

Chapter 8

Export Credit Insurance

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

Key Points

- ECI allows exporters to offer competitive open account terms to foreign buyers while minimizing the risk of non-payment.
- Even creditworthy buyers could default on payment due to circumstances beyond their control.
- With reduced non-payment risk, exporters can increase export sales, establish market share in emerging and developing countries, and compete more vigorously in the global market.
- When foreign accounts receivables are insured, lenders are more willing to increase the exporter's borrowing capacity and to offer attractive financing terms.

Coverage

Short-term ECI, which provides 90 to 95 percent coverage against commercial and political risks that result in buyer payment defaults, typically covers (a) consumer goods, materials, and services up to 180 days, and (b) 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. ECI, which is often incorporated into the selling price, should be a proactive purchase exporters already have coverage before a customer becomes a problem.

Where Can I Get Export Credit Insurance?

ECI policies are offered by many private commercial risk insurance companies as well as the Ex-Im Bank, which is the government agency that assists in financing the export of U.S. goods and services to international markets. U.S. exporters are strongly encouraged to

CHARACTERISTICS OF EXPORT CREDIT INSURANCE

Applicability

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

Risk

Risk of uncovered portion of the loss shared by exporters, and their claims may be denied in case of non-compliance with requirements specified in the policy.

Pros

- Reduces the risk of non-payment by foreign buyers
- Offer open account terms safely in the global market

Cons

- Cost of obtaining and maintaining an insurance policy
- Risk sharing in the form of a deductible (coverage is usually below 100 percent)

shop for a good specialty insurance broker who can help them select the most cost-effective solution for their needs. Reputable, well-established companies that sell commercial ECI policies are easily found on the Internet. You may also buy ECI policies directly from Ex-Im Bank. In addition, a list of active insurance brokers registered with Ex-Im Bank is available at www.exim.gov or you can call 1-800-565-EXIM (3946) for more information.

Private-Sector Export Credit Insurance

- Premiums are individually determined on the basis of risk factors and may be reduced for established and experienced exporters.
- Most multi-buyer policies cost less than 1 percent of insured sales, whereas the prices of single-buyer policies vary widely due to presumed higher risk.
- The cost in most cases is significantly less than the fees charged for letters of credit.
- There are no restrictions regarding foreign content or military sales.

Ex-Im Bank's Export Credit Insurance

- Ex-Im Bank customers are advised to refer to the Exposure Fee Advice Tables (which are posted on the bank's Web site www.exim.gov under the "Tools" section) to determine exposure fees (premiums).
- Coverage is available in riskier emerging foreign markets where private insurers may not operate.
- Exporters electing an Ex-Im Bank working capital guarantee may receive a 25 percent premium discount on multi-buyer insurance policies.
- Enhanced support is offered for environmentally beneficial exports.
- Products must be shipped from the United States and have at least 50 percent U.S. content.
- Ex-Im Bank is unable to support military products or purchases made by foreign military entities.
- Support for exports may be closed or restricted in certain countries for U.S. government policy reasons (for more information, see the Country Limitation Schedule posted on the bank's Web site under the "Tools" section).