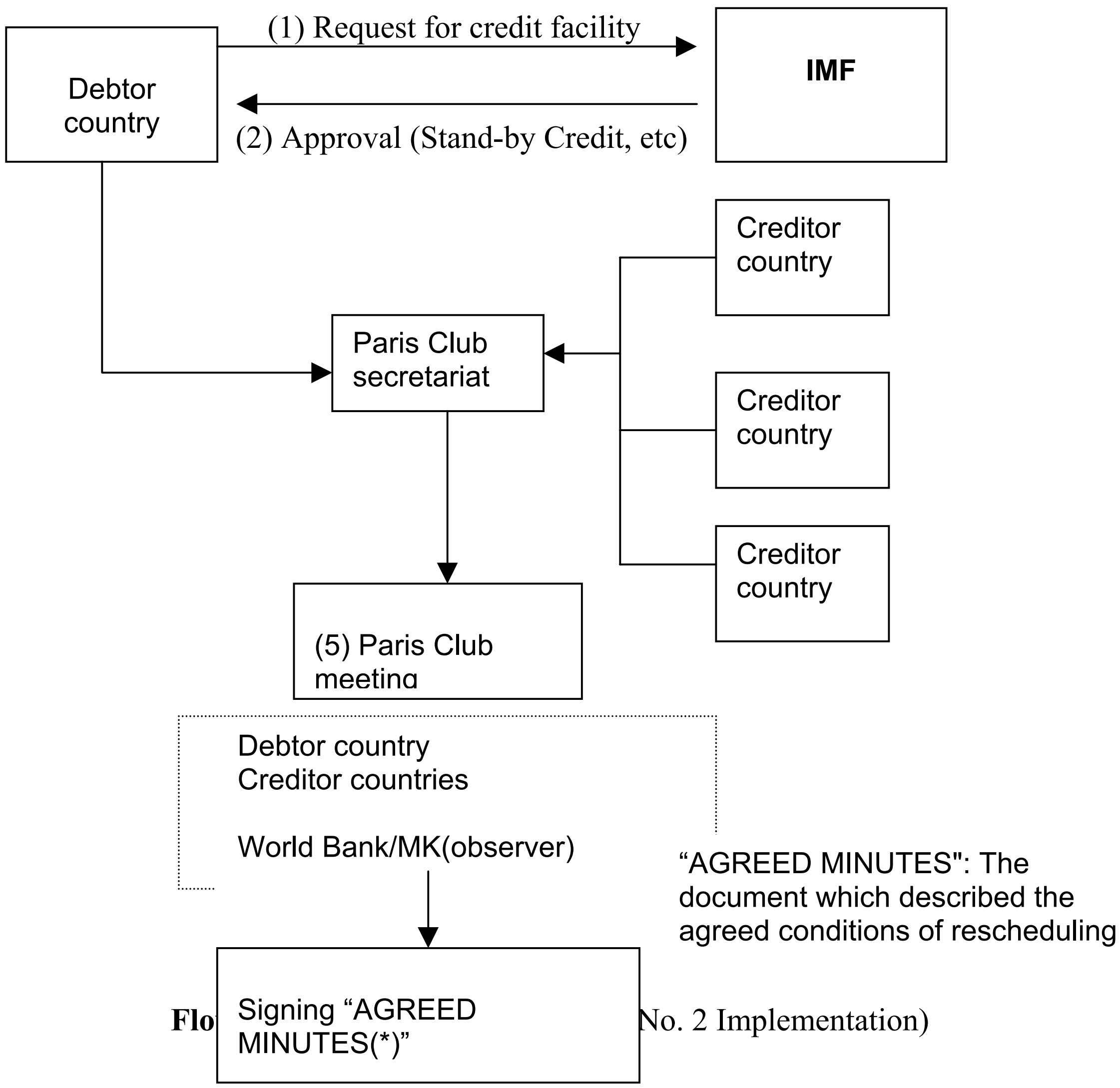
[Table: Share of Political Risk of Total Collection of Claimable Assets]

(units: hundred million yen)

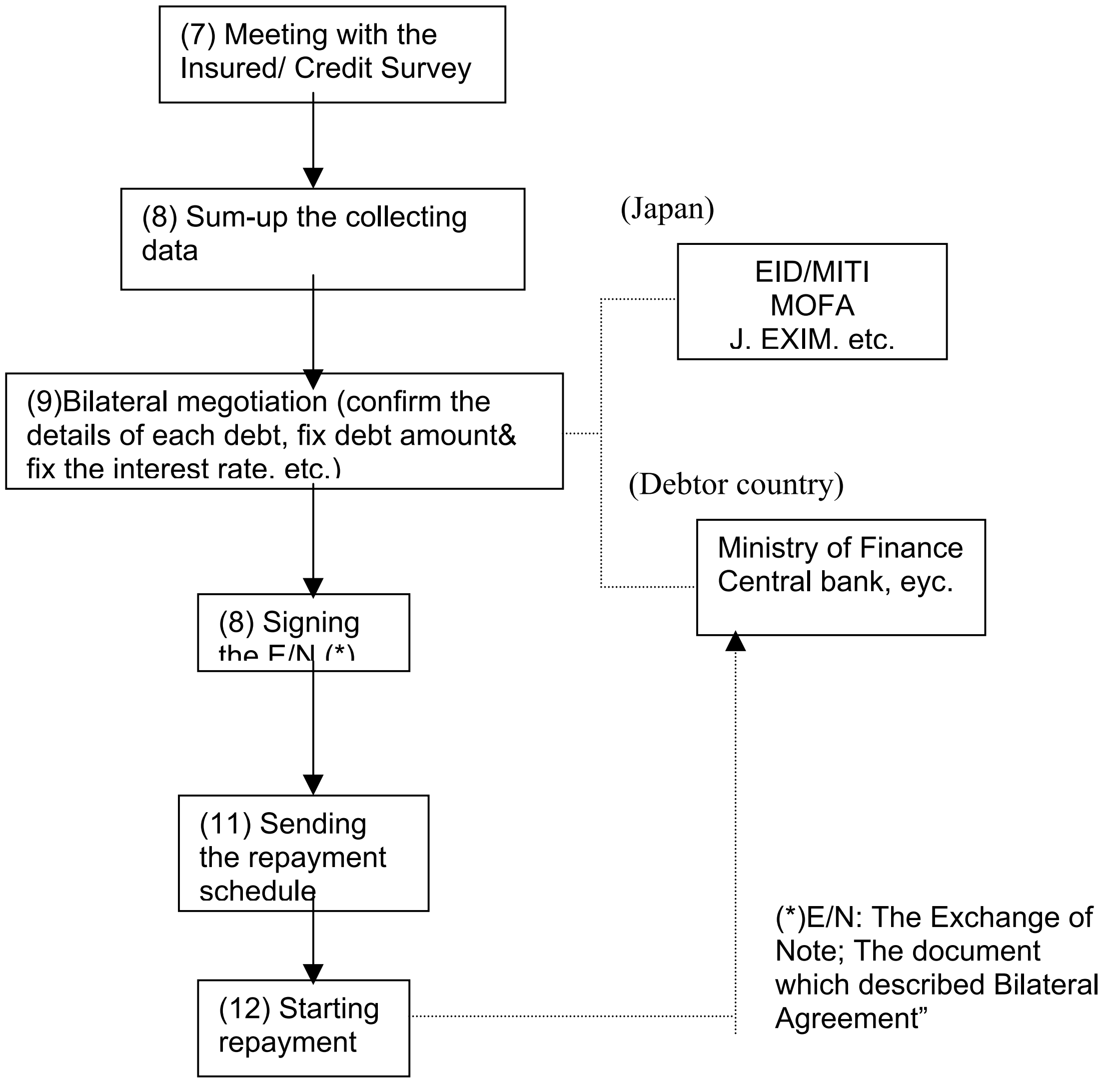
		FY1994		FT1995		P.RISK/
		TOTAL	P.RISK	TOTAL	P.RISK	TOTAL %
General Export	(A)	132	132	154	154	100.0
Insurance	(B)	2	2	-	-	100.0
Export Proceeds	(A)	13890	13872	21649	21611	99.6
Insurance	(B)	839	833	972	962	98.9
	(A)	787	416	508	176	34.6
Export Bill Insurance	(B)	12	11	7	6	75.1
Overseas Invest.	(A)	0	0	38	38	100.0
Insurance	(B)	0	0	1	1	100.0
Prepayment Import	(A)	1	0	3	0	0.0
Insurance	(B)	-	0	-	0	0.0
Intermediary Trade	(A)	4	4	34	34	100.0
Insurance	(B)	-	-	1	1	100.0
TOTAL	(A)	14616	14424	22433	22013	98.7
	(B)	853	846	983	970	98.2

(A) Number of claims (B) Total amounts of claims

Flow of Paris Club Rescheduling (No. 1 Implementation)



Flo No. 2 Implementation)


(7) Meeting with the Insured/ Credit Survey
(8) Sum-up the collecting data
(Japan)
EID/MITI
MOFA
J. EXIM. etc.
(9)Bilateral megotiation (confirm the details of each debt, fix debt amount& fix the interest rate. etc.)
(Debtor country)
Ministry of Finance
Central bank, eyc.
(8) Signing the E/N (*)
(11) Sending the repayment schedule
(12) Starting repayment
(*)E/N: The Exchange of Note; The document which described Bilateral Agreement"

Chapter IV

Trade and Investment Insurance System of the Philippines

TRADE AND INVESTMENT INSURANCE SYSTEM IN THE PHILIPPINES

I. BRIEF HISTORY OF EXPORT CREDIT INSURANCE

A. ***Background***

The establishment of an export credit insurance facility in the Philippines had been considered as early as the seventies. A first step taken was the creation by law in 1972 of the Philippine Export Credit Insurance and Guanmtee Corporation (PECIGCOR). However, the corporation never took off and was eventually abolished in 1979 by virtue of Executive Order No. 574 which transferred the corporation's functions to PHILGUARANTEE. In 1981, the Export Credit Corporation (ECC) was also established to perform, among others, an export credit insurance function. The corporation which never became operational, was likewise abolished in 1997 and its functions are also transferred to PHILGUARANTEE by virtue of Executive Order No. 127.

In the mid-eighties, the establishment of an ECI was again reviewed. The proposal to establish an ECI facility was deferred as studies have shown that the perceived need of export then was more on preshipment financing and guarantee rather than credit insurance.

In 1995, a decision was made to design a comprehensive ECI system suited to the needs of Philippine exporters including an interim system as may be required and to operationalize the system by establishing the appropriate facility in PHILGUARANTEE.

B. ***Developments***

ECI PROJECT STUDY

Technical assistance under the World Bank - Japan Grant Export Development Project was utilized to fund two (2) constancy studies:

1. Establishment of an Export Credit Insurance facility in PHILGUARANTEE; and

2. Establishment of a Comprehensive Credit Information System (CCIS) to back up the ECI Program.

The ECI Project Study accessed the need for an ECI through a market survey of both exporters and bankers. It also contained an evaluation of Philippine export performance profile of exports, market patterns etc. Likewise, a review of existing policies, laws and regulations was made. The consultant's report showed there is a need for an ECI Program and the establishment of the ECI Program on an interim basis was recommended. A comprehensive Program will follow after a review is conducted.

The ECI Program was launched on January 31, 1997 and PHILGUARANTEE became the first and the only institution to offer an ECI facility in the Philippines.
The CCIS study, on the other hand, dealt with comprehensive credit information system, including a foreign buyers database, to provide support to ECI underwriting operations.

II. INSTITUTIONAL FRAMEWORK AND ORGANIZATIONAL SET-UP

A. ***Legal Authority for the Establishment of the Export Credit Insurance (ECI) Program at PHILGUARANTEE***

As mentioned earlier, PHILGUARANTEE's authority to perform ECI functions derives from its absorption of the mandates of the two (2) defunct agencies, the Export Credit Corporation (ECC) and the Philippine Export Credit Insurance and Guarantee Corporation (PECIGCOR).

The accumulated legislation describing the powers and functions of PHILGUARANTEE are contained in the following decrees, executive orders and Acts of the Republic.

1. Presidential Decree No. 1080 creating PHILGUARANTEE in 1977.

2. Republic Act No. 6424 of 1972 creating the Philippine Export Credit Insurance and Guarantee Corporation (PECIGCOR) whose functions were transferred to PHILGUARANTEE in 1979 by Executive Order No. 574.

3. Presidential Decree No. 1785 of 1981 creating the Export Credit Corporation (ECC) whose functions were transferred to PHILGUARANTEE in 1987 by the Executive Order No. 127.

On August 29, 1996 the Office of the Government Corporate Counsel (OGCC) issued its Opinion No. 241 which stated that PHILGUARANTEE can offer export credit insurance to any bank or business in the Philippines on the basis of the combined provisions of Republic Act No. 6424 and Presidential Decree No. 1785. By virtue of this opinion, the authority of PHILGUARANTEE to act as an export credit insurance agency is confirmed.

B. ***Organizational Set-Up***

1. **Board of Directors** - The power and functions of the Corporation are exercised by a Board of Directors composed of seven (7) members, as follows:

   a. The Secretary of Finance, who shall be the Chairman of the Board. Whenever the Secretary of Finance is unable to attend, he shall designate an undersecretary to attend as his alternate who shall not act as Chairman.
   b. The President of the Corporation, who shall be the Vice-Chairman of the Board, shall assist the Chairman and act in his stead in case of absence or incapacity.
   c. The Secretary of Trade and Industry.
   d. The Governor of the Bangko Sentral ng Pilipinas (Central Bank of the Philippine).
   e. The Director-General of the National Economic and Development Authority.
   f. The Chairman of the Development Bank of the Philippines.
   g. The Chairman of the Philippine Overseas Construction Board.

2. **Functional Areas:**

Philguarantee is composed of nine (9) departments directly supervised by three (3) Senior Vice Presidents, as follows:

- Senior Vice President for Operations Group

a. Marketing and Business Development Department
b. Guarantees Department
c. Export Credit Services Department
d. Remedial Management Department

- Senior Vice President for CTA Group

e. Controllership Department
f. Treasury Department
g. Administrative Department

- Senior Vice President for Legal Services Group

h. Collection and Litigation Department
i. Documentation and Research Department

The Corporate Planning Office and Corporate Secretary's Office are functionally attached to the Office of the President while the ECI Office is attached to the Office of the Executive Vice President.

Since its launching in January 1997, the ECI Program has been operationalized on an interim basis using existing staff as follows:

- **Underwriting function** - handled by the Export Credit Insurance Office (ECIO). It is responsible for evaluating export proposal applications for the establishment of foreign buyer credit limits, issuing offer letter, determining the premium rate to be applied and ensuring the existence of an acceptable spread of risks. It is also responsible for premium billing, issuance of the Policy and maintenance of policy holder files.

- **Marketing function** - handled by the Marketing and Business Development Department (MBDD) which is responsible for recruiting prospective policy holders. It handles all inquiries and assists in filling out the application/proposal forms correctly, and sees to it that the processing fee is billed and receipted properly.

- **Credit Information, Management Information System, Economic intelligence and Country Risk Analysis function** - handled by the Export Credit Services Department (ECSD). These include evaluation of industry and country risks, making recommendations on country classifications, imposition or removal of special country limitation conditions, providing guidance on special industry conditions and trends of potential concern to management.

  ECSD is also responsible for interfering with international sources of credit information on foreign buyers through COFACE. It likewise maintains a database on Philippine direct and indirect exporters.

- **Claims Handling and Recoveries function** - handled by the Remedial Management Department (RMD) with the support of Legal Services Group. It receives the Notices of Overdue Account and Notices of Claim and exporters request for intervention as well as evaluates the validity of claims and undertakes recovery measures. In case of payment, it also requests COFACE for reimbursement or funding as the case may be.

- **Accounting function** - handled by the Controllership Department. It is in charge of remitting fees to COFACE, keeping accounting records and preparing ECI Program financial statements.

- **Treasury function** - handled by the Treasury Department which is responsible for insuring availability of funds for the open Requirements of the Project. It is also in charge of the issuance of official receipts on all collections from ECI operations, providing information/data on foreign exchange rates, processing request for payments of foreign remittances and the maintenance of a separate account designated as Premium Reserve fund in accordance with the terms of the Reinsurance Agreement with COFACE.

The interim organization treats the ECI program as another product along with PHILGUARANTEE's other existing program. This set up is considered most convenient and economical for PHILGUARANTEE since ECT operations are just in the start-up stage. In anticipation of the increase in volume of ECI business, the PHILGUARANTEE Board approved on June 20, 1997 the creation/expansion of the following units to strengthen organizational support for ECI.

1. Expansion of ECIO into a Department with two (2) Underwriting Divisions

2. Creation of Country Risk Assessment Division under ECSD

3. Creation of Visayas-Mindanao Division under MBDD

The Manager of ECI Department will report to the Senior Vice President for Operations.

III. TYPES, FEATURES, TERMS AND CONDITIONS OF INSURANCE

A. ***Types of Insurance Policies:***

a. **Comprehensive Short-Term Shipments Policy** - covers both political and commercial risks of non-payment of export credits with a term of up to 180 days from shipment date.

b. **Commercial Risk Only Short-Term Shipments Policy** - where exporter's buyers are all in OECD countries or developed market/economies, a policy may be issued where only commercial risk will be covered.

B. ***Program Features***

a. Eligible for cover

Any exporter doing business in the Philippines provided that the exported goods and services contain at least 20% local (Philippine) content based on FOB value.

b. Insurable exports include:

1. Philippine exports denominated in an acceptable foreign convertible currency payable in the Philippines
2. Export sales on either documentary or open account term and involving firm contracts for payment up to 180 days from export shipment date.

c. Coverage

1. Maximum of 85% of the amount of loss
2. Global basis, meaning it covers all contracts with buyers covered under the Policy to ensure an acceptable spread of risks. Export sales on cash and irrevocable L/C may however be excluded.

d. Validity Period

The policy shall be valid for one (1) year from date of issue.

C. ***Terms and Conditions***

1. Risks to be covered

a. *Political risks include*

i. currency inconvertibility or transfer payment risk
ii. foreign government acts which prevent the importation of the goods;
iii. cancellation of previously issued import licences; and
iv. war (including civil war), riot, rebellion, revolution, insurrection or other similar disturbances in the buyer's country

b. Commercial risks include:

i. insolvency of the buyer;

ii. protracted default or delay in payment i.e. failure of the buyer to pay the exporter the gross invoice value of goods delivered to and accepted by the buyer.

2. Exclusions

a fluctuations in exchange rates

b where other insurance coverage applies such as fire and marine insurance

c insolvency or default of an agent of the exporter or of any bank

d contract of sale to insured's affiliate

e non-payment due to sales contract disputes between the exporter and overseas buyer or where either the exporter or buyer commits a breach of any term of the contract covered by the policy

f cases where the insured exporter authorizes payment in a currency other than the currency stipulated in the contract

g cases where the insured exporter has entered into a compromise agreement without PHILGUARANTEE's written consent

h natural catastrophic risks and the nuclear risk

i war between any of the world's major powers and between the country of the insured and of the buyer.

3. Limitation of Liability

a. **A Buyer Credit Limit** (BCL) is the maximum amount of credit that can be extended to a particular buyer at a given time based on credit information obtained on that buyer and on underwriting guidelines. However, the BCL shall not exceed a Single Buyer Credit Limit (SBCL). The SBCL shall be set at one percent (1%) of the ECT Program Capital on a leveraged basis. Single buyer shall also mean buyers controlled by the same ownership group. In case there is reinsurance, the SBCL shall be adjusted accordingly depending on the percentage of retention.

b. **Maximum Liability** is the maximum amount that PHILGUARANTEE shall pay, in the event of loss, to the exporter for all buyers under the Policy. This shall be a certain multiple of the premium paid.

D. ***Premium Structure***

A premium shall be computed based on the gross invoice value of goods shiped. The applicable premium rate will depend on the country classification schedule grading credit terms, and underwriting guidelines.

A minimum non-refundable premium shall be paid in advance, computed on the basis of the exporter's estimated export sales at the time of application. Subsequently, the actual premium shall be computed based on submitted monthly exports of actual shipments. If the actual premium is higher than the minimum premium, the difference shall be paid to PHILGUARANTEE at the end of the quarter.

There is also a processing fee to be paid by the exporter. The cost of obtaining credit information on the foreign buyer is likewise passed on to the exporter.

IV. PRODUCT DEVELOPMENT, PROMOTION AND MARKETING

A. ***Product Development***

- June 30, 1995 World Bank approved the grant from Japan Export Development Project for the Export Credit Insurance (ECT) and Comprehensive Credit Information SYSWM (CCIS) projects
- August 1995 and March 1996 Training on ECI fundamental (USA) and trade and investment insurance (Japan) for PHILGUARANTEE officers
- January - April 1996 ECI Market survey
- July 1996 Consultancy work m ECI and CCIS started
- August 1996 ECI supplemental survey (large/traditional exporters and foreign banks)
- September 1996 Consultancy Report on ECI submitted

• November 1996 Training on ECI by ECICS Singapore

• December 1996 Consultancy Report on CCIS submitted Training in COFACE, France

• December 27, 1996 PHLGUARANTEE Board's approval of implementation of ECI

• January 31, 1997 Launching of ECT and Signing of Partnership including Reinsurance Agreements between PHILGUARANTEE and COFACE

Upon securing the funding for the ECT and CCIS projects, an ECI Project Committee was created which acted as the local counterpart of the foreign consultants hired to conduct the studies.

All tasks undertaken on the ECI is being coordinated by the Committee from its planning up to its launching and implementation. Its task is still continuing since the ECI program is still in its interim stage until PHILGUARANTEE is able to deliver a comprehensive ECI facility.

Its on-going tasks include:

1. Coordination with COFACE, France on matters regarding Partnership, Reinsurance Agreements
2. Monitoring of the interim ECT facility particularly on how the existing structure/organisation is able to respond/deliver services to exporters
3. Formulation of staff development plan, including identification of training needs/courses on ECI management and operations
4. Design and development of a computerized system to manage the limited facility, including software and hardware requirements with provision for expansion to handle a larger ECI facility
    a. Management Information System Local Area
    b. Networking of the Operations Group to integrating all database to be used for all PHILGUARANTEE products
    c. Database for CCI S - exporters data and foreign buyers' access
5. Formulation of an interim business plan
    a. determine and set-up of reserve fund/capitalization
    b. financial budget requirements to operate the limited facility
6. Formulation of a marketing and promotions plan

7. Monitoring of ECI operations to assess/determine probable default rate and risk percentages
8. Review of the insurance policy itself

B. ***Promotion and Marketing***

- **Objectives**
    a. To increase awareness among exporters on the features and benefits of the ECI
    b. To solicit clients/policy holders for ECI
    c. To enlist the support and acceptance of the ECI from existing and new PHILGUARANTEE exporter-clients
    d. To establish PHILGUARANTEE as the first and only institution to implement an ECI facility in the country
    e. To ensure the viability of ECI operations in PHILGUARANTEE.

Marketing activities are aimed at informing end users on the features and benefits of the ECI. The long term marketing goal is to establish ECI as an effective facility for exporters. At the macro level, ECI is projected as a means to attain increased productivity in the export sector and to secure them in the global market. We therefore emphasize the gains experienced by other countries where ECI facility was implemented and at the same time create an image awareness in the business community that PHILGUARANTEE is the national export credit agency (ECA) which provides a complete package of financial services to the exporters.

- **Marketing Activities/Strategies**

a. Launching

In order to meet the above objectives, the MBDD has drawn up its marketing plan and the ECI Program was launched as being the first of its kind in the country as a wellpublicized event Press from local newspaper, radio and television covered the launching which was held on January 31, 1997 to coincide with the 20th Anniversary celebration of PHILGUARANTEE.

b. Seminars/Conferences/Briefings

This is aimed to sustain the awareness generated by the launching of the program, such activities must be timed so as not to coincide with any major trade/export activity to achieve maximum coverage and participation.

ECI seminars/conferences in various regions of the country where most exporters in the countryside are located were arranged by Marketing staff. In all ECI seminars/conferences, PHILGUARANTEE officers were present to answer/respond to the queries from the exporters after each presentation.

Aside from exporter and trade associations, Seminars/briefings are also being conducted for bankers.

c. Primers/Brochures/Posters

Colorful, simplified and attractive primers/brochures containing features of the ECI program are prepared for distribution.

d. Advertisement

Advertisement in 2 or 3 widely read newspapers is one of the most effective ways of reaching a large number of exporters throughout the country. This is done at least every 6 months to maintain the visibility of PHILGUARANTEE, and to sustain the interest of exporters on the newly launched ECI program. Corporate sponsors shall be tapped to minimize costs. In addition, regular press releases will be issued to announce developments on the program.

e. Pro-Active Approach

The Marketing staff make personal calls on individual exporters and trade associations on a continuing and regular basis. This is viewed as an effective tool since during the meeting, details of the ECI may be further discussed to address certain questions of the exporter/association. Records of visits are kept on file for follow-ups. Those who have shown interest on the ECI program are being given top priority.

f. Others

PHILGUARANTEE also takes advantage of opportunities or occasions not included in its own program of activities, such as invitations to participate in, or sponsor, trade fairs, act as guest speakers or resource persons at conferences or seminars conducted by third parties, sponsorship in magazines or special newspaper supplements or press releases by other institutions/organizations.

V. UNDERWRITING PROCEDURES

The underwriting procedure basically covers the evaluation of the exporter's proposal/applications which includes information on the exporter, export product, and foreign buyer and the establishment of the appropriate premium rates and foreign buyer credit limits. Its objective is to determine whether there is reasonable spread of risk in the Portfolio of export business being offered. Below are the salient features of the underwriting procedure:

- **Processing of the Exporter Proposal/application**

In reviewing the exporter proposal application, the following areas are considered:

- ***Information on the Exporter***

Information needed to determine whether the exporter is acceptable for ECI which covers key questions on the company's general business status, experience, financial condition, and experience of PHLGUARANTEE and other banks with the exporter, if any.

- ***Information on Product and Foreign Buyers***

It is essential to know the products and services being exported and subject of coverage to determine whether it complies with the minimum requirement of local value content. Moreover, this is necessary because some products are inherently more risky due to such factors as short life cycle, potential for obsolescence or low resale value.

The underwriter determines whether the insurable risks being offered represent an acceptable spread of risk. This requires careful consideration of the level and terms of the current orders and overall proposed level of business to be covered, based on past experiences of the exporter with his buyers and markets involved.

- ***Determination of Premium Rates***

The following are the principal factors that determine the appropriate level of premium:

- Estimated volume of business
- Likely spread of business
- Likely level of Buyer risk
- Experience, competence and financial condition of the exporter
- Experience of PHILGUARANTEE with the exporter as m insured policy holder
- Need to be competitive and responsive to the particular needs of an exporter

- **Establishment of Foreign Buyer Credit Limits (BCL)**

A credit limit for both the Comprehensive Shipments and Commercial Risks Only policies determines the maximum amount of loss that may be incurred for each buyer insured under the policy by PHILGUARANTEE.

Since PHILGUARANTEE has entered into a Partnership Alliance with COFACE of France and has joined the Credit Alliance Network, a credit information check on the COFACE, and

Credit Alliance Buyer Database will be made for appropriate prescriptive buyer credit limits. However, if PHILGUARANTEE finds it necessary, it may obtain additional credit information to guide its underwriting decision.

In setting or approving the BCL due consideration should be given to the Prescriptive BCL established by COFACE.

Below are some of the issues to be addressed in credit limit assessments:

- buyer's record of Payment of debts
- record of the directors and management of the buyer in successfully managing the business
- stability of the buyer's industry
- exporter experience with the buyer
- quality of the agency/bank reports
- solvency or working capital position of the buyer

- **Foreign Bank Underwriting**

Credit risk of foreign banks is assessed when underwriting export sales calling for Irrevocable Letter of credit (ILC) payment terms. Usually, information obtained from the Banker's Almanac and other similar publications should be sufficient. In the assessment of banks as credit risks, relevant factors to be considered are size, ownership, financial standing or rating of the issuing bank with other banks, asset quality, liquidity, and capital adequacy.

An underwriting decision will be rendered as to whether the portfolio of business bang offered will be covered or not and on what terms. Thereafter, the Underwriting Unit will review the volume of shipments covered including comparison with projected activity, reassess the country and buyer risks, relate premium paid to projected levels when the policy was issued or renewed, evaluate the claims experience and comments on the policy holders conduct in declaring insurable business and paying premium. In addition, the Underwriting Unit review existing buyer credit limits and makes recommendation for renewal or change in the amount of terms, or cancellation.

VI. CLAIMS AND RECOVERIES UNDER THE ECI PROGRAM

Once the insurance policy is issued the exporter is required to submit his monthly declaration of shipments to monitor his performance under the policy.

Assuming that the foreign buyer fads to pay his obligation m due date, the exporter should file a Notice of Overdue Account (NOA) within 60o days from due date The submission of NOA is requested by COFACE because this is being factored in the credit information Network so that other exporters would be approved of the status of those buyers who fail to pay on due date.

If the exporter finds that running after the buyer for collection is really negative, he should then file a Request for Intervention (RI) and Notice of Claim within 120 days from due date. Again tills notice will be inputted in the Credit Information Network and this will adversely affect the credit that will be made available to the defaulted buyer. What follows after submission of the RI mid Notice of Claim is the waiting period. For claims amounting to US$30,000 and more, the waiting period is 5 months. For claims amounting to less than US$30,000, the waiting period is only 2 months. During this period, PHILGUARANTEE with COFACE will conduct an evaluation of the validity of the claim.

In case of the buyers' bankruptcy or insolvency, the exporter can immediately lay claim on the insurance subject to the submission of the necessary documents.

Upon determination that the claim is valid, PHILGUARANTEE shall immediately indemnify the exporter within 30 day's from end of the waiting period.

Once payment bas been made, PHILGUARANTEE will be subrogated to the right of the exporter against his foreign buyer. Any recovery made by PHILGUARANTEE by virtue of the subrogation is shared pari-passu with the exporter. However, expenses incurred will also be shared pari-passu.

VII. PROGRAM SUPPORT

A. ***Philguarantee/national Government***

The ECI Program is backed by the capital resources of PHILGUARANTEE. PHILGUARANTEE's charter (PD 1080) provides that all of its obligations are fully guaranteed by the National Government.

B. ***Partnership Agreement with COFACE***

PHILGUARANTEE has entered into a partnership agreement with COFACE of France. Upon signing of the Partnership Agreement with COFACE simultaneously with the launching of the program last January 1997, PHILGUARANTEE became a member of the Credit Alliance Network.

Credit Alliance is m intentional network of credit insurers in the framework of partnership agreement. The partners pool their expertise, systems and financial capacities to provide their clients with protection for their commercial debt throughout the world, providing high quality service at reduced costs.

The coverage of the services available m the Alliance are access to credit information, reinsurance and debt collection overseas.

a. Reinsurance Agreement

Any risk monitored and controlled by COFACE can be included in COFACE, reinsurance. This allows each member of the Credit Alliance to avail of the reinsurance conditions negotiated as a package deal based on supply of high premiums and regularly positive underwriting results.

b. Management Agreement

Through this agreement on-line access to COFACE, credit information database and underwriting system through computerized linkage is made possible Payment of fees depends on the location/country of the buyer file being requested. COFACE on its part constantly monitors and updates information and credit limits applicable on the buyer file requested.

C. ***Debt Collection***

As an added service to PHILGUARANTEE, COFACE shall make available its own debt collection services for claims filed against defaulting foreign buyers. PHILGUARANTEE may also avail of COFACES worldwide debt collection network, which involves a number of debt collection agencies and law firms in different parts of the world.

D. ***PHILGUARANTEE's Credit Information System***

The Comprehensive Credit Information System (OCIS) is the backbone of the ECI Program.

Internally, a foreign buyers directory is being developed. This system is envisioned to derive information on foreign buyers as gathered from various sources (e.g. trade organizations / associations, other government agencies specially those attached to the Department of Trade and Industry). This information classifies foreign buyers by source, country and product group.

The corporation has set-up a Local Area Network (LAN) to increase efficiency in processing and monitoring of exporter accounts.

VIII. OPERATING RESULTS

To date, PHLGUARANTEE, still has to issue its first policy under the Program. A lot of interest by way of inquiries has been generated through the marketing activity; and we are just awaiting the submission of requirement by the exporters to be able to come up with the proposals.

There are five BCI applications removed so far which are in different stages of processing. These applications cover an aggregate insurable amount of P338 Million or approximately US$12 Million.

PHLGUARANTEE expects to issue its first ECI policy m the next month or so.

Chapter IV

Trade and Investment Insurance System of Hong Kong

Hong Kong Export Credit Insurance Corporation

History

- Founded 1966 by the government of Hong Kong
- To foster emergence of Hong Kong as a world trader and producer
- To facilitate small enterprises entering export trade and protect against:
  - buyer bankruptcy
  - payment default
  - rejection of goods
  - war- 'political' payment blockages

INSURANCE POLICIES

- No. 1 - Comprehensive Shipments Policy
  - covers exports and re-exports from the date of shipment

  Also-covers Services.
  - Freight Forwarding
  - Advertising-
  - Testing and Inspection

- No. 2 - External Trade Shipments Policy
  - goods made <u>outside</u>, Hong Kong and delivered <u>direct</u> to buyers

- No. 3 -"Tallor-made" Facilities
  - sales to local buyer for export
  - country risk only

- capital goods on terms up to 5 years or more

Hong Kong Export Credit Insurance Corporation

- Wholly owned by the Government of Hong Kong
- Guarantees ECIC's contingent liabilities
  - current limit HK$ 7,500 million
  [US$ 1 Billion]

ECIC'S MISSION

- To encourage and support export trade through professional, customer-oriented services

- To develop a positive corporate culture devoted to excellence and quality

- Prompt, effective and comprehensive services to meet exporters' aspirations.

FINANCIAL RESULTS

(HK$ Million)

	1996/97	1995/96
Net Premium Income	81.3	74.66
Net Claims	42.65	29.94
Operating Expenses	54.43	51.48
Investment Income	29.42	33.95
Result for the Year	17.25	33.15

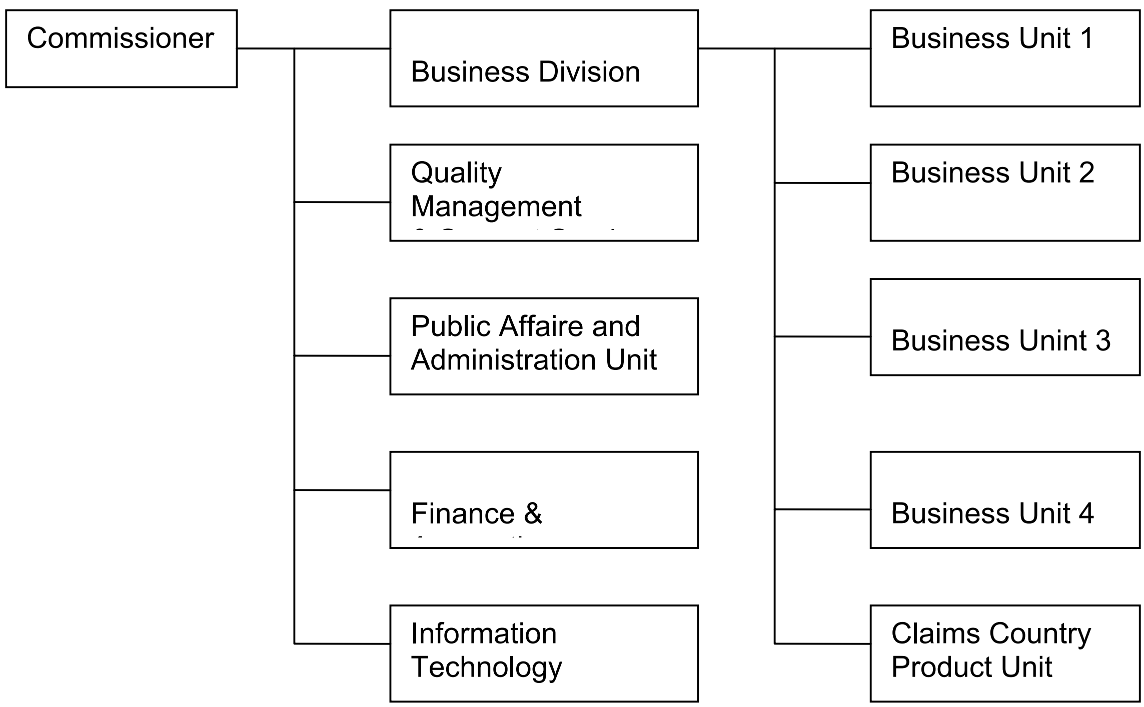
- 48% reduction in Annual surplus, due to
  higher claims, especially in Germany and Australia
  one large claim in China
- 14% increase in total business insured
  HK$ 20,11:3 million
  result of targeted marketing

Increases to Asia, Latin America

North America, Latin America

- The Commissioner is appointed by the Government

The organization



Business Result

- Comprehensive Shipments Policy
- provided 88% of total business
- Increased by 13

- U. S. A. absorbed 33% - HK$ 6,667 Million
- increased 26%,
- footwear, travel goods, electronics
- Claims HK$ 25,92 million [37%]

- U. K. took 17% - HK$ 3,400 million
- increased 11%
- footwear, travel goods, appliances
- Claims HK$ 4.06 million [6%]

- Germany imported 11%, HK$ 2,160 million
- 3% Increase; cameras, optical, home appliances, travel goods
- Claims HK$ 6.15 million [9%]

- Australia took HK$866 million - **4%** but created
- Claims of HK$ 5.76 million [8%]

Main Products Supported	
Clothing and Textiles	29%
Toys	12%
Plastic, Metal and Leather Goods	11%
Electronics	9%
Office Machinery and Stationery	8%
Others	31%

- Premium income HK$ 108.39 million

- Claims

Gross Claims (47% Increase)	81.44 million
Recoveries	5.7 million

Product Development, Promotion & Marketing

- First step has been to develop **a** responsive, focussed Organisation

- Four Business Units established, each with
- marketing
- underwriting
- risk management functions

- Means that one staff member can handle all client inquiries
  - more efficient
  - quicker
  - better communication

- Flatter Organization results in
  - smoother workf low
  - clearer definition of responsibilities
  - more direct communication
  - more initiative

- Targeting Prospective Clients
  - identify products with growth potential
    - garments, consumer electronics, componentry, PC & peripherals, watches and clocks, toys, gifts

- Liaison with Industry Trade Associations
  - Seminars organized
  - Specialized Databases-expanded -

- Similar strategy for Service Industries
  - Liaison with trade associations
  - for Freight Forwarding, Advertising,
  - Printing, Testing & Inspection.
  - Product development
  - Seminars held and Databases formed.

- Telemarketing used on a quarterly basis
  - followed up by quarterly visits

- Introduced Export Finance Insurance Policy for Banks since July 1996.

- Developed software to enable exporters to declare by diskette - to make their task easier

- Acquired software package f or underwriting straightforward applications - to speed processing and ensure consistency

- to maintain the highest quality standards sought ISO certification.

- Certified to meet IS09002 in 1994
- First ECA in the world with this.

Future Market Development

- Develop China as an insured market

- Provide new Comprehensive Policy Cover Policy for
  - exports
  - re-exports
  - third country trade

- Develop new Small Medium Industry Policy for companies with less than HK$50 million turnover.

- Simplify the Confirming House Cover Policy

- Intensify Staff Training

- Everything is directed at better client service, simplification, reduction of paperwork and the administrative burden on clients

INSURANCE TYPE AND FEATURES

COMPREHENSIVE SHIPMENTS POLICY

- Whole insurable Turnover
  - exporter must declare all exports 4& re-exports on DP, DA & OA terms
  - only exceptions are 'Ineligible buyers'

- Risks Covered

  * “buyer" risks
    - insolvency or bankruptcy
    - failure to pay
    - failure or refusal to accept delivery of contracted exports

  * "country” risks
    - foreign exchange blockage
    - import bans
    - canceled import licenses
    - payment moratorium
    - war, civil disturbance, natural disaster

POLICY FEATURES

- Timing
  - 12 months cover with automatic renewal
  - unless canceled with two months notice

- Credit Limits
  - each buyer is given a 'revolving' credit limit
- Obtaining Credit Limits
  - application timing very Important
  - must apply in good time
  - should supply as much buyer Information as possible

- priority service is available at a cost

- ECIC does not reveal reasons for credit refusals -

- observes strict confidentiality on all clients' business.

- Declarations

- must declare all exports and re-exports with payment terms
  - cash against documents or documents against payment [DP]
  - documents against acceptance [DA]
  - open account [OA]

  * must declare within 14 days of shipment date
    - or risk "no cover"
  * details required
    - buyer name; country & code no.
    - payment terms
    - gross value in currency of invoice shipment date
    - country of origin
    - brief description of goods/services

- Omission o f shipments will mean 'no cover" on the entire policy

Shipments must all be declared, but “over-limit” shipments only covered as earlier shipment payments received.

PREMIUM RATES

- Paid monthly biased on shipments

- Level depends on countries, terms, goods, business volume, spread of risks, claims experience

- A Premium Deposit is held for the life of the Policy

PLUS - an Annual Policy fee for policy servicing costs

- based on usage

- Paying Claims
- “event of loss” must be covered by the Policy
- exporter has compiled with policy terms and conditions
- contract of sale has been properly executed

- Waiting Period
- Insolvency / bankruptcy paid as soon as possible
- protracted default 4 months after due date
- repudiation: 1 month after re-sale
- Transfer delays: 4 months after due date or of payment in buyer's own currency
- all others; 4 months after the “event”

RECOVERY ACTION

- joint responsibility but ECIC can take full charge

- Comprehensive Contracts Policy
- For general consumer merchandise, but effective from the date of contract
- Covers pre and post shipment risk

- External Trade Shipments Policy
- For exports and re-exports of consumer merchandise mainly from China, Macau to Western Europe, United States and the developed markets
- Exports of non-Hong Kong origin goods from outside to a foreign buyer where the trader / policy holder is in Hong Kong

OTHER POLICY

Confirming House Policy

Confirming house pays the exporter on
shipment and grants credit terms to the overseas buyer

- Comprehensive Services Policy
  - covers services rendered to overseas clients
  - ship repairs, conversions, aircraft maintenance,
  - engineering, architecture, consultancy, advertising, etc,

- Extended Term Policy –for consumer durable and light machinery, agricultural machinery, yachts, truck, etc.
  - effective form date of shipment
  - credit form 181 days to 2 years
- Specific Shipments Policy - capital goods and production equipment, ships,
  - oil rigs heavy equipment and machinery, cranes, etc.
  - effective for a specific shipment from date of shipment
- Specific Contracts Policy
  - As above nut with risk commencing
  - At date of contract
  - as above but effective from date of contract
- Specific Services Policy
  - covers exports of services which involve medium/long term credit
  - effective for a specific contract

POLICY UNDERWRITING

- Task to determine whether the export transaction is acceptable.

- If it is, determine the basic terms and conditions

1. The Proposal - supported by sufficient information to make a judgment on its acceptability

2. The Proposer - must be in business in Hong Kong
   - bona fides very important
   - is his outlook long term?
3. What volume and spread of business is expected?
   - certain products are more risky - staples are safest
4. Exporter's experience and financial situation
   - strong, stable businesses attract better buyers, lower costs, less disputes.
   - In all cases exporter experience and business connections are important
5. Financial Statements seriously needed
   - but often hard to get
   - his bank's attitude is the best indicator - try to establish the details
   - credit control system - as shown by overdues and bad debts a key signal

- Within a reasonable time the Underwriter must issue a quote or decline business - as politely as possible - with suggestions to make the business acceptable
- On accepting the quote the exporter must nominate the 'policy holder' and pay the fees.
  - copies of the Policies and the Policyholders Manual are then issued

POLICY RENEWAL

- Policies are normally allowed to automatically renew after twelve months unless
  - exporter is careless or dishonest

- falls to declare shipments, report recoveries
- has poor claims experience
- makes no declaration for two years

- To terminate ECIC must give two months notice
    - but only in case of serious problems
- Maximum Cover Liability
    - normally 1/3rd of estimated turnover
    - but not less than biggest shipment or $500,000

- Discretionary Credit Limit
    - allows exporter discretion
    - permitted when exporter understands proper use of facility
    - up to a limit for each buyer

- Premium Deposit
    - approximately 1/12th of annual premium
    - with upper and lower limits

- Policy Fee
    - initially depends on the no. of-buyers
    - on **renewal** the no. of credit applications

PREMIUM RATES

- Matrix of factors
    - country grading
    - payments: DP; [DA - OA]
    - term - 60, 1 2-0, 1 80 days

- Adjusted initially for
    - spread of business [how many "A" markets]
    - type of goods, volume of exports
    - 'client experience and competence
- Re-adjusted after one year's experience
    - good performers receive rebates
    - poor performance can lead to reduced cover, higher premiums, or cancellation

BUYER UNDERWRITING

- Underwriter operates under constraints
    - time pressure
    - available information may be limited
    - even good information may be out of date

- Underwriting is a mixture of science and art
    - depends on feelings, educated by information and experience

- The Underwriter must decide!

- The approach must be as systematic as possible
    1. Is the product viable in the intended market?
        - what are market trends?
        - is obsolescence a problem?
        - is the exporter experienced?
    2. Seek very specific details on the exporter
        - request exact details needed, especially
        - creditworthiness - with history
- Enterprises and markets have many variations

- underwriter must assess them all
- and make a decision on time!

COUNTRY UNDERWRITING

- Exclusive responsibility of the ECIC Commissioner
  - advised by senior group

- Basis is annual review of country economic and financial status
  - supplemented by Berne Union

  on payments experience twice yearly

- Sudden events and disasters require immediate reactions and adjustments of cover for future shipments

- Country gradings are A,B, C, D and "off-cover"

- Country limits can also be imposed in response to circumstances, either singly or for groups.

- Three broad categories of country limit
  - continuing growth
  - existing levels maintained but *no growth*
  - reducing levels of commitments

CLAIMS AND RECOVERIES

- When Payment Difficulties appear
  - minimize loss as quickly as possible

- protect the validity of the unpaid debt
- clarify the situation with the exporter
- if a breach of policy detected client must be informed

- Policy obliges the policy holder to minimize loss
  - must take all practical steps
  - notify ECIC Immediately when appropriate
  - after a delay of two months notify ECIC within 3 days

- ECIC cannot force the client to -act but may decline to pay a claim if his action - or inaction –has jeopardized ECIC's position

- ECIC must carry out a *MOST CAREFUL*- fact-finding
  - reasons for the claim
  - exact details of the non-payment
  - whether the policy covers the shipment
  - whether new orders are in hand
  - whether the goods are perishable or fashion change prone.
  - what is the country situation
  - is the client's bank involved
  - is that buyer status report up to date
  - what action has the client taken
  - what have others experienced with buyer

- After weighing this evidence ECIC must opt to seek more information, or urge exporter to follow the appropriate procedures for
  - insolvency
  - default
  - repudiation
  - transfer delay
  - import restrictions, cancelled import licenses , war,

- Insolvency
  - Is buyer clearly insolvent? Who is the receiver or liquidator?
  - register the debts with him

- ask the clients to protest bills for nonpayment/non-acceptance
- recover the goods not accepted or delivered
- consider local action/presence, by appointing
- representative/staff visit as appropriate

- Default
  - protest bills as above
  - seek rescheduled payments
  - enlist debt collectors
  - if necessary ask local legal advice
  - have client complain to Chamber of Commerce
  - enlist agent and bank to exert pressure
  - if necessary ask for-legal action

- Contractual Disputes
  - alleged that goods not up to specification
  - alleged arrived too late, too soon

- ECIC will not pay claim until dispute procedures exhausted
  - but pressure to pay likely from client and his bank

  ECICs Role - seek negotiation by the client
  - press for arbitration if available
  - If not, proceed to litigation [costs to client unless ECIC requested - then shared)
  - Meanwhile form opinion on whether buyer is at fault – evaluate whether it would be best to pay claim

Chapter VI

Trade and Investment Insurance System of P.R. China

1. Brief Review of the History of Trade & Investment Insurance in China

The present international market is full of intense competition. To increase tile competitiveness of exports, encourage export and foreign investment, stimulate the domestic employment and promote tile economic development, most countries make use of the Officially Supported Export Credit System. China is no exception.

The Trade & Investment Insurance, as an international custom to promote exports, was developed gradually in China with the establishment of tile Market Economic System. Generally speaking, it underwent three phases:

Phase 1. Starting from the late 1970s', China began to reform the economic system and adopt an open door policy. To solve the contradiction of economic development and shortage of funds, China began to make use of export credits extended by the foreign countries to import the badly-needed advanced technology and equipment while attracting the foreign investment in big volume. This was proved quite successful and efficient. During this time, it was also realized that China should provide its own export credit to encourage Chinese export to earn more foreign exchange so as to hasten the steps of its reform and modernization. Then at the beginning or 1980s, Chinese government instructed Bank of China to initiate its own export supplier credit This was a medium and long-term RMB loan facility with preferential interest rate, which is mainly used to encourage export of capital goods. This showed that China had made its first step to the establishment of its own export credit system.

Phase 2: With the expansion of export and supplier credit, people had come to realize that it was not enough to provide merely low interest rate credit. In order to promote export, there was also a need of export credit insurance. At the beginning of conducting supplier credit, insurance was not considered. As a matter of fact, exporters who were financing by supplier credit were obliged to repay the principle and interest according to the loan agreements, no matter whether they could receive the payment from the buyer. That means it was the exporter who undertook the risk of nonpayment. That became an obstacle to the further development of export. After a period of probing and practice, China became aware of the need to set up a system of export credit insurance. The People's Insurance Company of China (PICC) at that time, which was the only insurance company in China, was entrusted by the government to start writing export credit insurance as from Jan. 1, 1989. In the following years, short term export credit insurance was introduced throughout the country. The government took measures to support the operation of export credit insurance and granted many preferential policies, such as exemption from premium tax and provision of funds. The introduction of export credit insurance symbolized that China's export credit system was standing on the two legs, ie., finance and insurance although they were not coordinating very well at that time. However,it was possible for the Chinese exporters to be protected against non-payment risks through their paying of premium.

Phase 3: In 1992, after the government adopted the multi market of export strategy and Bank of China started buyer credit financing, export credit insurance was paid more and more attention to. From its very beginning, buyer credit in China was incorporated with an insurance mechanism. Risks were born by the insurer and ultimately born by the government, and since then the Chinese exporters could enjoy a credit facility with no or limited recourse. For the purpose of the formation of the socialist market system, the government laid down the policy to separate policy-oriented financial activities from commercial financial business. It simultaneously announced the commercialization of the four specialized state banks and the founding of three policy banks. China Eximbank is one of the three.

2. The present situation of China's trade and investment insurance

1. Through nearly 10 years of development, China has made rapid progress in the trade and investment insurance. According to statistics, 33 branches of PICC are now writing export credit insurance. In 1989, the insured amount of PICC was only 100 million US$. 1994 saw 1.4 billion US$ insured amount. In 1996, PICC underwrote a total of US$ 1.08 billion, of which US$ 0.71 billion was short term credit insurance, US$0.37 billion was medium-long term credit insurance. In addition to that, China Exim Bank in 1996 underwrote US$0.6 billion, 275% increase over 1995, and had a premium income of US$6.5 million, 206% increase over 1995. At present, the export credit insurance has been carried out throughout the country and has become a vital tool to encourage export.

2. Improvement has been made in regulations, techniques and the variety of covers increased. The main covers include short term comprehensive export credit insurance, short term specific export credit insurance, medium and long term (deferred payment contract) insurance, contract frustration insurance, buyer credit insurance (guarantee), export bill insurance, overseas investment insurance etc. Also, the markets covered widened with the implementation of the multi-market strategy. At the same time to consolidate the markets in Europe, the United States, Japan and Southeast Asia, we have begun to expand our businesses to East Europe, the Middle East, Latin America and Africa. In addition, in line with the actual situation of export development, more and more products are covered besides machinery and electronic goods.

3. We strengthened cooperation with ECAS, private insurers and brokers all over the world. From the outset, the Chinese export credit agencies received assistance and learned a lot from them. Bilateral visits and exchanging of expertise have occurred. The agencies which helped us and provided training to us include ECGD, COFACE, US Exim Bank, EDC, EID/MITI, JITO, ECIC, KEIC, etc. In 1996, PICC joined Berne Union and became an observer. In accordance with the government's arrangement, the export credit insurers in China should enjoy a common membership and joint participation and share in rights and obligation in Berne Union meetings and activities

APEC -Trade and Investment Insurance Training Program is a grand event of cooperation between China and the world.

3. Institutional Framework and Organizational Set Up

At present, there are two organizations underwriting trade and investment insurance, China Exim Bank and PICC Property. The latter began to write export credit insurance earlier than the former.

In 1994, with the deepening of financial system reform, China began to separate the policy financial business from the commercial activities. Under such circumstances, China Eximbank was set up, with a registered capital of RMB 3.3 8 billion appropriated from the state treasury. It carries out the state industrial and foreign trade policy, provides the financial policy for the export of machinery and electronic products and complete sets of equipment. It adopts much experience from the international custom. The Board of Directors, responsible for all the activities, is just like an Inter-Ministerial Committee. It is composed of the principle ministries such as the Ministry of Foreign Trade and Economic Cooperation the State Economic and Trade commission, the Ministry of Finance, the State Planning Commission, the Ministry of Electronics Industry, Bank of China, the State Commission of Science, Technology and Industry for National Defense.

The establishment of China Exim Bank marks the termination of a history that China had no special export credit agency, a step forward towards the system of internationalized export credit support and an establishment for the improvement of Chinese export credit insurance. At present it has four functions:

1) Export finance. This includes both buyer credit and supplier credit. The former is in the currency of US Dollars while the latter both in US Dollars and RMB.

In 1996, it approved supplier credits to finance 156 projects totaling RMB12.83 billion and US$41 million, of which RMBIO.7 billion and US$27.1 million were disbursed. By the year end, the RMB loans outstanding were twice that of 1995. The Bank, also provided US$12.027 million in buyer's credit for two projects on a trial basis. The credits supported a total of US$4.3 billion worth of export with emphasis on high-tech and high value-added large mechanical and electronic products and complete sets of equipment. The loan structure was optimized and the credits were well used. The Bank contributed greatly to the nation's betterment of export composition.

2) Export credit insurance and guarantee. Insurance facilities include the short-term, medium and long-term export credit insurance. In 1996, there was a rapid growth in export credit insurance. 84 transactions were covered under export credit insurance with an insured amount totaling US$610 million, and 49 foreign exchange guarantees were issued amounting to US$320 million. The combination of export, finance and export credit insurance supplied good-quality service for the exporters and helped reduce the cost of finance. Yet, it must be noted that China Exim Bank was born in the reform of economy and financial system, and a certain period of time is needed to coordinate its relations with other agencies concerned. At present the export credit insurance system in China is still in a transitional period.

3) On lending foreign government's preferential loans to Chinese Enterprises In 1996, the Bank newly approved to on lend US$1.8 billion to 53 projects, and the outstanding reached US$15.534 billion. The number of foreign government loan providers increased from 8 countries and I bank of the previous year to 14 countries and I bank. The newly approved projects mainly focus on introducing advanced technologies and equipment so as to support infrastructural construction and improve investment environment.

4 Chinese Government's Concessional loans. Our bank firmly carried out the State Council's policy on the reform of China's foreign aid program. In the past this kind of loan was in the type of free grants, which was now changed to the present situation to cater for the foreign aid reform. It successively signed 9 agreements on Chinese government concessional loan projects including the Huake Automobile S.A. of Cote d'Ivoire in the amount of RMB850 million. Geographically, the projects are mainly located in the developing countries such as Sudan, Kenya, Botswana and Gabon, etc. The concessional loans involve the fields of oil exploration, forest felling, gold mining, fishery processing, automobile assembly, railway renovation, textile, pharmacy, etc.

4. Marketing and Products

Although as a policy-oriented bank, China Eximbank attaches much importance to marketing. As a new bank established only 3 years ago, some exporters even know little about us. Medias were used such as TV, newspaper etc. Seminars were often held with exporters to help them know more about export credit insurance.

In addition to that, frequent visits are indispensable. We often visit the potential policyholders and help them to be aware of their risks when trading with the foreign counterparts. After the policy has been issued, frequent visits become more important. Especially for the short term comprehensive insurance. We need to instruct the policyholer on the right procedures, how to apply for the credit limits, how to declare shipment, what to do with probable loss. This kind of exchange helps to create the friendly atmosphere and trust between the two parties. Sometimes, the insured can get more clients for the insurer. Some businesses are introduced by commercial banks who provide financing for the exporter.

The covers we can offer so far are the following:

1. Short Term Export Credit Insurance. It covers the exporter against the nonpayment risk including both the commercial and political risks under the contract with credit term not exceeding 180 days, in special cases not more than I year. It's a cover on specific contract and the exported goods are limited to machinery and electronic products. It's often connected with supplier credit. That is, the financing bank, when the payment term is of non-LC , will often demand the exporter take out this insurance which will be used as a collateral of finance.
2. Short Term Comprehensive Export Credit Insurance. It is a multibuyer protection, which covers the exporter against the non-payment risk under the contracts which fall into the application of the policy. The products exported are not limited to machinery and electronic products, the consumer goods such as the textile, electrical items can also be covered. With this policy, the exporter can get the easy access to finance.

3. Medium-Long Term Deferred Payment Insurance. It is similar to the first category except the credit term is 1 year or more.

4. Overseas Investment Insurance It covers Chinese investors against the expropriation, war, restriction on transfer arising during the course of investment in the foreign countries.

5. Contract Frustration Insurance The main propose of this insurance is to provide pre-shipment cover. For high-value contract under which goods are not standard but specially made, the importer's frustration of contract before the shipment of goods will cause great losses to the exporter if he has input a lot of money during production period. For instance, it is applicable to shipbuilding contracts with progressive payment terms. Sometimes post-shipment risk is also covered.

6. Buyer Credit Insurance (guarantee) It covers the financing bank which provides the buyer credit to the foreign buyer or foreign bank against the non-repayment risk. The insured amount is I 00% of the principal and the accrued interest.

5. Underwriting technique

The underwriting procedure is composed of the three parts:

1) Policyholder risk underwriting.
Three aspects will be looked at:

Volume The potential policyholder's export volume, its markets, buyers etc.

Spread The composition of its main markets and buyers, business concentration etc.

Quality This includes its internal credit control, its past overdues etc.

According to the above factors, potential policyholers will be rated in different categories and different premium rates will be applicable to the corresponding policyholers respectively.

2) Commercial risk underwriting

Commercial risk is the one involving the buyer itself. Before we commit ourselves to underwrite, it is very important to have the information about the buyer such as the starting year, past business experience, capital, sales and other main financial information. Generally speaking, we will look at the following aspects on the buyer:

- History When the buyer started to do business, its payment record.
- Financial standing. Such as the registered and paid-up capital, sales, profit. Important ratios such as quick ratio, current ratio, debt ratio will be calculated in order to help analysis.
- Business management, such as business experience of the directors , their personal history
- Market trend of the product. Whether the product is going to be out of date or vs it traditional one.
- Development trend. Is the buyer going up or down? This is quite important to make credit decisions.
- Based upon above, the underwriting decisions will be made as to whether to cover, if yes, how much our commitment will be, the percentage of indemnification and special terms and conditions.
- After issuing of the policy and credit limit, we will keep a close watch on the progressof the buyer. In case of any negative change we will inform the exporter and amend the policy terms and conditions.

3) Country Risk Underwriting

The following aspects will be looked at:

- The political and social situation of the subject country, such as political stability, policy longevity, ability to implement policy, social order.
- The economic situation of the country, such as GNP amount, economic growth rate, inflation rate, unemployment rate, fiscal deficit, balance of payment, foreign currency reserves, its dependency on the international economy, etc.
- International relationship. Such as the relationship with the international organizations, with its neighboring countries, esp. with China, whether there is a possibility of war.
- Different countries are rated by 4 categories according to above factors. For medium and long term insurance we have 8 country categories. This will be adjusted regularly once a year and subject to change upon occurrence of emergency.

6. Claims and recoveries

Until now, the claims lodged with us have been very little.So we are not quite experienced in this area.

7. Support system

Information

Information is very important to export credit insurance underwriting. To have a quick access to information an on line D & B information service is needed. Most of the buyers' information can be obtained in seconds. We also have business relationship with other status agencies in different countries.

For the country information, we often accumulate the important information from the newspaper and other public media. The Ministry of Foreign Trade and Economic Cooperation and Chinese embassies in foreign countries are also important resources of information.

Reinsurance

It is not easy for a national program to be supported by private reinsurance market at an acceptable cost. So far our insurance exposure does not have any reinsurance

From the above, you can see that we have made a lot of achievements. Yet we still face some problems. It can be noted that the need for trade and investment insurance in China which is the world largest developing country is far from satisfied in view of its rapid economic development. The insurance volume only accounts for less than 2% of the total export, far behind the average of the world. The exporters insured accounts for 2.7% in number. There are a number of reasons behind that.

(1) Lack of insurance consciousness.

Due to historical reasons, most exporters in China are the state owned companies. Generally, people there tend to have little consciousness of the trade and investment insurance.

From 1949 to 1978'before the economic reform, China was under the centralized planning economy strictly controlled by the central government. All the losses of the enterprises were born by the state as a whole. The annual export-import plan was transferred to the Ministry of Foreign Trade through the state planning commission, and then to be divided into a few professional export-import corporations. The risks during the transition were born by the government and the foreign exchange earned by them could only be submitted to the government. Though facing a highly risky international market, the exporters did not feel exposed to it at all. It was the reform, which made the enterprises the real independent entities but history still has influence upon the present.

Comparatively commercial insurance including cargo insurance and life assurance have been recognized and accepted, but export credit insurance, as a brand new and very special insurance from other commercial insurance, doesn't become so popular. Many Chinese trading companies even have not heard of it. They often confuse it with other commercial insurance.

Some Chinese export & import companies think that it is not worthwhile to buy the export credit insurance. They believe the premium outgo will increase their cost of export and decrease their profit ultimately. They ignore the fact that should they get no payment, the loss will need to be reimbursed by more sales volume, which is more difficult in the present intense competitive market.

Thus, Chinese export credit insurers will have tough task of propaganda to make more people know about this special insurance.

(2) Lack of expertise of the export credit insurance.

The history of trade and investment insurance shows that it developed from the domestic credit insurance. Before export credit insurance came into being, there had been a lot of good preparations for it in terms of personnel, information, underwriting techniques etc. But it's different in China. China has never had domestic credit insurance. The sources it could learn from were the foreign counterparts and other related insurance such as cargo insurance. Compared with its foreign counterparts, China couldn't meet the demand. as it doesn't have the data base on enough foreign buyers, doesn't have the expertise.

Also, the trade and investment insurance is a policy business which should be financially backed by the government. To meet potential claims, the government should appropriate the special fund to cater for the demand. As China is not a rich country, the limited financial resource becomes a constraint of capacity to cover more risks and more markets especially in the large number of developing countries.

At the 14th session of the Chinese Communist Party, China put the social market economy as its reform aim, which demanded the framework of the social market economy, be set up at the end of this century. Under such system, the boundary between the state and enterprise's interest must be clarified. China is now further deepening its foreign trade system reform. When the enterprise can really become the principle of the market economy, that is, to be responsible for its own operation, and the capital fund system are set up, the interest between the state and the enterprise can be defined. This will generate the demand for the protection of the non-payment risk existing during the course of trading.

At present, there are several hundred million US dollars overdue accounts and losses suffered by exporters. This indicates that export credit insurance in China is still at an initial stage, on another hand, it shows there is a great potential of development. In the long run, it can be safely predicted that, trade and investment insurance in China has a brilliant future though China has a long way to go to catch up with the advanced level.
For that purpose we think the following problems should be solved:

1. Attach more importance to draft and promulgation of LAWS ON EXPORT CREDIT INSURANCE and EXPORT IMPORT BANK including ordinance and regulations, in order to clarify the relationships between export credit agencies and other government agencies concerned. These laws will spell out the legal status of the export credit agencies and lay down the basic policies of export credit.

2. Coordinate the relationship between export credit insurance and export credit finance; combine the two functions on the basis of government's industrial and foreign trade policies. To make export credit insurance the pre-condition of export credit finance.

3. Set up our own system of credit risks assessing. We are now too dependent on outside information agencies. We have not built up our own database. It is necessary for us to have

our specialized team to gather and collect all information including that from overseas embassies and to set up information network and data bank by using electronic technology. By doing so, we can have more reliable and more cost effective information in our decision making.

4. Train and cultivate personnel in this field. The shortage of specialized personnel in this field has been the bottleneck for the development of credit insurance. Two trainings we should pay attention to: to train exporters and enhance their risk consciousness by offering credit insurance courses. Secondly, to train our insurance staff We should stick to the principle of "GOING OUT AND INVITING HOME", strengthen exchanges with established export credit agencies through lectures, seminars and training programs, to learn from the outside world.

Ladies and gentlemen, this training program is unprecedented in such a wide and deep aspect. I hope, such program could be held more frequently which is certain to benefit the ever increasing demand of trade and investment insurance in the APEC regions.

Thank you very much.

Chapter VII

Trade and Investment Insurance System of Indonesia

CHAPTER VII

PART 1

EXPORT CREDIT INSURANCE SYSTEM IN INDONESIA

TABLE OF CONTENTS

EXPORT CREDIT INSURANCE SYSTEM IN INDONESIA

I. INTRODUCTION

ASEI is a state owned export insurance company entrusted with the mission of promoting growth of non oil-gas exports. To accomplish this mission, ASEI endeavors to provide high quality services to its clients.

As we approach the upcoming era of free trade, experts in international trade are urgently needed. ASEI has trained human resources to face this challenge by placing key personnel in international institutions in other countries to gain valuable experience and thus steadily improve ASEI's business performance.

II. A BRIEF HISTORY OF EXPORT CREDIT INSURANCE

In an effort to encourage the increase of non-oil and gas exports, in 1985 the government of the Republic of Indonesia establised PT. Asuransi Ekspor Indonesia (ASEI), a state owned company which provides Payment Insurance and Guarantee.

The export credit insurance program in Indonesia was proposed by a team from the Ministry of Trade in 1982.

The program was based on the consideration that export growth could be promoted by adopting various terms of payment prevailing in international trade practice, instead of limiting sights to L/C terms for Indonesian exporters.

The role of export credit insurance has become more important along with the growing export activities of small and medium scale exporters of non-traditional products to high risk export destination countries. The tougher competition and the changed world market patterns from seller's to buyer's market make such facilities even more important. In such condition credit payment terms are necessary to strengthen the competitive edge in order to win contracts.

In most developing countries each country has only one export credit insurance institution supported by the respective government, due to its specific characteristic i.e. high risk coverage, especially for political risk element.

III. INSTITUTIONAL FRAMEWORK AND ORGANIZATIONAL SET UP

Following the ordinary course of general insurance business practice in Indonesia, ASEI operations are made in line with the insurance principles and the prevailing government regulations.

III.1. ASEI STATUTES ARTICLE 3

Concerning its objectives and field of businesses, and the Ministry of Finance decision at the annual stockholder meeting on ASEI's budget and work plan of 1993, dated february, 1993 approving business development plan.

1. **OBJECTIVES:**

To suppport government policies and programs in national economic development in general, and in particular to expedite the smooth implementation of non-oil and gas export expansion program.

2. To achieve the above objectives, ASEI implements the following business activities:

a. Providing insurance coverage against the risks of foreign importer default in payment for goods and services exported by an Indonesian exporter.

b. Providing guarantee against the risks of payment default by an exporter / debtor who received export credit from a creditor / bank or other financial institution.

C. Carrying out other efforts in insurance or guarantee business to support national development programs in the non-oil & gas export.

3. Establishing business or such other profit making activities related to the aforementioned field of businesses.

4. Developing the existing business lines vertically as well as horizontally.

111.2. ORGANIZATION STRUCTURE

Organization Structure of ASEI can be seen in Annex A.

IV. TYPES, FEATURE TERMS AND CONDITIONS OF INSURANCE

IV.1. TYPES OF PRODUCTS AND SERVICES

All systems of export payment, including sight letters of credit, entail a certain amount of risk. Not all banks conform to international banking regulations, and on top of this there is always the risk of bank failure, or political instability in the nations where banks extending letters of credit are domiciled.

As well as having to rely on their own capabilities, exporters must take measure of the credibility of the importers they deal with. They must also have a firm grasp of the intricacies of international trade, the development trends of the commodities they trade in, the political and economic conditions of their country of export destinations and payment systems used in the importing countries.

ASEI, with a comprehensive line of services and facilities, is prepared to help minimize the possibility of loss due to default in payment. Products and Services include

1. **EXPORT CREDIT INSURANCE**

Covers the losses incurred by exporters, due to the failure to receive payment from foreign importers. This includes payment on their goods or services provided by Indonesian exporters. The types of policy s and services include

- Comprehensives shipment policy
- Comprehensives Contract Policy
- Political Risks Policy
- Letter of Credit Policy
- Consignment Policy
- Specific Contract Policy
- Specific Services Policy
- Bond Guarantee Policy
- Unconditional Guarantee Policy

2. EXPORT CREDIT GUARANTEE

Covers the losses incurred by the non-payment of export credit obtained by debtors from banks or other financial institutions.

3. FACTORING INSURANCE

Is extended to factoring companies, and covers the losses incurred when claims previously bought up by factoring companies go unpaid because of default by debtors.

4. CUSTOMS BOND

Is a tripartite agreement. First party (surety company or guarantor) provides a guarantee to the second party (principal or exporter-producer) for the benefit of third party / obligee / Bapeksta (Government Authority under the Ministry of Finance that facilitates import tax exemption, suspension or reimbursement).

The guarantee covers non-collectible risk of import tax, sub-charge (if any) and value added tax, that should be paid by the second party to the third party, as stipulated in the prevailing law and regulation.

Such risk is related to possibility that the second party is unable to pay his/her obligation related to the imported material used for export purpose that enjoy the import facility, due to production and / or export failure.

IV.2. FEATURES OF PRODUCTS AND SERVICES OF ASEI

ASEI products and services are developed to provide a wide range of benefits to its clients, among others, as follows :

I To provide protection for Exporter and/or Banks against commercial risks and/or political risks. Such risks are reflected in the possibility of loss resulted from the failure of credit repayment from Importer to Exporter, and/or from Exporter to creditor/Bank.

2. To accelerate fund mobilization by increasing the liquidity of Exporter and/or Banks through insurance coverage, indemnification payment, and/or Bank discounting, thereby guaranteeing the solid financial standing of the business.

3. To provide information ("Business Information Service") on importers, overseas banks, as well as updates on the economic and political conditions of trading counterpart countries, hence reducing the possible risks for the exporter.

4. To strengthen the competitive edge of Exporters and/or Banks by utilizing credit payment terms insured by ASEI which in turn facilitate penetration to new export markets.

5. To assist exporters in obtaining settlement of export receivables from overseas importer so that risks of export loss can be cut down.

6. To serve as catalyst in fund mobilization to support national economic development as well as maintain the results.

7. To support non-oil and gas export expansion programs the role of export credit insurance becomes more important along with the growing exports activities of small and medium scale exporters of non-traditional products to high risk export destination countries. The tougher competition and the change of world market pattern from seller's to buyer's market make such facilities even more important. in such a condition credit payment terms are necessary to strengthen the competitive edge in order to win purchase contracts.

V. PRODUCTS DEVELOPMENT, PROMOTION AND MARKETING

V.I. PRODUCTS DEVELOPMENT

ASEI performance in 1995 included an increase in liquidity from 225.73% in 1994 to
265.06% in 1995. The solvency ratio also rose from 256.12% in 1994 to 301.92% in 1995. Rentability also improved from 19.43% in 1994 to 21.35% in 1995. Other Financial Highlights can be seen in section Operating result in the last section.

In 1995, insured export commodities varied, ranging from primary commodities to manufactured goods in line with the structure of Indonesian exports. In 1985, only 14 Commodities were covered by export credit insurance. However, by 1995, export credit insurance was available for 82 commodities. The export commodities most commonly insured include fish, coffee, textiles, garments and plywood.

As we approach the upcoming era and in facing the current globalization / free trade era, Indonesian businessmen must improve their competitive edge, to accommodate the need for protection, we provide new products and services for future development include:

1. **COUNTER GUARANTEE OF BANK GUARANTEES**

Cover against the risk of the beneficiary drawing on a bank guarantee because of breach of contract by the applicant.

2. OVERSEAS INVESTMENT INSURANCE

This insurance is provided particularly for investment in foreign countries related to Indonesian export operations. Political risk insured in this insurance scheme consists of the possibility of investment nationalization by the host country government, and the implementation of tight foreign exchange control. Such insurance policy is provided for a maximum period of 20 years.

V.2. PROMOTION AND MARKETING

For promotion and marketing, ASEI has two branch offices in Surabaya and Medan and one head office in Jakarta. So with the ASEI's existence in a few places in Indonesia, ASEI hopes that it can be reached better and to cover all of Indonesia.

The marketing system in ASEI is also supported by marketing cooperation with other departments and institutions, government or private, that have branch offices in all areas of Indonesia, such as the Department of Trade and Industry, BPEN, DPE, Sucofindo, many Banks etc., so we expect that ASEI marketing can reach in all areas of Indonesia.

ASEI also has taken the standard procedure for promotion and marketing, such as marketing with telephone, letter, fax, direct visit, presentation to almost all institutions that relate to exporters, such as exporters, banks, and trade associations, etc.

ASEI also participates in many activities concerned with exports, such as seminars, workshops, trainings etc. whether as a trainer, speaker or through financial support**.** ASEI is also active in advertising the ASEI's products and Services in News papers, and any other advertising methods.

Consequently, we expect that our clients, users, business community and the general public will have knowledge and be familiar with ASEI's products and Services and they will avail themselves of ASEI products and services in the interest of promoting non-oil gas exports and national development.

VI. TERMS, CONDITIONS AND PROCEDURES OF INDONESIA EXPORT CREDIT INSURANCE

Since the issuance of Government Regulation No. 1/1 982 dated January 16,1982 export payment terms have been fundamentally broadened from either in cash or credit guaranteed by L/C (sight L/C, usance L/C) to various terms that are commonly used in international trade practice.

Each payment term bears different level of payment settlement risks. The risks are caused by among others, long credit maturity terms, complex requirements, time consuming administration procedures and difficulties to monitor respective importer activities abroad.

Therefore, it is a prerequisite for Exporters to understand more than merely their own capability. They should also be well informed about respective importer credit worthiness, international trade practices, trend of respective export products as well as economic and political situation of the payment origin or export destination country.

Considering the above conditions, ASEI offers Export Credit Insurance policies which cover various commercial and non-commercial risks. Those policies are directed toward the "whole turnover basis" i.e. all export transactions of the Exporter concerned should be insured in order to distribute the risks more evenly, which in turn lowers premium rates.

Export Credit Insurance policy is a confidential document not to be disclosed to other parties, even to Importer or Foreign Agent. Limited disclosures are only to policy holder, ASEI and Bank/Creditor of the policy holder. However, the Bank is obliged to treat the policy confidentially. Any breach of such conditions may cancel the exporter rights for indemnification.

VI.l. UNCOVERED RISKS.

The uncovered risks in export credit insurance are as follows:

I a loss caused by the exporter failure or negligence to comply with the terms and conditions of the export contract and / or exporter negligence to comply with the policy conditions.

2. a loss covered by the general insurance policies (marine cargo, fire, burglary, etc.).

3. a loss caused by the exporter concerned, the exporter's agent and / or the collecting bank's negligence.

4. a loss caused by the currency exchange rate fluctuation.

5. a loss not proven by any evidence.

6. a loss not supported by proper documents.

7. a loss arising from forged documents, or not in accordance with the evidence.

8. a loss in form of interest accumulation, resulting from the importer's payment delay.

9. a loss due to the export not being in accordance with the export contract.

10. a loss due to the export being delivered to an importer who has equity interest and / or managerial relationship with the exporter.

11. a loss which in fact could be prevented or limited by canceling shipment or not delivering merchandise to the importer, as the exporter is in fact proven to have information about the circumstances that would lead to loss prior to export shipment to the importer concerned.

VI.2. COVERED RISK.

The risks covered in export credit insurance consist of commercial and non-commercial risk.

1. **COMMERCIAL RISKS are as follows:**
   - an insolvency of the importer.
   - a failure to settle payment within 6 months after acceptance and approval of the goods shipped by the importer.
   - a failure or refusal of the importer to accept the goods shipped, and that such refusal is violating the contract, and that it is in fact not the fault of the exporter.

2. **NON COMMERCIAL RISKS are as follows:**

- a payment delay due to the transfer payment restriction to Indonesia.
- an implementation of an updated regulation on import payment that may create problems in currency transfer.
- a cancellation of legitimate import license.
- a war between Indonesia and the importer's country.
- a civil war, revolution or other social unrest in the importers country.
- a payment failure or rejection caused by other than the concerned importer's fault, subject that ASEI has approved that the concerned importer is guaranteed by its government.
- other incidents outside Indonesia beyond the exporter's or importer's ability to control and / or prevent.

VI.3. UNDERWRITING TECHNIQUES

To determine the performance of importer and country destination of export, our underwriting department analyses many variables that influence the risks of the transaction. Our underwriting department are primarily concerned with two main variables, Commercial and country risks management. Many variables influence both risks as follows:

1. COMMERCIAL RISK MANAGEMENT

Some variables that influence Commercial Risk Management are:

a. The age of importer company

b. The company director (management) capability or experience.

C. Experience in loan payment

d. The company working capital

e. The company condition whether loss or profit

f. The company Networth

g. The development / trend of the company / business

h. The risk of the life cycle commodity

i. The composition and the degree of the company borrowings

j. Negative information such as disputes, court actions or political issues.

k. The company performance compared with the average industry performance.

l. Importer's Sales Turn Over

m. The Importer Sale's Payment System

n. The nature of the goods

2. COUNTRY RISK MANAGEMENT

Some variable that influence Country Risk Management are:

a. Geographical factor

- Position / Place and geographic location
- Population
- Natural Resources

b. Social / political risks indicator

- Foreign Dispute
- Political terrorist activity
- Civil War
- Law and order issues
- Inadequate country economic planning
- Degree of corruption
- Bureaucracy
- Racial / Religious tension

C. Financial country indicator

- Rescheduling of the Foreign debt
- The delay in payment of Foreign loans
- Limitation of foreign exchange

d. Economical balance indicator

- Degree of inflation
- Debt Service Ratio
- Reserves / import (International Liquidity)
- Current Account
- GNP Growth

VI.4. INDEMNIFICATION

1. AMOUNT OF INDEMNIFICATION

Export credit insurance is a type of sharing coverage, whereas ASEI maximum indemnification is limited to 85 % of the real loss, at the maximum amount of the invoice, the policy holder is responsible for the rest. The purpose of this scheme is to encourage exporter to be prudent in selecting only reliable importers in concluding an export contract, and to keep making efforts to obtain recoveries from importer.

2. TIME OF INDEMNIFICATION

ASEI as the insurer should pay a certain amount of indemnification to exporter after the loss incurred is proven to fall within the covered risks. The indemnification time depends on the cause of loss such as follows

- Insolvency	- Immediately after insolvency
- Importer fail to pay for goods	- 6 months after due date of payment
- Importer refusal to accept good which have been exported	- 1 month after goods are resold or otherwise disposed of
- Other occurrences	- 4 months after occurrences

VI.5. CREDIT LIMIT

In a comprehensive shipment policy, the limit of coverage for each importer and or for each country is established based on a credit limit system. The credit limit is determined after considering the credibility of the importer, performance of exporter, type(s) of export commodity(ies), and the economic and political conditions of the, export destination or payment origin country.

The credit limit system has a distinctive role in the export credit insurance business activities due to the complexity of credit limit determination and the risk involved.

VI.6. THE PREMIUM

The rate of premium is determined by considering, among other factors, the importing country's trade pattern, market distribution, payment terms, as well as rating of the importing country. As an illustration, rate of premium for export under the L/C terms is lower than that of the Non-L/C terms. The premium rate of export to a sound country in terms of political and economic conditions will be lower than that of to a high risk country.

The premium rate is determined at the time of the issuance of the credit limit decision. As a general guideline, the premium rate for a certain period of time for a comprehensive shipment policy ranges from 0,2% to 4% of the gross export value (Invoices value).

VI.7. ASSIGNMENT

Exporter as export insurance policy holder can transfer the indemnity right to the bank or financial institution which is giving a discount on a Bill of Exchange against the exporter collecting from the importer on the shipment of goods which insurance has already been covered by ASEI, by signing a letter of authority to transfer indemnity right.

With the transfer of indemnity right the discounter of the Bill of Exchange should feel safe and the exporter will obtain funds, otherwise, he must wait for the due date of payment from the importer.

VI.8. RECOVERIES AND SUBROGATION.

ASEI's right for subrogation operates immediately after ASEI indemnifies a claim, based on the application for loss indemnification (STGR) submitted by the exporter concerned, and other ASEI information sources. The subrogation right is ASEI's right to a part of payment received by the exporter for any future payment made by the importer. ASEI's entitlement for the proportion of recovery is based on ASEI's share in the loss indemnification.

The subrogation is the exporter's debt to ASEI, therefore the exporter should always take necessary actions to obtain the unsettled export payment, even though the loss has been indemnified by ASEI. If necessary, the exporter should furnish ASEI with a power of attorney, authorizing ASEI to undertake neccesary actions.

VII. SUPPORT SYSTEMS

To accomodate the development of ASEI, to achieve its goal, to realize the benefits ASEI's product and services to its clients and to give customer satisfaction to its clients, ASEI have several Support Systems such as :

VII.1. MEMBERSHIP IN NATIONAL AND INTERNATIONAL ORGANIZATIONS

1. The Indonesia Insurance Council (DAI)
2. The Forum BUMN G-11
3. The Indonesian Chamber of commerce and industry (KADIN)
4. Berne Union
5. Regional Cooperation Group of Export Credit Insurance (South Asia)

VII.2. INTERNATIONAL NETWORK

For Indonesian exporters to evaluate the degree of both commercial and political risk regarding payments from export destinations, it is essential that they have access to data on trade developments in these countries.

As in any business subject to high risks, ASEI must have information regarding buyers and buyer's countries. One source is overseas government agencies such as the trade attaches at Indonesian embassies and Indonesian Trade Promotion Centers (ITPC). In addition, ASEI also uses highly reputable, private run information services with extensive international networks such as Dun and Bradstreet International, MECOS of Middle East etc.

In 1992, ASEI become a member of Berne Union, a London-based international export credit insurance company association, the association has 45 export credit insurance company members from 35 countries, One of the benefits of being a member of Berne Union is the convenient access to information held by other members.

Operations are supported by sophisticated technology such as EDI (Electronic Data Interchange). EDI allow ASEI to exchange information with other members of Berne Union, via the facilities of the Netherlands based DEXNET BV. Access to comprehensive, accurate information allows ASEI to advise as to levels of commercial or political risk prevalent in importing nations. This data purchase allows potential losses to be minimized.

VII.3. INFORMATION SERVICE

With the support of its technological infrastructure, the professional human resources of ASEI are able to provide comprehensive and accurate business information. Exporters can use this data to help anticipate risks, and minimize risks when planning business expansion. ASEI offers the following information:

1. **BUSINESS INFORMATION REPORT**

This contains background on companies, together with information on financial management, experience of payment, operations and other key matters

2. COUNTRY REPORTS

These documents systematically examine the political stability and economic conditions in given countries; key additional information with a bearing on exports is also included.

VII.4. TRAINING AND EDUCATIONAL SUPPORT

To anticipate challenges of the future, ASEI works ceaselessly to improve the professionalism and abilities of its human resources. ASEI understands that human resources are its most valuable asset.

ASEI's personnel skill and professionalism is enhanced through sending them for training to various educational institutions, both at home and abroad. Since training focusing on export insurance is not yet available in Indonesia, many personnel go abroad for education to countries such as South Korea, Australia, England and the Netherlands. Staff attend seminars and workshops on management, underwriting technique, claims and subrogation, computers and information technology in exports, and export credit coverage. These sessions are routinely provided by Berne union, and the Regional Cooperation Group of South Asia (RCG).

We also have other Support systems that help to achieve ASEI's goals such as Reinsurance, debt collection, lawyer (from local or foreign institution), etc.

VIII. OPERATING RESULT

With the hard work and dedication of ASEI's management, ASEI surpassed the 1995 annual work plan and budget. Net earning rose 40% or Rp. 113.959 billion to Rp. 48.347 billion, showing that ASEI's financial performance is in strong shape. More detail of operating result of ASEI can be seen in financial highlights as below:

FINANCIAL HIGHLIGHTS

(Million Rp.)

KETERANGAN	**1995**	**1994**
Total Coverage	3,638,428.00	4,679,167.00
Underwriting Income	31,690.00	31,881.00
Investment Income	37,783.00	34,903.00
Total Investment	297,721.00	286,018.00
Claims Payable	2,417.00	1,010.00
Current Assets	15,738.00	8,282.00
Currebt Liabilities	7,946.00	10,642.00
Claim Reserves	97,053.00	106,104.00
Total Equity	212,011.00	182,259.00
Corporate Tax	11,298.00	19,899.00
Net Income After Taxes	48,347.00	34,386.00

CHAPTER VII - Part 2

Export Financing and Export Promotion Program :

The Case of Indonesia

Content

1. BASIC CONCEPT OF EXPORT FINANCING

- Exports mean any economic transactions in the form of shipment of goods and supply of services to out side the border of the custom's territory.
- Export financing is one of the key element for supporting the success of export oriented industries.
- Export financing is available in a simple or direct form and in a more advance form.
- Export financing from Export Credit Agency (ECA) is one of the alternative that is more attractive to exporters because ECA can provide the comprehensive by exporters.

- The ECA is vital for exporting industries as well as for the whole economy especially to promote exports.

2. THE IMPORTANT ROLE OF AN EXPORT PROMOTON PROGRAM

- The external sector in Indonesia's economy plays a role as important as the domestic sector, which is consistent with the Indonesian open economy and free foreign exchange system.
- Export are the main source of the country's foreign exchange earning that are needed to maintain sustainable economic growth.
- Export promotion is vital to Indonesia's economy, especially to reduce the deficit on current account in the balance of payments.
- Export promotion has become a government commitment, which is implemented in joint efforts between ministries, both the monetary and real sectors, and private sectors (Chamber of Commerce, Business Association, and PT. ASEI)
- Joint-Efforts to promote exports among related institutions:

    - Trade facilitation
    - Joint Commission and Trade Mission
    - Implementation of EDI (Electronic Data Interchanger)
    - "Primaniyarta" awards
    - Banking Arrangement and Memorandum of Understanding
    - Export promotion for ***"Eksportir Tertentu"*** (priority exporters).
    - "Tim Khusus" (Dedicated Teams) to boost export

EKSPORTIR and KOMODITAS TERTENTU
(PRIORITY EXPORTER AND COMMODITIES)

PRIORITY EXPORTER:

Priority exporters are those exporters who have been granted a certificate by the Ministry of Industry and Trade after fulfilling requirement as defined by the related Ministry.
Such exporter will have special facility covering custom, taxation and banking facilities.

PRIORITY COMMODITIES:

As today, there are ten export commodities classified as priority commodities:

- Textile and textile product	- Footwear
- Wood and Rattan product	- Leather product
- Paper	- Processed food
- Vegetable oils	- Processed rubber
- Toys product	- Frozen fish and shrimp

3. THE ROLE OF BANK INDONESIA IN PROMOTING EXPORT

- **Financial Aspects**
  - **Post-shipment Rediscount Facility**

    Bank Indonesia provides a rediscount facility to " Eksportir Tertentu", as well as to ordinary exporters through banks, based on discount transactions between banks and those exporters which had already discounted their drafts to the banks.

  - **Pre-shipment Rediscount Facility**

    Bank Indonesia provides rediscount facility to "Eksportir Tertentu" through banks, based on discount transactions between banks and those exporters based on exporter's ***future*** export earnings.

  - **Local L/C Rediscount Facility**

    Bank Indonesia provides rediscount facility to *local suppliers* that supply goods and services to "Eksportir Tertentu" through banks, based on discount transactions between banks and those suppliers which had already discounted their drafts to the banks.

- **Swap and Forward Facility for "Eksportir Tertentu"**

imize risk of currency fluctuation for certain exporters, Bank Indonesia provides Swap and Forward Facilitation to those exporters. These facilities are given through banks, based on Swap and Froward transaction between banks and priority exporters.

- **Non Financial Aspects**

- Arrangement between the Central Banks in the form of Banking Arrangement and Memorandum of Understanding

as an umbrella for maintaining continuity of the payment transaction between the commercial banks by allowing central banks to recommend any relevant action if there is a dispute between the commercial banks of the two countries. The central banks, however, will not take over the payment risk of such transaction.

There are 13 arrangements signed since 1992:

-Iran	-Turkmenistan	-Bulgaria
-Russia	Hungary	-Kazakhstan
-Kyrgyzsatn	Pakistan	-Uzbekistan
-Czech Republic	Romania	-Argentina
-Slovakia		

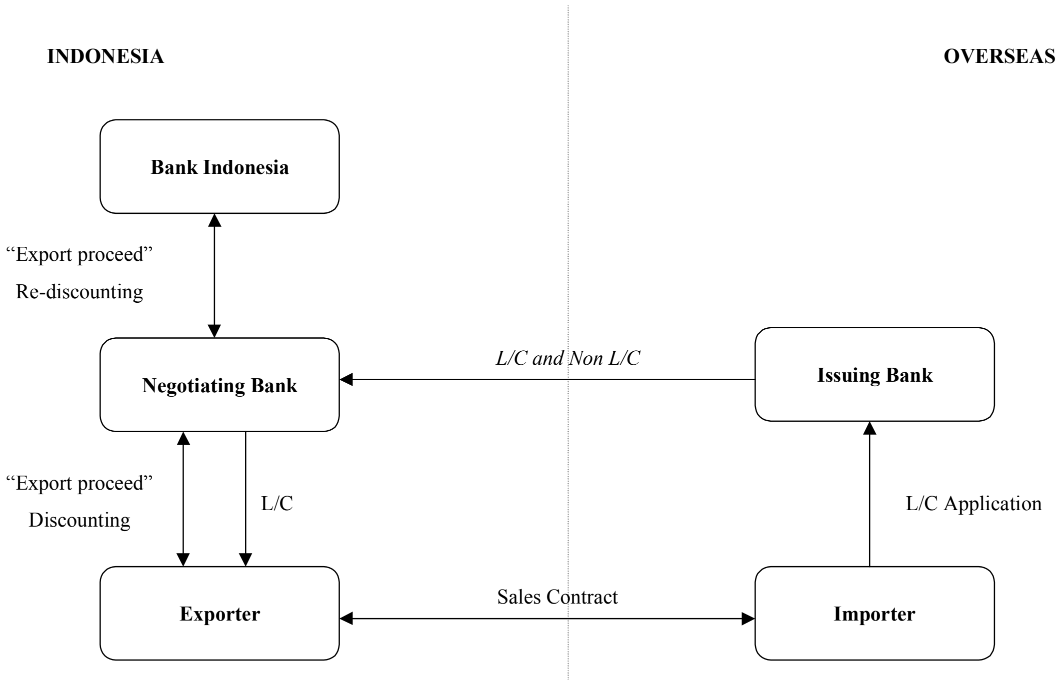
- *Linkage of Bank's Commercial Overseas Borrowing (COB) to t Export Credi.*

A bank provided with a COB ceiling is required to extend export credit at a minimum of 80% of the offshore borrowing disbursed to the bank during the current year.

- **Further Initiative For an Export Credit Agency**

To provide medium and long term finance necessary for exports of non-traditional products ie. Capital goods, with a competitive terms and conditions compared with those of commercial banks and other financial agencies which do provide "lending"

BANK INDONESIA'S REDISCOUNT FACILITY
(POST-SHIPMENT BASIS)



REDISCOUNT FACILITY
(POST-SHIPMENT BASIS)

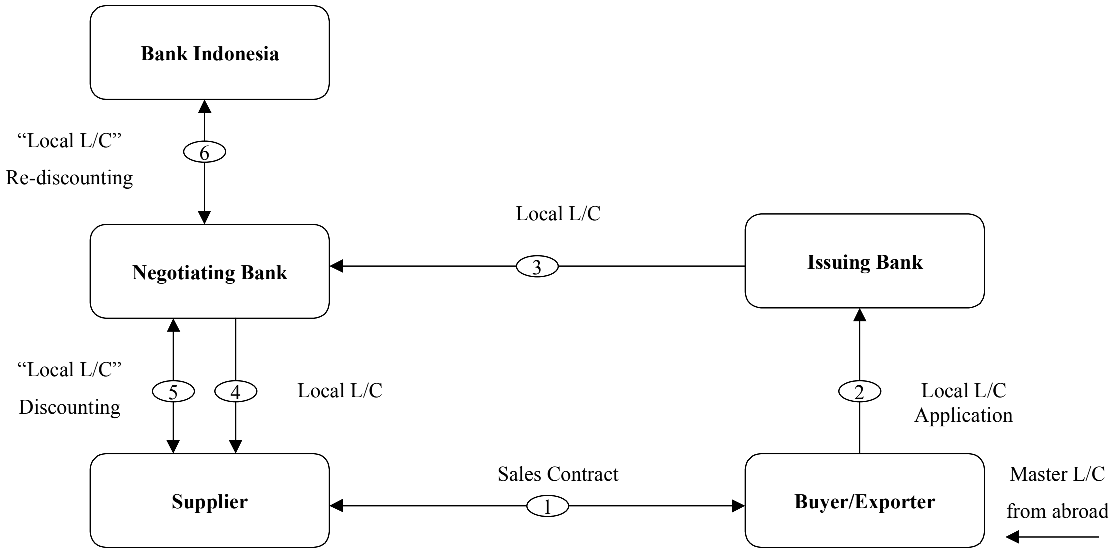
1. Priority exporters and ordinary exporters have Usance L/C from overseas or contracts on Non-L/C basis.
2. Bank asks Bank Indonesia for the facility, and submit document of copy of Export Declaration (PEB), copy of Credit Note to these exporters, and copy Certificate for Certain Exporter.
3. For disbursement of facility, banks submit the draft to the Bank Indonesia in which the value of the facility is equal to the bank's draft.
4. The maximum period of facility is 2 (two) years for certain exporters and 1 (one) year for ordinary exporter.
5. Discount rate is SIBOR* Flat for certain exporters and SIBOR+ 1% for ordinary exporter.

* SIBOR - Singapore Inter Bank Offer Rate

6. Currencies are available in USD and Ruphia.

Bank Indonesia's Rediscount Facility

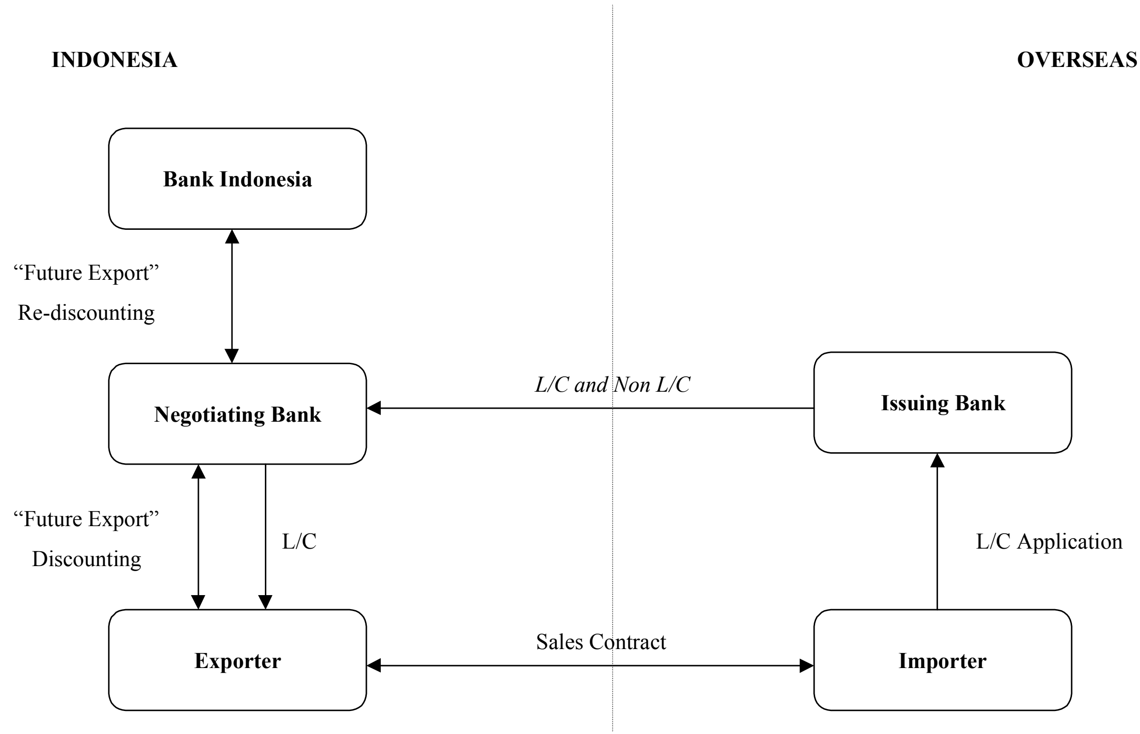
On Local L/C



REDISCOUNTING FACILITY ON LOCAL L/C

1. Both beneficiaries (supplier) and buyer (priority exporter) sign Sales Contract and agree to use Local L/C
2. Buyer applies for Local L/C
3. Opening Bank Local L/C
4. Negotiating Bank advice Local L/C to Supplier.
5. Supplier sends goods to buyer and discounts his draft to Negotiating Bank.
6. Negotiating Bank rediscounts his Draft to Bank Indonesia.

BANK INDONESIA'S REDISCOUNT FACILITY
(PRE-SHIPMENT BASIS)



REDISCOUNTING FACILITY
(PRE-SHIPMENT BASIS)

1. Priority exporters have a prospect of *future export earnings* within one year and confirmed by beneficiary/exporter's bank.
2. Banks ask Bank Indonesia for the facility, and submit documents of copy Sales Contract, and/or buying order, and/or copy L/C, and copy Certificate for Priority Exporter, and bank's recommendation for credit to exporters.
3. For disbursement of facility, banks submit the draft to Bank Indonesia in which the value is linked to the future export earnings of the exporters.
4. The maximum period of facility is one year.

5. Discount Rate is SIBOR Flat.
6. Currencies are available in USD and Rupiah.

BANK INDONESIA'S SWAP FACILITY

SWAP FACILITY:

1. Priority exporters, who have USD, deal with their banks for swap transaction ie. Sells USD buys Rupiah (spot) and buys USD sells Rupiah (forward)
2. Banks through RMDS (Reuters Monitor Dealing System) re-Swap to BI (Bank Indonesia) (10.00 am – 12.00 noon)

Requirements

a. Banks re-Swap to BI on the same day as the Swap transaction with Priority Exporters.

b. The maximum value of re-Swap has the same transaction with Priority Exporters.

c. The maximum period is 180 days and can be extended once.

d. The documents:

➪ Swap confirmation

➪ Copy transaction with Priority Exporters

➪ Copy of Certificate Priority Exporters that covers the Swap period

BANK INDONESIA'S FORWARD FACILITY

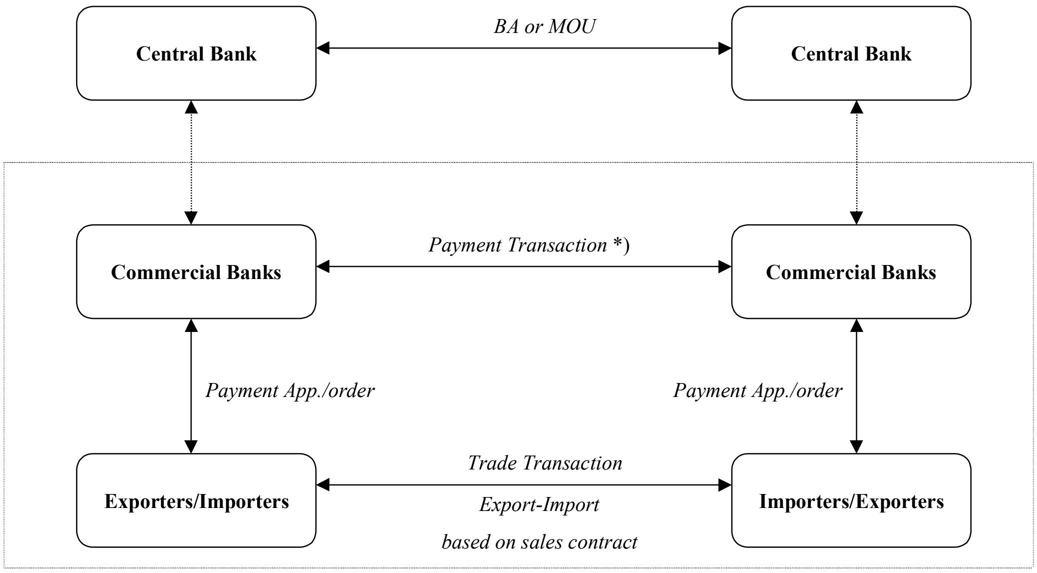
FORWARD FACILITY FOR "PRIORITY EXPORTERS"

1. Priority exporters, who need USD for their imports, deal with their bank for Forward transaction.
2. Bank through RMDS (Reuter Monitor Dealing System) re-Forward to BI(10.00 am – 12.00 noon)

Requirements

a. Banks re-forward on BI as the same day as the forward transaction with importers.
b. The maximum value of forward transaction has the same value as the import realisation.
c. The maximum period is 90 days and can be extended once.
d. The documents :
   ➪ Swap confirmation
   ➪ Copy of L/C or sales contract (for non L/C)
   ➪ Copy of Certificate of Priority Exporters that covers the forward transaction

BANKING ARRANGEMENT
OR
MEMORANDUM OF UNDERSTANDING



*) *If dispute arisen between commercial banks, the Central Banks agree to expedite advise for the solution of such dispute*

Banking Arrangement

- Purpose/function:

  As an umbrella for maintaining continuity of the payment transaction between the commercial banks by allowing central banks to recommend any relevant action if there is a dispute between the commercial banks of the two countries.

- Arrangement covers:

- Payment instrument : L/C or non-L/C
- Payment transaction done through commercial banks with respect to international banking practices and provision in respective countries.
- Using freely convertible currencies.
- Enhancing the establishment of an international banking correspondent between commercial banks of the two countries.

- Any dispute between commercial bank will be settled by the concerned commercial banks. Central banks could, however, recommend or advise any relevant solution for resolving a dispute arisen between the commercial banks.

4. THE ESTABLISHMENT OF AN EXPORT CREDIT AGENCY (A PROPOSAL)

- In the last two years, Indonesia's balance of payment (BOP) was characterised by higher (but still sustainable) current account deficit. The ratio of the current account deficit to GDP rose to 3.4% (95/96) and to 3.5% (96/97) compared to only 2.0% (94/95).
- The widening deficit was primarily attributed to weakening non-oil and gas exports on one side and the robust import growth and increased deficit on the service account.
- In the context of improving the BOP performance, by increase of export of non-traditional products, there will be a necessity to review and evolve a program to set up such as an Export Credit Agency.
- The Agency would facilitate medium and or long-term financing needed by exporters of, mainly, non-traditional products or export to prominent market such as emerging markets and the third world countries.

Chapter VIII

Trade and Investment Insurance System of Australia

Export Finance and Insurance Corporation – E.F.I.C.

- Banks and other infrastructure develop with business, but economic development may need some encouragement and support
- Export Credit Agencies exist to fill gaps in the national financial infrastructure
- Australia's history in international trade goes back to 1830, but EFIC only to 1956
- First major export was wool - still dominates world market - but sold for cash at auction
- Next the Gold Rush [1851], then wheat, meat and sugar - with corporate financings
- Australia united and formed on Jan, 1, 1900
  - continued to sell commodities and import everything, but manufacturing began
- Real change came post World War II
  - end of British Empire trade basis
  - immigration to Australia
  - rise of Japan trade for raw materials
  - growth of European Common Market
- Serious efforts to increase manufacturing
  - search for new markets for products
- Need for credit for small, medium exports to new markets

1956 - formation of EPIC, Export Payments and Insurance Corporation - A$6 million loan.
- provided payment insurance for short-term credits.

1961 - Australian Government introduced the National Interest Account for higher risk and very large credits.
- needed for large wheat sales

1965 - Overseas Investment Insurance Facility
- to support manufacturers forming joint ventures, etc., abroad

1971 - Buyer Credit Guarantee Facility
- to support capital goods exports
- Bougainville Copper mine supplies

1974 - Introduced direct lending for capital goods
- Reconstructed as **Export Finance & Insurance Corporation.**

1978 - Support for tender performance bonds

1983 - Empowered to lend foreign currencies

1986 - EFIC incorporated into AUSTRADE, began to Issue performance bonds

- big Increase In mining projects finance

1991 - EFIC re-established as separate Corporation

- equity capital, callable capital, reserves of A$ 350 million
- total business supported $4.8 billion

• EFIC now a full financial institution.

- In 25 years several roles established
    - support f or commodity trades
    - support for manufactured exports
    - short-term credit sales
    - overseas stocks
    - investment insurance
    - capital goods exports to projects
    - bonds for contractors, service industries
    - improving relationships with banks on support for capital investments, loans to projects, working capital guarantees, assigned insurance, bonds

• EFIC became finance leader for several massive mining projects in Papua New Guinea

- built on Bougainville experience, OK Tedi mines to provide Innovative seed capital Inputs, including loans to PNG for government equity, first investment co-insurance with Canada, direct loans on a line of credit basis, political risk guarantees to bank syndications.

• Also addressed the market for SME exporters

- intensified marketing, restructured management structure, raised staff training, re-wrote policies in simpler form, worked with banks to improve exporter's access to working capital.
- results promising.

1996 RESULTS

• Total exports supported $7.5 billion [+20%]

• Insured exports $6.5 billion [+1496]

• 50 bonds Issued for $140 million

• 12 overseas investments $223 million

- 79 working capital guarantees [+100%]
- strong growth in SME business.
  - 209 new SMEs
  - 87% of new clients
  - 60% manufacturers
- exports to 155 countries [from 135]
- Europe is largest insured market [44%]
- Asia is largest for finance facilities [77%]
  - 2nd largest for insurance
- 1996/96 surplus $12.6 million

EVENTS OF 1995/1996

- Financing and Cofinancing-financing of the billion dollar Lihir Gold Mine In Papua Now Guinea
  - ❖ Political risk cover to financing banks
    - $250 million capital
    - $120 million interest
  - ❖ Credit Insurance to exporting suppliers
  - ❖ Investment Insurance to Mining Contractors
- EFIC invested in ASEAN Credit Information Co with ECICS [Singapore], COFACE (France]
- Introduced improved Export Finance Guarantee Facility for banks funding capital goods exports.
- Introduced improved Information services
- Streamlined re-organisation

TYPES OF INSURANCE

- Export Credit Insurance Policy
  - ❖ goods shipped / services performed
    - can be selective, with price loading
    - must declare all shipments to an insured buyer
  - ❖ cover against all risks-["seamless"]
    - unless special circumstances
    - co-insurance

- ❖ Ancillary extensions used
  - indirect export cover
  - overseas stock cover
  - processing cover
  - external trade cover
- ❖ Unfair Calling of Bonds or Guarantees Insurance
- ❖ Confirming Bank Policy
  - covers against failure of issuing bank& political risk

- Overseas Investment Insurance

- covers against political risks

- Political Risk Insurance for capital goods finance by banks

INDEMNITY PAYMENTS

INSURED RISK	MAXIMUM	PAYMENT DATE
Insolvency	90%	Immediately
Payment delay	90%	4 mths after due date
Repudiation of contract	90%	1 mth after disporal
Exchange transfer delays	100%	4 mths after due date
War, civil war, import ban		
Diversions of voyage, etc.	100%	1 mth after due date or loss even

BOND SUPPORT

- Unfair Calling Insurance - 95%
- Bond indemnity/insurance to financiers

- up to 95% of cover

- "Unsecured' advance payment bonds

CAPITAL GOODS FINANCE

- Export Finance and Credit provided on competitive terms

- by direct lending
- by guaranteed loans from banks

- Observes terms of the OECD Understanding for official export credits

- 15% down payment

- OECD Credit Insurance Reference Rates [minimum] based on bond rate plus 100 basis points.
- maximum term of repayment depending on goods
- starting date for repayments.

- EFIC charges establishment fee, finance fee for exporter, commitment fee for undrawn funds, 6 monthly repayments,
- EFIC will also negotiate Irrevocable Letters of Credit for small amounts for exporters.

EFIC'S MISSION STATEMENT

"To increase Australia's exports.

To provide our clients internationally competitive insurance and finance services, particularly for countries, companies and contracts which the commercial market may not have the capacity to cover.

To extend EFIC's services as far as we can, consistent with preserving the financial viability essential to the Corporation's tang-term support for exporters "

COMMERCIAL FINANCIAL RETURNS 1995/96

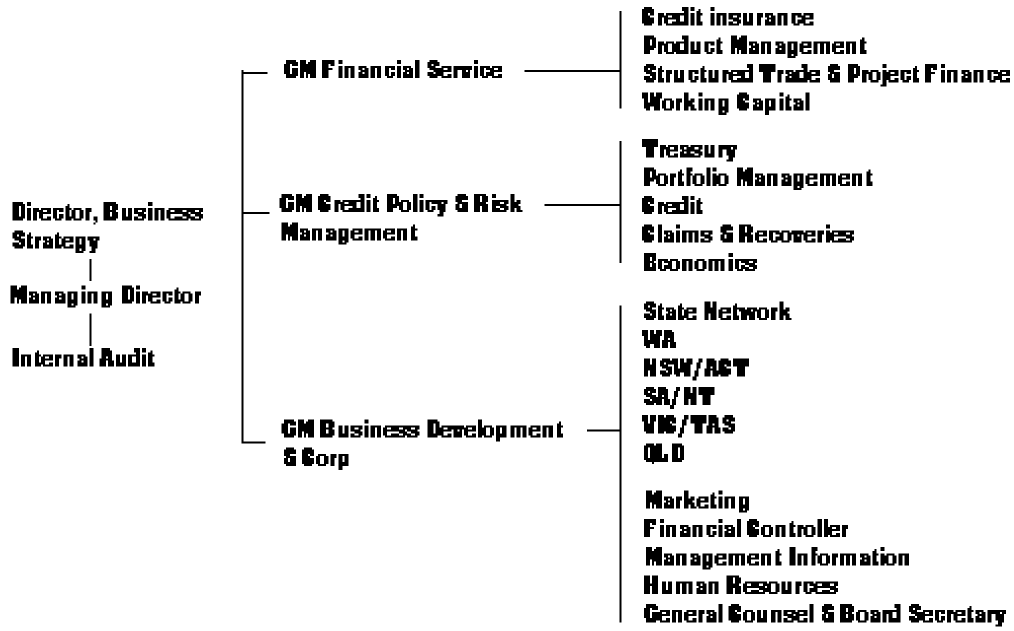
	$'000		
EXPORT BUSINESS SUPPORTED	6,903,155		
Operating income		43,616	
Investment Income		18,549	
Total Income		62,165	
Operating Expenditure			25,987
Insurance claims			10,030
Bad and doubtful debts			11,466
Provision for bonds & guarantees		2,117	
Total expenditure		49,600	
Surplus			12,565

RATIOS AND OTHER STATISTICS

Operating expenses to total income ratio	39%
Operating expenses to total receivables ratio	0.8%
Average staff numbers	185

Export business supported per employee [$000's]	37,314
Operating income per employee [$]	214
Operating expenses per employee [$]	112

ORGANISATION CHART



TRADE REVIEW

ASIA AT A GLANCE

30% of total exports supported by EFIC	$2,227 m
23% of credit insurance	$1,492 m
77% of medium term loans disbursed	$ 447 m
71% of new loans	$ 282 m
51% of bond support	$ 64 m
42% of working capital guarantees	$ 25 m
89% of overseas investment insurance	$ 199 m

South East Asia - Indonesia

- ❖ Largest borrower of capital goods finance
- \- Some is mixed credits [with aid funds]
- ❖ A$120 million - 49% of new loans

- telecommunications
- health & safety project

❖ Two Overseas Investment Policies

PHILIPPINES

❖ $49 million mixed credit loans

- for Manila traffic signal system
- Baguio water supply

❖ Credit Insurance

$112 million - 33% increase

- iron & steel
- dairy produce
- process foods

SINGAPORE

❖ Credit insurance up 12% to $135 million

❖ Ship sector loan

❖ Working Capital Guarantees

- telephones
- computer software
- process equipment
- glass re-inforced concrete

THAILAND

❖ Credit Insurance up 15% million to $79 m

- some small loans
- first capital goods guarantee for Chiang Mai mining

MALAYSIA

❖ Credit insurance down slightly to $125 m

- one loan for abttoir

VIETNAM

- ❖ Two new loans - one commercial account
- \- $66 million overseas investment insurance for telecom network

SOUTH ASIA - INDIA

- ❖ 3rd largest medium term borrower
- \- due to Pipawar Mine (1991)
- ❖ Credit Insurance $60 million
- \- 64% increase in wool

NORTH-EAST ASIA

CHINA

- ❖ Credit Insurance $196 million - up 7%
- \- iron & steel, base metals
- ❖ 15 new mixed credit loans - $83 million
- \- telecoms
- \- water treatment
- ❖ 5 manufacturing investments
- \- $10 m. overseas Investment Insurance

JAPAN

- ❖ Credit Insurance $213 million
- \- 7 working capital guarantees for exporters supplying Japan
- ❖ Most trade is not insured - strong buyers, Japanese trading companies, long-term contracts.

EUROPE

AT A GLANCE

39 % of total exports supported by EFIC	$2,935 m
44 % of credit insurance	$2,813 m
19 % of medium term loans disbursed	$ 111 m
19 % of new loans signed	$ 76 m

3 % of bond support	$	9 m
5 % of working capital guarantees	$	3 m

- Credit insurance grew 15% but with higher risks
  - coal, nickel, wool, wine, hides, skins
  - main risks In Italy, UK, Germany
- $70 million loans for very fast ferries

NORTH AMERICA

AT A GLANCE

16 % of total exports supported by EFIC	$ 1,173 m
17 % of credit insurance	$ 1,091 m
2 % of medium term loans disbursed	$ 11 m
8 % of new loans signed	$ 33 m
35 % of bond support	$ 43 m
46 % of working capital guarantees	$ 27 m

UNITED STATES OF AMERICA

- Credit Insurance for $832 million
  - iron & steel, nickel, wine
- Again the highest tally of insurance claims [35 for $4 m]
  - working capitol guarantees for manufacturers

MIDDLE EAST & NORTH AFRICA

AT A GLANCE

8 % of total exports supported by EFIC	$632 m
10 % of credit Insurance	$623 m
6 % of bond support	$ 8 m
4 % of working capital guarantee	$ 2 m

- 45% growth in insurance due to large wheat sales to Iran.
- working capital and bond support for contractors.

PAOUA NEW GUINEA, NEW ZEALAND AND THE PACIFIC ISLANDS

AT A GLANCE

5 % of total exports supported by EFIC $378 m

6 % of credit insurance $355 m

2 % of medium term loans disbursed $ 9 m

2 % of new loans signed $ 8 m

0.3 %of bond support $ 0.3 m

4 % of working capital guarantees $ 3 m

5 % of new overseas investrment insurance $ 11 m

- PNG has third largest EFIC exposure due to large mining projects

AFRICA

AT A GLANCE

2 % of total exports supported by EFIC $112 m

2 % of credit Insurance $ 99 m

0.2 % of bond support $ 0.2 m

6 % of new overseas investment insurance $ 13 m

EFIC - FUTURE DEVELOPMENT

- Market Research & Product Development
  - studying new markets devised by exporters
  - developing and selling appropriate products
  - conducts client satisfaction surveys
- New exporters and small and medium industries are a high priority
  - simplified policy being tested for small new exporters
- Increased emphasis on working with banks
  - Export Finance Guarantees
  - Working Capital Facilities
  - 79 guarantees this year
- Servicing the Service Sector
  - mainly services connected with the supply of goods
  - working closely with the Industry associations

PROVIDING CREDIT INSURANCE

- Proposal from exporter showing

- exporting experience
- credit management skill
- markets & buyers to be insured
- amounts of cover requested
- payment terms requested

ALSO- details of buyers they DON'T wish to cover

THEN

- face to face discussions
- to be effective cover must have
  - credit limit on bank or buyer
  - valid declaration on shipments
  - premiums paid
  - comply with all conditions
- Exporter must:
  - disclose all material information
  - show due care and diligence In making and fulfilling contracts
  - report all potential problems at the earliest opportunity
  - do nothing to jeopardise EFIC's position
- EFIC offers comprehensive cover
  - "all risks', seamless, etc.
  - selection of buyers to insure not encouraged
  - political risk only can be requested if

    a] associated buyer

    b] 'undoubted' buyer
- Credit Limits
  - a revolving limit which can be re-used as payments are made
  - exporters are given discretion on the level of sales up to 180 days to particular buyers
  - within rigid credit analysis condition
    - 3 trade references needed
    - 12 months good experience
- Exporters must inform EFIC of any association with buyer
- Requests for extensions of time to pay are the first sign of trouble
- Early action to minimise loss is vital for avoiding losses and making recoveries

- Claims examination is the time for serious study of each case

  if conditions have not been met the claim will be refused

PROMPT PAYMENT OF CLAIMS IS THE BASIS OF THE INSURANCE BUSINESS

<u>OPTIONAL POLICY COVERS</u>

- Pre-Shipment Cover
- from the time contract is agreed
- an 'event of loss' before shipment
  - bankruptcy of the buyer
  - political blockage
- two limits to payments
- costs actually incurred
- value of the contract
- External Trade Cover
- to complement local goods
- up to 25% of turnover
- Consignment Cover
- for overseas stockholding
- processing in storage
- sales form overseas stocks
- Indirect exports
- where two Australian firms make a transaction, but the goods are destined for export at the next stage

CAPITAL GOODS FINANCE

- Export Contracts for medium/long term
- for equipment for manufacturing, transport, communications, services which has a long working life
- minimum terms and conditions under the OECD "Understanding' - the Consensus
- For Smaller contracts "suppliers credit" is normal
- exporter sells directly on credit terms to the buyer
- sale is secured by documentary credits - 'negotiated' by EFIC which pays Cash to the exporter, or guarantees the sellers bank.

- For larger contracts “buyers credit” is more normal
  - based on a loan to the buyer from EFIC o r a bank guaranteed by EFIC,
  - bank loan can be guaranteed against all risks of just political risks, if the bank is willing to take the commercial risk itself.
- For large projects more diverse structures are developed - often in partnership with other country ECAS, International Financial Institutions (MIGA, IBRD, ADB, IFC, etc.)
- In ‘Project Finance’ several techniques can be used together to assemble the total financing required, e.g. in PNG
  - MISIMA ISLAND GOLD
  - PORGERA GOLD
  - KUTUBU OIL & GAS
  - LIHIR ISLAND GOLD
- These projects employed overseas investment insurance, credit Insurance, guarantees to bank syndications, direct lending, co-insurance and corporate funding.
- Major differences in medium/long, term financing from short-term credit insurance
  - much larger and longer credit exposure for the ECA
  - more complicated legal arrangements
  - innovative planning is needed
  - close co-ordination with sponsors, borrowers and other lenders/guarantors is required
  - similarities with bank corporate finance and close supervision is needed
- Previously much M/LT lending was government guaranteed
  - now greater emphasis on private sector and commercial viability
  - project, contract and buyer/contractor ‘due diligence’ now a critical part of risk management

EFIC has had an important role in financing PNG mines on a purely commercial private sector basis, although the government of PNG has been a minor shareholder in each project.

OVERSEAS INVESTMENT INSURANCE

- Developed to assist manufacturers establishing joint ventures abroad
  - insures investor equity and loans
  - has development aspect to foster Investment
  - has expanded with the growth of the private sector

- later provided cover for bank investments abroad
- cover has extended to provide political risk cover for bank loans to projects

- Investment insurance covers political risks only:

- loss by expropriation
- damage by war-like operations
- inability to transfer royalties, dividends or repatriate capital

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 Novemberof-1994. The Policy has now been in operation for 2years, 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.

Scope of Coverage	Rate of Indemnity	Time Frame for Payment of Claims
Commercial Risks:		
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
Political Risks:		
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 pro it
    - 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 (IJSD 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.