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Export Credit Insurance – a Comparison

by Dieter Stentzel, Hamburg *

Incessant growth of world trade and of overseas investments, and the shifts in their structure, are reflected in changes affecting international trade relations. The present article discusses the rising political and economic risks to which exports are exposed, and the consequent growth of demand for insuring export credits and direct investments.

The last decade in world trade has seen the emergence of a strong trend towards overall integration which produced, among other things, a more rapid growth of world trade in volume than in that of GNP. This overall expansion of goods exchanges also enforced structural changes: exports of capital goods, for example, rose much more rapidly than the average total of goods. In 1968, the share contributed by capital goods to overall world trade thus was about 30 p.c., against only 20 p.c. in 1955. And direct investment is already higher than the total export volume. Foreign production of multinationals registered in OECD countries totalled about US \$ 240 bn in 1966, whilst total exports of the same countries, at the same time, netted only some \$ 136 bn.

Changes in International Monetary Relations

These shifts in emphasis affecting both world trade and overseas investments inevitably also produced changes in international monetary relations. In line with the above-average growth rates of capital goods exports, there was an accelerating growth in the volume of export credits, accompanied, at the same time, by a progressive lengthening of repayment periods for credits used to finance big transactions in exporting capital goods. Statistical returns clearly show evidence for the rapid growth of export credits granted for the long term. The total of export credits granted for periods of more than five years in 1968 was eight times the corresponding sum in 1963.

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The causes for the rising importance of export credits are twofold: on the one hand, the world market is highly competitive, so that it has largely turned from a sellers' into a buyers' market, and at the same time, overseas importers have increased their demand for credit. Obviously, the largest demand for such credits is shown by importers resident in developing countries with a pronounced shortage of foreign currency holdings. Credits granted to industrialised countries and to the socialist countries are, in comparison, relatively small in volume, but also their volume tends to expand rapidly.

Table 1
Long-term Export Credits
(in p.c.)

Debtor countries	1963	1968
Developing countries	85	72
Industrialised countries	11	17
Socialist countries	4	11

Source: International Monetary Fund, Staff Papers, 1970, quoted according to R. Fry, "The Growing Burden of Export Credit", in *The Banker*, Vol. 71 (1971), p. 613.

Increasing Significance ...

Mounting credit totals as well as lengthening repayment periods impose a growing risk on exporters, since both political and economic factors may preclude the transfer of redemption payments. Political troubles also put overseas investments as such at great risk. These factors make it easily understandable why the volume of protection which is required for both export credits and direct investments is persistently growing.

The larger the volume of credits grows, the more massive becomes the weight of export credit insurance schemes, and a similar development obtains for overseas investment insurance arrangements. Both export credit and investment insurance have become decisive factors in the general development of international trade relations, which explains why these types of insurance are progressively attracting the attention of economic research and practical economics.

The International Export Credits Institute has prepared a thorough study containing a comprehensive survey of both the volume and the various forms of export credit and overseas investment insurance schemes¹. Its analysis by national insurance schemes is based on a careful re-statement of national statistical returns, so as to refer to a unified basis of comparison, which enhances the usefulness of the survey. The latest survey therefore offers a clear view of the changes that have come about in export credit insurance, as against the years of earlier reports of the Institute.

... of Export Credit Insurance

The growing importance of export credit insurance over the year is exemplified by a number of industrialised countries, because the study was able to quote insured percentage shares of their total exports in consecutive years.

Table 2
Shares of Insured Exports In Total Exports
of Selected Countries
(In p.c.)

Country	1965	1968
Japan	40 ¹	45
Federal Republic of Germany	7-10	7-10
United Kingdom	27	33
France	20.6	27.5
Netherlands	6.8	7.5

¹ Returns for 1966.

Source: International Export Credits Institute, Insurance Systems in International Finance — The World's Export Credit Insurance Systems and Foreign Guarantees Facilities. Sixth Revised and Enlarged Edition, New York 1970/1971.

The rising value of export credit insurance for foreign trade is further underlined by the fact that more and more developing countries have been setting up export credit insurance schemes in the last years.

In most of the developing countries, the share of insured exports in their total is still very low, on the one hand because they lack the necessary

experience, and on the other hand, because the demand for insurance cover is relatively weak, since their financial plight does not give them much scope for granting export credits, so that the risks of this kind in which they engage are not great.

Drawing comparisons between such shares in individual countries may also be otiose when the structure of their exports differs too much from one to the other: not all countries have comparably high export volumes which are financed by credits or carry a similarly high risk for other reasons. For example, Israel insured 12 p.c. of its total export trade but this was as much as 70 p.c. of its total "insurable", i.e. high risk-bearing, exports.

Different Types of Risk

The higher the importance of export credit insurance rises, the more does it change into a highly significant tool of government trade policies, and for this reason governments show a mounting interest in managing and controlling it. The forms of running its schemes and the type of state supervision, however, show great variety from one country to the next. In some countries, e.g. in Japan and Finland, export credit insurance underwriting is done by a division of a government ministry, in others, like Australia and India, state-owned corporations are running the business but operate as independently managed entities. A number of export credit insurance corporations, e.g. in Portugal, are of the mixed government/company ownership type, and others are the undivided property of private shareholders, as in Austria, France, and in the Federal Republic of Germany. But also these are contractually bound to act as agents for the government, which leads to government appointees having seats and decisive votes on their boards or management committees. There are a few exceptions to this rule — some purely private businesses underwrite export risks, but only purely commercial ones, and even these only up to a severely restricted ceiling. Such private insurers cannot in any way replace state-regulated insurance bodies — they only supplement their work.

In comparing various national schemes for underwriting export credit risks, we find that different states accept for underwriting different kinds of risks. Almost all governments will cover commercial risks, like debtors' bankruptcies, and political risks arising from wars, revolutions, the blocking of imports, as well as transfer restrictions. Some insurers underwrite wider commercial risks, which include the case of delayed repay-

¹ The International Export Credits Institute, Insurance Systems in International Finance — The World's Export Credit Insurance Systems and Foreign Guarantees Facilities. Sixth Revised and Enlarged Edition, New York 1970/71.

ments, and also political risks are defined sometimes more liberally. In the latter case, political risks may include arbitrary changes in foreign exchange rates, moratoria, prohibitions of exports by an exporting country, and strikes in importing ones. Rhodesia, South Africa and Taiwan, furthermore, also provide cover against boycott of their goods in foreign countries. In certain cases, Finland, France, Italy and Spain insure against the risk of mounting production costs on their own territory. Finland, France, India, Japan and Spain underwrite losses through extraordinary costs arising from opening up new markets. And Japan has established special cover for exporters who have to fear losses from sales from entrepôt stores on commission.

Since sales efforts will be attended by success in some markets only on condition that the supplier maintains costly distribution and service networks, and because some developing countries compel foreign suppliers to establish certain production processes on their own territory, many exporters who have to operate under such pressures desire to acquire insurance cover for the attendant risks. The study under review lists countries which provide such cover, and it names the conditions under which it is granted.

It is mainly industrialised countries which underwrite such risks (with the exception of Hungary and Israel, who also know such forms of insurance). This indicates that investors resident in developing countries are at a relative disadvantage, but for the above mentioned reasons, their demand for such cover is likely to be moderate or non-existent as yet.

Insurance Conditions

Insurance companies use their policies for "mixing" the risks they underwrite. Insurance policies may thus become an instrument for coercing exporters not only to insure against "bad" risks but at least part of their other, less risk-prone exports. The most effective form of insurance policy to ensure that an exporter buys cover for the broadest possible risks is the whole turnover policy, which provides risk cover for every kind of export business carried on by a given exporter for a given period, in most cases for one year. At the opposite end of the scale is the specific policy which covers only one kind of business transaction. Between the two extremes, there are many mixed-type policies, for example those which cover one or several export deliveries to one country only or to several named countries, and others which underwrite one or several transactions closed with one or several

named importers. Policies may also lay down whether they cover only one or several kinds of risks. In the latter case, the exporter will be compelled to buy a kind of risk cover, in which he has scant interest, in addition to the one he is seeking.

The report under review gives a survey on the offered policies of the listed countries, which reveals that different countries often display fundamental differences between the type of risk cover they offer.

Percentage of Cover ...

Another important feature determining the impact of insurance conditions is the percentage of cover to be carried by the exporters themselves. Its function is to compel exporters in cases of insured losses to bear a fixed part of their claims themselves, in order to prevent them from incurring frivolously high risks, and to keep them interested in actually carrying out the insured deal. The percentage of cover is usually not higher than 10-25 p.c. of any claim total. There appears to be a trend towards its abolition, i.e. providing 100 p.c. cover. Thus, the export credit insurance organisations in the US and the UK already offer, in selected cases, full cover for the entire sales price of given exports. On the other hand, insurers seek to limit their risks by mounting careful and exhaustive studies of credit conditions which pertain in foreign countries.

Another highly important feature of insurance conditions is the period during which credits are provided with cover. Since practically all banks enforce the insurance of medium and long term export credits, the maximum length of cover in time virtually determines also the terms (medium or long) of the credits so insured. The study discussed here informs its readers on these conditions as well, listing maximum lengths of cover offered for named types of export goods. The breakdown by classes of export goods, however, is very rough-and-ready in most cases, usually differentiating only between consumer goods, durable consumer goods, and capital goods. It would be well worthwhile to draw up lists of variations in insurance terms in greater detail. Some countries link the length of time for which export credit risks are underwritten by them to the size of the sales price so insured, and possibly also to the question whether the country to which delivery is made has ample or scant holdings of foreign currency with which to pay. It should be examined what importance is to be attached to these criteria when the period of the credit insurance is fixed.

Waiting periods are among the further insurance terms. A waiting period is the gap in time between non-payment for deliveries made and the disbursement of insured capital values. In comparing waiting periods stipulated by different insurers, no important differences in terms can be discovered.

... and Scale of Premiums

An essential feature of insurance terms is the height of insurance premiums. It is customary only to quote upper and lower limits, between which premiums may be varied according to type of country, type of customers, and other criteria. Comparisons between various countries and their premiums are well-nigh impossible, since only policies of the same type, similar cover periods and similar risks are strictly comparable, and in most of the known cases there is profound lack of such similarities.

Insurance premiums are not only an essential cost element for exporters, they also are a contributory factor determining profit margins of the insurance companies. Losses which occur with great regularity and are covered by the insuring government may be considered as a specialised type of export subsidy. But most governments have given up this type of export promotion, because in recent years export credit organisations have been able to operate with a profit.

The vast differences between individual insurance systems from one state to the next have caused some attempts to iron out these gaps, because interested parties usually pressurise their national governments to meet more favourable terms offered by other countries, whereupon some improvements are granted by the hard-pressed authorities. But governments, being reluctant to go always the whole way in conceding demands, have made attempts to come to agreements with other governments upon harmonising terms, so as to avoid an international competitive softening-up of cover terms. Some governments have been more eager than others to promote such harmonisation. It would be desirable for all the forthcoming editions of the study under review to include also a brief survey of aims and current successes of harmonisation moves.

Difficult Harmonisation

The most important "harmonising club" is the Union of Berne, set up in 1953, which prevented a rapid extension of insurance and credit periods. Also the EEC, OECD, GATT, and the United Nations have made attempts to foster harmonisation of credit insurance terms. Though certain progress in this field has been made, for example within the EEC, harmonisation has so far not been a great success, because self-interest of individual countries has proved to be too highly diversified for full harmonisation.

Monetary Crisis and Commodity Markets

by Heinz Kolbe, Hamburg *

The monetary policy discussion centering around the dollar and the economic policy measures of the US Administration have been causing great confusion in some of the world's commodity markets. The general uncertainty is likely to persist in the markets in 1972.

The basic trend in the world markets of industrial commodities in 1971 was marked by an unexpectedly moderate increase in the demand for raw materials in the western world and in part very large stocks (non-ferrous metals, rubber, wool) in the hands of producers and traders. Nevertheless the price slide which had first started in May 1970 was halted or at least slowed down in some markets by producers' support measures in the first few months of 1971. The

supplies of some non-ferrous metals were reduced quite appreciably by means of output cuts. Lead and zinc producers frequently intervened as buyers, and the Tin Pool manager made his first purchases. Special factors, like US stockpiling in anticipation of strikes in the non-ferrous metal and steel industries and in the ports on both coasts, even led to a slight advance of the price level for industrial raw materials in early 1971.

The intermittent dollar debate provoked much uncertainty in the markets, for the possibility of changes in the foreign exchange rates repre-

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