European Commission
DG Competition

IMCC

The Report on Market Trends of Private Reinsurance in the Field of Export Credit Insurance

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1. Introduction

1.1. The Purpose of the Study

The purpose of this study is to provide technical information to the European Commission on the current activities of export credit insurers and on the market for export credit insurance with a view to assessing the practicality and desirability of revising the current definition of "marketable risks". In particular, technical information needs to be included which would enable the consideration of whether or not it is practical to include a wider range of commercial risks, possibly including commercial risks arising in all countries of the World.

Within the framework of the European Community Treaty, the Commission has developed common evaluation methods for assessing State aid measures for enterprises in Member States. Within this context, in June 1997, the Commission adopted a Communication to the Member States applying Articles 92 and 93 of the Treaty to short-term export credit insurance*[1].

In 2001, a Communication amended*[2] the definition of "marketable risks" to include political risks arising within the EU and in those OECD member countries listed in the Communication's annex. In addition, the list of names of the Member States was replaced by a generic reference to the Member States so that future enlargement of the Union would not necessitate further amendment of the 1997 Communication*[3].

In addition, the Communication defined "marketable risks" as commercial and political risks on public and non-public debtors established in the countries listed in the annex. For such risks, the maximum risk period, including manufacturing plus credit period, is less than two years.

The definition affected only export credit insurers operating with the support of the State as defined in point 4.2(a) to (f) of the 1997 Communication. Private insurers were not affected by the Communication.

1.2. The Terms of Reference

In fulfilling the tasks of the Contract, the Contractor was to undertake interviews with:

- Principal private and public credit insurance bodies
- Principal private reinsurers
- A sample of exporting companies, both large companies and SMEs, making use of export-credit insurance services

*[1] Official Journal of the European Union C281, 17/9/1997, page 4

*[2] Official Journal of the European Union C217, 2/8/2001, page 2

*[3] The list of Marketable Risk countries was defined in the 2001 Communication as All Member States of the EU, plus Australia, Canada, Iceland, Japan, New Zealand, Norway, Switzerland and the USA.

- Intermediaries between the insurance/reinsurance companies and the exporting companies; namely brokers and banks

In addition, the Contractor was to review relevant literature existing on the subject.

The study was required to establish for which export-related risks there exists sufficient coverage in the private market at affordable price to obviate the need for State aid. It was to examine the current and likely future market trends with regards to export credit insurance in the current and new Member States, as well as the candidate and applicant countries, and other main OECD countries.

The study should also contain a detailed analysis of the supply by private operators of short-term export credit insurance for both commercial and political risks in the European Union, as well as a detailed analysis of the reinsurance market for both commercial and political risks for short-term export credit insurance in the EU, with a particular focus on the export activities to, from, and between the new Member States. It should also include an analysis of developments in the insurance and reinsurance markets observed in the new member states and the candidate and applicant countries (specifically Bulgaria, Romania, Turkey and Croatia) as well as in the main OECD countries. The study should also address the situation of the reinsurance market in the EU with regard to SMEs.

The objective of the work programme was primarily to provide technical information in order to enable a determination as to whether a revision of the current definition of “marketable risks” was desirable and practical.

In particular, information was needed to enable a decision as to whether it was desirable and practical to cover a wider range of commercial risks, possibly including commercial risks arising in all countries of the world.

Furthermore, the study was also to include technical information on other possible amendments to the current definition of marketable risks to take account of current market trends and future perspectives. In particular, information was needed as to whether a distinction should be made with regard to the size of companies seeking to insure their export-related risks as well as, possibly, with regard to the various sectors of activities concerned.

Finally, the analysis had to take into account alternative ways of covering export risks ordinarily used by various market players.

1.3. What has been done to fulfil the ToR

The contract was signed in mid-November 2004 and the inaugural meeting at the Commission took place on the 30th November 2004.

In fulfilling the terms of reference, the Contractor prepared a combined questionnaire for commercial export credit insurers and export credit agencies (ECAs*[4]) and other questionnaires for reinsurers, private associations and brokers.

In all, approximately 98 questionnaires were sent out to insurers and organisations in the European Union and candidate and applicant countries soon after the inaugural meeting. A further 17 questionnaires were sent out to the branches and subsidiaries within the European Union of the big three private insurers, Coface, Euler Hermes and Atradius and a further 22 questionnaires were sent to insurers and reinsurers outside of the European Union.

58 recipients of questionnaires responded in some way or another and of these 30 returned completed questionnaires. Coface, Euler Hermes and Atradius all decided to give single corporate responses, though all three welcomed the contractor to visit their subsidiaries and branches in order to meet with their staff and to discuss local issues.

Two of the big three private insurers responded with single consolidated written answers, taking into account all of their EU operations, and the third decided to provide their response for their EU-wide operations during a face-to-face interview. Even so, the head offices or European operations centres of all three were visited for face-to-face interviews. Six further meetings were held at subsidiary or branch offices in other member countries (one or more of the big three is represented in every Member State and all three are represented in sixteen of them).

Several government officials responded that they had seen and endorsed the answers given by the state ECAs. Finally, a number of the business associations replied that they did not have sufficient knowledge about credit insurance issues to provide meaningful replies to the questionnaires. However, it must be said that three associations were very knowledgeable of the subject and provided detailed responses to the questionnaire.

In all, 41 institutions in 12 different countries were visited for face-to-face interviews. Correspondence was undertaken by E-mail or telephone with a further 9 institutions and additional E-mail correspondence and telephone interviews were undertaken with officers from those who responded to the questionnaires.

Overall, eighteen out of the twenty-five ECAs/government departments providing credit insurance in Member States and one out of the four candidate and applicant States were either visited or responded to the questionnaire. In addition, seven private insurers and state-owned commercial insurers were either visited or responded to the questionnaire.

Together, they provided the Consultants with detailed and broad-based information relating to market conditions and the availability of export credit insurance and reinsurance across the EU.

It was found that many of the recipients, including those who answered the questionnaire, preferred face-to-face meetings because the issues were complex and not easily committed to paper or discussed by telephone. The list of those who were interviewed, or responded to the questionnaire, is provided in Annex A.

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*[4] ECAs are those export credit agencies whose insurance policies are supported by the State. Commercial insurers support the policies they underwrite with their companies' equity, retained earnings and borrowings.

The face-to-face interviews were particularly interesting for the Consultants as they gave them the opportunity to discuss in detail the conditions prevailing in individual markets and with particular sectors of the market – for example, the nature and structure of the local market, the availability of insurance to cover exports to other Member States, both old and new, the ability of SMEs to obtain export credit insurance, the availability of reinsurance, etc.

Although none of the institutions outside of the EU and candidate/applicant countries returned completed questionnaires, one engaged the consultants in an exchange of E-mails; others referred the consultants to subsidiaries or associates within the EU; and five, in Switzerland, were visited by the consultants for face-to-face interviews.
In Appendix B is provided abbreviated responses of all those insurers and ECAs that responded to the questionnaire. The respondents' names have been removed, as most wished for anonymity, and have been classified as either Old Member States, Export Credit Agencies*[5] (OMS ECA), New (Accession), Applicant & Candidate Member States, Export Credit Agencies*[6] (NMS ECA), or as commercial insurers (Insurers)*[7]. Also the order of the respondents has been changed from question to question.

Some respondents replied with very full and detailed answers. In order to make the table manageable, some responses have been summarised, but where possible the respondents' actual words have been used.

It was not possible to carry out the same analysis with the answers from the private associations due to the limited number who actually responded in writing. Nevertheless, those who did reply provided detailed answers. However, most, when contacted, said that they had limited knowledge of the subject, as the proportion of their members who actually used credit insurance was small.

All of the reinsurers failed to answer the questionnaire, but most expressed their willingness to hold face-to-face meetings. In all, 5 reinsurers were visited for face-to-face interviews and another reinsurer, although he did not complete the questionnaire, provided detailed comments on the issues, which he saw as important, during an exchange of E-mails that he initiated.

Finally, notes were made of all of the face-to-face interviews conducted by Consultants providing significant and material support for the comments and conclusions contained in this Report.

*[5] The Old Member States are the EU-15: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, The Netherlands, Luxembourg, Portugal, Spain, Sweden, and United Kingdom.

*[6] The New, Applicant & Candidate Member States are: Bulgaria, Croatia, Cyprus, The Czech Republic, Estonia, Hungary, Malta, Latvia, Lithuania, Poland, Romania, Slovakia, Slovenia, Turkey

*[7] Included with the private insurers are those subsidiaries of ECAs or the state, which claim to be operating on commercial lines.

2. Summary

In 1997, the European Commission adopted a Communication applying Articles 92 and 93 of the Treaty to short-term export credit insurance. Since then, three major private sector insurers have developed and positioned themselves to provide short-term cover, both domestic and export, in most countries of the Union and, in fact, together provide a very large proportion of the cover available. In June 2000, the Commission requested a study of the market trends of private reinsurance in the field of export credit insurance.

That study concluded that consideration should be given to extend substantially the list of countries deemed to be marketable and to extend the horizon of risk to three years, including the pre-credit cover, at the time of the next annual review, unless there was a clear and significant reversal in the position of reinsurers on the matter.

However, since that study, the credit insurance market has undergone considerable consolidation and development. It has become more complex particularly with the accession of the ten new member states to the European Union. Moreover, within the past year, in two of the older member states (Belgium and Italy) new subsidiaries of the state-owned Export Credit Agencies (ECAs) have been established specifically to operate commercially and to underwrite short-term domestic and export credit risk if they so choose.

The ECAs in two of the larger New Member States (the Czech Republic and Poland) are also intending to set up subsidiaries to undertake insurance of short-term domestic and export credit risk, and, in time, this trend may be repeated in other Member States, for example Slovenia. The governments of other new Member States are continuing to provide short-term cover, at least for the time being, through the state ECA, but for their own account as opposed to for account of the state.

The governments and private sector associations in several countries in the European Union (specifically Germany, Italy and Sweden amongst the Old Member States and most, if not all, of the countries in the New Member States) have expressed concern that SMEs are finding it difficult to obtain export credit insurance from the private sector. In fact, the private insurers readily admit that the smallest enterprises are not very profitable for them to service. Accordingly, insurers do tend to set minimum premia and turnover levels to provide insurance cover.

However, the insurers claim that many small- and most medium-scale enterprises are attractive business and, accordingly, they have set up special policies, although generally only accessible electronically, to make it easier for SMEs to access insurance. In theory this would seem to go a long way towards providing a solution for the problem. In practice, for a variety of reasons discussed in greater detail later in the Report, this is not the case.

It would seem risky to ignore the concerns of EU member governments and private sector associations and provide no additional support for SMEs; especially as the private insurers admit that the smallest enterprises are of limited interest to them.

Whilst it is true that private sector insurers are able, and indeed willing, to provide cover for far more countries than those which are members of the OECD and the EU, cover is by no means certain, especially for companies which cannot provide the insurers with a broad range of country risk, a well diversified portfolio, and a preponderance of short-term risks.

Although concern was expressed that reinsurance is becoming more difficult to obtain, the consultants did not find evidence of this. There has been consolidation in the market through takeovers and some minor reinsurers have ceased to reinsure export credit risk. Furthermore, re-insurers, like insurers, will establish their own country and buyer limits, which may curtail the ability of insurers to underwrite as much as they might wish on either. Normally this hardly acts as a significant restraint, although for some NMS insuring exports to other NMS or to former traditional markets (for instance, the former USSR countries), the problem is rather more real.

Nevertheless, over the last 80 years, there have been a number of crises in the World economy. Export credit agencies were created after the First World War to enable trade to restart. They were envisaged at first as temporary, but one crisis after another has ensured that they remain. The consultants believe that it would be unnecessarily risky to presume that their existence is no longer necessary to 'kick-start' trade again after some disaster or series of disasters have struck, paralysing both private insurers and reinsurers.

Moreover, the concentration of the provision of insurance by only three companies, in one of which a major reinsurer is also a shareholder, coupled with the slight concentration of reinsurance capacity could at some time in the future pose a risk.

The present definition of "marketable risks" does not pose any limitation on the private sector, but reserves a substantial volume of business to commercial insurers. The amount of insurance business existing between 2 and 3 years is small. Most of the products being insured for those years are capital goods. By their nature, they are discrete items of business with limited continuity in terms of customers and countries. Such products pose an extra risk to commercial insurers, as their exporters cannot offer the insurers the spread of risks that they desire, and which are attractive to re-insurers. Equally, because of the intermittent nature of the exports, they are more costly to support than high volume goods.

Moreover, the competitors of the EU exporters of these capital goods are often exporters from non-EU and non-OECD countries and increasingly from certain low wage-cost developing countries, such as China and India, where the concept of marketable/non-marketable risk (as defined by the EU) does not exist. The exporters from those countries will receive cover from ECAs which are specialised in providing such cover and which are required by their government owners to break-even over the long-term. It is possible, but by no means proven, that cover provided by the non-EU ECAs will be at a lower cost than that provided by commercial insurers.

Given that this business is not crucial for the profitable development of the private insurers in the EU, there would be a risk that, by expanding the tenor of marketable risk, the ability of EU-based capital goods exporters to win contracts in competition with non-EU based exporters, would be compromised for little or no benefit, either to the private insurers, or to EU-based exporters or the people they employ.

Furthermore, extending the term to, say, three years, could lead to confusion as to what falls under the "Marketable Risk" definition and what is covered under the OECD Arrangement on officially supported export credits. Finally, any extension of the definition would merely serve to reduce still further the business that could legitimately be undertaken by the ECAs, thereby reducing their potential revenue stream and, in the long term, their overall viability. This might be less of a problem for ECAs in the larger and/or more developed Member States. In the NMS, where the volume of medium and long-term exports is modest to minimal, the problem could quite quickly become serious.

Hence, the consultants recommend that no extension be made to the definition of “marketable risk” for the time being albeit those two exceptions are introduced.

However, the consultants do recommend that ECAs may provide insurance to SMEs whose annual export turnover is less than €2 million. In addition, ECAs may continue to provide those exporters with cover until the SME’s annual export turnover reaches €5 million, after which the SME must seek cover from commercial insurers.

The consultants also suggest that EU governments provide support to all insurers marketing and supporting SMEs. A means of such support is suggested by which the Governments express willingness to provide funds to insurers to meet the difference in the cost of marketing and supporting SMEs compared with such costs for larger companies.

The consultants entertain reservations with regard to the creation of subsidiaries by ECAs to insure marketable risks, even if they are commercial ventures. These reservations relate to the fact that ECAs and their subsidiaries are capitalised by the State from taxpayer money, whilst competing with entities capitalised by private shareholder investment. It is likely to be difficult to prove that these new ventures are truly commercial, given the possible lack of details in their internal management accounting.

The ECA, for example, may only require its subsidiary to break-even over the long-term, which may give it a competitive advantage against private insurers whose shareholders will expect a minimum return on their equity commensurate with the returns provided by other commercial companies. Moreover, if the subsidiary was to become insolvent, there is a possibility that the ECA’s government would wish to recapitalise the venture and may consider that their decision was commercial, albeit this would have to conform to prevailing EU rules and guidelines. In the past, governments have been willing to refinance their ECAs. However, in the private sector, few insurers have succeeded in finding the capital for refinancng without a major restructuring and a change of strategy and senior staff.

Nevertheless, it is recognised that any such new subsidiaries would add a welcome element of additional competition to a market that currently is preponderantly controlled by just three major private sector insurers. The three have an overall share of some 80/85% of the EU market and, individually, in certain countries, more than 50% (for instance, Credito y Caucion in Spain and Euler Hermes in Italy).

3. Background

3.1. The OECD Arrangement on Officially Supported Export Credits

Export credit insurance has its origins mainly after the First World War, though credit has often been an important element of trade since earliest times. The objective of governments in setting up the export credit insurance operations was to kick-start world trade and economic recovery after the devastation of the War. Europe could not start rebuilding without materials, and factories could not start operating and employing people without machinery. Credit was needed in order for the factories to start operations and earn an income to pay for the machinery. The UK's ECGD was started in 1919, while Belgium's OND was started in 1921 and other governments did likewise around that time.

The International Union of Credit and Investment Insurers (the Berne Union) has its origins shortly after the Great Depression, in 1934, when export credit had been seen to be one of the measures that had pulled the World out of its torpor. Interestingly, the private sector equivalent of the Berne Union, the International Credit Insurance & Surety Association (ICISA) has its origins slightly before in 1928.

Originally, it was envisaged that the export credit operations would only be needed while the World recovered from the Great War. However, since then, there have been: the Great Depression, the Second World War, the Korean War, the Congo crisis, the ending of the Bretton Woods Agreement, the Cuban Missile Crisis, and most recently the destruction of the New York World Trade Towers; only to mention some of the crises which have impacted upon world trade.

It seems that disasters are always to be with us and the ability to offer export credit seems to be a necessary tool for maintaining world trade and economic growth.

The governments of the main industrial nations, through the OECD, formalised the provision of credit in order to ensure the developmental benefits of offering credit, whilst mitigating the damaging impact of competing for business through the offer of ever more generous terms or subsidies. The Arrangement on Guidelines for Officially Supported Export Credits was agreed in 1978 and it related to goods with a repayment term of two years or more. Through the spirit of the Arrangement and the offices of the Berne Union, the ECAs have cooperated and exchanged information to ensure a level playing field and to avoid the granting of credit to those lacking the ability or willingness to repay.

3.2. The Development of the Concept of "Marketable" Risk in the EU

Although ICISA represents the commercial credit insurers and lobbies on their behalf, being mainly domestic credit insurers, it has never had to fulfil the role of the Berne Union as an intermediary for information about country and corporate risks. This is changing as many of its members are becoming global domestic and export credit insurers. However, following the acceptance of the OECD Arrangement on officially supported export credits, the provision of credit of a tenor of two years or less for export credits remained unregulated and credit terms could be given which were uneconomic or which removed the focus from the goods, and their quality or appropriateness, onto the credit offered.

Given the reasonable economic conditions which have existed for the last few decades, and the increasing availability of corporate information, the ability to offer credit terms on all types of goods and produce, based on reasonable financial judgements about the recipients, has increased. The UK Government saw the opportunity to privatise the short-term part of their state credit insurance department (ECGD) in 1991, followed by Denmark.

By 1997, several short-term credit operations had been spun off from their state-owned and operated parents and a risk was developing that other state-owned operations could undercut the nascent private insurers. Hence, the European Commission adopted a Communication applying Articles 92 and 93 of the Treaty to short-term export credit insurance.

However, the Communication only had jurisdiction within the European Union. There was no limitation placed (nor ever could be by the Commission) on non-EU governments and their export credit agencies.

In June 2000, the Commission requested a study of market trends of private reinsurance in the field of export credit insurance. This report*[8] was the first review since the 1997 Communication.

The recommendations were:

- The limitation on the horizon of risk should be expanded to three years to include pre-credit cover. The consultants went on to say: if there were felt to be a problem with this, then warning could be given that it be done in one year's time, unless there is a clear and significant reversal in the position of reinsurers on the matters.

- It seems unnecessary and unrealistic to exclude all political risk in all countries from Marketable Risks. Thus it is recommended that in the list of Marketable countries both political and commercial risk be treated as Marketable.

- The current list of Marketable countries be maintained (for now) and be expanded to all OECD countries in one year, unless there is a clear and significant reversal in the position of reinsurance on the matter.

- The objective should be to consider substantially extending the list at the time of the next annual review, unless there is a clear and significant reversal in the position of reinsurers on the matter.

Although it was anticipated that there would be annual reviews, there has not been a review until this present one. The warning, clearly stated in the recommendations of the 2000 report, has resulted in the market changing substantially as insurers, ECAs and their governments have positioned themselves for the anticipated changes.

Moreover, within the intervening time, the European Union, not unexpectedly, has increased from 15 members to 25, with the expectation that a further four may join in the

*[8] The June 2000 report was prepared by Malcolm Stevens and Edward Watson on behalf of Watson Robinson & Associates Limited

not too distant future, and the possibility of still more within the planning horizon. Only some 15 years ago, many of these new member states were considered as having political risks. Now they are members of the EU and most are members of the OECD. Nevertheless, the market information on many of the companies within these states, which are now seeking credit terms, is still not well established.

4. How the Provision of Export Credit Insurance is Organised in the EU and the Accession States and how it Differs beyond the EU

4.1. The Credit Insurance Market

Since the Stephens/Watson Report of June 2000, the credit insurance market has undergone considerable consolidation and development. In certain respects, it has become more complex particularly with the accession of the ten new member states on May 1st 2004. It could indeed be argued that the so-called level playing field for short-term export credit insurance across the 25 member states has now become less level and in the process more opaque.

4.1.1 The Older Member States

At one end of the spectrum, there are the private sector insurers offering short-term domestic and export credit insurance covering “marketable” risk which for them is synonymous with “re-insurable” risk. At the other, there are the State-owned Export Credit Agencies (ECAs) providing medium and long-term insurance for the account of the state within the terms of the OECD Arrangement on officially supported export credits (as for example in the UK, Belgium and Italy).

Amongst the private sector insurers, there are those that act in addition, for a fee, as agents of the state for medium and long-term business, for example in France and Holland as well as in Germany, though under a slightly different structure. At the same time, these insurers underwrite all short-term “marketable” risk business against their own privately held capital and reserves.

4.1.2 The “Accession”, Applicant and Candidate States

Then there are the ECAs in the New Member States that are in the process of trying to define their role as they move forward. However, they face market realities that they consider to differ somewhat from those obtaining in some of the older member states.

Here, to meet the requirement for greater transparency in government/own account transactions, the ECAs have been urged to consider adjusting to the necessity either of divesting themselves of part or all of their short-term “marketable” risk business, (as was done some years back now in the older member states), or at least of setting up a separate subsidiary, as has already been done in Poland and in the Czech Republic.

In some countries, for instance in Slovakia, Slovenia and Hungary, no apparent moves have yet been made towards structural change and Latvia, Lithuania, Malta and Cyprus are too small even to have established their own ECAs, although in some cases, (for instance Cyprus), an Export Credit Insurance Service is operated from within one of the Ministries, usually Trade and Commerce or equivalent. Although the Applicant and Candidate States observe the Commission Communication 2001C 217/02, they too have made no moves as yet towards establishing ECA subsidiaries through which to underwrite “marketable” risk. Even divestment, where contemplated, has proved to be no easy option. The Estonian Government has been trying to find a private sector buyer for their ECA's "marketable" risk business for some time now, without success.

4.1.3 Recent Developments

However, within the past year, in two of the Older Member States (Belgium and Italy), new subsidiaries of the state-owned ECA have been established specifically to underwrite short-term credit risk, both domestic and export, which is re-insurable or is acceptable for self-insurance in competition with the private sector insurers.

It seems likely that this same policy will be followed by at least some of the ECAs in the New Member States. The rationale for this is cogently argued by the respective ECAs, for instance, in the case of Belgium, to continue to utilise years of experience and expertise built up within the parent ECA and at the same time to provide more competition for the big three private insurers and more choice for exporters. In the case of Italy, the rationale is to address a perceived failure by the market to cater for the credit insurance needs of a large number of SME exporters. According to SACE, there are some 200.000 exporters in Italy of which only 10/12,000 are currently serviced by the private sector insurers.

In the New Member States, too, both KUKE and EGAP are setting up subsidiaries primarily to address the needs of the many SMEs in their local markets which they claim are unable otherwise to obtain credit insurance. This is partly because the big three private insurers have still to establish branches or subsidiaries, or are still developing their businesses in many of these markets and have limited interest in what SMEs, particularly at the lower end of the spectrum, have to offer them. But it also reflects the lack of experience and education amongst SMEs as to what export credit insurance is all about, how to use it, what are its benefits, how they can meet the costs, etc. Even when they do master the complexities of export credit insurance, however, the scale of their business is often too small to be of interest to the private sector insurers.

As a result of all of this, there is now a diversity of institutions across the EU, both privately and state-owned, offering a range of insurance products to cover short-term domestic and export risk.

Furthermore, the activities of all these various market participants now overlap to a considerable extent. The reason for this (if fault it is) lies with the state sector institutions and their governments. For reasons on the whole well supported by the realities of the markets in which they are operating, they have reached the conclusion that if a large percentage of local companies, falling essentially within the micro and SME sectors, are not to be totally excluded from access to credit insurance, whether it be domestic or export, then they must provide it.

However, the inability or unwillingness of private export credit insurers to provide an effective service to the micro- and small-scale enterprises may not be so much a current failing of the private insurers, but rather a reflection of the priorities of ECAs prior to the 2001 Communication. Specifically, it seems to be a recent realisation that providing credit terms may enable the marketing pitch by SMEs to be more attractive to foreign buyers and focus contract negotiations away from price to credit terms. In this way, SMEs from high wage-cost economies may be able to compete more effectively with exporters from lower wage-cost economies. Nevertheless, the cost-effectiveness of providing the service to micro- and small-scale enterprises, which is where the high cost arises in comparison to the returns, plays a significant part in the marketing foci of the private export credit insurers.

In conclusion, it is fair to say that since the accession of the ten New Member States, in May 2004, the market for export credit insurance across the EU has become less tidy and more fractured as it seeks to respond to changing circumstances, albeit there is little that can be done about this even if there was a perceived need or will to do so.

4.2. Market Structure

The market for credit insurance, both domestic and export, is dominated in the Older Member States by three international players. Their individual market shares – and indeed their combined market share – varies from country to country, and at times often significantly exceeds 50%. Overall their combined share in the fifteen Old Member States is generally acknowledged to approach 85%. This is strong enough to be described as an oligopoly. Whether or not the market is distorted as a result is arguable. The relationships between insurers and their customers tend to be strong and often longstanding, so the potential lack of more competitors in the market place is not necessarily seen by all as a problem.

Nevertheless, the more recent developments recorded in the previous section are to be encouraged in so far as the new subsidiaries of ECAs may increasingly encroach upon the preserves of the big three and, hence, provide the market with a wider prospect of choice and greater competition amongst all participants. If this serves to lessen the preponderance of any one of the big three or all of them together in any given market, then this is a trend that can only be welcomed.

However, if the commercial arms of the state ECAs were to be required only to break-even over the long-term, rather than to provide their shareholders with a return equal to or better than that expected by shareholders in the private sector, then the “playing field” for the private insurers is not even. If the private insurers were to compete with entities aiming at no more than break-even over the long-term, and as a result see their profitability and hence ability to pay adequate dividends diminish, then investors could become disenchanted with the companies and sell their shares, dragging down the share price and thereby reducing the insurers’ ability to borrow and to raise new capital.

Although there might exist an oligopolistic situation or near oligopolistic situation in some member states, there seems to be keen competition between the “big three”. At the same time other private insurers do exist, and through brokers there is access to the London insurance market from across the European Union. But for all insurers, the products they offer and the services they are willing to provide must be sufficiently cost-effective to meet their internal rate of return requirements. For those potential customers that are unable to provide sufficient business volumes or values with an acceptable spread of risk and portfolio diversification, either domestic or export or both, the opportunities for obtaining short-term “marketable” risk credit insurance are limited to non-existent.

There are of course other players in the market. In Spain, other than Credito y Caucion which is 45% owned by the State and CESCE, the State-owned ECA , there are four privately owned insurers, (that is to say Mapfre along with the big three), which provide export credit insurance, albeit their combined market share is no more than about 25%.

Warta in Poland is relatively small in credit insurance and is focused primarily on the domestic market, but does offer some competition to KUKE, the state-owned ECA, and the “big three”. In Switzerland, a neighbour of the EU, Winthertur has approximately a thirty percent market share, though like Warta in Poland its business is almost wholly focused on the domestic market.

Probably the only country with an active supplementary credit insurance market is the UK, but even here the “big three” probably cover 70/75% of credit insurance demand. Nevertheless, there are alternatives in the London market for those who want a more personalised service or whose requirements fall outside the run-of-the-mill products offered by the “big three” which are not available elsewhere in Europe.

As with the “big three”, most of these other insurers look primarily for the middle and larger sized companies, although there are those who have developed online electronic products which appeal in particular to smaller companies. It is probably fair to say that SMEs have greater opportunities for insuring their receivables, both domestic and export, in the UK market than elsewhere in Europe. Even so, there is no doubt a large body of smaller companies here with limited volumes or spread of risk and portfolio diversification that would find it hard if not impossible to obtain export credit insurance.

Interestingly, too, and unlike anywhere else in Europe, credit insurance is placed in the London market by companies from across Europe, and indeed from further afield, where local markets fail to meet their needs or where specialist insurance cover is required.

4.3. The Use of Intermediaries (Brokers and/or Tied Agents)

The use of brokers across Europe varies considerably from over 90% in the UK to minimal in Switzerland. Where brokers are less used, insurers have established their own sales forces. Alternatively, and particularly in the New Member States, those requiring credit insurance will approach the insurers directly. In Italy, over 80% of business is introduced to the credit insurers through tied agents – many of whom used to work for the insurers to which they are tied.

4.3.1 Advantages and Disadvantages of Brokers

As to the advantages and disadvantages of these differing practices, the main advantage of the brokerage system is that brokers work primarily for the insured rather than for the insurer. As a result, the broker will analyse the different bids submitted by insurers for a given piece of business and will advise the customer which quote is considered to be the best.

Export credit insurance is considered to be a complex field. Where brokers are knowledgeable and experienced, the service provided can be of great benefit to the insured. In a number of member states, however, especially in the New Member States, the quality of brokers – other than branches and subsidiaries of international brokerage firms – can be indifferent to poor with only limited knowledge of what is available to exporters and what the differences between and benefits of individual products are. Hence direct sales forces have been created and, at the same time, exporters have learnt to approach the credit insurers and the ECAs directly. In KUKE’s case, for example, only some 10/15% of their business is introduced through brokers; the rest comes to them direct.

The principal disadvantage of brokers is that they, like insurers, require a minimum volume and/or value of business to generate a minimum level of commission income to ensure that the costs of handling and processing the business provide a sufficient margin of profit. The inevitable result of this is that companies at the micro and smaller end of the market are as unattractive to brokers as they are to insurers and, hence, are either unable to find credit insurance at all, or if they do it is unlikely to be at an affordable price.

For some of the larger European exporters, brokers will introduce their business to the London insurance market and in this way, will provide competition to the big three. Many of the insurers in the London market, however, are specialist and focus their activities mainly on large, often single buyer, structured finance or one-off transactions.

4.3.2 Advantages and Disadvantages of Tied Agents

This same disadvantage, without the advantages of comparative quotations offered by brokers, will attach to tied agents who will also only be interested in introducing customers to their respective insurers whose business will generate for them the minimum commissions required to cover costs and provide an adequate margin of profit.

4.3.3 Direct Sales Forces

With regard to direct sales forces, it is to be assumed that salesmen will explain the details and benefits of credit insurance to potential customers. The disadvantage here is that the customer will have no basis for comparing either product or pricing with those of other insurers unless he actively seeks alternative quotations. However, given the market preponderance of the “big three” and the keen competition between them, any differences between products offered and pricing are unlikely to be significant. Once again, direct sales forces will target customers whose business will generate at least the minimum required margin of profit for their employers.

4.4. The Nature of Credit Insurance

It is now accepted practice across the member states, including in the New Member States, that credit insurers do not generally differentiate between domestic and export business. Indeed, in many instances, where customers are insuring both domestic and export receivables, insurers will combine turnover relating to both within the same policy document. As a consequence, it is difficult, if not impossible, to obtain accurate figures of export credit insurance volumes in any of the Member States.

Likewise, where short-term policies are issued to cover just export receivables, commercial and political risks are generally combined within the same policy document. Indeed, there has been a marked effort over the past few years to lessen the number of policy documents issued and to combine as much as possible within the same document. Nevertheless, confusion still exists as to how certain causes of loss, for instance a devaluation leading to insolvency or default, are allocated between commercial and political risk. Consequently, different treatments may be accorded by credit insurers to these cases within the same country or from one country to another.

Other than for medium and longer-term business, insurers will not cover just political risk although they will cover just commercial risk. Many of the alternative credit insurers in the London market will only cover commercial risks on buyers/countries with which they are familiar and comfortable. Where political risk cover is offered outside of the state-owned ECAs, insurers will generally be specialists in a given field, often covering large amounts for a single buyer within a structured finance transaction.

All insurers at the short end of the market will generally expect their customers to take up whole of turnover policies; indeed they generally make it a condition of issuing an insurance policy. They may permit certain exclusions, subject to discussion and agreement where particularly large and/or creditworthy buyers are concerned and where customers offer good portfolio diversification and spread of risk; but this will often be compensated, particularly where middle market companies are concerned, with slightly higher premium rates.

Generally speaking, it is the perceived view amongst private sector insurers that single buyer risks are the preserve of ECAs. In some of the smaller EU member states, particularly the more developed and industrialised, such as Sweden and, perhaps, Belgium, (and Switzerland, though not a Member State, is certainly a case in point), there are small to medium-size companies producing high-tech, high-value, sophisticated products whose foreign markets are often restricted to single buyers and/or countries. Their terms of payment may be anything from six months to two years.

They will often find that private sector insurers have limited appetite for their business precisely because it falls outside the normal parameters for export credit insurance in terms of spread of risk and portfolio diversifiction, or that they hit individual buyer/country limits set by the insurers and/or re-insurers.

It was mentioned to the consultants that in some circumstances exporters approach the ECAs and ask for tenors of over two years in order for the transaction not to be deemed marketable. It was also mentioned that ECAs might offer tenors of more than two years for the same reason. Either way, the risk relating to the transaction is increased by the longer tenor due to the definition.

This being the case, there is some argument for suggesting that, where the private sector market is failing in this regard, ECAs be permitted to insure such risks, though perhaps limiting this exemption to capital/investment goods exports with a tenor of six months or more.

4.5. The Extent of Marketability in Practice

Most of the private credit insurers are primarily or substantially domestic credit insurers. Companies that insure with them normally pay a fee for covering their entire turnover.

Because of the substantial clearly marketable content of their output, the percentage which may be exported to outside of the OECD countries, or which has tenors in excess of 2 years, is usually small. Where whole of turnover policies are concerned, both insurers and re-insurers will normally cover these extra risks without difficulty. Also some of the credit insurers have their own reinsurance captives, and in any case, they will usually retain 30-50% of their portfolio risk on their own books.

Hence, from the point of view of the customer with large domestic sales and a wide spread of exports, all short-term receivables within reason may be considered to be marketable. Such customers will not be enticed away from their insurer solely because they may be able to obtain cover from an ECA for one or two special exports. The relationship with the insurer is far too important for this.

However, the capital goods exporter, the mainstay of the ECA medium and longer-term business, will generally be offering extended credit terms according to the OECD Arrangement on officially supported export credits. The high value of the products, the irregular nature of production, the limited range of countries, all mitigate against the insurance of these products being “marketable”, at least in the true sense of the word. There are certain insurers who specialise in such risks. Some of these may be prepared to assume greater risks than the ECAs, for a price. But reinsurance for such risks, particularly, where the term exceeds two or a maximum of three years, will be hard, if not virtually impossible to obtain.

Price depends greatly upon volume and spread. The more the commercial insurers take on lumpy, irregular or special risks, the higher will be the premium for all. State ECAs outside of the EU are not under pressure to make profits on their short-term business, as long as they break even, or intend to do so over the longer-term. Commercial insurers can compete very effectively with the state ECAs because they focus only on short-term business and are not carrying lumpy, irregular or special risks on their books.

The volumes of export business with a tenor of between 2 and 3 years are small. Hence, the commercial insurers will hardly be disadvantaged if the state insurers continue to insure business of a 2-3 year tenor. In fact, most goods exported with tenors of 2-3 years are small machines and other investment equipment produced by specialist capital goods manufacturers whose export business would already be insured by ECAs. It would be to their disadvantage to be forced to turn to other (commercial) insurers for the small amounts of their business with a 2-3 year tenor.

4.6. The Availability of Insurance Coverage for Trade with and between Member States

It was interesting to note that all of the “big three” private sector insurers interviewed in the Old Member States maintained that they had no difficulty extending insurance cover to buyers in the New Member States and indeed in the candidate and applicant countries, always subject to availability of limits on buyers/countries. There is no doubt that with the setting up of their own branches and subsidiaries in many of these countries, their ability to generate adequately detailed information on buyers is improving all the time.

Whether or not the level of limits that they are prepared to authorise both on individual countries and individual buyers in the New Member States are sufficient to meet the needs of exporters in the Old Member States is difficult to establish, but our general conclusion is that outside of the familiar limitations in respect of SMEs (of which rather more later in the Report), exporters have little difficulty obtaining insurance cover from the private sector.

The ECAs in the New Member States still have a major role to play in insuring exports, in particular to other New Member States and to former Soviet countries. Over time, they have been able to develop extremely good databases of information and they still retain good information sources in these various countries. Given, too, the fact that many of the exporters are micros and SMEs, which under any circumstances find it hard to obtain export credit insurance, the role of the ECA remains crucial for these companies in selling to foreign markets.

Reinsurers too maintained that they were relaxed about New Member country and buyer risk although they too will have established limits on each.

With regard to exports from New to Old Member States, comments in interviews and replies to questionnaires indicated no difficulties for exporters obtaining insurance. Between New Member States moderate difficulties are reported to exist, depending on buyer limits and the availability of information on buyers, whilst from New Member States to candidate and applicant States rather more difficulty exists. This can be largely explained by the fact that many of the companies in these countries are themselves SMEs; that the gathering of reliable information on buyers is difficult and time-consuming; and that the insurers' and re-insurers' appetite for risk is limited by whatever they consider to be a prudent level, given the lack of payment records of many importers in these countries.

It is possible that the difficulties in obtaining insurance for credit for inter-New Member State and for candidate and applicant state trade is time-related. Over the coming years, the databases of the private insurers will improve and the risks will become more assessable. However, this will take a number of years to materialise, not just one or two.

4.7. Terms of Payment

Under the current EU definition of "Marketable" risk, the short-term is defined as periods of less than 2 years. In practice, the vast majority of export credits insured fall within the period of up to 90 to 120 days. Thereafter, terms of payment fall away quite rapidly to the point where the volumes falling due between one year and two years are relatively modest and relate primarily to investment goods.

Many insurers will consider insuring for periods up to three years, but this will always be where customers have whole of turnover policies, and generally where the portfolio diversification and spread of risk is sufficiently good to minimise the risk of default or loss. Equally the ability of the insurer to manage its portfolio efficiently and effectively will weigh in the balance of what insurers will or will not accept.

A further factor in the acceptability of two or even three-year risk is the attitude of re-insurers. If the buyer and country are acceptable to them, they will generally cover it.

4.8. The Concept of "Marketable" Risk

It was interesting to note the attitude towards the concept of "marketable" risk. For the private sector insurers, as might be expected, little or no notice is taken of the EU definition.

Even amongst state-owned ECAs, insuring short-term “marketable” risk either through separately constituted subsidiaries or within the ECA but for their own accounts, short-term “marketable” risk nowadays tends to be synonymous with whatever is re-insurable.

This could be considered to give the ECAs a market advantage in that anything that falls outside the parameters of the EU definition could be insured for account of the state. Thus an ECA, underwriting both for the State’s account and for its own, could offer a broad service to exporters covering all risks, no matter whether they are re-insurable or not. This could be more attractive to enterprises that are exporting both to OECD countries and to non-OECD and offering credit of varying tenors. In this respect, the ECA would be competing with rather than complementing the private sector market and would have turned its state account business to a comparative advantage in securing marketable business.

In practice, as already noted, cover is likely to be available elsewhere in the market if there is appetite to accept the risk and if the risk is re-insurable. In many cases, the State, too, is likely to question why insurance is being underwritten by the ECA on non-EU/OECD countries for account of the state, thus incurring a contingent liability, when the risks might well be determined as “marketable” or re-insurable.

The one issue that was raised on more than one occasion, specifically by the ECAs, was the perceived disadvantage faced by EU exporters in comparison with non-EU exporters. The ECAs in non-EU countries are not, of course, bound by the terms of EU Communications and, therefore, have never seen any need to operate other than for account of their governments. All risks therefore, marketable and non-marketable, are underwritten for account of the State, obviating the need for re-insurance, which, though it may reduce risk, would add to the cost of underwriting.

Furthermore, Governments often only expect their ECAs to operate at break-even over the long-term and do not necessarily expect dividends. Again, this gives an ECA or its subsidiary, when insuring marketable risks, a comparative advantage over private sector insurers, which have shareholders expecting returns on their equity.

However, the ECAs see their services as a means of enabling exports, of creating employment and of generating tax revenue from exporters. Indeed, seeking to maximise the ECA’s profits could reduce state revenue because of the loss of tax revenue from exporters and their employees. Moreover, having to insure marketable risks with private insurers could mean that exporters from the EU incur higher costs than their competitors in non-EU countries. But this is not proven, and could be difficult to prove, because the large private insurers have economies of scale and better intelligence than nationally based insurers, precisely because they operate in so many countries. Hence, they may well be able to compete in offering an equal or better service than non-EU ECAs.

Even so, non-EU ECAs are also perceived to have an advantage when dealing with micro-enterprises and SMEs in that all handholding, handling and processing costs (specifically to do with short-term marketable risk) are effectively absorbed by the State whereas with the EU ECAs and private insurers, the costs are usually borne by the ECAs/insurers for their own account, in compliance with the EU Communication.

4.9. The Definition of "Marketable" Risk

Views were widely sought on whether or not the definition of "Marketable" risk might be changed. As noted in the Stephens/Watson Report when their survey was undertaken, there were differing views that effectively reflected the point from which the respondents were coming. The overriding reaction, however, as represented by the private sector insurers, whose coverage of the credit insurance market is so extensive, was that the definition is irrelevant to their business. This is not surprising. The private insurers are prepared to insure risks beyond the definition both in terms of tenor and country. This, in turn, reflects the attitude of re-insurers whose appetite and capacity for credit insurance currently exceeds demand.

For the ECAs themselves, however, the response (largely reflected in the replies to our questionnaire, as shown in Annex B), was almost uniformly in favour of retaining the current definition although many of them, not only most of those in the New Member States who were interviewed or from whom questionnaire replies were received, but a number in the smaller Old Member States, for instance, Sweden, Denmark, Finland and Belgium, variously pointed out that the definition fails in one or more important respects. These are that it does not take account of the size either of the transaction or of the exporter. This can be relevant in two respects:

- In cases where the transaction is very large, there may be a country/buyer capacity problem. At the same time the definition does not differentiate between consumer and capital goods. Consequently, a number of big cash projects that strictly fall within the definition of "Marketable Risk" are, in practice, still covered or need to be covered by the State-owned ECAs.

- In cases where the size of the exporter is very small (i.e. falling within the EU definition of "micro" or "small" enterprise), private sector insurers may have little or no interest in covering their risks, as much because of the low turnover volume and annual insurance premium to be earned as because of the limited to non-existent risk spread and portfolio diversification offered by the exporter. At the same time, the ECAs are not permitted to cover these risks as they fall within the definition of "Marketable" Risk. As a consequence, many micro- and small enterprises across the twenty-five Member States are effectively disenfranchised altogether from the export credit insurance market. This is one of the primary justifications given, for example, by SACE for setting up a new subsidiary in Italy, precisely to accommodate a perceived failure in current market coverage.

The Stephens/Watson Report of 2000 recommended that both the "Horizon of Risk" and the number of countries covered by the "Marketable" Risk definition should be extended. With this conclusion we would now disagree.

Given the oligopolistic situation prevailing in much of the European credit insurance market, it is questionable whether a further limitation in the activities of the State-owned ECAs could be considered to be advantageous. They still have an important trade promotion role to play in exports towards non-OECD countries, which is itself in the interests of the exporting community. Indeed, more rather than less competition for the private sector insurers might be seen as no bad thing. For exporters, and particularly for the micro- and small exporting enterprises, an alternative to one of the "big three" provides a welcome opportunity, not only perhaps of finding export credit insurance at all, but to find insurance at an affordable price and on accessible terms and conditions.

It is generally accepted by all market participants that ECAs will intervene in the market only when private sector insurance is not available. However, the ECAs too have to be visibly viable, at least in the longer term, and capable of generating sufficient revenues to invest in know-how, the increasingly sophisticated IT hard- and software that is now available to monitor and control their portfolio risks, and importantly to train and retain experienced and professional staff.

The more of the market that is taken from them by altering, to their detriment, the definition of “Marketable” Risk, the harder this becomes for them. At the same time, it could well exclude them from more difficult markets where their support and expertise are still needed. Retention of the current narrower definition would still permit them to cover these risks without compromising the ability of the private sector insurers from extending cover in these more difficult markets, if they were so inclined. A further erosion of their ability to generate revenues is likely to result in loss of personnel, loss of expertise and ultimately loss of the business altogether.

It is, in large part, for these reasons that the ECAs in the New Member States, supported by their governments, will continue to insure “Marketable” risk by one means or another (for instance, by setting up their own subsidiaries), so that they can continue to provide cover for the high percentage of micro- and smaller enterprises in their respective countries which cannot so easily gain access to export credit insurance, if indeed at all. It is also why the ECAs and their governments in the smaller EU Member States, including Old Member States, such as Sweden, Finland and Denmark, are concerned that the present definition of “marketable” risk should not be expanded. Moreover, it is not just in smaller member states that the problem exists. The various chambers of commerce and business associations in Germany are also very concerned about the difficulties faced by SMEs in gaining access to export credit insurance.

As already noted, two of the ECAs that originally abandoned the short-term “marketable” risk market have recently established new subsidiaries. In the case of SACE, this was specifically to cover short-term “marketable” risk in a sector of the market that they consider is being failed under the current system (that is, micro- and small enterprises). In the case of OND, it was more to cover short-term exports to non-EU/OECD markets, on which they have built up considerable experience over many years, not only to meet the needs of smaller exporters, which are often failed by the private sector insurers (in terms of inadequate buyer/country limits), but also larger exporters suffering the same difficulties and even exporters from outside Belgium who face similar difficulties from one or other of the “big three” in their own countries.

In all of the markets mentioned, indeed in all of the New Member States and “Applicant and Candidate” countries, the great majority of companies fall within the micro and SME categories. In Turkey for instance, about 95% of all enterprises are SMEs and they contribute about 30% of exports.

The apparent market failures, so widely acknowledged across Europe in respect of micro- and smaller enterprises, are clearly a major concern and a major problem within the EU in the context of export credit insurance and the avowed aim of providing a level playing field and fair market place through EU Communications. It is an area that we believe needs to be addressed by extending the current definition of “Marketable” Risk in such a way as to ensure that the many micro- and smaller enterprises, which currently cannot obtain export credit insurance, are enabled to do so. This is further examined in Section 8 - Recommendations.

4.10. Reconciling Private/Public Sector Interests

The principal difficulty is trying to reconcile the legitimate concerns of the private sector insurers in the face of what they might see to be an encroachment on their territory by (directly or indirectly) state-owned and often well-capitalised institutions set up with the purpose of competing with them in a specific sector of the market. This viewpoint will tend to disregard the fact that they are often unwilling themselves to cover some of the risks that ECAs and/or their subsidiaries will underwrite.

It also begs the question whether taxpayer money should be used in the first place to capitalise these government-owned institutions, and whether governments should be allowed to recapitalise them in the event that they suffer losses sufficient significantly to deplete or altogether to eliminate that capital. Clearly any such event would be subject to prevailing EU law regarding re-capitalisation.

They might also question the criteria against which these institutions would operate. In the private sector, companies are required to earn a minimum return on their equity. This imposes certain disciplines in respect of revenues and costs and will also affect the appetite for and management of risk within the enterprise. Although ECAs will maintain today that they are subject to similar disciplines and constraints, they may not be subject to the same return criteria as the private sector.

However, private sector associations have also expressed their concerns, which are echoed by government officials and the ECAs. There concerns are twofold. The first is that outside of the EU, export credit insurance is mainly provided by state-owned ECAs as part of their government's export promotion efforts. The ECAs are not subject to profit-maximising criteria, although of course no government would welcome large losses from their ECA. To the dismay of most governments, their ECAs in the past have miscalculated and incurred very substantial losses at one time or another.

In theory as well as, possibly, in practice, the service offered to exporters by non-EU ECAs may well be more attractively priced than that offered by the commercial ECAs within the EU. However, the differences in price are unlikely to be so great between an ECA operating at break-even and a commercial insurer. In many other areas of public services, it has often been found that a profit-seeking private operator can, in fact, offer a more cost-efficient and effective service than the state. The trans-national operations of the big three insurers enable them to offer such a cost-efficient and effective service.

Where the state can possibly provide a service of value is in political risk. The state will take a far longer time horizon than most private firms are prepared to, and even when there are substantial delays in payments, causing claim pay-outs and maybe inter-governmental debt rescheduling (for instance, the Paris Agreements), the state can be patient and wait for reimbursement. ECGD, the UK ECA, is currently receiving more cash from the reimbursement of past debts than in new premium income.

The question here is whether the interests of exporters in obtaining cover at attractive prices are more important than enabling private sector insurers to gain a larger part of the insurance market. In some cases, the ability of the state to take a longer-term view may mean that the exporter receives cover that may be denied by the private insurers or priced more expensively.

4.11. Small & Medium Scale Enterprises

4.11.1 Exporting to Eastern Europe

With regard to SMEs, there is a fundamental question: what is a small company and is it appropriate to assess a company's size by its total turnover or by its export turnover when considering export credit insurance? For example, a company that sells domestically 95% of its output and only sells intermittently abroad could be deemed to be a small exporter, even if overall, it is a medium sized company. If it chooses not to insure its domestic sales, should it be forced to in order to have its exports insured? Or, if it wishes to have only selected exports insured, should it be forced to insure all its exports?

If the export is to, say, Germany, then the exporter may well find a commercial insurer willing to offer a good rate; but if the export is to, say, Slovakia, then the exporter may consider the rate to be unacceptable. Because it is currently difficult for the SME to obtain comparable rates between commercial insurers and ECAs, it might be felt that if only ECAs could offer cover to SMEs, their terms would be more attractive. This is difficult to prove in practice without a special study.

In virtually all countries, SMEs face problems when it comes to obtaining export credit insurance. In some of these countries, SMEs constitute a large segment of the business economy and many of them used to sell into Eastern Europe. Germany and to some extent Austria, but also Sweden and Finland are amongst the countries in question. The velvet revolution caused many of these SME exporters to lose their markets as the ownership of enterprises in the East changed and the new owners focused more on price rather than claimed reliability or design of product. Bankruptcies and job lay-offs followed. At the same time, exporters from South and East Asia started to become far more interested in the Eastern European market.

The exporters from South and East Asia were very willing to offer credit terms, while the SMEs from Western Europe were unused to offering such terms. The commercial insurers were not geared up to insuring risks in Eastern Europe and lacked the necessary databases. This is now changing; the commercial insurers have established cooperative arrangements with some of the New Member State ECAs and/or have set up their own branches/subsidiaries. Gradually, the capability is being established for the commercial insurers to offer competitive terms to Western exporters, when, only a few years ago, they were unwilling or unable to do so.

4.11.2 Availability of Credit Insurance

Inevitably, wherever we went the question of SMEs was raised in the context of whether they could obtain credit insurance, either domestic or export, on the same terms and conditions as larger companies.

As already noted earlier in the Report, the SME sector faces many difficulties when it comes to export credit insurance. Certainly at the micro and smaller end of the spectrum, there is broad consensus amongst ECAs, chambers and governments – even if not willingly admitted by the private sector insurers – that these companies are seriously disadvantaged.

It could be argued that lack of availability of insurance cover from the private sector reflects the lack of demand. But this totally ignores the fact that lack of demand often reflects a lack of education and knowledge amongst SMEs about the complexities of export credit insurance. This is not only the case almost uniformly across the New Member States. It is also the case in most of the Old Member States, including in larger countries with well-developed economies, for instance Germany, Sweden, Italy and Spain, as well as in some of the less developed countries, such as Portugal and Greece.

Couple this lack of education to the fact that most micro- and smaller enterprises lack an acceptable spread of risk and portfolio diversification, and are unable to meet the minimum turnover and premium levels of private insurers, and the reason for their difficulties fall into their proper perspective and context.

To compound their problems, the ECAs, which should be able to assist them under the so-called "escape clause", are unable to do so, partly because of the lack of experience of the SMEs and partly because of the hugely cumbersome requirements of the "escape clause" itself. By the time the exporter has consulted two different private sector insurers, received a negative reply from each and then approached the ECA, the export opportunity may well have evaporated.

On a more positive note, what is worth noting, which may not be altogether appreciated, is that, in general, insurers and re-insurers have no difficulty with SMEs as the insured party. The cost of assessing an SME is not much greater than that for larger companies, provided the information is available in the first place. Both insurers and re-insurers have comprehensive databases that are constantly updated. The default and loss ratios are not significantly greater with SMEs than they are for other companies. As a matter of fact, the majority of insured risk, certainly by volume if not by value, falls into the SME category.

Where insurers do have a difficulty is with the handholding and processing costs of SMEs as customers although, to overcome this problem, serious efforts have or are being made by the "big three" in some of the countries in which they operate to offer special simplified products. These are often electronic web-based and on the whole have proved popular. This is also the case in the UK, where some of the alternative insurers, including Lloyd's Agents, have also established user-friendly electronic programmes specifically to cater for the needs of smaller companies at an affordable cost.

Even in these cases, however, there are minimum criteria that have to be met which are not always attainable by those who might wish to insure their receivables, and this is where an appropriate remedy needs to be sought.

Meanwhile, SMEs that are not normally insuring, and perhaps only exporting one or two items per year, will often find that commercial insurers are not interested in their business. The private sector insurers consider that this is specifically ECA business: non-repetitive, often single buyer, individual items. Given this viewpoint, it may be worth considering extending the definition of "marketable" risk to include provision for ECAs to insure single buyer risks, though limited perhaps to capital goods with payment terms in excess of six months.

Given that there appears to be a common problem in all EU member states, greater in some, less in others, regarding the availability of credit insurance, particularly export credit insurance, for SMEs, the question arises whether and how this might be resolved. Some alternative solutions to this problem are discussed in Section 8 - Recommendations.

5. The Alternatives to Export Credit Insurance

Most exporters would obviously like to be paid for their goods as soon as possible. At the same time, most buyers would like to delay payment for as long as possible. The terms of payment will often be dictated by the relative size of the two parties and the uniqueness of the products on offer.

Payment in advance and sight letters of credit will obviate export credit insurance and the need for any post-shipment financing. However, where extended terms are agreed, the exporter has various options to guarantee receipt of payment. Where insurance is not taken, the principal alternatives are deferred payment letters of credit, factoring and invoice discounting, and forfaiting.

5.1. Letters of Credit

The most desirable of these is likely to be a deferred payment letter credit where the costs of opening the L/C are borne by the importer. However, if the exporter is in a competitive situation, he may not be able to ask for a letter of credit, unless he is prepared to offer a discount on the sales price. Moreover, the bank of the importer may ask for collateral from his client to open the L/C, which reduces the benefit to the importer of any post-dating that may be accepted. Such costs and inconveniences would normally need to be reflected in the offered discounted price. Furthermore, the exporter may consider it necessary to ask his bank to confirm the L/C, which would incur a fee, if there were any doubt about the quality of the opening bank or the cross-border risk involved. Equally, if necessary, the exporter may realise cash by discounting the draft under the L/C with his bank.

5.2. Factoring

Alternatively, factoring and invoice discounting are commonplace means of anticipating payment of invoices. This may be done on a recourse or non-recourse basis either through a bank or more likely with specialist factors. Clearly non-recourse financing will always be more costly than recourse. Factoring is widely used in the more developed economies of Europe and is particularly popular in Italy where so many micro-enterprises and SMEs are otherwise unable to obtain insurance for their receivables.

5.3. Forfaiting

Finally there is forfeiting. Similar in some respects to factoring, it enables the exporter to offer foreign buyers supplier finance. However, whereas factoring generally involves the purchase of short-term receivables (say up to 180 days), forfaiting will often extend to terms in excess of five or even seven years.

5.4. The Comparative Costs

The primary difference between export credit insurance and any form of export financing lies in the cost. Insurance premium rates are geared to an assessment of the risk of buyer or cross-border default, but do not involve a financing cost. This is borne outside of the insurance transaction by the exporter either by borrowing money from his bank to finance the post-shipment deferred payment term, or by using his own cashflow – which clearly also carries a cost.

Any form of financing, be it discount of drafts under an L/C, factoring, invoice discounting or forfeiting, will attract a cost which is related to the interest cost of borrowing money in a given currency for a given term.

5.5. Conclusion

It will be up to the individual exporter to determine which method of securing payment of receivables best suits his interests, always assuming that he decides that some form of insurance is either necessary or desirable. For micro-enterprises and SMEs, the luxury of choice is rarely an option. Where insurance is not available, the only alternative is some form of bank financing, and banks, too, can be extremely risk-averse where it comes to lending to small companies with limited assets and track record.

6. The Availability of Reinsurance

During the course of the project, visits were made to three of the major Swiss-based re-insurers, correspondence was exchanged with a re-insurer in Bermuda, and an interview was held with one of the primary re-insurance brokers in London. There was a sufficiently uniform consensus amongst all of them regarding the state of the re-insurance market for credit insurance effectively to obviate the need to interview the other major re-insurers; for instance, Munich Re and Hanover Re in Germany.

Virtually all of the credit insurers ("big three", other private sector insurers and ECAs) re-insure their risk portfolios to one degree or another although, obviously, this does not extend to ECAs if they are insuring for account of the State (non-marketable risk). Each insurer will negotiate its own treaty with its re-insurers according to how much risk it is prepared to underwrite for its own account and what levels of quota share and catastrophe loss the re-insurers will accept. Insurers will also wish to place their re-insurance with a number of re-insurers – usually between 5 and 10 – to avoid dependence on a single re-insurer and to spread their risks. The system appears to work smoothly and all parties profess to be happy with the results.

One private sector insurer that is setting up a new subsidiary to insure short-term market risk in the NMS and some of the former Soviet Republics apparently proposes not to re-insure but to securitise its risk portfolio on the grounds that re-insurance has become overly costly. Whether in the long run this will turn out to be more cost effective and/or less risky remains to be proven.

6.1. Availability of Re-insurance

Newer market participants (for instance SACE BT and some of the smaller New Member State ECAs) tend to find it harder to obtain the levels of reinsurance they would like, primarily because the re-insurers are wary of insurers who have little or no track record. Re-insurers lay much emphasis on the proven ability of insurers to manage their risk portfolios with a high level of skill and expertise. Evidently, the wider the diversification of their risk portfolios and spread of risk the better.

6.2. Capacity

In comparison with a period, some three or four years ago, when re-insurers were going through a difficult time and, hence, when capacity in the re-insurance market was under some pressure, the situation today has significantly improved. It seems that there is currently over-capacity in the market. This means that re-insurance rates are now under pressure and during the recent year-end round of treaty renegotiations, policies have generally been renewed at lower rate levels.

The underlying question regarding the re-insurance market is whether and under what circumstances capacity will reduce significantly or indeed disappear altogether.

The state ECAs were established to kick-start the World Economy after the disasters of the Great War and the Great Depression. Only a temporary need for their services was anticipated. But the World is not a peaceful place punctuated by rare horrors; rather it is the other way around. As a result the state ECAs are still in business.

The re-insurers will confirm that there is always the possibility that capacity may reduce to the point where insurers may not be able to obtain the levels of re-insurance that they would like. This could be the result of catastrophic losses by the re-insurance sector or simply a redistribution of capacity to more profitable sectors. However, they consider the total evaporation of capacity to be inconceivable short of a mega-catastrophe or series of catastrophes affecting the whole of the re-insurance market. Even in these circumstances, however, the received wisdom is that the effects of supply and demand would come into force and new capacity would begin to emerge with companies enticed into the re-insurance market by the very high premium rates that would obtain under such circumstances. The development of Bermuda as a reinsurance centre was enhanced by the difficulties faced by the London market and in particular Lloyd's of London some years ago.

The reaction of insurers to the possibility of a severe reduction in capacity is that they would underwrite more for their own accounts. But the disciplines of good risk management would soon dictate that this could only continue up to a certain point and that the time would come when they too would have to limit the amount of new business they were prepared or able to underwrite.

6.3. Re-insurer of Last Resort

It may be prudent to plan for the unknown. There could be consolidation amongst reinsurers, just as there are now only three transnational insurers. It is possible that some unforeseen disaster may strike which cripples the re-insurers or significantly reduces their capacity to reinsure. The destruction of the twin towers of the New York World Trade Center certainly did affect re-insurers although the effect on capacity was marginal. However, further such major disasters, particularly if they strike simultaneously, could undoubtedly cause difficulties.

Were such an event to occur, the effects of which were to reduce re-insurance capacity to the point where credit insurers were themselves either forced to reduce their exposures or forced out of business altogether, the question arises as to whether or not some form of re-insurer of last resort should be established and if so how.

One of the reasons for raising this question is that in comparison with other parts of the world, such for example as the USA, Canada, Japan, South Korea and China, export credit insurers are owned by their governments which would be acting themselves as re-insurers of last resort. The implications of this are that ECAs in these countries, and others like them, could continue to insure exports from their respective countries, a facility, nevertheless, denied to exporters in the EU given that all short-term "marketable" risk, in theory at least, must be insured through non-government owned insurers whose access to the re-insurance market had dried up. The UK government does presently provide a re-insurance facility of last resort to the credit insurers in the UK but is presently considering whether to or not withdraw it given that, since 1991, it has not been needed.

There is a question that needs to be answered: how long is the planning horizon before it can be assumed that a mega-catastrophe would not break the re-insurance market?

Another may be: can it be assumed that a mega-catastrophe would not cause rates to rise significantly to the point where EU exporters were disadvantaged compared with non-EU exporters insured by state ECAs? A final question may be: how long might rates have to remain high before EU exporters were severely disadvantaged and lost markets due to higher rates than those faced by non-EU exporters?

It is unlikely that short-term rates would be severely affected, but, if the duration of marketable risks were to be extended, then it is more likely that capacity would be lost for long-term risks and risks on non-OECD countries.

7. Further Observations

7.1. The Risk of an Oligopoly amongst the Insurers

A first glance would seem to suggest that the risk of an oligopoly existing in the EU, certainly in the older member states, amongst the private insurers is real. There are three major firms, although very occasionally they are not all three present in each country. Nevertheless, in some countries one of the three may have as much as half of the market or even more. In other market sectors, such a concentration of market share would be likely to trigger a monopoly investigation.

Nevertheless, in many markets there are independent brokers and they do bring larger pieces of business to the London insurance market. However, the London market is usually more interested in special risks, rather than in small ordinary risks. Hence, for many exporters there is no alternative but to use one of the large private insurers.

Although Europe is such a big market, it cannot be assumed that the big three are in intense competition; there is enough business, domestic and export combined, for all three. Some EU governments, reflecting concerns expressed by their national business associations, are taking action. In Italy, a well-funded subsidiary, SACE BT, has been established by the state insurer, SACE. In Belgium, a similar operation is being undertaken to create another well-funded subsidiary of the state insurer, OND. Both the Czech and Polish governments are setting up subsidiaries under their respective insurers, EGAP and KUKE. However, in the new member states, the state-owned subsidiaries have the dominant market share; both EGAP and KUKE have about 50% of their respective export credit markets.

The risk of an oligopoly is not so much that there is price fixing; even though there are complaints that prices are high. The risk is more the fact that the EU represents a very large market for the big three insurers and they could become less interested in the smaller exporter – which is already a stated concern of several EU governments and chambers – or in any prospective customer that might need special attention.

7.2. The Ability of Insurers to Insure beyond the present Definition of Marketable Risks

It is true that commercial insurers are able and often do insure export credits beyond two years and for many more countries than just the EU or OECD. The real questions are:

- Is it sustainable?
- Is it universally available?

Sustainability is very difficult to prove. It depends upon the spread of risks and upon the extent that risks turn to losses. Some people believe that the World Economy has enjoyed some two decades of continuing growth; some people are also fairly confident that growth will continue for some years yet. But there are few who are confident that the World Economy is in a new era of perpetual growth. If the first two assumptions are correct, then care should be taken about extrapolating the past well into the future in case the World Econmoy is not in such a new era.

If the World Economy does turn down, trade falters and companies start to close or cut back on their production and sales. Private insurers then may lose some of their appetite for risk. This could be exacerbated if reinsurance becomes more expensive and difficult to obtain.

The effect would be a private insurance sector that became more choosy over what it would insure.

Moreover, the offer of terms by the private sector beyond the defnition of marketability is not universally available, even to larger companies. It is dependant upon the portfolio being offered. If the risks are perceived to be too high towards particular countries or customers, or if the insurer is highly or over exposed to the particular countries or customers, the rates may be increased or insurance is only provided with exceptions.

There does not seem to be any simple or workable definition for extending the definition of marketability for larger exporters. Or, at least, no definition was mentioned to the consultants.

7.3. The Ability of Insurers to Service SMEs

The private insurers have mentioned that there is a lower limit of export turnover below which they are reluctant to insure.

Whether an insurer is interested in an exporter as a customer depends on:

- his volume of domestic sales
- his experience and understanding of and confidence in using and insuring credit
- the credit-worthiness of the buyer and the perceived political risk of the buyer's country
- the spread of risk that the exporter has to offer.

Also, the break-even point seems to differ from country to country. Operating costs in the new member states may be lower than in the old member states. However, volumes are much higher in the old member states.

Moreover, the definition of what is clearly an SME in Germany may cover almost every enterprise in a country like Estonia. Finally, the EU definition of an SME is based upon turnover, assets and employment. These measures are used mainly because they are the only measures readily available. Many larger companies may have many of the characteristics common to SMEs; for example a technically–orientated management which lacks knowledge of financial products and marketing techniques. Such companies could also be of little interest to insurers because of the need to "hand-hold" them.

Hence, it would seem that the current definitions for SMEs are not of great value because they do not reflect their export volumes/values and do not reflect the amount of support they might need to be able to use credit successfully and for the credit terms negotiated to be insurable.

It may be, therefore that a different definition is needed for different groups of countries in the European Union.

7.4. The Risk that Reinsurance may Dry up

There have been times over the last 80 years or so when the reinsurance market came under stress and the availability of insurance became limited and the cost high. The insurance sector withstood the cost of the destruction of the Twin Towers well. But this was partly due to a lack of other disasters in the years previously. The Indian Ocean Tsunami did not affect insurers greatly as those who suffered most were mainly uninsured. But if there were a couple or more major disasters in the USA, Japan or Europe, the insurance community could have to retrench substantially.

The problems that affected Lloyd's of London some years ago were in part due to what was called "churning", reinsuring risks that had already been reinsured. Thus by chance or intention the risk was higher than would seem to be the case at first look. In the current market, some of the reinsurers have become part owners of insurance companies and other reinsurers, and some of the insurers have set up their own reinsurance subsidiaries. In such ways, the risks, unless carefully managed may become much higher than initially thought. Also, the consolidation of the reinsurance market has meant that risk is being spread across fewer companies.

Governments will sometimes step in when markets fails. However, in the field of export credit insurance, the European Union is in a unique position. In almost every other country in the World, apart from the Union, short-term export credit insurance is undertaken by state ECAs on behalf of the state. Many may operate their short-term business commercially and may reinsure part of the risk. But only in a very few countries outside of the EU, such as Australia and Israel, has the short-term business been privatised and the capability of managing the short-term business been lost to the state.

Hence, if the reinsurance market did dry up, it is mainly in Europe that states have lost their capability and resources to step in to run the short-term account on behalf of the state. Even then, the situation differs from country to country. In the UK, the state has completely withdrawn from the short-term market. However, in Belgium, OND, the state-owned insurer, is still insuring short-term risks and is in the process of placing its short-term business in a subsidiary. In Austria, the underwriting of short-term risk is undertaken by a subsidiary of the same private company that manages the state's long-term business. It is now also setting up a second subsidiary to specialise in Central and Eastern European risk.

Therefore, some capability remains within the EU states to step in if the situation warrants it. The question that needs answering is: is that capability really needed and will it be lost for ever as the sector becomes more and more dominated by the private companies.

The problem would be more difficult if the reinsurance market did not collapse completely, but became very much more expensive and risk-averse. Then EU exporters could be at a disadvantage compared with their competitors in non-EU countries who would still be insured by their respective states. Inevitably, it would take time for the EU member countries to decide the most appropriate means of intervention. But in that intervening time, EU exporters could lose market share to their non-EU competitors.

8. Recommendations

8.1. The Divergences in the Short-term Export Credit Market

Given the fractured and untidy state of the Export Credit Insurance market across the EU, it is recommended that:

8.1.1 Regarding ECAs

A. All State-owned ECAs to continue to be permitted to cover short-term non-marketable risk along with medium and long-term risk for Account of the State;

The purpose of this recommendation is to:

- Retain the status quo with regard to medium and long-term export credit insurance, and
- Ensure that all exporters who need export credit insurance in respect of non-marketable risk are able to receive it, providing it is in their nation's interest and abides with the government's international obligations

B. All State-owned ECAs to be permitted to insure "Marketable" risk export credits of SMEs:
- **Which conform to the EU definition of SME; and**
- **Which have exports of less than €2 million per year; and**
- **Whose exports subsequently exceed €2 million per year up to a maximum of €5 million per year.**

The purpose of this recommendation is to:

- Acknowledge the often legitimate concerns of governments, ECAs, Chambers of Commerce and other Business Associations that SMEs are having difficulties in obtaining export credit insurance;
- Enable micro-enterprises and SMEs to obtain export credit insurance where, in present circumstances, they may be unable to do so, because the cost of supporting the SMEs is not viable for commercial insurers.
- Provide for continuity in the relationship with the ECA, once started, up to the €5 million threshold of export turnover.

Note: Private insurers have stated that there is a turnover limit below which it ceases to be viable for them to promote new business. In addition, there is also a limit below which it is unprofitable to accept business. The limit, according to the insurers is around €1-1.5 million, but it is our belief that in practice it may be higher. Indeed, the Swedish ECA mentioned that SMEs with export turnovers as high as €10 million have difficulty in obtaining credit insurance. We believe that for purposes of this recommendation, this value is too high and relates to exporters with special circumstances, such as capital goods exporters with only a limited number of customers.

We also believe that, once an ECA has started to support an SME, which may be a new start-up, but, in any case, whose annual export turnover is less than €2 million, in order to provide some continuity of service, the ECA should be allowed to continue to provide insurance to the SME until the SME's annual export turnover has risen to €5 million; after which the SME should be required to seek insurance from the private sector, or indeed from the ECA's commercially orientated subsidiary, if it has one.

Of course, private insurers may compete with ECAs for the business of the SMEs at all times if they are so inclined.

C. All State-owned ECAs that continue to underwrite short-term "marketable" risks for their "Own Account" should be encouraged to do so through separately constituted commercially orientated subsidiaries. If it were legally possible, then ECAs should be required to do so.

D. Adjustment to these recommendations should be completed within a five-year transition period.

The purpose of these two recommendations is to:

- Achieve greater transparency in the "State Account"/"Own Account" operations of all ECAs;
- Ensure that all ECAs are conducting their business on the same basis;
- Give an appropriate period of time for ECAs to adjust to the new requirement.

E. In the case of single-buyer risks, consideration should be given to allowing ECAs to underwrite capital goods exports with a tenor of six months or more.

The purpose of this recommendation is to address the acknowledged reticence of private sector insurers to underwrite single-buyer risks and their claim that single-buyer risk is the natural preserve of the state-owned ECAs.

There is a view in the marketplace that, in some instances, the creation of the concept of marketable risks may have caused exporters to offer longer terms than before, or possibly, in some instances, for ECAs to offer insurance for longer tenors in order that the risk falls outside the definition of marketability.

This recommendation would obviate the need for such requests or offers for extended tenors and, therefore, reduce the risk of certain policies.

8.1.2 Regarding ECA Subsidiaries

F. All subsidiaries of ECAs (assuming that they are insuring for their own account) should be allowed to compete with all other credit insurers, within and without their countries of domicile, for domestic and export credit insurance and without regard for the definition of short-term "marketable" risk.

The purpose of this recommendation is to:

- Place ECA subsidiaries on the same footing as all other short-term credit insurers in the market;

- Increase competition within the European Union for all credit insurance business;

- Enable ECAs, (through their subsidiaries), to continue to provide export credit insurance in countries where this is still relatively undeveloped and/or where SMEs have limited access to this market;

- Enable other governments to set up similar subsidiaries, if they believe that SMEs in their countries need support, which private insurers are unwilling to provide.

G. Member governments should be encouraged to reduce their shareholdings in ECA subsidiaries and other credit insurers to a maximum of 30% by the end of a transition period of (say) five years so as to ensure that the subsidiaries/affiliates would be run on a commercial basis. If it were legally possible, then governments should be required to do so (providing that private investors were forthcoming).

The purpose of this recommendation is to:

- Obviate the accusation that taxpayer money is being used to capitalise (subsidise) state-owned institutions in such a way that they are perceived to benefit from a de facto state guarantee. An example of how such an accusation may arise would be if an institution's management is perceived to be assuming greater risks, than commercial managements might consider prudent under prevailing market conditions.

- Obviate the possibility of a government being faced with the decision to re-capitalise an ECA subsidiary that suffered the loss of a substantial part or all of its capital, and to obviate the need to consider whether this would even be permissible under EU Law.

- Encourage the subsidiaries/affiliates to operate within similar financial disciplines and with full reference to market norms as private sector insurers in respect of, for example, Return on Equity and Cost/Income ratios. For instance, it would not be acceptable for management to operate over the long-term at break-even, but rather to seek a competitive return for their shareholders.

- Enable the private shareholders to change the company's constitution if they believe it is required.

8.1.3 Regarding Private Sector Insurers

H. No change is recommended to the current status of Private Sector Insurers, but consideration might be given to permitting them to receive some form of periodic payment over a limited period from public funds to cover the special costs of marketing and delivering export credit insurance to SMEs, which:

- **conform to the EU definition of SME;**
- **have exports of less than €2m**

How the payment is calculated would need to be determined. It could be, for example, the difference between the commercial cost of marketing to and supporting exporters and the actual cost of supporting SMEs.

The private insurers, and ECAs and their subsidiaries could apply for the payment, for example, by providing their government with a business plan. The plan would show the marketing and support operations intended to be expended on the SME sector and identify the extra cost component, which needs to be expended, compared with marketing and supporting enterprises which fall outside the EU definition for SMEs, and which will not be recovered unless higher premia are charged.

The payment should diminish over the years (possibly a five-year period, which could be subject to review) as more and more SMEs become used to offering and insuring credit terms. There are also possibilities for the marketing and support services to be transferred to, or at least shared by, private sector organisations and other SME support organisations, which would enable the size of the payment to be reduced.

The purpose of this recommendation is to:

- Place private insurers on an equal footing compared with ECAs.

Note: it may be deemed that the introduction of a payment arrangement is too bureaucratic, costly and time-consuming to make it worthwhile considering. An alternative may be for the existing small enterprise support services, provided by member governments, to prepare joint educational/support initiatives with insurers to inform SMEs and to help them become comfortable with using insured credit terms as part of their sales negotiations.

8.1.4 Regarding Private Sector Insurers acting as agents of the State for non-marketable risk business

I. Recommend that private sector insurers, which at the same time act as agents of the State for non-marketable risk business (for example Coface in France, Atradius in The Netherlands and Euler Hermes in Germany), may also receive a payment from public funds for the extra cost of marketing

and supporting SMEs in the same manner as in G above (Private Sector Insurers)

8.2. The Potential Oligopoly Position of the Big Three

It is recommended that:

J. The European Commission should periodically inquire whether there exist oligopolistic situations in the provision of export credit insurance in Member States and whether it is to the detriment of exporters.

K Due recognition should be given to the situation of Governments of the smallest EU member states if it can be shown that the market within the country is too small to accommodate two or more locally-based commercial insurers and the market is insufficient to attract brokers and foreign-based insurers from marketing in the country.

8.3. The Definition of Marketable Risk

It is recommended that

L. The current definition of the limits of "marketable" risk remains unchanged but that ECAs be permitted to insure specific "marketable" risks as highlighted in Recommendations B and E.

The reasons for this recommendation are as follows:

- There is no clear evidence that a change to the current terminology is either necessary or desirable.
- There was a preference expressed by ECAs, private sector associations and by several government ministries that it should not be changed.
- The definition makes no material difference regarding the scope of the market for the private sector insurers.
- The exclusion of state supported ECAs from marketable risks, as presently defined, provides private insurers with a market of such a size that several viable businesses can be accommodated.
- Exclusion of ECAs from additional parts of the market would cause certain capital goods manufacturers to have increased complexities in securing insurance for their export credits.
- However, the proposed exceptions could have a material and beneficial effect on those SMEs that are currently excluded from the credit insurance market.

- It could also provide larger exporters with single buyer/country "marketable" risks to obtain insurance from ECAs where the private sector market is unable or unwilling to provide the cover required

In addition, an extension of the term from two to say three years and/or a broadening of the group of countries in the "marketable" risk definition will have the effect of reducing still further the business available to be insured by the ECAs.

This in turn will have the effect of:

- Reducing ECA revenues to the point where they cease to be economically viable entities. In this regard:
    - Supporting an economically unviable ECA might be seen as a form of subsidy.
    - Furthermore, ECAs need to be seen to be complying in the long term with WTO disciplines.
- Requiring a reduction in staff numbers, leading to:
    - A loss of expertise, not only in the underwriting of short-term credit insurance, (which is of course available in the private sector), but also
    - A loss of expertise in the underwriting of medium and long-term export credit insurance (which is not available in the private sector).
- The possible demise of ECAs altogether.

There is not a significant volume of export credit insurance business with terms extending to between two and three years.

- This would currently be covered by ECAs for account of the State.
- There are some private sector insurers in some of the Member States that might be prepared to underwrite this risk, but by no means necessarily in all and with certainty over a long time horizon.
- If private sector insurers are unwilling to underwrite these risks while ECAs may only do so for their own accounts, there is a possibility that cover for these exports will cease to be available altogether in a number of countries.

There is also the question of re-insurance.

- Not all re-insurers will necessarily be prepared to extend re-insurance cover to these kinds of exports.

An extension of "marketable risk" to three years could create confusion between OECD and EU regulations.

- At present the definition of short-term "marketable risk" covers the period up to two years.

- At the same time the OECD Arrangement on officially supported export credits runs from two years outwards.

In spite of some difficulties, there has been a reasonable level of economic growth over the past 20 years or more.

- It is not altogether clear what effect a prolonged period of economic downturn or stagnation might have on the credit insurance and re-insurance markets.

- It is considered that it would be prudent to retain the ECAs and the expertise they have built up, in many cases over a long period of time, against the possibility of a serious reduction in the availability of insurance and re-insurance capacity.

An extension of the definition of "marketable" risk would have the effect of:

- Widening the gap between what EU ECAs are permitted to underwrite and what ECAs in the rest of the world are underwriting.

- Causing EU exporters to find themselves at a disadvantage in comparison with non-EU exporters in respect of:

    - The availability of export credit insurance

    - The availability of re-insurance

    - Pricing - the cover may be available for a price, but that price may be sufficiently high for the exporter to become uncompetitive compared with others from non-EU countries, which are insured by state-ECAs that are required only to break-even over the long-term.

Appendix A:

Persons Interviewed & Who Answered the Questionnaire

Name	Institution	Questionnaires Answered (A)	Face-to-face Interview (I)	Interview by telephone (T)	Correspondence by E-mail (E)*9
Carl de Colle	WKO, Austria		I		
Rudolf Scholten Sylvia Doritsch-Iseppo	OeKB, Austria	A	I I		
Bertina Seiden	Prisma, Austria	A	I		
Silvia Maca	Ministry of Finance, Austria				E
Yves Windelinck Dirk Terweduwe Karine Boussart	Ducroire, Belgium	A	I I I		
Jean Luc Louis	Euler Hermes, Belgium		I		
Christopher Breyel	Brussels Chamber of Commerce, Belgium		I		
Mrs Danielle Fronville	Service public federal des Affaires etrangeres du Commerce exterieur, Belgium				E
David Bailey	ACE, Bermuda				E
Pavol Parízek Karel Šimsa Martin Růžička	EGAP, Czech Republic	A	I I I		
Hynek Rasocha Julius Kudla	Euler Hermes, Czech Republic		I I		
Carl-Johan Mortensen	EKF, Denmark	A			
Raivo Sulg	KredEx, Estonia	A			
Siim Raie	Chamber of Commerce & Industry, Estonia	A			
Ele Merike Pärtel	Ministry of Economic Affairs, Estonia				E
Markku Mäkinen	Finnvera, Finland	A			
Alain Paupert	Coface, France	A	I		
Janet West Jean Le Cocguic	OECD, France		I I		
Ludovic Senecaut	Euler Hermes SFAC, France	A			
Dr Erkhardt Moltrecht Volkmar Euler	Euler Hermes Kreditversicherung, Germany	A	I I		E
Dr Hans-Joachim Henckel Dr Sven-Olaf Heckel	Federal Ministry of Economics & Labour, Germany		I I		
Alexander Lau	DIHK, Germany	A	I		
Dr Heiko Willens	BDI, Germany	A	I		
Susanne Engelbach	VDMA, Germany	A			
Bernadett Szeplaki	MEHIB, Hungary	A			
Antonio Taddei Raoul Ascari	SACE, Italy	A 	 I		
Tullio Ferrucci	SACE BT, Italy	A	I		
Jean François Bellissen	Euler Hermes (SIAC), Italy		I		

*9 The correspondence identified in this column relates to questions from the consultants and answers by the recipients.

Name	Institution	Questionnaires Answered (A)	Face-to-face Interview (I)	Interview by telephone (T)	Correspondence by E-mail (E)[9]
Iveta Ozolina	Ministry of Finance, Latvia				E
Lina Skerstonaite	Ministry of Foreign Affairs, Lithuania				E
Simon Joachim	ODL, Luxembourg	A			
Robert Nijhout	ICISA, Netherlands				E
Bert de Jongh Robert Brixius	Atradius, Netherlands - State Account Atradius, Netherlands – Own Account	A 	 I		
Jaroslav Biernacki Grzegorz Kwiecinski	KUKE, Poland	 A	I I		
Wojciech Karpinski	Warta, Poland		I		
Jaroslav Konieczka	Atradius, Poland		I		
Jacek Krzmien Marek Rusnarczyk	AON, Poland		I I		
Maria Lina de Silva	COSEC - State Account COSEC - Owen Account	A A			
Cornelia Rotaru	Chamber of Commerce & Industry, Romania	A			
Ladislav Vaškovič Denisa Petriková Alena Žvaková	Eximbanka, Slovakia	A 	 I I		
Xavier Denacker	Coface Iberica				E
Marta Nodal Martin	Credito y Caucion, Spain	A			E
Beatriz Reguerro	CESCE, Spain	A			
Saila Turunen Haken Lunberg Robert Wickman	EKN, Sweden	A 	 I I		E
Christian de Filippi	Ministry of Foreign Affairs, Sweden				E
Peter Silberschmidt	ERG, Switzerland		I		
Lucien Hofman	Atradius, Switzerland		I		
Stefano Lorenzini	Swiss-Re, Switzerland		I		
Marcus Pollak	Partner-Re, Switzerland		I		
Jean-Pierre Knebel Winfried Knust	Converium, Switzerland		I I		
Alev Arkan Mehmat Seçkin	Eximbank, Turkey	A 	I I		
Namik Õnder	KGF, Turkey		I		
Duru Õzkaban Jale Artaş Miraj Karakuzu	TOBB, Turkey		I I I		
Kimberley Wiehl Lennart Skarp Anne Lise Sandvig Eeva-Maija Pietikäinen	Berne Union, UK & Prague Club & Finnvera		I I I I		
Patrick Crawford Robin Mayer Simon Foister	ECGD, UK	A 	 I I		
Chris Davies	Atradius, UK	A	I		
Neil Ross	AIG, UK		I		
Ewa Rose	ACE, UK		I		
Christopher Venturoso	Amlin Credit, UK		I		

Name	Institution	Questionnaires Answered (A)	Face-to-face Interview (I)	Interview by telephone (T)	Correspondence by E-mail (E)*9
Sue Morley	Credit Indemnity & Financial Services, UK		I		
Simon Scott	AON, UK		I		
John Orchard	Benfield Grieg, UK			T	
Jim O'Shea	Marsh, UK		I		
Rupert Boyle	Cooper Gay, UK		I		
Total		**30**	**62**	**1**	**12**

Appendix B:

The Replies by ECAs and Insurers to the Questionnaire

Below are included only those questions for which comparisons of the answers are possible. The numbers relate to the questions in the original questionnaire:

Key: **Insurer** – an export credit insurer operating on a commercial basis
OMS ECA – an ECA based in an old member state
NMS ECA – an ECA based in a new member, applicant and candidate state

1. Representation

1.4 What are the main export credit related risks (in terms of tenor, amount, whole or minimum percentage of turnover requirement, country, etc) that you cover from your office?

OMS ECA: All up to 10 years, 12 yrs for energy plants.

Insurer: Insures domestic and export marketable risks and whole turnover and investment goods up to 5 years credit.

OMS ECA: All up to 10 years, 12 yrs for energy plants, 15 yrs for investments.

NMS ECA: ST*[10] <24 months commercial, <12 months political both usually reinsured. If not reinsured, then covered by the state.

OMS ECA: 5-15 years, non-OECD, individual risks.

NMS ECA: Mainly marketable risks.

OMS ECA: ST whole turnover and single transactions and M&LT*[11] according to OECD consensus.

Insurer: Marketable risks worldwide; while turnover; terms up to 2 years. Average term <180 days; non-marketable risks for the account of the state.

OMS ECA: Non-marketable risks only - ST whole turnover was 50% of business (including policies for export turnovers of < €1 million).

NMS ECA: ST marketable risk on own account – whole turnover, average 90-100 days tenor, 50% of limits < €200,000; other ST risks and M&LT risks on account of the state.

OMS ECA: Over 24 months worldwide and <24 months in non-OECD countries.

*[10] ST – Short-Term
*[11] M&LT – Medium- & Long-Term

Insurer: Both domestic and exports usually within 12 months; max 24 months.

OMS ECA: Operates with a State guarantee for non-marketable risk and as an agent for a private insurer for marketable risks. Operates according to EU Communication for marketable risks and in conformity with OECD arrangements for M&LT risks. No minimum turnover, but requires whole turnover cover before accepting non-marketable risk countries.

OMS ECA: Major exposures are single transactions with a tenor of >2 years.

NMS ECA: ST Marketable risks with 85% cover and reinsured privately; and ST non-Marketable risks with 90% cover reinsured by the State.

OMS ECA: Non-marketable risks including whole turnover policies where commercial risks are for our account and political risks for the state account. There are no specific limits, only an overall limit set by Government.

Insurer: ST commercial risk on OECD countries.

Insurer: ST whole-turnover policies

Insurer: Average tenor is 6 months

NMS ECA: Offer 2 products: marketable risks up to 1 year (consumer goods up to 6 months) and non-marketable risks

OMS ECA: Commercial, political and extraordinary risks in home country; commercial and political risks covered by our branches abroad. Generally, whole turnover and for a max of 1 year.

Insurer: Minimum turnover €300,000, but allow some exceptions.

OMS ECA: ST non-marketable risks, M&LT commercial and political risks

NMS ECA: 176 countries, 365 days maximum, whole turnover.

OMS ECA: Project and Capital Goods between 2 and 10 years; and <2 years in non-marketable risk countries

1.5 Are there any restrictions to the business you underwrite?

OMS ECA: Minimum percentage national output content

Insurer: Not really, as long as it is reinsurable

OMS ECA: Minimum percentage national output content

NMS ECA: Lack of reinsurance capacity due to low limits

OMS ECA: Do not insure marketable risks

NMS ECA: There is a maximum credit limit and not to certain countries

OMS ECA: Minimum national content and a maximum limit for all business

OMS ECA: Adhere to international agreements and nationally there is limited cover for high risk countries

NMS ECA: Normal commercial restrictions. There is a global limits set for state-backed business.

OMS ECA: Write only non-marketable risks.

Insurer: Write only combined political and commercial risks; no public buyers.

OMS ECA: Restrictions linked to type of risk and cover provided.

OMS ECA: Risks on countries 3-7 in OECD classification with a tenor of >2 years and transactions of >€5 million; risks on countries 2 with a tenor of >3 years and transactions of >€50 million; risks on countries 1 with a tenor >5 years and transactions of >€250 million.

NMS ECA: Off-cover countries and transactions between affiliates.

OMS ECA: ST commercial risk is not eligible for state guarantee by itself for non-marketable countries.

Insurer: Has to be ST, buyer credit worthy and country not off-cover.

Insurer: Off-cover countries and limits to amounts.

Insurer: None.

NMS ECA: Yes, scope of countries, minimum self-retention, maximum repayment period, percentage of national origin.

OMS ECA: No restriction on commercial risks, but reinsurance difficult for more than 1 year for political risk.

Insurer: Yes, based on tenor and nature of risks; M&LT risks & financial transactions generally excluded. Political risks covers sometimes.

OMS ECA: No turnover requirements, no ceilings on amounts or countries, government sets limit for maximum liability and requirement to break-even over the long term.

NMS ECA: Territorial risk determined by Government's strategic interests.

OMS ECA: Do not compete with private sector and do not provide cover for countries subject to UN sanctions. Transactions must meet our risk

standards and are within our capacity.

1.6 Is there sufficient insurance capacity, from within the private sector, in the countries you cover to meet the demand for short-term export credit insurance at an affordable price without the need for state-underwritten ECAs?

OMS ECA: Since January 2005 no longer provide ST cover – there is sufficient cover now that commercial subsidiary established

Insurer: Yes

OMS ECA: Not always as private insurers take a too short a term view

NMS ECA: No – strong pressure from reinsurers for profitable business raises premia – affects especially SMEs*[12]

OMS ECA: Impression sufficient capacity for marketable risks

NMS ECA: No, private insurers not interested in volumes < €2 million

Insurer: Yes

OMS ECA: No, there is a lack of interest in SMEs, there is a minimum premium

OMS ECA: No, there is limited cover for construction and agriculture, SMEs often fail to reach minimum premium requirements, there is no export only cover

NMS ECA: Insufficient capacity for higher risk countries – Russia, Serbia, Ukraine, Turkey, Bulgaria. Also limits on some major EU buyers

OMS ECA: Believe private sector cover insufficient in the ST market.

Insurer: No, SMEs suffer from lack of appetite of insurers, high minimum premia, high rates and complex procedures.

OMS ECA: There is insufficient capacity and willingness in the private sector to cover certain exporters at an acceptable price. Specifically, SMEs and difficult markets – reflected by a lack of data and poor financial records.

OMS ECA: No, there is insufficient coverage by the private sector for risks of between 1 and 2 years.

Insurer: For OECD, private sector meets demand for ST cover at an affordable price.

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*[12] SME – Small and/or medium sized enterprise; SE – Small enterprise, LE – Large or larger enterprise.

Insurer: There is sufficient insurance capacity, though it is sometimes claimed not to be so.

Insurer: Currently, yes.

NMS ECA: No, SMEs face difficulties when only 2 or 3 customers; their small volume is an administrative burden.

OMS ECA: For marketable risks there is sufficient capacity, but for non-OECD countries there are low ceilings and coverage on a case by case basis – which is a constraint to doing business.

Insurer: Yes, for short-term risks - there is sufficient capacity in the private sector.

OMS ECA: No, not fully, lack of willingness and capacity in private market for cover small transactions and to meet the needs of SMEs.

NMS ECA: There is a lack of private insurers and alternative means of mitigating risks.

OMS ECA: Yes

2. <u>"Marketable" Risk</u>

2.1 Is the EU's definition of "marketable" risk relevant or useful in terms of current practice in the countries in which you do business?*

OMS ECA: No

Insurer: The definition is relevant and useful, but we are able to cover risks in non-marketable countries.

OMS ECA: What is marketable changes in practice, very small scale exporters are not in practice because the cost of servicing them

NMS ECA: Not much, not logical to say marketable is when reinsurable and then certain countries marketable – they may not be reinsurable

OMS ECA: Present definition works well

NMS ECA: No, SMEs find it difficult to obtain insurance – they are not marketable

OMS ECA: No, private insurers do not cover SMEs in practice – SMEs need single transaction policies, have high-risk concentrations. Escape clauses do not work as difficult to obtain written evidence, time consuming, SMEs lack the resources to obtain evidence.

Insurer: Not for private sector.

OMS ECA: No longer, SMEs often do not have access to the market or pay prohibitive minimum premia; some products are only offered selectively by the private market.

NMS ECA: Definition should be flexible to reflect changing perception of risk; some public debtors are not easily marketable.

OMS ECA: There is a market failure for SMEs due to their small size and the higher administration costs to service them.

OMS ECA: The definition's advantage is that it is clear, but it does not reflect the difficulties of SMEs which are of little interest to private insurers and the fact that the insurers of non-OECD competitors are state-owned, putting EU exporters at a competitive disadvantage.

OMS ECA: The present definition serves its purpose if it is enforced by the Commission. It is in our interest that other ECAs are not allowed to cover marketable risks.

NMS ECA: Yes, but consider the definition of marketable is being capable of being re-insured.

OMS ECA: It is relevant and useful, but could be improved.

Insurer: Yes.

Insurer: Definition is needed to avoid unfair competition from ECAs.

Insurer: No.

NMS ECA: Definition is now out-of-date due to new entrants.

OMS ECA: Yes, it is relevant as it defines the risks, which can normally be insured by private insurers.

Insurer: The EU definition is not exactly the same as ours – we cover political and commercial risk only on non-public debtors and in all countries (not just OECD & EU).

OMS ECA: No, it is too theoretical, simple and rough; only looks at the buyer country; certain kinds of risk are not-marketable regardless of country; some single transactions are not marketable. Classifies new & applicant member countries as marketable without analysis of the capacity of private insurers and reinsurers. The escape clause is too laborious to execute.

NMS ECA: The definition is not relevant and ECA does not distinguish between marketable and non-marketable at the moment.

OMS ECA: Current definition appears to reflect current private sector market capacity

2.2 *If not, how would you change the definition of "marketable" risk? Is a definition required at all?*

OMS ECA: No definition required

Insurer: If decide to extend the range of countries which are marketable – how can one sensibly define those countries. Also it is not practical to divide a country. There is no benefit in extending the tenor because there is very little business over 2 years and what there is, is often specials and one-offs.

OMS ECA: Need to take OECD consensus into consideration, need to consider SMEs, and for ECAs to be able to react if market fails, need to consider whether it is healthy to have 85% of marketable risks in the hands of only 3 players.

NMS ECA: Define marketability on the ability to reinsure, not on countries.

NMS ECA: Exclude SMEs from the definition.

OMS ECA: State ECAs should not compete, but complement; ECAs may insure capital goods <2 yrs, SMEs below a export turnover threshold, single transactions and with limited number of buyers.

Insurer: Not for the private sector.

OMS ECA: State ECAs may co-exist with the private sector, but should not undercut the market.

NMS ECA: The definition should take into account differences in cedents; reinsurers more willing to accept higher individual or country risks from the large insurers – who can offer more business and broader spreads.

OMS ECA: Doubt whether a definition is required at all.

OMS ECA: A clear definition that gives legal comfort is welcome; but it should allow for intervention by ECAs in case of market failure and take into account the specific situation of SMEs as well as the issue of very large transactions. The communication should allow flexibility.

OMS ECA: Consider all risks in EU as marketable with the exception of very large risks or with a very long tenor.

NMS ECA: Leave the definition.

OMS ECA: Marketable risks are those less than two years on public and non-public debtors which are reinsurable in the private sector at an affordable price.

Insurer: Marketability is complex – present definition only refers to exports, some non-OECD and non-EU countries are marketable and some risks are

covered only on an ad-hoc basis.

Insurer: There is no need for a definition

NMS ECA: Omit some or all of the new entrants and applicant countries.

OMS ECA: With non-OECD and non-EU countries there are risks, such as devaluations and economic crises, which would affect the availability of reinsurance and, if the definition of marketability were to be extended, it could not be regarded as fixed. This would cause uncertainty for exporters and for ECAs.

Insurer: The definition should allow the exclusion of public debtors, but include all countries.

OMS ECA: Definition should take into account market willingness and ability. Need an exemption for small contracts, portfolios, turnovers and enterprises. Definition may be less than €1.5 million pa of exports.

NMS ECA: Almost all enterprises (>90%) are SMEs and SMEs provide 30% of all exports. A definition needs to take their needs into consideration.

OMS ECA: No need to change the definition.

3. <u>Competition from state-aided ECAs (state-aided ECAs need not answer this section, but may comment)</u>

3.1 Are there any state-aided ECAs (policies underwritten by government), which compete directly with you for short-term export credit insurance business? If so, in what way?

Insurer: ECAs do not really compete because we insure domestic as well as export and we focus on marketable risks, while ECAs focus on non-marketable export risks.

NMS ECA: Always try to reinsure ST so consider this commercial. Only turn to the state if cannot reinsure

NMS ECA: State insurer tries to be commercial. Brokers not taking SME business to private insurers (volumes too small)

OMS ECA: State ECAs outside Europe not constrained by ST Communication and exporters from emerging markets are gaining a competitive edge.

Insurer: No

OMS ECA: Do not see a real competition problem; state ECAs offer services which the private sector are not willing or able to provide.

NMS ECA: ECAs complement the private sector, they do not compete; they

also sometimes risk-share.

Insurer: No.

OMS ECA: Any ECA that covers ST business or MT business in high income OECD countries up to €250 million per deal will compete with private insurers.

Insurer: No competition between ECA acting on behalf of the State and on its own account. But state ECAs of other countries are now offering credit insurance to exporters in direct competition with us.

Insurer: In Belgium, the ECA has set up a subsidiary with a capital of €150 million, x3 the capital of the largest private credit-insurer in the market. In Italy, the ECA has set up a subsidiary with a capital of €100 million. Both will compete directly with private insurers (in Switzerland, GRE is planning the same).

Insurer: Any ECA which covers ST or MT business on high-income OECD countries up to € 250 million per deal will be a competitor.

Insurer: Yes, there is one; we compete in ST regarding rates, % of cover, products, services, etc.

OMS ECA: ECAs outside of EU provide ST insurance so their SMEs are in a better position than SMEs in the EU.

3.2 *What about competing with you for medium/long-term business? If so, to what extent?*

Insurer: We compete with the local ECA only rarely because we are insuring our customers' whole turnover, while ECAs are insuring capital goods and individual transactions.

OMS ECA: If marketability were extended, then loss of competitiveness would be catastrophic for EU exporters against non-EU OECD.

NMS ECA: ECAs may be regarded as catalysts for generating business because of their financing role.

Insurer: We have limited business in the M&LT.

Insurer: ECAs do compete with us.

Insurer: We do not cover M&LT risks.

3.3 *Are their policy terms the same as yours or more beneficial for the exporter? If so, in what respect are they more beneficial?*

Insurer: The ECA's terms are no more beneficial than ours.

NMS ECA: Think that other commercial insurers offer broadly the same terms.

NMS ECA: Private insurers do not provide suitable conditions for companies with small volumes.

OMS ECA: Conditions from ECAs in W Europe are fairly equal; competition is more in the field of cover policy.

Insurer: There seems to be no significant difference between our offers and those of competing insurers.

Insurer: The two new subsidiaries of the ECAs could be very aggressive over pricing given their capital base.

Insurer: They are the same, except that clients can gain FREF (fixed rate export finance) by the Government.

Insurer: They are more beneficial in some terms - premia rates and % of cover.

3.4 *Do you consider that the state-aided ECAs provide unfair competition? If so, in what respect?*

Insurer: No, they do not provide unfair competition; they are complementary. ECAs need a certain amount of spread to be viable; otherwise they cannot offer reasonable rates.

NMS ECA: No, for ST we offer terms which are reinsurable

OMS ECA: ECA is mandated to complement the market, not compete with private insurers.

NMS ECA: No, ECAs operate in areas in which the private sector is reluctant to do business – unfair competition is not an issue.

OMS ECA: ECAs are complementary to private insurers and only intervene in cases of market failure. Being public does not mean trade is distorted. State-aided ECAs are required to break-even over the long-term under WTO rules.

OMS ECA: Yes, in countries where ECAs insure ST risks and other risks which are reinsurable.

Insurer: Not really.

Insurer: The large capital allocations to the two new subsidiaries show that they do not share the expectations of the private insurers regarding profitability and return on capital. This could lead to under-pricing and unfair competition.

Insurer: No

Insurer: It is not fair regarding rates and coverage. In the event of loss they are covered by the government. Private shareholders demand a minimum return on their investment – the State does not.

OMS ECA: ECAs apply prudent risk assessment and charge premia, which reflect the risk. ECAs complement the market; they do not compete with it.

3.5 Do you offer the same or a broader range of products than state-aided ECAs (or other state-owned insurers)?

Insurer: We offer a broader range because we insure domestic risks as well.

OMS ECA: ECAs do not necessarily undercut the market, they often offer a broader range of products, WTO rules mean that ECAs have to at least break-even in the LT, private insurers may reduce prices in order to win market share. The big 3 each have contracts to manage state accounts, which is an advantage over other insurers that do not have such research paid for.

NMS ECA: For ST reinsured product modular structure to accommodate needs of client. If state backed; only a single product.

Insurer: No, we focus on ST commercial cover only.

Insurer: The range of products offered is large, including collection, financing of receivables, etc.

Insurer: Our commercial operations offer a broader range of products than our ECA.

Insurer: In the short-term, we offer a broader range.

4. Reinsurance

4.1 For what percentage of your export credits do you seek reinsurance?

OMS ECA: Do not seek reinsurance.

Insurer: 35% retained; 65% reinsured.

OMS ECA: ST – 60% credit risk, 25% political risk.

NMS ECA: Only 5% of ST Government backed. 65% of ST policies are reinsured, 35% retained risk.

OMS ECA: Do not reinsure ST portfolio and have agreements with other ECAs for M&LT.

NMS ECA: State insurer does not re-insure, would like an excess of loss treaty.

OMS ECA: ST – do not seek reinsurance; M&LT on a case-by-case basis seek co-insurance.

Insurer: Quota share plus 20% XL.

OMS ECA: State Insurer does not seek reinsurance.

NMS ECA: 90% of our ST business is reinsured with 50% retention.

OMS ECA: State Insurer does not seek reinsurance, though sometimes co-insures.

Insurer: 30% retained, 70% reinsured.

OMS ECA: 50% retained, 50% reinsured for both commercial and political risk.

NMS ECA: 50% retained, 50% reinsured.

Insurer: 50% retained, 50% reinsured under quota-share treaties. Additional reinsurance may be sought for special cases – single risks.

Insurer: 60% retained, 40% reinsured.

Insurer: 50% retained, 50% reinsured.

NMS ECA: 30-35% retained, 65-70% reinsured.

OMS ECA: 55% retained, 45% reinsured of commercial risk; 90% of political risk reinsured for customers based abroad; 100% of non-marketable political risk of local customers insured by the state.

Insurer: 60% retained, 40% reinsured.

OMS ECA: Only seek reinsurance or co-insurance on a case-by-case basis.

NMS ECA: ECAs retains 30% and seeks reinsurance for 70%.

OMS ECA: none in the ST field.

4.2 *Do you have any difficulty obtaining re-insurance, locally or internationally, for the exports you insure?*

Insurer: No, we do not have difficulty reinsuring, but it is sometimes difficult to find reinsurance at a good price. Many reinsurers have loss money on their investments recently, while reduces their capacity and forces up the rates.

OMS ECA: ST - may be not so easy for large transactions or large amounts to single buyers.

NMS ECA: Yes, ST – lack of reinsurance for large transactions and limits of individual buyers, corporate groups, and countries.

NMS ECA: Does have some reinsurance treaties, but they are expensive due to small volumes.

OMS ECA: ST no experience; M&LT depends on risk and maturity (co-insurance).

Insurer: No.

NMS ECA: Most of our business is reinsured under an automatic facility. But when there are special requirements (high amounts to individual buyers or to difficult countries), it is difficult securing reinsurance and the client often will not insure only part, so all the business is lost.

Insurer: Appetite of re-insurers has decreased significantly over recent years.

OMS ECA: Have a reinsurance agreement with a foreign state ECA, but not with any private reinsurer.

NMS ECA: No.

Insurer: Mainly insure ST commercial transactions with OECD buyers and there is no special difficulty in obtaining reinsurance. Non-OECD political risk reinsurance is more difficult to obtain.

Insurer: We do not have any difficulties obtaining reinsurance.

Insurer: No

NMS ECA: There are no local reinsurers, but do not face problems with foreign reinsurers, except with inclusion of certain new and applicant countries to the EU.

OMS ECA: Difficulties in obtaining reinsurance for commercial risks increase year-by-year. Difficulties regarding reinsurance of political risks are greater.

Insurer: No, we have not faced any capacity problems.

OMS ECA: Market capacity has varied from time to time.

NMS ECA: No, have never had any difficulty.

4.3 Do reinsurers differentiate between policies issued in favour of SMEs and larger companies – i.e. reject or have higher premia for those relating to SMEs?

Insurer: No, they do not differentiate.

OMS ECA: ST – quota share treaties do not differentiate according to size of contract or the insured

NMS ECA: ST - Reinsurance rates have increased, affecting SEs ability to pay, so we do subsidise SEs by premia charged to M&LEs.

Insurer: No.

NMS ECA: No.

Insurer: No

OMS ECA: There are higher premia for SMEs.

NMS ECA: In general, no.

Insurer: There is no differentiation between large and small companies.

Insurer: Reinsurers do not differentiate between policies written for SMEs and larger enterprises.

Insurer: No.

NMS ECA: No, because they assess the overall treaty results.

OMS ECA: No, reinsurers do not differentiate.

Insurer: No, reinsurers do not differentiate between SMEs and Larger companies.

NMS ECA: No.

4.4 Are terms and conditions imposed on you by reinsurers restrictive in accepting business? If so, in what respect?

Insurer: We have special limits for aggregate exposure per risk/special risk; but no other restriction.

OMS ECA: Only ever limits per buyer.

NMS ECA: ST – limits on accession countries.

NMS ECA: Political risk coverage for difficult countries within marketable risk business is quite restrictive. Also public buyer acceptance and high amounts on private buyers within the EU is also quite restrictive.

Insurer: Not particularly.

NMS ECA: In general limits are higher enough not to cause a problem.

Insurer: There are restrictions regarding amounts, tenor and countries.

Insurer: When we decide on taking a risk (our assessment of the creditworthiness of the portfolio) we can usually find reinsurance.

Insurer: No.

NMS ECA: Yes in terms of country acceptance and risk quality.

OMS ECA: The maximum amounts of risk and tenors are agreed, as are the geographic scope and specific risks to be excluded. The tenor of political risk is far shorter.

Insurer: No, the terms are not restrictive – there is a maximum tenor and a maximum limit per single risk, but they do accept exceptional circumstances.

NMS ECA: No, risk and territory are determined by ECA

4.5 Can you generally obtain reinsurance for risks outside of the EU definition of "marketable risks" – e.g. longer tenors, non-OECD members, etc?

Insurer: We obtain reinsurance for the risks we want to cover.

OMS ECA: The reinsurance market is more open to difficult markets than the insurance market, but it still depends on the spread in the portfolio.

NMS ECA: Yes, can obtain reinsurance on several non-OECD countries.

Insurer: Yes.

NMS ECA: No for longer tenors, but yes for some non-OECD countries.

Insurer: Can only obtain reinsurance on non-OECD countries with parent company.

OMS ECA: Have a reinsurance agreement with a foreign state ECA and other ECAs for special projects.

NMS ECA: Yes, non-OECD countries generally accepted, save for a few countries; longer tenors are never demanded.

Insurer: Yes, but only for ST transactions with some countries and restrictions as to the amounts.

Insurer: We do not have difficulties in obtaining reinsurance for countries outside of the EU and OECD – it depends on the creditworthiness of the

buyers.

Insurer: Yes.

NMS ECA: Yes, from time to time on a facultative basis.

OMS ECA: Only, in very exceptional circumstances for short tenors and small amounts.

Insurer: Yes, reinsurers will cover non-OECD countries and sometimes more than 2 years.

NMS ECA: Can usually reinsure risks >2 years because they are a small part of our portfolio. Greater problem is non-OECD countries which is a large part of our portfolio, but usually succeed.

OMS ECA: Does not reinsure, but does sometimes co-insure.

4.6 *If so, in what way does it exceed the definition of "marketable risks"?*

Insurer: We obtain risks cover for many non-marketable countries

NMS ECA: It exceeds the number of countries, but not the tenor

NMS ECA: It exceeds the number of countries, but not the tenor

Insurer: Includes most non-OECD countries.

NMS ECA: Some non-OECD countries are included in our reinsurance treaties.

Insurer: Reinsurance can be obtained for ST political risk with restrictions for buyers in some non-OECD countries.

Insurer: It exceeds the number of countries.

Insurer: Up to 5 years, all non-OECD countries, except a few.

NMS ECA: Mainly it exceeds the number of countries.

OMS ECA: Only in terms of the countries of destination.

Insurer: Usually non-OECD countries and sometimes longer than 2 years

NMS ECA: Includes non-OECD countries.

4.7 *To what extent does (lack of) capacity in the reinsurance market affect your ability/willingness to underwrite new export credit insurance business?*

Insurer: Not at all.

OMS ECA: It affects only the amounts or specific country risk – ECAs do absorb such risks, sometimes share risks with other ECAs and reinsurers.

NMS ECA: It affects SMEs in that reinsurers want only profitable policies – could support x5 times the business is profit considerations were more reasonable.

NMS ECA: Not at the moment.

Insurer: Not at present.

NMS ECA: Difficult to assess; but if a limit on a buyer or country is restrictive on a marketable risk, then the customer will not take the policy, even if the majority of his business is covered.

NMS ECA: No negative effect.

Insurer: A global offer to exporters selling to buyers in risky countries is not commercially feasible.

Insurer: There is no lack of capacity.

Insurer: Does not affect our business.

NMS ECA: Mainly in the M&LT business we face a lack of reinsurance capacity on the more risky countries.

OMS ECA: Reinsurance is limited and where risks cannot be reinsured, it has to be provided by the State.

Insurer: There is sufficient capacity, so we are not affected.

OMS ECA: No impact.

NMS ECA: In order to ensure ability to reinsure, we insure usually whole-turnovers.

OMS ECA: A lack of reinsurance capacity may affect ECA's ability to take on new M&LT business where it already holds a high concentration of risks or the cost of assuming such risks is high.

4.8 Are there any technical, legal or economic barriers to the development of private re-insurance within the new, candidate and applicant EU member states?

Insurer: No, there are not any barriers.

OMS ECA: Technical – lack know-how, economic – need volume to start

NMS ECA: Legal – the fee to set up a reinsurance company may be too high

NMS ECA: Small size of the local market

NMS ECA: There are no legal or economic barriers, the market is fully liberalised; the constraint is one of economies of scale – too small to enable a local reinsurer to start and the big reinsurers already taking most of the market.

NMS ECA: No

Insurer: There are no technical, legal or economic barriers to the development of re-insurance in these countries.

Insurer: No

NMS ECA: There are no known barriers, but none has set up as yet.

NMS ECA: Yes

4.9 If so, what are they and how could they be overcome?

OMS ECA: Training, which ECAs often provide at no cost; insurers tend to use new ECAs as agents

NMS ECA: The capacity of existing reinsurers needs expanding

NMS ECA: Perhaps there could be some form of pooling arrangement amongst the member states to enable a regional reinsurer to be created.

NMS ECA: Past financial resources together with fluctuations in the economy have been barriers to the development of insurance and reinsurance markets. Progress to joining EU has meant greater stability and inward investment.

5. Acceptance of Export Credit Insurance

5.1 Are local companies increasingly insuring their exports? If not, why not?

OMS ECA: No, business volatile

Insurer: No: it is difficult to say why not.

OMS ECA: No, business is already well developed; exporters manly selling to neighbouring countries and do not perceive risks because last 10 years have not been so bad economically

NMS ECA: No, credit insurance market in Czech Republic before 1994, now premia worth €15 million

OMS ECA: Experiencing a growing demand for M&LT insurance.

NMS ECA: Insurance premia increased x4 between 2003 and 2004.

OMS ECA: No, large companies already insure whole turnover, SMEs want to insure on a case-by-case basis, which is difficult to obtain.

OMS ECA: ST stable over recent years, 2004 increase by 10%; M&LT more volatile with steep increase in 2004.

NMS ECA: Yes.

OMS ECA: Yes.

Insurer: There is increased demand, but there is also a reduced appetite amongst private sector insurers and increasing rates over last 3 years.

OMS ECA: Yes, we also act as a one-stop-shop for exporters and organise promotional activities.

OMS ECA: It depends upon the economic situation and varies year by year.

NMS ECA: Yes.

OMS ECA: No, national exports have not increased in last 2 years. Also our traditional markets are off-cover so neither has political risk cover.

Insurer: There is no change in recent years.

Insurer: Exports are growing.

Insurer: No, in general fewer exports are being insured due to the cost of insurance eating into the margins. More and more companies are self-insuring.

NMS ECA: Exports are growing and so is the use of credit insurance and so is the competitiveness of the market.

OMS ECA: Yes, they are.

Insurer: Our countries SMEs are exporting more often and they do not know the buyers well and so are turning the credit insurance as partners to share the risk of default.

NMS ECA: Yes, especially over last 2 to 3 years.

5.2 *What, if any, alternatives are they adopting to protect themselves from the risk of default?*

OMS ECA: Self- insurance, factoring, and forfaiting

Insurer: Self-insurance, captive solutions.

OMS ECA: Carry the risk, self-insurance, L/Cs or factoring

NMS ECA: Self- insurance, factoring

OMS ECA: Self- insurance, L/Cs, factoring.

NMS ECA: Factoring.

OMS ECA: Self-insurance or bank products.

OMS ECA: Forfaiting or L/Cs; often no protection.

NMS ECA: Non-recourse factoring, Letters of credit.

OMS ECA: Absorbing the risk or discounting or factoring.

Insurer: Self-insurance and non-recourse cession to banks and factors.

OMS ECA: Self-insurance or letters of credit, pre-payment or factoring.

NMS ECA: Additional securities from the buyer.

OMS ECA: Letters of credit and self-insurance; also factoring and bank guarantees.

Insurer: Letters of credit, bank guarantees, factoring. Sometimes the risk can be transferred to the bank – non-recourse.

Insurer: Self-insurance and no insurance.

Insurer: Self-insurance, factoring, counter-trade.

NMS ECA: Factoring, L/Cs, documentary credits, bank guarantees.

OMS ECA: Self-insurance and factoring.

Insurer: The alternatives could be factoring, L/C confirmations and securitization.

NMS ECA: Confirmation of L/Cs, factoring, working capital guarantees, self-insurance, but these alternatives not well developed in country.

5.3 Is your business increasing, staying the same, or decreasing in terms of value (money) and volume (numbers of policies issued)? What are the reasons?

OMS ECA: +16% M&LT 2004/2003

Insurer: Increasing; especially exports and new domestic businesses

OMS ECA: 2004/2003 there is an increase

NMS ECA: Business increasing, penetration still low compared with 'old' EU

OMS ECA: Increasing

NMS ECA: Increasing

OMS ECA: ST business decreasing due to expansion of EU.

OMS ECA: ST in 2004 - 10%.

NMS ECA: ST business increasing in terms of value and volume because we are underwriting domestic risk since January 2003; also, better and more focused marketing and national exports increasing. M&LT business increasing in volume, but not so much in value.

OMS ECA: Business is increasing in terms of value and countries covered due to marketing and product flexibility.

OMS ECA: Increasing.

OMS ECA: Business is very dependent on economic situation in developing countries and trade in general; turnover affected by one-off deals.

NMS ECA: Increasing.

OMS ECA: Business of the state is decreasing; partly because traditional markets are off-cover for political risk.

Insurer: Business declined between 2000 and 2004 due to competition from other insurers. In 2004, there was a slight recovery in number of policies issued and in premia.

Insurer: Business is growing in terms of value and volume.

Insurer: Increasing due to the improving economic situation, decreasing in terms of policies.

NMS ECA: It is growing, but not rapidly; heavy competition and growing numbers of SMEs.

OMS ECA: Business is increasing and the market is expanding.

Insurer: It is increasing in terms of value and volume. The reasons are: our companies are actively seeking export markets and we have developing consulting services to help exporting.

OMS ECA: M&LT business increased during 2004. ST business decreased because ceased to cover marketable risks as of 1 May 2004.

NMS ECA: ST insurance is increasing slightly as exports are increasing and

increasing tendency to provide credit to buyers.

5.4 *What percentage of your business comes to you direct from exporters and what percentage through other brokers?*

OMS ECA: Do not use brokers.
Insurer: 33% from all forms of agents of which half is from brokers.
OMS ECA: 50% direct, 50% brokers.
NMS ECA: 80% direct, 20% brokers.
OMS ECA: None, business from exporters and banks.
NMS ECA: 100% from exporters.
OMS ECA: 100% from exporters.
Insurer: 50% direct, 50% from brokers.
OMS ECA: 100% from exporters; do not pay brokers for ECA business.
NMS ECA: 85% direct sales; 15% brokers.
OMS ECA: 100% from exporters.
OMS ECA: 100% from exporters.
OMS ECA: 100% from exporters and their banks.
NMS ECA: 80% exporters, 20% brokers.
OMS ECA: Law forbids intermediation of brokers for state account.
Insurer: (including domestic business) 64% direct sales, 36% brokers.
Insurer: 40% exporters, 60% brokers.
Insurer: 10% exporters, 90% brokers.
OMS ECA: All ST business comes from exporters.
NMS ECA: Business from brokers is negligible.
OMS ECA: 70% direct or through agents, 30% from brokers.
Insurer: 90% from exclusive agents, 10% from brokers.
NMS ECA: 100% form exporters.

5.5 *If there is a lack of brokers locally, does this affect the ability of exporters to obtain export credit insurance?*

OMS ECA: No
Insurer: No, very few brokers have more than a limited knowledge of export credit insurance. It becomes dangerous when a broker pretends to know more than he does.
OMS ECA: Brokers well developed in Belgium
NMS ECA: Could be more brokers, but companies used to going direct
OMS ECA: Brokers not used
NMS ECA: No lack of brokers but they focus on factoring
OMS ECA: There are local brokers
Insurer: Brokerage is well developed in our country
OMS ECA: No.
NMS ECA: There is only one specialised credit insurance broker (difficult to obtain market information from him); some non-life brokers entering the market.
OMS ECA: Yes, especially brokers focusing on SME clients.
Insurer: There are only few brokers specialised in export credit insurance; but insurers have their own networks.
OMS ECA: For marketable risks, we act as a broker.

NMS ECA: No lack of brokers observed.
Insurer: No, there is no lack of brokers.
Insurer: There is no lack of brokers.
Insurer: No.
NMS ECA: There are general insurance brokers, but they consider the product too specific and complicated.
OMS ECA: There is no lack of brokers.
Insurer: No, there are 6 insurers in the market, so it is very easy to obtain credit insurance.
NMS ECA: The lack of brokers does not prevent exporters from approaching ECA.

5.6 Can you provide estimates for 2004 and 2005 of the growth in the value of exports you expect to insure?

OMS ECA: M&LT 2004 – 16%; 2005 no estimate.
Insurer: 2004 – 15%; 2005 – less of an increase.
OMS ECA: ST 2004 – 10%; 2005 – 5-10%.
NMS ECA: ST 2004 – 20%.
OMS ECA: 10% mainly M&LT.
NMS ECA: 2004 – 400%; 2005 – 60% (86% marketable).
OMS ECA: expect business to remain at same levels.
OMS ECA: 2004 – 33%; 2005 – stable.
NMS ECA: 2004 – 2.7%; 2005 - 14.3%.
OMS ECA: 2004 - 45%; 2005 – 15%.
OMS ECA: 2004 – 10%; 2005 – 10%.
NMS ECA: 2004 - 18%; 2005 – 11%.
Insurer: 2004 – 4.7%; 2005 – 7.8%
Insurer: 2004 – 3%; 2005 – 10%.
NMS ECA: 2004 – 32.6%; 2005 – small increase.
OMS ECA: 2004 – 5.5%; 2005 – about the same. The growth in premia income is lower than the growth in exports.
Insurer: 2004 – 10%; 2005 – 20%.
NMS ECA: 2004 – 16%; 2005 – 7-10%.

5.7 (Only answer 5.7 and 5.8 if you do business with exporters from new, candidate or applicant EU countries or have knowledge of the countries) Are local exporters generally able to insure their exports to, respectively:

OMS ECA: Possibility to insure is not only linked to certain countries or regions. Size of business provided by exporter important. May not insure if turnover too small.

5.7.1 Old EU member states,

Insurer: Yes.
OMS ECA: Yes.
NMS ECA: Yes.
NMS ECA: Yes from ECA, volumes too small for private insurers.

NMS ECA: Yes, with some capacity problems on big buyers.
OMS ECA: Yes.
NMS ECA: Yes.
Insurer: Yes.
Insurer: Yes.
NMS ECA: Yes.
NMS ECA: Yes.

5.7.2 New EU member states,

Insurer: Yes.
OMS ECA: Generally no problem.
NMS ECA: Yes.
NMS ECA: Yes from ECA, volumes too small for private insurers.
NMS ECA: Partly.
OMS ECA: Not for all of them.
NMS ECA: Yes.
Insurer: Yes.
Insurer: Yes.
NMS ECA: Yes, but reinsurance limits apply.
NMS ECA: Yes.

5.7.3 Candidate and applicant EU countries?

Insurer: Yes.
OMS ECA: Capacity on Turkey may already be utilised.
NMS ECA: Yes.
NMS ECA: Yes from ECA, volumes too small for private insurers.
NMS ECA: Partly.
OMS ECA: No.
NMS ECA: Yes.
Insurer: Yes.
Insurer: Yes.
NMS ECA: Yes, but reinsurance limits apply.
NMS ECA: Yes.

5.8 If not, what are the constraints facing them? For example:
- *lack of experience of the risks inherent in deferred payment terms;*
- *knowledge of export credit insurance and how to use it;*
- *lack of local insurers.*
- *other?*

OMS ECA: Lack of reliable sources of knowledge.
NMS ECA: Lack of appetite by reinsurers.
OMS ECA: There is a constraint of whole turnover policies, which increase costs.
NMS ECA: The knowledge how to offer export credits and how to insure the risk is increasing, but profit margins are often low and costs are sometimes too high.

6. <u>Relating to your Insurance Market</u>

6.1 Is there a competitive local export credit insurance market?

OMS ECA: Yes.
Insurer: Yes.
OMS ECA: Yes.
NMS ECA: 3 players: Coface 50%, EH 35%, Atradius 15%.
OMS ECA: Yes, the big 3 are present in the market.
NMS ECA: No, private insurers not interested in SMEs as volumes too small.
Insurer: Yes.
OMS ECA: There is a competitive market – ECA products are not identical to the private sector's.
NMS ECA: Yes, for middle size and large companies.
OMS ECA: No, there is a competitive market only for non-SMEs.
Insurer: The big three take 90% of local market.
OMS ECA: Local market is small but highly export driven; private insurers are interested in large companies, but not the SMEs.
NMS ECA: Yes, between the big three, the local ECA, and a few local insurers.
OMS ECA: In terms of public support, no.
Insurer: Yes, there is a competitive market.
Insurer: The market is very competitive within the EU.
Insurer: Yes.
OMS ECA: Yes, big three in the country; ECA only provides cover when there is no capacity or willingness – sometimes in the form of risk sharing.
NMS ECA: Yes.
OMS ECA: Yes.
Insurer: Yes, our market is very competitive with 6 players.
NMS ECA: There is a small, but growing market of local insurers in joint venture with major international insurers.

6.2 Is the market expanding, consolidating or both?

OMS ECA: Expanding.
Insurer: Slightly expanding.
OMS ECA: No of insurers consolidating, spread of offers reducing.
NMS ECA: Expanding.
NMS ECA: Expanding.
OMS ECA: Expanding moderately.
NMS ECA: Expanding.
OMS ECA: Expanding.
Insurer: Market stalled in 2002/3, but is now recovering.
OMS ECA: The credit insurance market is consolidating.
OMS ECA: Consolidating.
NMS ECA: Expanding.
Insurer: The market seems to be expanding.
Insurer: The Market is expanding.
Insurer: Expanding in terms of volume, decreasing in terms of policies.

NMS ECA: Expanding.
OMS ECA: Expanding.
Insurer: The market is both expanding and consolidating.
NMS ECA: Expanding.

6.3 *Can SMEs obtain insurance on the same general terms and conditions as larger companies and with the same premium rates?*

OMS ECA: Regarding M&LT – yes

Insurer: Yes, have special products for SMEs and offer them to SMEs in neighbouring countries as well.

OMS ECA: Private market not eager, SMEs do complain that they cannot obtain same rates as larger firms

NMS ECA: No, their customers considered higher risk and they are an administrative burden

OMS ECA: ECAs charge the same rates for SMEs as for larger companies

NMS ECA: From ECA, private insurers not interested in market

OMS ECA: No, according to SMEs

Insurer: Size matters; issues of scale exclude the smaller SMEs

OMS ECA: Smaller enterprises cannot obtain same conditions as larger enterprises. Smallest companies of no interest to the private insurers; face a minimum premium.

NMS ECA: In theory, yes. Practically, small companies are not the target market for private credit insurers because of the higher distribution costs. Premium rates usually higher for small companies.

OMS ECA: Yes.

Insurer: SMEs face higher rates, but conditions are more or less the same.

OMS ECA: Private insurers not eager to insure SMEs and SMEs are complaining about difficulty in obtaining insurance and the high cost compared to the cost to larger companies.

OMS ECA: Yes as far as we are concerned.

NMS ECA: Yes, some insurers, such as the ECA, offer special products.

OMS ECA: Yes.

Insurer: Special terms and conditions are offered to SMEs, but price can be higher as turnover is lower.

Insurer: SMEs obtain insurance on the same terms of larger enterprises. We consider SMEs a key target and have recently launched a special policy for SMEs.

Insurer: No, issues of scale impact upon premium rates. Service offered is differentiated on size and importance of customer. Large customers receive a relationship manager, whilst SMEs receive an automated telephone service.

NMS ECA: Generally no because of risk and administration costs.

OMS ECA: The terms are similar; however the premia rates are higher due to the small volumes.

Insurer: Generally, the terms and conditions are almost the same.

OMS ECA: ECAs experience and recent studies show that 50% SMEs interviewed have difficulties to obtain cover for single transactions or single buyers.

NMS ECA: Yes

6.4 *Are there restrictions for SME exporters obtaining insurance in terms of, say, a minimum export value, or a whole or minimum percentage of turnover requirement, other (if so what) ?*

OMS ECA: No.

Insurer: Minimum premium €950 pa.

OMS ECA: Yes, minimum premia of around €3,500 and minimum turnover of € 2-5 million – policies designed for EU15 not EU25+.

NMS ECA: Yes, minimum number of buyers (3 to 5).

OMS ECA: No.

NMS ECA: No.

OMS ECA: Yes, according to SMEs.

Insurer: In effect, yes.

OMS ECA: Yes, face a minimum premium.

NMS ECA: No legal restriction, but private insurers focus on M&LE and there is a minimum worthwhile turnover.

OMS ECA: No.

Insurer: Minimum turnover, minimum premia, minimum number of buyers –

only 15% of SME market is insured because of these constraints.

OMS ECA: Often there is a minimum premium of €3,750 and a minimum turnover of about €5 million. Often policies are designed for EU markets.

OMS ECA: The only determinants are their expertise and financial position.

NMS ECA: No with regards to the ECA.

OMS ECA: Most exporters are SMEs and are treated the same as larger exporters.

Insurer: There is a minimum premium charged.

Insurer: We do ask for a minimum premium for the smallest SMEs to meet the profit expectations of shareholders.

Insurer: Only restriction is based on an internal constraint based on cost and profitability of managing and servicing policy.

NMS ECA: We make no such restrictions.

OMS ECA: All companies have to provide whole of turnover.

Insurer: In principle, no. We offer a wide range of products, which relate to the customer's profile and size.

OMS ECA: The big three have stated that they do not accept small customers (< € 1.5 million) because administration costs too high.

NMS ECA: No restrictions, rather some easier facilities for SMEs.

6.5 Are there any insurance schemes (for example promoted by the Government or by Government Agencies) which specifically encourage or support SME exports?

OMS ECA: No

Insurer: No

OMS ECA: ECA provides SME with the same tariffs and conditions as larger companies; ECAs do also work with SME agencies

NMS ECA: No, there is a need for a scheme for SMEs, which cannot find insurance at an affordable price

OMS ECA: Not necessary.

OMS ECA: No.

OMS ECA: Simplified schemes for SMEs.

NMS ECA: No, however, there is a streamlined administration for SMEs provided by insurers.

OMS ECA: No.

Insurer: Subsidiary of ECA has been created to improve penetration of credit insurance amongst SMEs.

OMS ECA: We apply same premia and conditions to all companies. State ECAs will insure small risks and risks with a limited number of debtors, which private insurers may not. We have published a book on risk management, which is distributed free to all clients.

OMS ECA: No, but financial instruments for banks – direct guarantees – are mostly used by SMEs.

NMS ECA: A market research policy to cover the costs of failing to enter new market.

OMS ECA: No, for the moment.

Insurer: No.

Insurer: The size of the company should not call for a state-aided scheme (though it may be some other criteria), except for the smallest ones with a maximum turnover of around €0.5-1.0 million.

Insurer: No.

NMS ECA: no special insurance schemes; however 70% of portfolio is SMEs. There are special schemes for SMEs in our banking division; other schemes available through Small Business Centres, the Development & Guarantee Bank.

OMS ECA: We offer a special policy for SMEs, which is easier to manage and mainly covers commercial risks as most SMEs export to EU countries.

Insurer: There are some schemes promoted by the Government but only in cooperation with the ECA.

OMS ECA: ECA offers simplified product for SMEs for non-marketable risks with <250 employees and €44 million turnover

NMS ECA: Offer more favourable terms to SMEs in existing ST whole-turnover policies

6.6 *Are there ways that Governments could support or encourage SMEs to compete by offering credit to their export customers and to lessen the impact of default by their customers?*

OMS ECA: A Guarantee to acquire a/cs receivable

Insurer: No

OMS ECA: By offering credit to SMEs as well as insurance

NMS ECA: By allowing SMEs to be insured on state account or reinsured by the state.

OMS ECA: Only in the form of guarantees.

OMS ECA: By SME support agencies.

NMS ECA: The main issue is the cost of marketing and policy handling. Building up SME portfolios is costly and the return limited. These costs should be met externally.

OMS ECA: Yes, by making sure that SMEs have access to export credit facilities.

Insurer: Yes, reduce the IPT for SMEs.

OMS ECA: Our one-stop-shop is aimed at enabling easy access to credit insurance.

OMS ECA: One could have special programmes for SMEs, but there are not any in our country.

NMS ECA: Yes, providing market information and marketing techniques. Also, setting up financial institutions to assist SMEs.

OMS ECA: Simplified applications and review, simpler pricing, automated processing; positive discrimination towards SMEs. Even where insurance is available, SMEs need expert advice and affordable policies.

Insurer: If not available to all, it could lead to unfair competition.

Insurer: Support a subsidised policy.

OMS ECA: Governments should guide exporters to create diversified portfolios with healthy customers. It should aim less at financing buyers and more at insurance against the risk of default.

Insurer: Yes, the Government and Chambers do support and encourage SMEs through various programmes – finance, consulting, etc.

OMS ECA: If ECAs could fill the gap of small turnovers and Small Exporters, the situation of SMEs would improve vis-à-vis SMEs from non-EU countries.

NMS ECA: Yes.

6.7 Many insurers are selective with regard to the exports they will insure, even in whole of turnover contracts? For exports rejected by insurers, what alternatives are there for exporters, other than to carry the credit risk on their own books?

OMS ECA: For ST – Gov should act as insurer of last resort
- for M&LT – split contract, accept higher self-participation, pay higher premia

Insurer: The ECAs

OMS ECA: Risk sharing, help the exporter to improve the structure of his deals.

NMS ECA: In theory alternatives but they are much more expensive.

OMS ECA: Seek L/Cs or factor.

NMS ECA: ECA is not selective, unless buyer not creditworthy.

OMS ECA: Self-insurance.

Insurer: Cash, L/Cs, Documentary collections, Factoring, Invoice discounting, Forfaiting.

OMS ECA: Often risk mitigation is too costly for the exporter or not accepted by the buyer.

NMS ECA: There are alternatives, but usually exporters have to shoulder their own risks.

OMS ECA: Discounting bills and factoring – but it is selective.

Insurer: Ceding the risk to banks which are also selective.

OMS ECA: Private insurers are very selective and may reject if portfolio is too small or imbalanced. Banks also tend to be selective. State ECAs tend to be the only alternative. If a state ECA rejects a proposal, it tends to mean that it is too risky or poorly structured. State ECAs play an important role in helping exporters to improve the structure of their deals and, hence, reduce risk.

NMS ECA: Demand cash or bank guarantees.

OMS ECA: Exporters turn to the State or to banks which require collateral and cost more.

Insurer: Risk may be coverable by the State; if not, there are letters of credit and bank guarantees, but at higher costs.

Insurer: Can buy from financial institutions protection.

Insurer: Demand cash, L/Cs, documentary credits, bills of exchange, bank

confirmations.

OMS ECA: We market whole turnover policies excluding those customers whose solvency is insufficient. The alternatives are self-insurance, factoring or another insurer.

Insurer: Banks offer alternative such as factoring, confirming, forfaiting and securitisation.

NMS ECA: Limited as other risk mitigating products poorly developed; hence, have to demand from the buyer cash or confirmed L/C from reputable bank.

6.8 Is capital allocation an issue or a constraint for you or for the market in general?

OMS ECA: No.
Insurer: No.
OMS ECA: Less of an issue being public.
NMS ECA: No.
OMS ECA: No.
NMS ECA: Only if volume to single buyer is large.
OMS ECA: No.
NMS ECA: Exporters have lower levels of equity and funding capabilities, therefore are less able to absorb losses.
OMS ECA: Not at the moment.
Insurer: Not an issue.
OMS ECA: Capital allocation is an important issue for the insurance sector in general. As we have had almost always positive annual results, capital is not a problem for us.
NMS ECA: No.
Insurer: No, we have sufficient capital. We have no knowledge of competitors because they are based abroad.
Insurer: No, capital requirement is regularly according to the risk portfolio and loss ratios.
Insurer: Yes, but it has to be taken in the context of the risks available to underwrite.
Insurer: Capital allocation is not a problem today.
NMS ECA: Not for ECA, but may be a constraint for private insurers.

7. Statistics

7.1 If available, can you provide statistics?

7.1.1 For the last 2 years (2002, 2003) of the country's total exports and, if possible, with estimates of the proportions covered by short-term and by medium/long-term credit insurance?

OMS ECA: 7% for all business.
OMS ECA: 2002 ST 2.3% M&LT 0.5%; 2003 ST 2.3% M&LT 0.6%.
NMS ECA: 2002 NMS ECA insured 5.6% of exports; 2003 5.7%.

OMS ECA: <1% of total exports, almost all LT.
NMS ECA: 2002 ST 0.2%, 2003 ST 0.27%.
OMS ECA: 2002 - ST 0.4%, M&LT 1.3%; 2003 - ST 0.5%, M&LT 0.9%.
OMS ECA: 2002 - ST 1.7%, M&LT 0.9%; 2003 - ST 1.7%, M&LT 0.8%.
NMS ECA: 2002 – ST 0.55%, M&LT 0.10%; 2003 – ST 0.71%, M&LT 0.29%.
OMS ECA: 2002 – ST 0.15%, M&LT 1%; 2003 – ST 0.22%, M&LT 1.16%.
OMS ECA: 2002 – ST 2.7%, M&LT 0.4%; 2003 – ST 3.2%, M&LT 0.9% (we covered 39% of all exports to non-marketable risk countries).
OMS ECA: 2002 – 0.39%; 2003 – 0.36%
NMS ECA: 2002 – ST 2.02%, M&LT 0.12%; 2003 – ST 2.29%, M&LT 0.22%.
OMS ECA: (state cover only) 2002 – ST 0.1%, M&LT 0.05%; 2003 – ST 0.06%, M&LT 0.01%.
Insurer: all business: 2002 – 13%; 2003 – 10%.
Insurer: Not available as insure whole turnover.
Insurer: 2002 – all business: 2.2%, 2003 – 1.8%.
NMS ECA: 2002 – ST 1.8%, M&LT 1.04%; 2003 – ST 1.54%, M&LT 0.21%.
OMS ECA: 2003 – 5.4% all exports..
NMS ECA: 2002 – ST 7.6%, M&LT 0.08%; 2003 – ST 6.5%, M&LT 0.08%.

7.1.2 (Estimates or forecasts) for this year and next (2004, 2005) of the country's total exports and the proportion of exports which are likely to be covered by, separately, short-term and by medium/long-term credit insurance?

OMS ECA: 7% for 2004, no estimate for 2005.
OMS ECA: 2004 - ST 2.3% M&LT 0.6%; 2005 - ST 2.3% M&LT 0.6%.
NMS ECA: Remain around 5.7%.
OMS ECA: M&LT <1%.
NMS ECA: 2004 ST 0.9%.
OMS ECA: 2004 exports 3%; 2005 exports 4-6%. M&LT cover will increase slightly, ST cover will decrease.
OMS ECA: 2004 expect an increase in business and proportion.
NMS ECA: 2004 – ST 0.79%, M&LT 0.10%; 2005 – ST 0.74%, M&LT 0.19%.
OMS ECA: 2004 - ST 0.26%, M&LT 1.63%; 2005 - 2.07% combined.
NMS ECA: 2004 - ST 2.20%, M&LT 0.69%; 2005 - ST 2.15%, M&LT 0.20%.
OMS ECA: 2004 – 9%; 2005 – 9%.
Insurer: Not available as insure whole turnover.
NMS ECA: 2004 – ST 1.95%, M&LT 0.6%.
OMS ECA: 2004 – 6.3% total exports.
NMS ECA: 2004 – ST 5.6%, M&LT 0.05%; 2005 – ST 5.5%, M&LT 0.30%.

7.1.3 For the last 2 years (2002, 2003) and for this year and next (2004, 2005) provide estimates (or guesses) of the proportions of all policies held by insurers for their own account, and the proportion reinsured?

NMS ECA: All ST policies on own account reinsured.
NMS ECA: Do not reinsure.
OMS ECA: Do not reinsure.
OMS ECA: Do not reinsure.
NMS ECA: 2002 – 51% own account, 49% reinsured; 2003 - 52% own account; 48% reinsured; 2004 – 48% own account, 52% reinsured; 2005 – 47% own account, 53% reinsured.

OMS ECA: 2002 - 87% own account, 13% reinsured; 2003 - 97.3% own account, 2.7% reinsured.
Insurer: 50:50 on average.
NMS ECA: 2002 - 64% own account, 36% reinsured; 2003 - 61% own account, 39% reinsured.
Insurer: 50% reinsured and decreasing.
Insurer: Not available as insure whole turnover.
NMS ECA: 2002 – 2004 30% own account, 70% reinsured; 2005 25/30% own account, 70/75% reinsured.

Appendix C:

Trade Statistics

The tables provided in this Appendix are from statistics prepared by the OECD. Table 1 provides an analysis of export volumes of goods and services, based on the real percentage changes from year to year after deducting for price inflation. The table has been split into three: Old EU member states, New EU member states and Non-EU states.

From the table it may be seen that many of the old EU member states enjoyed fairly rapid growth in exports in 1999 and 2000. Then in 2000, the growth stalled until the end of 2003 after which moderate growth restarted which is forecast to continue in 2005 and 2006.

However, in 2004, only Sweden's exports grew at a faster rate than the average for the OECD countries. However, in 2005, it is expected that Austria, Ireland, Sweden and UK will enjoy exports growing at a faster rate than the OECD average. But in 2006, only Greece will outstrip the OECD average.

But since 2000, the exports of all of the new member and applicant countries, whose statistics have been provided, have increased faster than the OECD average; sometimes by substantial amounts.

In non-EU states, the picture is mixed with strong growth being seen in Korea and in last year and in the forecast years, the USA is predicted to enjoy faster than average growth.

Table 2 provides an analysis of export performance based on the ratio of export volumes for each country and export markets (the weighted average of import volumes). The table shows that all of the old EU countries have been performing poorly over the entire period. This contrasts greatly compared with the new member and applicant countries. However, apart from Korea and Mexico, the non-EU OECD member countries have also not performed well.

What stands out is the extremely aggressive performance of China that is followed by "Other Asia" which is largely India.

Table 3 provides an analysis of export market growth, which is based on the import volumes of each country. The old EU member countries had strong demand in 1999 and especially in 2000. This demand seems to have been present worldwide. Similarly, demand almost collapsed in 2001, though it has risen year by year until 2004, after which it is predicted to decline again slightly. However, demand in both Japan and Korea is predicted to grow. This is matched by the "Dynamic Asian countries, such as China, Malaysia and Thailand and in Central and Eastern Europe.

This analysis is developed in Table 4. Since 2003, trade growth has been slowest in European OECD. The main regions of trade growth are China and other non-OECD countries in Asia. The European OECD countries seem to be losing market share, their contribution to World Trade growth fell from 37% in 1999 to an expected 30% in 2005.

Finally, in Table 5, it may be seen how the OECD member countries are losing their share of world exports. The share has fallen from 74.5% in 1999 to an expected 67.8%

in 2006. Similarly, with imports, the share of OECD countries is diminishing from 75.8% in 1999 to an expected 70.2% in 2006. The region that seems to be picking up the growth is non-OECD Asia (China and India, among others) with exports rising from 15.1% in 1999 to an expected 18.8% in 2006 and imports rising from 13.9% in 1999 to an expected17.9% in 2006.

Table 1.
Export volumes of goods and services
(National accounts basis, percentage changes from previous year)

	1999	2000	2001	2002	2003	2004	2005	2006
EU – Old member states								
Austria	5.7	10.5	6.8	3.8	1.4	8.1	8.0	7.9
Belgium	5.3	8.2	1.8	1.3	1.7	3.6	6.3	7.4
Denmark	12.2	13.4	4.4	4.8	0.0	4.9	6.0	6.4
Finland	6.1	19.4	-0.8	5.2	1.2	2.2	5.8	6.0
France	4.2	13.4	1.9	1.7	-2.6	3.4	6.0	7.5
Germany	5.1	14.2	6.1	4.1	1.8	8.1	5.7	8.1
Greece	18.1	14.1	-1.0	-7.7	1.0	4.3	7.5	8.7
Ireland	15.2	20.4	8.5	5.7	-0.9	6.6	8.8	7.2
Italy	0.1	9.7	1.6	-3.4	-3.9	4.5	6.1	5.4
Luxembourg	14.8	17.3	1.8	-0.6	1.8	6.7	7.4	7.7
Netherlands	5.1	11.3	1.6	0.8	0.0	6.4	7.1	7.5
Portugal	2.9	7.8	1.0	2.0	4.0	7.3	6.1	6.2
Spain	7.7	10.1	3.6	1.2	2.6	5.3	7.6	7.4
Sweden	8.2	11.1	0.4	1.0	5.3	10.7	8.0	7.8
United Kingdom	4.3	9.4	2.9	0.1	0.1	2.6	7.9	8.2
EU- New member states								
Czech Republic	5.7	16.8	11.8	2.7	6.2	16.7	12.0	10.4
Hungary	13.1	21.8	7.8	3.7	7.2	14.7	12.6	12.2
Poland	-2.6	23.2	3.1	4.8	14.7	13.4	12.2	12.6
Slovak Republic	5.0	13.7	6.3	5.5	22.6	14.5	12.3	13.0
Turkey	-7.0	19.2	7.4	11.1	16.0	14.5	13.9	12.6
Non-EU states								
Australia	4.7	10.9	1.8	0.3	-2.6	6.4	8.3	9.8
Canada	10.7	8.9	-2.8	1.1	-2.4	7.7	6.8	5.6
Iceland	4.0	5.0	7.7	3.6	0.3	6.3	5.1	6.8
Japan	1.5	12.4	-6.1	8.0	10.1	14.4	7.4	8.0
Korea	14.6	19.1	-2.7	13.3	15.7	21.1	13.3	15.3
Mexico	12.4	16.4	-3.8	1.5	1.1	12.4	8.4	8.4
New Zealand	8.1	6.0	2.5	6.3	1.7	6.3	4.3	7.6
Norway	2.8	4.0	5.0	0.1	1.2	2.4	2.6	3.8
Switzerland	6.5	12.2	0.2	-0.2	0.0	4.1	5.1	5.6
United States	4.3	8.7	-5.4	-2.3	1.9	8.9	9.2	10.0
Total OECD	**5.4**	**11.6**	**0.0**	**1.9**	**2.4**	**8.3**	**7.8**	**8.5**

Note: Regional aggregates are calculated inclusive of intra-regional trade as the sum of volumes expressed in 2000 US$.

Volume data use hedonic price deflators for certain components.

Source: OECD Economic Outlook 76 database.

Table 2
Export performance for total goods and services
Percentage changes from previous year

	1999	2000	2001	2002	2003	2004	2005	2006
EU – Old member states								
Austria	-0.5	-1.5	4.4	2.0	-3.4	-0.6	-0.1	-0.9
Belgium	-1.6	-3.3	0.1	-0.8	-1.4	-3.7	-1.4	-0.9
Denmark	5.7	2.0	3.7	3.2	-3.8	-2.5	-1.6	-1.4
Finland	1.0	6.2	-2.7	1.7	-4.4	-6.7	-3.1	-3.2
France	-2.7	2.4	0.3	-0.6	-6.3	-3.9	-2.1	-1.3
Germany	-1.0	1.8	4.4	1.0	-2.4	-0.5	-2.9	-0.8
Greece	10.9	2.1	-2.3	-10.5	-3.7	-4.3	-1.1	-0.3
Ireland	7.2	8.2	7.4	3.0	-4.0	-0.9	1.0	-0.8
Italy	-6.0	-2.3	-0.1	-5.9	-8.2	-4.0	-2.3	-3.6
Luxembourg	7.7	5.3	0.3	-2.1	-0.8	-0.3	0.2	-0.1
Netherlands	-1.4	0.0	0.2	-0.8	-3.3	-0.7	-0.3	-0.7
Portugal	-4.5	-2.8	-1.1	0.1	0.9	0.3	-1.4	-1.8
Spain	1.6	-0.7	2.2	-0.1	0.1	-2.1	-0.1	-0.8
Sweden	2.4	-0.3	-0.8	-2.1	1.3	2.4	0.2	-0.5
United Kingdom	-2.7	-2.4	2.0	-2.5	-3.5	-5.3	-0.4	-0.6
EU- New member states								
Czech Republic	1.1	4.2	8.9	0.8	0.2	7.1	3.2	1.0
Hungary	6.9	8.8	5.1	2.1	2.4	5.9	4.3	3.2
Poland	-6.8	9.4	-0.8	2.1	8.5	3.5	3.0	2.9
Slovak Republic	0.0	0.3	1.5	2.8	15.6	3.5	2.8	3.3
Turkey	-12.1	6.7	3.9	7.1	10.1	5.2	3.7	1.9
Non-EU states								
Australia	-3.0	-1.7	2.4	-5.1	-8.6	-4.2	-1.2	-0.6
Canada	0.2	-3.6	-0.8	-2.2	-6.7	-2.2	-1.1	-2.0
Iceland	-2.6	-5.0	6.3	1.3	-2.8	-1.1	-2.0	-0.6
Japan	-6.9	-2.0	-4.3	2.7	3.5	2.8	-2.2	-2.3
Korea	6.8	4.6	-2.1	7.8	7.8	8.6	3.0	4.1
Mexico	1.9	3.3	-1.5	-1.2	-3.1	2.1	0.5	0.9
New Zealand	-0.1	-5.2	4.0	0.3	-4.6	-4.1	-4.2	-1.8
Norway	-3.9	-6.7	3.9	-2.2	-1.6	-4.4	-4.7	-3.6
Switzerland	-0.4	0.3	-0.5	-2.4	-3.9	-3.9	-2.9	-3.0
United States	-1.9	-3.2	-4.7	-4.4	-2.0	-0.8	-0.1	0.7
Total OECD	**-1.6**	**-0.6**	**-0.3**	**-1.0**	**-2.0**	**-0.7**	**-0.8**	**-0.5**
Memorandum items								
China	5.7	12.5	7.3	21.1	20.3	8.6	8.7	8.9
Dynamic Asia*	-1.8	-1.7	-4.7	1.4	1.6	-0.3	1.0	0.0
Other Asia	1.9	8.4	4.3	5.7	-0.6	0.8	4.2	4.8
Latin America	-2.8	-4.7	4.9	1.3	3.1	1.4	-2.1	-2.6
Africa and Middle-East	-0.5	-4.5	1.2	-1.9	2.1	-5.8	-3.7	-2.4
Central and Eastern Europe	3.7	-4.9	2.1	4.8	2.3	-0.2	-0.9	-1.2

Note: Regional aggregates are calculated inclusive of intra-regional trade. Export performance is the ratio between export volumes and export markets for total goods and services.
The calculation of export markets is based on a weighted average of import volumes in each exporting country's markets, with weights based on trade flows in 2000.
* Dynamic Asia includes Chinese Taipei; Hong Kong, China; Indonesia; Malaysia; Philippines; Singapore and Thailand.

Source: OECD Economic Outlook 76 database.

Table 3
Export market growth in goods and services
Percentage changes from previous year

	1999	2000	2001	2002	2003	2004	2005	2006
EU – Old member states								
Austria	6.2	12.2	2.3	1.8	5.0	8.7	8.1	8.9
Belgium	7.0	11.9	1.7	2.2	3.1	7.6	7.8	8.4
Denmark	6.2	11.3	0.6	1.5	3.9	7.6	7.7	7.9
Finland	5.1	12.5	2.0	3.4	5.8	9.5	9.3	9.5
France	7.0	10.7	1.6	2.3	3.9	7.6	8.3	9.0
Germany	6.1	12.1	1.6	3.1	4.3	8.7	8.8	8.9
Greece	6.5	11.8	1.3	3.1	4.9	9.0	8.7	9.0
Ireland	7.4	11.3	1.0	2.7	3.3	7.5	7.7	8.1
Italy	6.5	12.3	1.6	2.7	4.7	8.8	8.6	9.2
Luxembourg	6.5	11.4	1.5	1.5	2.7	7.0	7.2	7.8
Netherlands	6.6	11.3	1.4	1.7	3.4	7.1	7.4	8.2
Portugal	7.7	10.8	2.1	2.0	3.1	7.0	7.6	8.1
Spain	6.0	10.9	1.4	1.4	2.5	7.6	7.7	8.2
Sweden	5.7	11.4	1.3	3.1	3.9	8.1	7.8	8.3
United Kingdom	7.2	12.2	0.8	2.7	3.8	8.3	8.4	8.9
EU- New member states								
Czech Republic	4.6	12.2	2.7	2.0	6.0	8.9	8.5	9.4
Hungary	5.7	12.0	2.6	1.6	4.8	8.3	7.9	8.7
Poland	4.6	12.6	4.0	2.7	5.7	9.5	8.9	9.5
Slovak Republic	5.0	13.3	4.7	2.6	6.0	10.6	9.3	9.4
Turkey	5.8	11.7	3.4	3.8	5.3	8.8	9.8	10.5
Non-EU states								
Australia	7.9	12.8	-0.7	5.7	6.6	11.0	9.6	10.5
Canada	10.5	13.0	-2.1	3.4	4.6	10.1	8.0	7.8
Iceland	6.8	10.5	1.3	2.3	3.2	7.5	7.2	7.5
Japan	9.0	14.8	-1.9	5.1	6.4	11.3	9.8	10.5
Korea	7.3	13.9	-0.6	5.1	7.4	11.5	10.0	10.8
Mexico	10.3	12.7	-2.4	2.8	4.4	10.1	7.9	7.5
New Zealand	8.1	11.8	-1.4	6.0	6.6	10.9	8.8	9.6
Norway	7.0	11.5	1.1	2.3	2.9	7.1	7.6	7.7
Switzerland	6.9	11.8	0.7	2.2	4.1	8.4	8.2	8.8
United States	6.4	12.4	-0.7	2.2	4.0	9.8	9.4	9.2
Total OECD	**7.1**	**12.3**	**0.3**	**2.9**	**4.4**	**9.1**	**8.7**	**9.0**
Memorandum items								
China	6.6	13.6	-1.6	4.1	5.1	10.3	9.4	9.9
Dynamic Asia*	8.5	14.8	-1.0	6.1	7.9	11.9	10.0	11.0
Other Asia	7.8	12.5	-0.1	4.7	5.7	9.9	9.3	10.0
Latin America	4.9	11.2	-0.2	0.5	4.3	10.5	8.9	8.8
Africa and Middle-East	8.1	12.4	0.1	4.8	5.6	9.7	9.6	10.5
Central and Eastern Europe	2.7	14.6	4.5	5.7	8.9	11.8	11.2	11.3

Note: Regional aggregates are calculated inclusive of intra-regional trade.
The calculation of export markets is based on a weighted average of import volumes in each exporting country's market, with weights based on goods and services trade flows in 2000.
* Dynamic Asia includes Chinese Taipei; Hong Kong, China; Indonesia; Malaysia; Philippines; Singapore and Thailand.

Source: OECD Economic Outlook 76 database.

Table 4
Geographical structure of world trade growth
Average of export and import volumes

	1999	2000	2001	2002	2003	2004	2005
A. Trade growth by main regions (percentage changes from previous year)							
NAFTA [a]	8.9	11.5	-3.7	1.1	2.5	9.6	8.3
OECD Europe	5.8	11.7	2.6	1.6	1.8	6.4	7.0
OECD Asia & Pacific [b]	7.0	12.6	-3.0	7.6	8.7	13.6	9.0
Total OECD	6.9	11.8	-0.1	2.2	3.0	8.4	7.7
China	17.2	25.5	6.0	23.1	26.5	20.1	16.7
Non-OECD Asia excluding China	5.7	15.9	-4.6	6.8	7.2	11.4	11.1
Latin America	-5.2	5.9	3.4	-5.7	5.5	14.3	9.4
Other non-OECD countries	5.2	9.1	5.8	6.5	8.6	8.0	10.8
Non-OECD	5.3	13.7	0.7	7.5	10.4	12.2	11.9
World	6.5	12.3	0.1	3.6	5.1	9.5	9.0
B. Contribution to World Trade growth by main regions (percentage points)							
NAFTA [a]	2.0	2.6	-0.9	0.2	0.5	2.0	1.7
OECD Europe	2.4	4.8	1.0	0.7	0.7	2.5	2.7
OECD Asia & Pacific [b]	0.7	1.3	-0.3	0.7	0.9	1.4	1.0
Total OECD	5.1	8.7	-0.1	1.6	2.2	5.9	5.4
China	0.5	0.8	0.2	0.8	1.1	1.0	0.9
Non-OECD Asia excluding China	0.7	1.9	-0.6	0.8	0.9	1.4	1.4
Latin America	-0.2	0.2	0.1	-0.2	0.2	0.4	0.3
Other non-OECD countries	0.4	0.8	0.5	0.6	0.8	0.7	1.0
Non-OECD	1.4	3.6	0.2	2.0	2.9	3.6	3.6
World	6.5	12.3	0.1	3.6	5.1	9.5	9.0

Note: Regional aggregates are calculated inclusive of intra-regional trade as the sum of volumes expressed in 2000 $.

[a] Canada, Mexico and United States.

[b] Australia, Japan, Korea and New Zealand.

Source: OECD Economic Outlook 76 database.

Table 5
Shares in world exports and imports
Percentage, values for goods and services, national accounts basis

	1999	2000	2001	2002	2003	2004	2005	2006
A. Exports								
Canada	4.1	4.2	4.1	3.8	3.6	3.6	3.6	3.5
France	5.3	4.8	4.9	4.9	4.9	4.7	4.6	4.5
Germany	8.9	8.1	8.6	9.0	9.4	9.4	9.2	9.0
Italy	4.3	3.9	4.1	4.0	4.1	4.0	3.9	3.7
Japan	6.4	6.5	5.7	5.6	5.5	5.5	5.4	5.2
United Kingdom	5.5	5.2	5.2	5.2	4.9	4.7	4.6	4.5
United States	14.1	14.0	13.6	12.6	11.3	10.8	10.5	10.6
Other OECD countries	26.0	25.3	26.0	26.3	26.9	27.1	27.0	26.7
Total OECD	74.5	71.9	72.2	71.4	70.7	69.8	68.7	67.8
Non-OECD Asia	15.1	16.3	16.0	16.8	17.1	17.3	17.8	18.8
Latin America	2.8	2.9	2.9	2.7	2.7	2.7	2.8	2.8
Other non-OECD countries	7.6	9.0	8.9	9.0	9.6	10.2	10.7	10.7
Total of non-OECD countries	25.5	28.1	27.8	28.6	29.3	30.2	31.3	32.2
B. Imports								
Canada	3.7	3.7	3.6	3.4	3.2	3.1	3.1	3.0
France	4.9	4.6	4.6	4.6	4.8	4.7	4.6	4.4
Germany	8.7	8.0	8.1	7.9	8.4	8.2	8.0	7.7
Italy	4.0	3.7	3.9	3.9	4.0	3.9	3.9	3.8
Japan	5.5	5.7	5.3	5.0	4.8	4.8	4.7	4.6
United Kingdom	5.9	5.5	5.7	5.8	5.5	5.4	5.3	5.1
United States	17.9	18.8	18.4	18.0	16.9	16.4	16.0	15.8
Other OECD countries	25.2	24.6	24.7	25.2	26.0	26.2	26.2	25.8
Total OECD	75.8	74.6	74.3	73.8	73.5	72.6	71.7	70.2
Non-OECD Asia	13.9	15.3	14.9	15.5	15.8	16.6	17.0	17.9
Latin America	3.0	3.0	3.0	2.5	2.3	2.4	2.5	2.5
Other non-OECD countries	7.3	7.2	7.9	8.2	8.4	8.4	8.8	9.3
Total of non-OECD countries	24.2	25.4	25.7	26.2	26.5	27.4	28.3	29.8

Note: Regional aggregates are calculated inclusive of intra-regional trade.
Source: OECD Economic Outlook 76 database.

Appendix D:

Written Material referred to in the Preparation of the Report

Article or Report	Author	Date
Annual Reports of each ECA and Insurer Interviewed	Each ECA or Insurer	2004/5
OECD Web Site (www.oecd.org) - trade directorate - statistics	OECD	2005
The Insurability of Export Credit Risk	University of Groningen	2003
Study on the Market Trends of Private Reinsurance in the Field of Export Credit Insurance	Watson Robinson & Associates	2000
Berne Union Yearbook	International Union of Credit & Investment Insurers	2004 & 2005
Communication of the Commission to the Member States pursuant to Article 93 (1) of the EC Treaty applying Articles 92 and 93 of the Treaty to short-term export credit insurance (OJ C281 p 4-10)	European Commission	1997
Communication amending the Communication pursuant to Article 93(1) of the EC Treaty applying the Articles 92 and 93 to short-term export credit insurance (OJ C217/02)	European Commission	2001
Commission recommendation concerning the definition of micro-, small- and medium-sized enterprises (361/EC)	European Commission	2003
A Report on the Provision of ECGD Reinsurance for Exports Sold on Short Terms of Payment	ECGD	2000
Review of ECGD's Status and Mission	UK Parliament	1999