

SECTION 3

TRADE AND INVESTMENT INSURANCE SYSTEMS IN INDIVIDUAL COUNTRIES

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Chapter I

Trade and Investment

Insurance System of the United States of America

TRADE AND INVESTMENT INSURANCE SYSTEM IN THE U.S.

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

U.S. EX-IM BANK

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

HISTORY OF U.S. EX-IM BANK

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

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

EX-IM BANK CURRENT FOCUS

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

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

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

* Foreign Credit Insurance Association

- Resource Management

TYPES OF INSURANCE OFFERED BY US EX-IM BANK

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

U.S.EX-IM BANK INSURANCE FEATURES

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

U.S.EX-IM BANK ECI GENERAL POLICIES

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

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

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

U.S.EX-IM ECI RISK-SHARING

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

• ST MULTI-BUYER POLICY

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

- "Equalized coverage" 95% of both political & commercial risk, plus first loss deductible
- Documented interest covered
- Eligible Exports
 - Commodities, agricultural commodities
 - Raw materials
 - Consumer durables
 - Spare parts
 - Services (by special endorsement)
- Term
 - up to 180 days
 - agricultural products, fertiliser, consumer durables to 360 days
- Premiums
- Minimum premium in advance of \$500
- Single composite rate for all shipments, determined by
 - Insured's sales profile
 - History of export credit losses
 - Terms of payment
 - Number & type of buyers
 - Countries
- Claim after 180 days default
- Discretionary Credit Limit (DCL)
- Credit Information DCL
- Ledger Experience DCL
- Special Buyer Credit Limits
- Reporting Requirements
- Rescheduling
- Claims
- Recoveries

ECI PROGRAM POLICIES FOR BANKS

- Buyer Credit Policy
- Bank Letter of Credit Policy

BUYER CREDIT POLICY

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

BANK LETTER OF CREDIT POLICY

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

- Eligibility

PRODUCT DEVELOPMENT AT U.S.EX-IM BANK

Responsive to

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

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

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

UNDERWRITING TECHNIQUES: COMMERCIAL RISK

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

- -Audited F/S \$1 million and up
- Decision Making
 - -Loan Committee for MT, Board for large or policy issues
 - -ST in Insurance Div.

UNDERWRITING TECHNIQUES: POLITICAL RISK

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

CLAIMS & RECOVERIES

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

U.S.ECI SUPPORT SYSTEM

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

U.S.EX-IM BANK OPERATING RESULTS

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

Authorizations	-FY1996	(of which ECI)
-Number	2,422	(1,1914)
-Amount	US\$11,518bn	(US\$3,868bn)
-Export Value	US\$14,597bn	(US\$3,997bn)
-Subsidy	US\$894mm	(US\$148mm)
Profit (Loss)	US\$1,241mn(1996)	(US\$1,318mm) (FY1995)

ECI UNDERWRITING RESULTS

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

ECI OPERATING RESULTS

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

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

U.S.PRIVATE SECTOR ECI

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

OPIC INVESTMENT INSURANCE

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

Rules of the Game: A Summary

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

Projects must be:

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

Projects must not:

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

- Contribute to violation of internationally recognized workers rights

Extent of Coverage

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

STATE/CITY PROGRAM

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

Objectives:

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