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3. EXPORT CREDIT INSURANCE IN INTERNATIONAL PRACTICE

Maria VĂDUVA[17]

ABSTRACT. *CREDIT INSURANCE IS INTENDED TO PROVIDE PROTECTION TO ECONOMIC AGENTS AGAINST THE RISKS SPECIFIC TO EXPORT. AN EXPORT CONTRACT CAN HAVE AS OBJECT THE DELIVERY OF GOODS, EXECUTIONS OF WORKS OR SERVICE PROVISION, INCLUDING LICENSE ASSIGNMENTS OR PATENTS IN FAVOR OR CERTAIN RESIDENTIAL BUYERS OR BENEFICIARIES ABROAD.*

WHERE THE CONTRACTING PARTIES AGREE THAT THE SUPPLIES, WORKS OR SERVICES WHICH ARE THE OBJECT OF THE EXPORT CONTRACT ARE NOT PAID FOR ON DELIVERY BUT AFTER PASSING A PERIOD, THE SUPPLIER SHALL GRANT THE EXTERNAL PURCHASER A COMMERCIAL CREDIT. BY AGREEING TO SUCH A METHOD OF PAYMENT, THE SUPPLIER ASSUMES THE EXPORT CREDIT RISKS, THE TREASURY EFFECTS OF THE EXPORT OPERATION WITH A PAY AT TERM. BECAUSE EXPORT ON CREDIT BLOCKS THE SUPPLIER'S FINANCIAL RESOURCES INCORPORATED IN THE PRODUCTS DELIVERED ON CREDIT FOR A WHILE, HE SEES HIMSELF COMPELLED TO COMPLETE THEM BY TAKING A BANK LOAN.

KEY WORDS: *CREDIT, INSURANCE, RISK, EXPORT, METHOD OF PAYMENT.*

The supplier credit is granted for short periods of time. In the case of export with larger values, the supplier cannot block his financial resources for long periods of time, without jeopardizing his own financial management. The buyer sees himself compelled to acquire the resources he needs to pay for the import when the products are delivered by the supplier. For this purpose, he addresses to a bank on the supplier's market, asking for the loan he/ she needs and which bears the name of buyer credit. This is a form of financial credit characterized by the fact that it is linked by an export operation.

In the supplier credit, the contracting parties - the supplier and the buyer - draw up a single document, the commercial contract, which contains all the elements regarding the delivered goods: structure, quantities, price, value, terms and payment method.

There are two distinct documents in the buyer credit: the commercial contract concluded between the supplier and the foreign buyer, and the loan agreement concluded between the buyer as the beneficiary of the external credit and the creditor bank.

The export is made through the commercial credit granted by the supplier to his business partner, external buyer, either through the buyer credit granted by a bank to the external buyer. Both forms of export credit aim to favor the commercial changes in the contracting parties' interests and are granted by the private operators (suppliers, banks) in conditions close to those practiced on the market (interest rate, duration, way of rescheduling the reimbursement).

[17] PhD Lect. "Constantin Brâncuşi" University from Targu-Jiu

Along with these forms of credit, others are found having help character granted by states through their own governments or by specialized public institutions.

The external credits from public resources are granted under more advantageous conditions than those applied by private operators (under-market interest, longer repayment periods, grace periods). Aid credits from public resources are granted on a bilateral or multilateral basis and aim to favor the economic development of the beneficiary country.

Bilateral aid credits are linked, they can only be used to pay for imports of goods and services from the donor country.

As a rule, aid credits are not guaranteed by credit insurers, but they remain the responsibility of the state.

Export credit insurance covers a multitude of export risks that will be grouped according to moment when the risk occurs and its nature. Viewed from the point of view of the moment when they arise, the risks covered by the export credit insurance refer to the period preceding the signing of the contracts, or to the period afterwards.

In order to enter with its products on a foreign market, an economic agent is forced to prospect that market to see if and under what conditions they could export to that market.

Examining the external market requires costs from the potential exporter, without being certain that his/ her action will be successful, will make it possible to conclude export contracts. Even though in some countries there is the practice of state support of a part of the exploration costs for the expenses that remain with the economic agent, the risk of the commercial failure for the prospecting action cannot be neglected. In order to protect against such a risk, the potential exporter may conclude a prospecting insurance with a specialized body in such insurance.

In the case of important objectives aiming for delivering products, performing works or providing services across borders with high values, the international competition gets sharp forms. Some economic agents in order to place themselves on a more advantageous position in the competition in which they participate present valid offers for a certain period of time. The change in the economic conditions (price, interest, exchange rate, conditions of financing) during the period of validity of the firm offer compared to those envisaged in its preparation, may lead for the exporting agent, in the order adjudication case, to a loss that cannot be recovered from the importer. The tenderer is obliged to submit a guarantee in favor of the buyer to guarantee him/ her that the tenderer in the event of the adjudication of transaction, he/ she will sign the external contract in the conditions stipulated in the submitted offer.

There can be concluded insurances against risks encumbered by the remission of firm offers by the exporter for long periods of validity.

After the conclusion of the export contract, two categories of risk may occur:

a. some during the time between the signing of the export contract and that of the external delivery of the ordered products accompanied by legal documents;
b. others in the period of delivery of the products on credit and up to the collection of their counter value.

During the actual production of the goods that are the object of the contract for the exporter, there is the risk of interrupting the contract due to reasons that are out of his/ her control.

To the extent that the ordered goods, works or services are unique and after termination they cannot be redeemed to other beneficiaries, the interruption of the contract generates losses for the exporter.

The risk of registering losses for the exporter, at this stage of the contract, is a risk in production. If the exporter has lodged a guarantee in favor of the buyer warranting in case of need the return of the advance paid when perfecting the contract or a quality guarantee, the exporter loses the right to the guarantee.

In the case of international cooperation works (exporter's execution of turnkey foreign objects or certain works with the help of equipment, machinery and materials and which are to be distributed after the execution of the contract), there is the risk that those material values belonging to the exporter may not be returned to the country of origin for political reasons.

During the commercial contract, the manufacturing period may extend over a long period of time. Under inflationary conditions, the rapid rise in domestic prices may raise the cost of manufacturing the supplies so that the contract can register losses instead of benefits. The risk of increasing domestic products can be protected by a guarantee of economic risks.

After the delivery of the products (the loss of the executed works or provision of services) by the external partner, there is the risk of non-payment in due time of their counter value for the supplier by the external customer.

The classical insurance company or specialized insurance body acting on the order and for the State’s account may protect the exporter against such an increase. Guaranteeing credit risk is provided by the credit insurer either to the exporter (in the case of the supplier credit) or to the bank (in the case of the buyer credit).

The guarantees submitted by the exporter in favor of the buyer guaranteeing the good quality of performance of the contract or the repayment of the advance received from the buyer in case of non-fulfillment of the contractual obligations by the supplier may be capitalized under the established conditions.

At this stage of the export contract, the risk of foreign exchange may occur. Even if the external customer (the debtor) has honored his commitment assumed to the supplier in the case of supplier credit or to a bank, in the case of buyer credit on the export, there can be the risk of recording losses resulting from the difference between the exchange rate existing at the conclusion of the contract and the practical one at the payment of the credit. Against the risk of foreign exchange, the exporter may conclude an insurance to protect him/ her in such circumstances.

The export credit risks have been addressed in terms of the moment when it occurs.

Such an approach addresses the nature of the risks, which distinguishes between commercial risks, political, currency or economic risks.

Commercial risks, also called non-payment risks, are related to the buyer's behavior towards his/ her supplier. When the external buyer is a private natural or legal person, he/ she presents the non-payment risk. He/ she may be sued in order to compel them to comply with the commitment assumed by contract.

Against the public buyer who is avoiding fulfilling the contractual obligations he/ she has assumed, there is no legal remedy. Because of this, the risk of non-payment by the private buyer is considered a commercial risk, while the same risk from a buyer under public law is considered a political risk.

The notion of political risk has a broad sphere containing: the political risk itself as well as the non-payment risk by the public purchaser and the risk of non-transfer of the currency to the supplier.

The political risk itself refers to war, revolution, etc., and to the acts of public authorities (nationalization, requisition, sequestration, ban or restriction of the import of certain products, limitation of the currency transfer, banning the repatriation of assets belonging to foreigners) that impedes the execution of the contract.

The political character is also the measure taken by a public authority from the exporting country to prohibit the export of a certain contracted product and found in the manufacturing period.

The execution of a contract may be influenced by measures taken by a third country.

Some export credit insurers assimilate the natural catastrophes produced in other country than the exporter's country to the risk of non-payment.

A regular insurer covers the disappearance or damage of the insured good in case of a catastrophe, and an export credit insurer covers the buyer's impossibility to take possession of the ordered goods or to pay them at maturity.

These include: exchange rate risk, increased production costs of the product being the object of the export and the risk of fluctuating the interest rate.

The exchange rate risk occurs when the currency of the exporter's country and the currency of the importer's country are not linked by a fixed exchange ratio.

This makes the exchange rate of the two coins evolving from one period to the next, causing negative or positive effects for the exporter.

In order to protect himself/ herself against the risk of foreign exchange, the exporter requests the payment on time as the creditor bank who has granted a loan to the importer, can resort to various solutions.

a. to contract an import in the currency of his client or in another currency, so that the foreign exchange risk associated with the payment commitment expressed in a currency other than the national one completes the exchange risk associated with his/ her claim.

This solution must operate with identical amounts to be cashed from abroad and to be paid abroad, maturing on the same date and to present the same foreign exchange risk or a close one. b. The exporter sells the product or a pre-set course.

The exporter avoids the risk of a negative influence from the exchange rate fluctuation, but also from the achievement of a favorable influence.

Each of these solutions presents advantages and disadvantages and sometimes present technical difficulties of application. The exporter addresses to an export credit insurer to provide him/ her with the necessary protection against this risk. The exporter is subject to foreign exchange risk not only when he/ she sells with the pay at term expressed in a currency other than his/ her own, but also when he himself/ she herself concludes a subcontract with a pay at term in the currency of the contractor or in another currency.

The export credit insurer covers the foreign exchange risks that arise in both circumstances.

The risk of increasing the manufacturing costs of the product being exported arises as a result of the inflationary phenomena that existed on the exporter country's market for long-life products, this rise is pronounced and may cause the cost increase to be faster than the margin taken in the pre-calculation and the transaction to end with loss.

If the exporter, for reasons of prudence, includes a higher margin in costs, he/ she may reach a price level that makes it uncompetitive. If the exporter asks for the inclusion of a price review clause in the commercial contract, this solution may not be convenient to the importer.

In order to protect his/ her interests, the exporter requests the export credit insurer to insure against the economic risks.

The risk of fluctuation in the interest rate charged to the supplier credit as well as to the buyer credit. When the interest rate is set that the importer is going to pay to the exporter for the validity of the supplier credit or to the credit bank for the validity of the buyer credit, the supplier must take into account the interest rate at which he will be able to acquire the necessary refinancing money. If market interest shows upward tendencies, it must be taken into account when concluding the fixed interest loan contract.

In a fixed interest rate contract, there is a risk that the market interest may be higher than that fixed one provide in the contract, which disadvantages the creditor exporter or the creditor bank.

In order to protect the exporters and the banks from the risk of interest rate fluctuations, they apply different solutions.

In some countries, the mechanisms for export refinancing with fixed interest rates are managed by public institutions. The state bears a part of the interest the exporter must pay when borrowing on the market to supplement his/ her financial resources; another solution is to establish the interest charged by banks from their external customers. The difference between market interest (higher) and the fixed interest, collected from the external customer, is borne by the state for the entire duration of the credit agreement.

Regardless of the organizational forms and their legal statutes, the specialized bodies for export-import credit insurance conclude approximately the same types of insurance, they use the same types of policies, and they practice differentiated insurance premiums.

Besides insurances with identical or very similar features, standard, some specialized insurance organizations also practice other types of insurance.

Export Credit, Guarantee Department (ECGD) in the United Kingdom concludes insurances for warranties against unjustified buyer claims, insurance for foreign investment, risk insurance that may arise as a result of fluctuation in the exchange rate of the currency in which the payment is made;

- COFACE in France concludes foreign exchange insurance, insurance against increasing manufacture costs of the product for export due to inflation, insurance for guarantees;
- NCM in Netherlands concludes foreign exchange insurance, additional insurance for guarantees and counter-guarantees, insurance for construction equipment;
- HERMES in Germany concludes insurance for leasing contracts, capital risk insurance, warranty insurance, foreign exchange risk insurance.

– Instituto nazionale delle assicurazione and sezione special per assicurazione del credito all esportazione of Italia concludes insurance for: foreign exchange risks, guarantees, direct investments abroad, market studies, public contracts.

Regardless of the organizational forms, through the activities that it carries out, through the forms of insurance that it concludes, through the facilities they provide, the specialized bodies are promoting the export of their countries, increasing the exports of their countries in the world export, the penetration of the products of their countries on several markets. The supply of the support needed by the economic agents for increasing the competitiveness and export safety on the external markets.

The export credit insurance has certain limits, grants protection to the insured in the limits and under the established conditions. The loss suffered by the insured must result from a risk included in the insurance, the indemnity due to the insured is paid to him/ her at the expiration, the waiting period, the non-payment of the claim may be caused by causes not related to the customer's inability to pay but to technical difficulties; a part of the risk, several percentages remain in the insured's task, the export-import operation must be done in compliance with the foreign trade regulations of the exporting and importing countries, the export credit insurance does not cover the losses resulting from a dispute between the supplier and the buyer or between the lender and the borrower.

The state credit insurance can only be provided when the operation is of interest to the national economy.

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