Chapter 8
Export Credit Insurance

Export credit insurance (ECI) protects an exporter of products and/or services against the risk of nonpayment by a foreign buyer. In other words, ECI significantly reduces the payment risks associated with doing business internationally by giving the exporter conditional assurance that payment will be made in the event that the foreign buyer is unable to pay. Simply put, with an ECI policy, exporters can protect their foreign receivables against a variety of risks, which could result in nonpayment by foreign buyers. The policy generally covers commercial risks—insolvency of the buyer, bankruptcy or protracted defaults (slow payment), and certain political risks—war, terrorism, riots, and revolution, as well as currency inconvertibility, expropriation, and changes in import or export regulations. The insurance is offered either on a single-buyer or portfolio multi-buyer basis for short-term (up to one year) and medium-term (one to five years) repayment periods.

Key Points

- ECI allows you to offer competitive open account terms to foreign buyers while minimizing the risk of nonpayment.
- Creditworthy buyers could default on payment due to circumstances beyond their control.
- With reduced nonpayment risk, you can increase your export sales, establish market share in emerging and developing countries, and compete more vigorously in the global market.
- With insured foreign account receivables, banks are more willing to increase your borrowing capacity and offer attractive financing terms.

CHARACTERISTICS OF EXPORT CREDIT INSURANCE

Applicability

Recommended for use in conjunction with open account terms and export working capital financing.

Risk

Exporters share the risk of the uncovered portion of the loss and their claims may be denied in case of non-compliance with requirements specified in the policy.

Pros

- Reduce the risk of nonpayment by foreign buyers
- Offer open account terms safely in the global market

Cons

- Cost of obtaining and maintaining an insurance policy
- Deductible—coverage is usually below 100 percent

Coverage

Short-term ECI, which provides 90 to 95 percent coverage against buyer payment defaults, typically covers (1) consumer goods, materials, and services up to 180 days, and (2) small capital goods, consumer durables and bulk commodities up to 360 days. Medium-term ECI, which provides 85 percent coverage of the net contract value, usually covers large capital equipment up to five years.

How Much Does It Cost?

Premiums are individually determined on the basis of risk factors such as country, buyer's creditworthiness, sales volume, seller's previous export experience, etc. Most multi-buyer policies cost less than 1 percent of insured sales while the prices of single-buyer policies vary widely due to presumed higher risk. However, the cost in most cases is significantly less than the fees charged for letters of credit. ECI, which is often incorporated into the