European Commission

Study on short-term trade finance and credit insurance in the European Union

Prepared by
International Financial Consulting Ltd.
for the European Commission

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Competition

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ACRONYMS

Arrangement	See Consensus
BAFT	Bankers' Association for Finance and Trade
Berne Union	International Union of Credit & Investment Insurers
Consensus	OECD Agreement on Terms of Medium & Long Term Export Credit
ECA	Export Credit Agency
EC	European Commission
EU	European Union
GFC	Global Financial Crisis
ICISA	International Credit Insurance & Surety Association
IMF	International Monetary Fund
MLT	Medium & Long Term (Credit or Loans L/T maturities over 2 years)
OECD	Organisation for Economic Cooperation & Development
PRI	Political Risk Insurance
SME	Small & Medium Size Enterprise or Exporter
ST	Short Term (Credit less than 2 years)

1. INTRODUCTION

The European Commission (the "EC") sets out rules on State involvement in short-term export credit insurance, in the form of a communication of the Commission to the Members States applying Articles 92 and 93 of the EC Treaty (the "Communication") established in 1997[1]. The Communication was subsequently amended and its validity extended in 2001[2], 2004[3] and 2005[4] and 2010[5] and is to expire on 31 December 2012.

The purpose of the Communication is to remove such distortions due to State aid in that sector of the export credit insurance business in which there is competition between public or publicly supported export credit insurers and private export credit insurers. The Communication stipulates that marketable risks cannot be covered by export credit insurance that is backed by Members States. Marketable risks are commercial and political risks with a tenor of two years of less on public and non-public debtors in certain countries listed in the Annex to that Communication. However, the Communication allows the possibility under certain conditions to underwrite those "normally" marketable risks on the account of a public or publicly supported export credit insurer. One area in particular which was introduced in 2005 as a temporarily non-marketable area is where the policyholder is a small and medium-sized enterprise.

In December 2008, the Commission adopted the Temporary Framework which introduced a temporary procedural simplification, regarding the demonstration of the unavailability of cover for short-term export credit in light of the financial and economic crisis.[6] This procedural simplification expired at the end of 2011.

The purpose of this Study is to provide analysis to the European Commission on:

- the functioning of the market for trade finance and credit insurance within the European Union;
- how well the existing instruments meet the legitimate needs and aspirations of exporters in order for them to be internationally competitive, and the needs of those who provide the financing and insurance for the exports; and
- what is the appropriate role of the state to play in the business, in the context of the financial crisis and beyond.

The Terms of Reference are provided in Appendix A.

The findings of the study are intended to assist the European Commission to adapt the state aid rules to the current developments of the market.

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[1] OJ C 281, 17.9.1997, p. 4.
[2] OJ C 217, 2.8.2001, p. 2.
[3] OJ C 307, 11.12.2004, p. 12.
[4] OJ C 325, 22.12.2005, p. 22.
[5] OJ C 329, 7.12.2010, p. 6.
[6] OJ C 16, 22.01.2009, p. 1

The Project Team from International Financial Consulting Ltd. consisted of Malcolm Stephens, Diana Smallridge, and Werner Claes. International Financial Consulting Ltd.[7] is a specialist consulting firm in the area of government-owned or backed export credit schemes, having worked with export credit agencies (ECAs), their government authorities and private insurers in over 20 countries. Its principals have been directly active in the export credit market as practitioners[8] and, since 1998 as advisors to ECAs and their governments.

The analysis in this report draws on a range of sources, relevant background information and on our own experience and knowledge of the short term credit insurance market both within the European Union (EU) and worldwide. It also reflects detailed consultations undertaken and feedback received from stakeholders during the consultations period from June to October 2011.

The consultations undertaken focused on the main players in the private and public credit insurance market, as well as brokers who are active in the market. Consultations were conducted on a confidential basis to ensure the most frank and open feedback about the issues. This therefore limits our ability to cite, quote or reference the primary research we undertook.

An on-line web survey and submission form (Appendix B) was developed for stakeholders to provide their input. The project team relied on the Secretariats of both the Berne Union and ICISA[9] to encourage their members to respond, as well as a number of European associations, such as the European Banking Federation, the Bankers Association for Finance and Trade (BAFT) and Chambers of Commerce which were asked to invite their membership to give input into the review. Appendix C provides a basic summary of the respondents to the survey.

In addition to the consultations and surveys, the project team relied on the data available from the public and private insurance markets and other studies that have been conducted. The limitations of this data is discussed in Section 2.

This Report is structured as follows:

Section 2 provides some background on Export Credit Insurance and Export Credit Agencies (ECAs).
Section 3 explains Short Term Export Credit Insurance and recent developments in this market.
Section 4 addresses the issue of what is a market gap.

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[7] www.i-financialconsulting.com

[8] Malcolm Stephens, CB, is the former Secretary-General of the Berne Union and Chief Executive of the British Export Credit Guarantees Department (ECGD), spearheading the privatisation of ECGD's short-term export credit insurance activities in the early 1990s; He is the author of the book*, The Changing Role of Export Credit Agencies*, published by the IMF in 1999.

[9] The Berne Union, as it is commonly called, is the International Credit and Investment Insurance Association, consisting of 48 members, of which 27 are public ECAs. ICISA is the International Credit Insurance and Surety Association with 45 members from 33 countries. Both these associations have members who are credit insurers operating within and out of the EU.

Section 5 looks at other short term products.
Section 6 covers the business with a credit period between 180 days and 2 years.
Section 7 reflects the domestic credit insurance.
Section 8 covers the Small and Medium Sized Enterprises (SMEs).
Section 9 focuses on the Medium and Long Term (MLT) Business.
Section 10 takes a look at ECA "subsidiaries".
Section 11 addresses the global financial crisis and what really happened.
Section 12 looks at how effective the communication has been.
Section 13 introduces the guiding principles for the future.
Section 14 gives options for the future of the communication.
Section 15 offers a new approach.
Section 16 is a list of recommendations.

Appendix A is the Terms of Reference for the project.
Appendix B is the Web Survey.
Appendix C is a Summary of Submissions Received.
Appendix D is a detailed table on the European Members States' Export Credit Agencies.
Appendix E is a Summary of Temporary Exceptions.
Appendix F is a list of the Members of ICISA.
Appendix G is the list of references.

2. BACKGROUND

2.1 Introduction

The Terms of Reference for this study (Appendix A) refers to the area of “trade finance and credit insurance”. It is important at the outset to clarify what is meant by these terms.

Trade finance is “catch-all” term applied essentially to the whole area of short-term business, especially finance provided by banks including letters of credit or more generally.

Credit insurance protects the insured party (normally the seller), in exchange for a premium, against a range of risks that result in non-payment by the buyer. In domestic cover, only commercial risks are involved. In export credit cover, both commercial and political risks are normally involved. However, the term can include both export credit insurance and domestic credit insurance (i.e., insurance on sales within a country).[10]

The Communication covers export credit insurance, as this is the domain of the ECAs. Trade finance, as it is typically understood to mean that undertaken by banks through the provision of letters of credit or other instruments, is not offered by ECAs in Europe. This report therefore focuses on credit insurance market.

2.2 Data on the Credit Insurance Market

The best sources of data on the credit insurance market come from the Berne Union and ICISA. The report draws extensively on data collected by these two associations from their private and public sector credit insurance members.

The Berne Union collects data on total aggregate business volumes underwritten, total premium collected and claims paid/recoveries made. The International Credit Insurance and Surety Association (ICISA) also collects data on business volumes and losses. Data is not collected systematically by the associations on members’ positions on individual buyers or countries.

It is acknowledged by industry players that the data that is collected and available is limited in scope. More commercially sensitive data is not released to the associations. As is discussed in Section 4, the kinds of data which help inform analysis and decisions about the existence of market gaps is difficult to obtain.

Some of the main challenges of such data collection are:

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[10] Malcolm Stephens, CB: *The Changing Role of Export Credit Agencies*, published by the IMF in 1999, Glossary.

1. Credit insurers may have a general position about a country or a sector or a buyer, as well as a pricing formula for calculating premium, but when an individual risk is being underwritten, the position may change.
2. The private credit insurance market is a very competitive one and therefore information from individual insurers will not be released if it could be of value to their competitors.
3. For regulatory reasons, ICISA is not permitted to collect premium rate data from members and premium rates charged by ECAs are not publicly available.

It is interesting to note that a similar challenge is faced by the banking sector. Data on trade finance undertaken by banks is equally limited and efforts are now being made to improve the data collection[11]. This is one of the major initiatives undertaken by the IMF-BAFT during the global financial crisis.

2.3 Export Credit Insurance

The most important characteristic of export and trade credit insurance is that it is *insurance*. So, like all classes of insurance spread of risk is essential if expenditure on claims and administration is to be adequately offset by income, especially from premiums. Stability of income is also important, not least to keep the essential marketing, underwriting, credit information and processing infrastructure in place. This is of course relevant for ECAs who are asked to step into the business at certain times when there is a market gap.

However, it is important to note that export credit insurance does have some particular characteristics which, when taken together, do not apply to most other classes of insurance.

First, the business is a cyclical one as regards claims. In other words, claims do not arise in a regular pattern at the same kind of level each year. They tend to follow the business cycle. This is particularly true for commercial risk claims (i.e. those paid in respect of the insolvency or default of the buyer). However, it is also true of political risk claims which are both lumpy, irregular and very difficult to forecast in any kind of "actuarial" way. Therefore, neither kind of claims are easy to predict as it would not be unusual for the level of claims to differ substantially from one year to another.

Table 1 shows short-term claims paid by the insurers (private and public) who belong to the Berne Union.

Table 1: Short Term Claims (US $ Million)

Year	US $ Million
2010	1047
2009	2418
2008	1028
2007	1007
2006	783
2005	702

Source: Berne Union Secretariat

Second, claims paid are not the same as losses. This reflects the fact that insurers will expect to recover a reasonably large percentage of the claims they pay. Indeed, in

[11] Kavaljit Singh: *The Changing Landscape of Export Credit Agencies in the Context of Global Financial Crisis*, FERN, 2010, 26

some years recoveries will exceed premium income. Recovery may take some time and so recovery of any particular claim will usually not be made in the same year as the claim was paid. This is especially true of political risk claims.

Table 2: Short Term Recoveries (US $ Million)

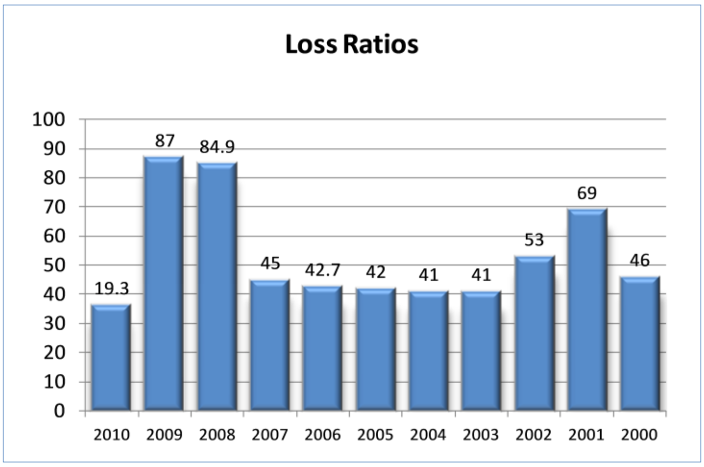
Year	US $ Million
2010	362
2009	330
2008	319
2007	370
2006	1077
2005	510

Source: Berne Union Secretariat

This is illustrated by Table 2 showing the recovery experience of Berne Union members, public and private. Thus, for export credit insurance there is a significant difference between gross claims paid and net claims (i.e. gross claims less recoveries) or losses.

The same kind of characteristics as regards differences between claims paid each year is shown by the aggregate numbers of the International Credit Insurance & Surety Association (ICISA) which cover the experience of its members all of whom are private sector insurers. These are in the form of loss ratios which reflect the relationship each year between premium increase and losses (i.e. the percentage of premium income required to meet losses). Figure 1 shows the loss ratios during the period 2000 to 2010.

Figure 1: Loss Ratios (%)



Source: ICISA Secretariat

Third, administration costs are higher than in most other classes of insurance. This reflects not only the labour intensive procedures for the issue of policies and the collection, maintenance and analysis of the buyer, sector and country information (and, especially the high IT costs associated with this) but also the costs involved in loss minimisation and recovery work.

One consequence of these points is that it is very difficult to operate in this area without some reasonable spread of risk or some minimum level of premium which can provide the stability of income necessary to offset the impact of losses and to create and keep in place the infrastructure required to develop and deliver good quality products and efficient service. For exporters this is an especially important area if they are to be able to access export credit facilities which are directly comparable and competitive with the kind of facilities available to their competitors in other countries, both those inside and outside the European Union.

In addition, these points illustrate the problems that inevitably arise for insurers who seek to operate only in the area where the private insurance market will not operate. These "last resort" insurers are faced not only with a limited spread of risk but also with fluctuating and unstable premium income. Without stability and adequacy of income, it makes it difficult for ECAs to provide world class products and internationally competitive delivery and service to their customers, at the same time as trying to avoid losses.

2.4 Export Credit Agencies

It is important to note that there is no such thing as a typical Export Credit Agency (ECA). ECAs, even within the EU, come in a variety of shapes and sizes. Products and facilities offered vary greatly. Some ECAs provide only political risk insurance whilst some provide credit insurance of both political and commercial risks. Some only provide insurance whilst some also provide various kinds of financing (e.g. in the USA, Canada). Some operate only in the Medium and Long Term credit (MLT) area whilst some operate in both the short term ST and MLT and PRI areas.

The scale of business done also varies greatly. Some are substantial operations and some operate in relatively small niches.

Status and organisation can also be very different. Some are Government Departments (as in the UK), some are Government owned companies or corporations (as in the USA, Canada and Japan) and some are private companies who write part of their business on "State Account" or as "agents" of their Governments. Some ECAs have subsidiary companies of some kind that also provide export credit insurance of various kinds. In some countries there are separate or linked organisations which provide a range of financing options to both exporting companies and their banks and to overseas buyers and banks.

Within the EU, a variety of ECA arrangements exist. In some, countries (France, Germany, Netherlands and Spain) private companies underwrite some of their business on State or Government account. In other countries, such as the UK, the ECA is a Government Department. In Austria, the ECA it is part of a Government owned bank whilst in countries, such as Belgium, Italy and Spain, it is company with some government ownership. The most common model is a stand-alone agency or entity which is government owned and backed.

Table 3: Models of European ECAs

Country	ECA	Business Model
Austria	Oesterreichischsche Kontrollbank Aktiengesellschaft (OeKB)	Private Sector
Belgium	Office national du Ducroire Nationale Delcrederedienst (ONDD)	Stand-Alone Government Agency
Bulgaria	Bulgarian Export Insurance Agency (BAEZ)	Stand-Alone Government Agency
Cyprus	Export Credit Insurance Service (ECIS)	Stand-Alone Government Agency
Czech Republic	Export Guarantee and Insurance Corporation (EGAP)	Stand-Alone Government Agency
Denmark	Eksport Kredit Fonden (EKF)	Stand-Alone Government Agency
Estonia	Credit & Export Guarantee Fund Estonia	Stand-Alone Government Agency
Finland	Finnvera	Stand-Alone Government Agency

France	Compagnie Française d'Assurance pour le Commerce Exterieur (COFACE)	Private Sector
Germany	Euler Hermes Kreditversicherungs-AG (EH)	Private Sector
Greece	Export Credit Insurance Organization (ECIO)	Stand-Alone Government Agency
Hungary	Hungarian Export Credit Insurance Ltd (MEHIB)	Stand-Alone Government Agency
Ireland	The Insurance Corporation of Ireland (ICI)	Department
Italy	Istituto per i Servizi Assicurativi del Credito all'Esportazione (SACE)	Stand-Alone Government Agency
Latvia	Latvian Guarantee Agency (LGA)	Stand-Alone Government Agency
Lithuania	INVEGA	Stand-Alone Government Agency
Luxembourg	Office du Ducroire (ODL)	Stand-Alone Government Agency
Malta	Malta Export Credit Guarantee Company	Stand-Alone Government Agency
Netherlands	Atradius	Private Sector
Poland	Export Credit Insurance Corporation (KUKE)	Stand-Alone Government Agency
Portugal	Companhia de Seguro de Créditos, S.A. (COSEC)	Private Sector
Romania	Eximbank of Romania (EXIM R)	Some State Ownership (Majority)
Slovakia	Export-Import Bank of the Slovak Republic (EXIMBANKA)	Stand-Alone Government Agency
Slovenia	Slovene Export Corporation Inc (SID)	Government-Owned Bank
Spain	Compania Espanola de Seguros de Credito a la Exportacion (CESCE)	Some State Ownership (Majority)
Sweden	Exportkreditnämnden (EKN)	Stand-Alone Government Agency
United Kingdom	Export Credits Guarantee Department (ECGD)	Government Department

Against this background, it is clearly dangerous to generalise about ECAs. In addition, it is not easy to frame single regulations etc, which apply to all ECAs since this itself may distort competition and/or not have the same impact on such a wide variety of organisations.

In addition, when considering competition, it is very important not to overlook the activities and facilities of ECAs outside the EU. These ECAs have a large and direct impact on the success and strength of companies in their countries which compete aggressively with exporters in EU Members States.

For example, some of the largest and most active ECAs are now in Asia (e.g. Japan, China and South Korea). The US Exim Bank has a wide range of ST and MLT facilities and EDC of Canada probably offers the most comprehensive range and variety of insurance investment and financing products and, in addition, competes with both private insurers and banks. These facilities and products – in common with those of many ECAs – now take a more liberal or relaxed view of "foreign content" and "national" supply and are also increasingly available in respect of operations and activities taking place outside national borders.

The key factor about any ECA is that it is most effective when it is structured and organised to meet the particular needs and specific situation of the country in which it operates.

Since EU exporters do not only face competition from exporters in other Members States, it is clearly important that, by application of the Communication, EU exporters are not put at a competitive disadvantage by restrictions placed on EU ECAs which are in no sense matched by restrictions etc, placed on ECAs outside the EU. Therefore all the recommendations made in this report reflect this competitive reality.

3. SHORT-TERM EXPORT CREDIT INSURANCE

3.1 Background

The Communication on state involvement in Short-Term Export Credit Insurance stipulates that marketable risks cannot be covered by export credit insurance with the support of Members States. Marketable risks are commercial and political risks on public and non-public debtors in countries listed in the Annex to that Communication, with a maximum risk period of less than two years. This section describes the market of short-term credit insurance - how it works and recent developments.

3.2 Short-Term Credit Insurance

Short-term (ST) export credit insurance conventionally covers both political and commercial risks. The traditional product is the Comprehensive or Whole Turnover facility. This has never meant that an exporter is required to insure all of its export sales; rather, it means that some “exclusions” can be agreed provided that the insurer is offered what it can regard as an acceptable spread of risks.

The mechanism has been an “umbrella” insurance policy normally issued annually with individual buyer credit limits being underwritten for all (or the largest) buyers either in relation to specific contracts or shipments or for specified periods of time. In some cases and subject to limits and other requirements on obtaining up-to-date status information on buyers, exporters can set their own “discretionary” limits on buyers.

Risks arising in both the pre-credit/pre-shipment periods and the credit periods can normally be insured.

This is the major business area for private export credit insurers since it is commonly estimated that in excess of 90% of world exports are sold for cash or on credit up to 180 days.

Policies were originally only issued to exporters but can now be issued to banks or factors/forfaiters etc.

The traditional position was in each country there would be one insurer only (often a Government entity) providing export credit and one insurer (normally a private company) providing domestic credit insurance.

However, with the growth of globalisation and privatisation much has changed.

3.3 The Current Position: The “Big 3”

Short-term credit insurance has become an increasingly IT-dependent business. This reflects the need to provide quick answers on credit limit applications (bringing with it the need to obtain, maintain and manipulate vast quantities of information on millions of buyers). The costs of doing this are huge and, apart from all else, represent a significant entry barrier to insurers wishing to enter the area. But IT is also very important in devising, operating and delivering world class products and internationally competitive service to exporters.

Some Governments have almost completely withdrawn from activities in the ST area. It should be noted that all but one (Australia) are in the EU.

Partly driven by both of these factors - high IT costs and the potential benefits of economies of scale (and the spreading of overheads) and privatisations - three large companies have grown and extended their activities internationally. The 'Big 3' (Euler Hermes, Atradius and Coface) now dominate the ST credit insurance world and have been estimated to have a combined global share of 85% of ST credit insurance premiums. They operate in and out of a growing list of countries. They hold status records and credit information on millions of buyers worldwide. This and their IT systems enable them to deliver very quick responses to exporters in any of the countries where they operate. Their very large premium income enables them continuously to invest substantial sums on IT and to put in place huge and sophisticated global IT systems and platforms. This, in turn, enables them to develop and deliver an ever-increasing range of products, worldwide, often via a local presence.

The dominant presence which the 'Big 3' have in almost every EU Member State, means that – in theory at least – the cover and facilities available to exporters in all Members States will be broadly similar.

However, in practice, this may not be totally true or accurate in every respect, but it does mean that it would be possible to check on the position of private insurers as regards risk appetite and cover policy by approaching the 'Big 3' rather than having to consider dealing with a much larger number of insurers.

All the major private insurers belong to the International Credit Insurance & Surety Association (ICISA) whose Secretariat is in Amsterdam which is a valuable source of information on the private credit insurance and reinsurance markets.

3.4 An Important Development: Single Risk Cover

However, the ST export credit insurance market is not a homogeneous category with one product (the comprehensive or whole turnover facility) and only three private insurers. The 'Big 3' are not the only players and Comprehensive or Whole turnover Policies are not the only products.

As the Table 4 below shows, there are a growing number of players in the export credit insurance market. 67% of EU ICISA members (90% market share) offer single risk policies. Single Risk policies represent up to 5% of total policies underwritten by reporting companies. This reflects the development and expansion of the "One Off" or Single Risk market.

Table 4: Trade- Related Single Obligor Risks

	1	1.5	2	3	4	5	7	10	15
Commercial / Political Combined	Coface	Chartis	LIB PWH[5] Markel	PEM	Atradius[8] CSL	ACE[3] FCIA HCC Hiscox[7] Ironshore KLN LAU[9] LIU MFM NVA Starr TAL	AFB Aspen[4] Axis[1] Catlin[6] Euler ICIEC[11] QBE Unistrat Zurich	ATI[12]	
Political only				Amlin LIB PWH[5] COF/QBE	Atradius	Ark CSL FCIA HCC HIS[2] Ironshore KLN Lancashire LAU[9] LIU MFM NVA PEM[12] RTH TAL	AFB Aspen[4] Axis[1] Euler ICIEC[11] QBE Unistrat	ACE ATI[12] Starr[10]	Catlin Chartis ONDD Sovereign Zurich

Maximum Credit Period (years)

1. Normal maximum but can do longer
2. 7 years for sovereign debt eg MoF
3. Structured credits - otherwise 3 years
4. 7 years plus odd time ie 7.75 years
5. May go up to 3 years for CR and 5 years for CF
6. In theory can do longer but in practice don't
7. Private banks & structured credit (not O/A)
8. Buyer credits 5 years (longer with special acc.)
9. 7 years by special acceptance
10. Syndicate max 7 years
11. Member countries only
12. Plus odd time

Source: BPL April 2011

The high entry barrier of the IT costs referred to earlier relates to the traditional "Comprehensive or Whole turnover" market which continues to be dominated by the 'Big 3'. But some exporters prefer to look for insurance in relation to a single contract rather than in relation to the bulk of their export turnover, an area in which a growing number of insurers prefer to operate. This is the "One Off" or "Single Risk" market.

More companies now offer single risk than WT policies, not least due to the significant barriers to entry of new insurers into the WT/comprehensive policy area. However, it should also be stressed that it is not only the 'Big 3' amongst private sector insurers who offer some kind of multi-buyer product. Facilities of this kind are offered by other insurers including Chartis, Markel, ACE, FCIA, QBE, Ducroire and Equinox.

Given the number of potential insurers for "One-Offs", it may be the case that this is, potentially, a more competitive market than for a traditional Comprehensive/Whole turnover product.

However, it is possibly a more difficult market to monitor – but using Brokers as a source of market information is a potentially useful option. This could be true for both of the two main facilities of the ST market which now exist i.e. Whole turnover/Comprehensive and One Off/Single Risk.

3.5 Brokers

The short-term export credit insurance market is a highly brokered market where the activities of brokers are significant, although the precise nature and extent of their involvement may differ from country to country.

Brokers are particularly relevant in marketing export credit insurance to companies. They can also play an important role in the day to day administration of policies and, often, in the area of claims and recoveries. In essence, they act as an intermediary between insurer and insureds.

Traditionally, brokers are paid by the insurers although they are not “agents” of the insurers and, formally, their main responsibility is to the insureds on whose policies they are brokers.

Since one of their key roles is helping companies find the optimum insurance and to advise insureds on the nature, cost and extent of cover available in the market, brokers are in day to day contact with insurers and thus have to be up to date with market conditions and how these may be changing.

As brokers are not the agents of insurers and are in day to day contact with the export credit insurance market, they can be useful sources of expert, objective and current information and intelligence on the attitude and risk appetite and premium rates of the major insurers.

Contacting and liaising with the brokers and the broking communities is made easier by the fact that the broking market in the EU is dominated by a relatively small number of companies who operate in and out of a growing number of countries (e.g. Aon, Marsh & Willis).

4. THE DEFINITION OF A MARKET GAP

4.1 Introduction

In evaluating the state of the credit insurance market in Europe, it is important to define whether or not there is a market gap and, if so, how has the Communication permitted the involvement of the state-backed ECAs to meet the legitimate needs of exporters.

The credit insurance market, like all markets, is subject to constant – and often unexpected – changes. As the economic environment changes or the situation with a particular buyer changes, risks may worsen to the point where insurers - quite properly and prudently - regard them as unacceptable. Thus from time to time, certain risks may not be regarded as acceptable using prudent underwriting considerations and drawing on the best information available.

While the Communication directly impacts on the business which Government and Government/Public insurers are permitted to underwrite and the premium rates they charge, private insurers will decide for themselves which risks to take, the volume of commitments they will accept and the premium rates they will charge. Competition will impact on these areas but it is not the only factor guiding the decisions of private insurers. Apart from all else, private insurers are dependent on reinsurers which often carry the bulk of the risks. And private insurers will also pay close attention to the volume of exposure and commitments they already have on their books when they are looking at new business.

This means that market gaps may open up suddenly as private insurers withdraw cover on certain buyers or certain sectors or countries.

4.2 Description of Market Gaps

in simplest terms, a market gap occurs when an exporter cannot obtain the ST credit insurance required. However, as has been mentioned elsewhere in this Report, there is a very important distinction to be made between the availability of ST credit insurance facilities on the one hand and the cost of such facilities on the other.

In our view, the concept of a gap should apply to the availability and not to the cost since premium rates will, inevitably and properly, change as perceived risks change. As risks increase it is perfectly normal insurance practice for premium rates to be increased. Put another way, there is nothing exceptional or wrong either about premium rates rising or, in times when unacceptably high risks are perceived by underwriters, in cover being withdrawn or curtailed or not being available. In this sector of the insurance market, as in many others, it is simply not true that any risk is acceptable to insurers provided the premium is high enough.

Therefore, the key issue is not simply: "when the cost of cover rises (i.e. premium rates are increased) or when cover for particular buyers or sectors or countries is curtailed or withdrawn, does this in itself demonstrates a market gap which can legitimately be filled by a public insurer/ECA?"

Rather, the question is more complex and a key factor must be whether the risks involved are such that the business could not be underwritten by any insurer without an almost certain loss arising. In other words, are the risks on the business so high that no prudent underwriter - private or public - would find them acceptable? Or, are the risks when compared with the premium almost certain to lead to losses?

We do not believe that the simple fact that cover may no longer be available at the level or cost which may have applied in the past from private insurers demonstrates of itself with no further analysis or investigation that a market gap exists. Nor do we believe that it is legitimate for public insurers to fill the gap provided that they do not charge a lower premium than would have been charged by a private insurer (if they had been willing to cover the business). The situation is more complex than this (and the way in which the Commission deals with applications to apply any escape clause should reflect this – e.g. in the nature and extent of information the Commission seeks and from what sources is information on market and options and the way in which information obtained is evaluated).

Two difficult questions, however, arise. First, should any alleged gap include exporters who have never insured but who decide that, because perceived risks increase significantly, they now wish to insure. In other words, should such a gap include exporters who in the past have decided not to insure but then decide to insure because of worsened risks. Second, there are two situations as regards facilities. One relates to facilities where it is alleged that the private market cannot or will not provide facilities whatever the perceived risks (e.g. as is alleged to be the case for business involving between 6 and 24 months credit - see Section 6). The other relates to facilities which the private market normally provides but where they are withdrawn or curtailed by private insurers for risk or capacity reasons.

Against this background, we do not feel that the fact that premium rates may rise in times of enhanced risk or that cover for certain risks may at "exceptional" periods not be available, should be regarded as conclusive proof that a market gap exists. In any case, judgment/assessment will be necessary about the likely duration of any "gap" – i.e. whether it is simply short term or temporary.

4.3 Definition of Market Gaps

As explained, a market gap in theory exists when exporters cannot access insurance facilities that they want. Inevitably, market gaps will vary in nature, size, duration and causation. In assessing the market gap, it is important to define precisely both the nature of a market gap as well as the reason for it.

Some possible reasons for the existence of a market gap are:

1. Is it that insurers will not provide cover because of the size of the exporter/policyholder and thus level of premium income which would be

received as compared with the administration and other costs and the risks?
2. Is it that insurers will not provide cover because of the level of a particular buyer risk?
3. Is it that insurers will not provide additional cover because they have already fully utilized their buyer credit limits?
4. Is it that insurers are under pressure from their reinsurers or credit rating agencies resulting in a broad-based reduction of credit limits, irrespective of the quality of the buyer risk or exporter they are being asked to underwrite?

As was discussed above, situations in which exporters are not willing to purchase the insurance available in the market because they feel it is too expensive should not be considered a market gap, per se.

Depending on the reasons, the market gaps may be widespread or very specific to a buyer or a sector or a country, requiring a very different approach than individual treatment. The key questions will hinge on the nature and likely duration of a gap and why it has arisen.

4.4 Analysis of Market Gaps

Before accepting allegations of a market gap, it is necessary to verify and validate the existence of such a gap. Proving the existence of a market gap is not straightforward, and this has been one of the challenges facing the Commission in examining the requests for the temporary exceptions.

Ideally, one could define a series of triggers which would then signal that a market gap had arisen. It might be thought that there is a particular threshold of risk, such as individual risks or countries which are assessed to be a certain category of risk or higher, which the private market would not insure. Or, that there is a certain threshold of losses on a portfolio that the private market would consider too high and therefore they withdraw cover. However, in reality, the market does not work that way.

As is discussed in Section 3, the private market is not homogeneous and, despite the concentration of business within the “Big 3”, there is no one event or trigger that could define a market gap opening up for all insurers. While the GFC (discussed in Section 12) resulted in similar reactions across all insurers in the market, that is not to say that this is always the case. Therefore, in our view, it is neither practical nor helpful to try to devise a theoretical definition of gaps which will have any kind of general applicability.

Put another way, we do not feel that drawing up any kind of theoretical model of what would constitute a market gap and then using this to evaluate real life situations is the most useful or appropriate approach. Rather, we think that there should be a practical evaluation by experts of the particular circumstances. This process would lead to a recommendation both on whether a market gap exists in facilities available to EU exporters from private insurers and whether it is appropriate for this gap to be filled by public insurers.

In our view, the trigger for reviewing the existence of a market gap should be that exporters have business which they wish to insure but where they are unable to obtain credit insurance facilities either on a comprehensive or one off basis from private insurers. The trigger should not be that exporters perceive the costs of insurance facilities to be higher than they are prepared to pay.

4.5 Conclusions

Against this background, evaluating whether a gap exists and the nature of any gap should be a practical process carried out be experts with detailed experience of current market conditions. We do not feel that the Commission possesses the required expertise gained from day-to-day involvement in the market. Nor do we feel that the problem can or should be approached by trying to draw up a theoretical model or all-embracing definitions.

We think that a gap should not be regarded as existing just because premium increases occur. We also think that there may be good underwriting reasons for cover being withdrawn or restricted. Cases need to be looked at on an individual basis against the particular circumstances.

Recommendation #1: Definition and Analysis of Market Gaps

We recommend that the existence of a market gap be defined by cover being unavailable and that a gap should not be regarded to be existing just because premium increases occur.

We recommend analysis be undertaken of the gaps, assessing the nature of the market gap, i.e. whether it is general or specific, and the basis for the market gap, i.e. whether there really is an inability to get cover and what are the reasons. Recommendation #8 describes the process and structure by which this can be achieved.

5. OTHER SHORT TERM PRODUCTS

5.1 Introduction

Credit insurance is not of course the only product or financial instrument available to companies in respect of their exports sold on cash or short credit terms. However, these other products are not covered by the current Communication.

5.2 Letter of Credit

Payment for an export can be made by the buyer arranging for his bank to open a letter of credit. This, in general terms, provides protection against default by the buyer (depending on the precise terms of the letter of credit).

However, unless the letter of credit is confirmed by a bank in the exporter's country, risks remain of payment not being transferred in the event of foreign exchange shortages in the buying country. Letters of credit were the traditional payment method in many countries and sectors but their use is falling in favour of open account methods which many buyers prefer (not least since this is cheaper and easier for them).

5.3 Forfait

Where bills of exchange on promissory notes exist, these can be sold to forfaiters. In other words, sellers can obtain cash and repayment risks move to the purchaser of the securities.

However, many forfaiters will not take 100% of the repayment risks and look for some "recourse" to the seller. In addition, forfaiters here traditionally preferred bills or notes which are guaranteed (or avalised) by a bank. And forfait has been more common in the MLT area. Forfait can also leave sellers exposed to risk in the pre-credit or pre-delivery period. Finally, forfait is seen as expensive by many exporters.

5.4 Factoring & Invoice Discounting

A growing technique is for companies to sell their invoices or receivables or to sell via a specialist "merchant" or factor so as to reduce or eliminate the risks of payment default.

Clearly the factor or institution buying the invoices must be happy both with risks on the buyer and buying country and also and the track record of the seller. Some factors actually issue the invoices or, in effect, operate the exporters' sales ledger. Some facilities involve risk sharing or recourse to the seller and so impact more on cash flow than on transfer of risk.

Some insurers have facilities which can be issued to banks, forfaiters, factors and invoice discounters and merchants under which some share of political and commercial risks can be insured.

5.5 Relevance of the Communication to Other ST Products

These products can also be competitive with ST export credit insurance as exporters and buyers may choose to cover their risks or access funding through other means than export credit insurance. The products are not perfect substitutes and price comparisons are difficult to make. The reason for using one product over another is varied and may have little to do with pricing. It may be that the buyer is unwilling to provide a letter of credit, or the exporter is seeking to monetize its receivables.

Appendix D describes the activities of EU ECAs. None of the agencies provide these other ST products. It should be noted however that some private insurers and a few non-EU ECAs have subsidiaries which operate directly in all or some of these product areas.

Moreover, based on our consultations, no one raised any complaints with us about the activities of ECAs in these areas.

5.6 Conclusion

Credit insurance, either on a comprehensive or one off basis, is not of course the only product available to exporters. There are a range of products (letters of credit, forfait, factoring, invoice discounting etc).

There is to some extent overlap between these products and some are more relevant to particular situations than others. In some cases the products may be combined. In our view, there is no point in trying to generalise about whether or not exporters should or should not best use any or all of these products. This is a judgment for exporters to make and flexibility is important.

Nothing in our work or experience suggests that there would be any benefit in the Commission seeking to extend the scope of the Directive into any of the products beyond credit insurance, especially given that European ECAs are not active in these areas and therefore there is no State Aid involved and no evidence, or even suggestion, of unfair ECA competition.

Recommendation #2: Other Short-Term Products

We do not recommend any of the products or techniques other than short-term credit insurance to be included in any future Communication. Nor do we believe that there is a need for the Commission to issue any “Regulations or Rules” in respect of Governments/ECAs activities in these areas.

6. BUSINESS WITH A CREDIT PERIOD BETWEEN 180 DAYS AND TWO YEARS

6.1 Introduction

As noted earlier, the Short-Term credit insurance market is not a homogeneous one. Although most business is less than 180 days, as the bulk of world trade is done on cash terms or credit up to 180 days, there is a category of exporters which sell on terms greater than six months, but less than two years. These will typically be small equipment manufacturers with fairly small contract values.

In some markets, these exporters can sell on letter of credit basis, relying on the local banks to issue this on behalf of the buyer. However, in OECD markets, it is more likely that open account terms are necessary to be competitive.

6.2 Availability of Private Credit Insurance

In the past, some insurers handled these cases by means of an "Extended Terms" endorsement to the normal Whole turnover policy. We were told by the ICISA that private insurers still use these endorsements but not on a policy level, i.e. not for all underwritten buyers, but rather on a case-by-case basis.

It was suggested to us by some that it was difficult to find cover in the private sector for this category of business – even in the "one off" or "Single Risk" sector at a price which is deemed acceptable. It was also suggested to us that the reason may be that this position may vary from country to country and that exporters could have more difficulty accessing the facilities of the private market in some countries more than others. For example, we were told that small equipment manufacturers from Scandinavian countries may face more of a challenge in this area than some of their competition from other European countries selling domestically. This may well be an area where there are differences between coverage available from private insurers within different Member States.

We were told that there is a potential market gaps in area. However, the majority of the insurers who were consulted did not see this issue as a problem. Some brokers suggested that the problem may be one of price rather than availability. Our view is that exporters being unwilling to pay a certain premium rate should not be construed as being a market gap and therefore provide a basis for ECA involvement (see Section 4 for more detail).

6.3 Conclusion

We were told by both brokers and private insurers that there was not a general problem with accessing credit insurance for business with a credit period between 180 days and two years, although there might on occasions be for difficulties for individual buyers or sectors or countries. Moreover, there is no clear reason to think that demand for this type of product will increase in the near future.

However, because the issue was raised by some people as a concern, we believe that this is an area which may warrant further examination by the Specialist Brokers Panel proposed in Section 16.

Recommendation #3: Business on terms between 6 and 24 months

On the evidence available to us, we do not think there is a systemic shortage or non-availability of cover in this area. However, it seems that there may be differing positions within different Member States and therefore it might be prudent to seek input from a panel of experts, as per Recommendation #8.

7. DOMESTIC TRADE CREDIT INSURANCE

7.1 Introduction

One question which arose during our work was whether Domestic Credit Insurance[12] should – somehow – be taken within the scope of the Communication.

The background to this suggestion was that some large multinational exporting companies operating in and out of a large of countries often prefer to have single (or streamlined) credit insurance policies covering sales within and out of their countries of operation. The alternative would be a series of separate policies, not only one for each country of operation but also different policies covering exports and domestic sales.

The development of global policies matches the development of globalisation and the wish of some companies to have the minimum number of separate policies. There may also be some companies who do not wish to get embroiled into discussions and disputes over what, in some contexts, is the distinction between an export and a domestic sales. This takes account of the intra-EU sales and also of the rapid evolution of supply chains and the movement of goods between countries and entities before they are "final" goods.

In response to this, one of the products offered by all private insurers operating in the EU is a policy which can offer sellers a single policy (or a "standard" Whole turnover policy with an endorsement of some kind) which can embrace both domestic and export sales. It is not a specific policy type but rather an inclusion or exclusion of the domestic market in the insured countries that determines whether or not a policy is also domestic or not. Private insurers expect this product to be an increasingly important one.

7.2 ECAs and Domestic Credit Insurance

Only a small number of ECAs within the EU seem to offer any kind of domestic insurance or finance products.

However, some ECAs outside the EU do offer this cover, often as part of a combined export/domestic policy, e.g. EDC of Canada, Sinosure of China. Table 5 lists those ECAs within and outside the EU offering domestic credit insurance.

[12] For the purpose of this study, "Domestic" is defined as the buyer being in the same country as the insured seller. "Export" is considered to be trade with a buyer in another country/EU Members States from where the insured seller is established.

Table 5: ECAs Offering Domestic Credit Insurance Products

Country	ECA
EU Member	
Bulgaria	Bulgarian Export Insurance Agency (BAEZ)
Poland	Export Credit Insurance Corporation (KUKE)
Portugal	Companhia de Seguro de Créditos, S.A. (COSEC)
Slovakia	Export-Import Bank of the Slovak Republic (EXIMBANKA)
Non EU	
Bosnia & Herzegovina	Export Credit Agency Bosnia & Herzegovina (IGA)
Botswana	Export Credit & Guarantee Company (Botswana) Pty Ltd (BECI)
China	China Export & Credit Insurance Corporation (Sinosure)
India	Export Credit Guarantee Corporation of India Ltd (ECGC)
Kazakhstan	Kazakhstan State Insurance Corp for Export Credit & Investments (KECIC)
Lebanon	Lebanese Credit Insurer (LCI)
Malaysia	Exim Bank of Malaysia BHD (MEXIM)
Singapore	ECICS Limited
South Africa	Credit Guarantee Insurance Corporation of Africa Ltd (CGIC)
Sultanate of Oman	Export Credit Guarantee Agency of Oman SAOC (ECGA)
Uzbekistan	Uzbekinvest National Export-Import Insurance Company (UZBEKINVEST)
Zimbabwe	Credit Insurance Zimbabwe Ltd (CREDSURE)

Source: Berne Union 2010/Yearbook

It is important to bear in mind that overall market figures for the EU suggest that the short term domestic credit insurance volume is significantly larger than the export credit insurance volume (even including intra-EU business in the export category).

7.3 Export versus Domestic Risk; Global versus Domestic Policies

It was suggested to us that, within the EU, Domestic Credit Insurance is a bigger business than Export Credit Insurance for the 'Big 3'. In other words, the 'Big 3' cover more domestic sales than export sales of their clients.

According to ICISA, approximate 60-65% of business done by its members within the EU is domestic, while the remainder is export. In addition, apart from just the 'Big 3', all EU ICISA members offered combined domestic/export policies, representing roughly around 55-60% of total policies.

For the 'Big 3', we were told that "Global Policies" for multinational companies (including domestic and export credit insurance) were a very important and growing part of their portfolios.

It was also suggested to us both that in France, during the Global Financial Crisis, the Government became involved in domestic credit insurance before it re-engaged in the ST Export Credit insurance area. And in the UK, the Government had a scheme for domestic credit insurance but not export credit insurance.

7.4 Conclusion

Domestic credit insurance is not covered currently by the present Communication. However, in our view, it would be prudent and appropriate for the Communication in future to prohibit ECAs (and other Member State government entities) from operating in this area, i.e. providing domestic credit insurance.

Recommendation #4: Domestic Credit Insurance

We recommend that the Communication prohibit ECAs (and other Member State government entities) from providing short-term domestic credit insurance.

8. SMALL AND MEDIUM SIZED ENTERPRISES

8.1 General

In most countries, SMEs represent an important and sensitive sector, largely due to the important role they play in economic and employment growth.

The Commission defines an SME as "the category of micro, small and medium-sized enterprises (SMEs) is made up of enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding EUR 50 million, and/or an annual balance sheet total not exceeding EUR 43 million."[13]

Under the Communication, ECAs are permitted to provide short-term export credit insurance facilities for SMEs (in effect such business can be regarded as non-marketable) where the export turnover is less than EUR 2m.

8.2 SMEs and Export Credit Insurance

In the area of export credit insurance, SMEs have particular needs and requirements which can differ from those of larger companies. For instance, the smallest SMEs do not normally have the resources or capacity to handle complicated and time/resource consuming insurance documentation and procedures.

Experience in many countries demonstrates that what SMEs most need are specially designed facilities which are expressed in plain and straightforward terms and which are easy and cheap to administer (both for the insurer and the insureds). It is even better if the delivery of these products can be organised in association with the transfer of technical expertise and advice (e.g. in relation to exporting/international trade techniques), as well as with financing.

8.3 Availability of Private Credit Insurance to SMEs

It is certainly <u>not</u> true that private credit insurers have no interest in SMEs or no experience in providing facilities for SMEs. It is equally untrue that only Government ECAs are able and willing to handle the export credit needs of small exporters. This partly reflects the fact that it is not essential – or universal practice – that premium rates for SMEs be subsidised. In fact, most Governments do not subsidise premium rates.
Based on our discussions with ICISA, 67% of EU ICISA members (representing 90% of the market share) offer dedicated SME policies, in which the minimum premium per policy ranges from € 1,200 to € 5,000 p.a., depending on the insurer.

[13] OJ L 124 of 20.5.2003, p. 36

However, it is expensive for insurers to develop and deliver special products for SMEs. In addition, the ability to do this will often depend crucially on the IT and information infrastructure which insurers need to have in place. In turn, this depends on the insurer having a sufficiently large premium income to meet the high costs of sophisticated IT systems and the obtaining and manipulation of vast quantities of information.

These considerations mean that it is very difficult for any credit insurer to offer world class products and internationally competitive products and service to SMEs if this is their only function. If such were the case, then not only is it unlikely that the products will be world class, but it will also be difficult for losses to be avoided. This is partly because the spread of risks of an “SME-only” insurer is likely to be limited, and this will inevitably reduce its ability to handle the worst/more difficult kinds of risks, if losses are to be avoided. Against this background, it is perhaps not surprising that no new or small or niche private sector credit insurers have chosen “SME-only” as their area of operation/specialisation.

8.4 Evidence of an SME Market Gap

The question of whether and to what extent private export credit insurance facilities are available to SMEs is a difficult one. The question needs to be looked at in the context not only of whole turnover or comprehensive facilities and products, but also in the context of one-off or simple risk insurance. A related question is whether or not brokers are likely to play a substantial or wide ranging role in this area.

No statistics exist in the public domain in relation to SMEs and their use of ST credit insurance, especially as regards those SMEs who do not use ST credit insurance or are unable to obtain it from private insurers. We were told by an insurer that the penetration rate of SMEs tends to be lower than bigger firms as private insurers will seek to capture the high end of the market, where premium incomes are higher. Therefore, on this bases, once can surmise that the smaller the SME the more difficult it can be to get a policy from a private insurer or help from a broker, given the small size of the premium income that an SME generates for an insurer relative to costs and risks.

Whilst the availability of ST export credit facilities for SMEs would not have been improved or extended during to the Global Financial Crisis (GFC), the basic question is whether or not private insurers are able or willing to meet all the legitimate and actual needs of SMEs for ST export credit insurance based on transactions which are put to them, rather than theoretically having an SME-policy on offer.

8.5 Conclusions

The question of whether there is a systemic market gap in relation to the availability of private credit insurance for SMEs is is not a straight forward question. A number of people raised the issue that SMEs continue to have difficulties in obtaining insurance policies from private insurers – even in good times.

We were told by an insurer that they would consider a small company to have an annual turnover of about €2 million, though €1 million would be the very smallest they would insure.

This position may vary from country-to-country, but there is evidence to suggest, based on our experience in the area and the feedback we received, notwithstanding the lack of data available, that there are market gaps in this area. Moreover, there were no complaints raised by the private insurers that the ECAs were "crowding out".

Private credit insurers certainly do have as a product an SME-only policy in theory, but whether or not an SME exporter is able to access this facility will vary from country-to-country and case-by-case.

Against this background, we consider that there remain some market gaps in the area of SMEs and no evidence that the ECAs are taking business from the private insurers.

Recommendation #5: SMEs

We would not recommend any change in the threshold for SMEs, i.e. ECAs' activities should be restricted to companies with a turnover of EUR 2mn or less.

9. MEDIUM & LONG TERM (MLT) BUSINESS

9.1 Introduction

The Communication does not apply to MLT credit facilities. This is the subject of a Directive. This partly reflects the fact that the activities of OECD Governments and OECD ECAs in the MLT area are subject to the OECD Arrangement which applies not only to maximum lengths of credit but also minimum premium rates.

The "Rules" set out in the OECD Arrangement are not, however, rules pertaining to State Aid. They were designed to apply to competition on the terms of credit with the aim of providing a level playing field for competition between exporters and banks in OECD countries.

The OECD Arrangement on Officially Supported Export Credits was put in place in the 1970s to prevent a "subsidy war" amongst official ECAs. The Arrangement was intended to establish a level playing field so that exports would be won on the basis of price, quality and service and not on the costs and conditions of financing.

The Arrangement (known also as the "Consensus") covers credit with repayment terms of 2 years and more. It sets limits on the repayment terms which are generally 10 years for most countries and sectors, but are shorter for higher income countries and can be as long as 12 years for power plants and 15 years for nuclear power plants and longer terms for aircraft.

The Arrangement also sets a strict limit on the length of the grace period (i.e. the period between the completion or delivery date and the date of the first repayment) of six months. Principal must be repaid in equal semi-annual instalments and so annuity structures or bullet payments are generally not allowed. Special provision for Project Finance structures were put in place in 1998 which allow for a limited degree of flexibility to reflect better the cash flow of limited recourse project financings.

A system of minimum interest rates applies where official financing at fixed interest rates is provided (i.e. the ECA lends, or provides an interest make-up to the bank to lend). There is also a comprehensive agreement on minimum premium benchmarks

9.2 Involvement of Private Market in the MLT Area

It has almost certainly never been the case that the private market – embracing banks, private insurers and capital market products of various types – has been able to meet <u>all</u> the needs and requirements of exporters in respect of projects and capital goods exports attracting MLT credit. This reflects both risk and funding factors. The position in both the risk and funding contexts was emphasised during the GFC and resulted in serious gaps in the finance and insurance facilities available from the private sector. This negative impact was partly mitigated by a reduction in demand for projects and large capital goods sales due to the effect of the GFC on buyers and project sponsors, including governments.

There are no statistics available on the size of the private market in this area. The MLT committee of the Berne Union is only open to members with a government link and ICISA does not keep this data. However, as MLT business would be written as a single-risk business and as single-risk business constitutes less than 5% of ICISA members' business, it is fair to say that the amount of MLT export credit business being undertaken by the private insurers is relatively small.

9.3 Conclusions

There are many examples of successful co-operation between ECAs and the private sector in the MLT area. In addition, ECAs increasingly co-operate effectively with each other in respect of multi-source projects.

Both of these factors are of growing importance in a global trading world where supply chains become larger, longer and more complex involving companies in a growing number of countries.

There is no evidence of competition between private and public insurers. In our discussions with the insurers, brokers, exporters and ECAs, no one complained to us about the activities of ECAs in the MLT area, other than suggesting in fact that they were not doing enough. There are therefore no grounds to suggest that there needs to be any rules preventing ECAs from operating in the MLT market. Thus, we do not recommend any extension of the Communication into the area of MLT business.

Recommendation #6: MLT Business

Against this background, we can see no reason or benefit to any party of the Commission extending its operations or controls in the MLT area or in adding any new provisions or requirements to the Communications in relation to MLT business. The reasons for our recommendation are: 1) there is strong evidence of co-operation in the MLT area between private insurers and ECAs; 2) there were no complaints raised about the activities of ECAs in this area; and 3) there seems no basis or good reason to seek to include MLT facilities, not least given the existence of the OECD Arrangement.

10. ECA “SUBSIDIARIES”

10.1 Introduction

In recent years, several European ECAs have established subsidiaries to undertake ST credit insurance on a commercial basis. This has been understood by to mean that these companies are not backed by a guarantee of the state and that these entities can underwrite marketable risks, without being subject to the Communication.

The most active players in the market are Sace BT (the subsidiary of the Italian ECA) and Ducroire (the subsidiary of the Belgian ECA). Together these companies purchased the former Czech ECAs’ credit insurance subsidiary.

10.2 The Issue

The activities of these ECA subsidiaries was a subject which arose on many occasions during our consultations from both private insurers and ECAs.

The major point made to us was that it was wrong to regard such entities as private insurers due, for example, to their ownership, their easy access to capital and the cost of such capital and that they are not subject to the same range and intensity of “market” or “shareholder” pressures as private sector insurers.

10.3 Conclusion

There is merit to consider the allegations that despite operating in the commercial area, these subsidiaries enjoy benefits which might not otherwise be available to the private insurers, such as availability and cost of capital.

Evaluating in detail the strength and truth in these allegations is beyond the scope of this report. Our work suggests that these allegations do appear to have some basis. However, there is a risk of an adverse impact not only on fair competition and on a level playing field before private and public insurers but also between facilities available to competing national exporters in different Members States.

Recommendation #7: ECA Subsidiaries

We recommend that the Commission should look at whether it is justified in current circumstances to regard these ECA subsidiaries as private companies.

11. THE GLOBAL FINANCIAL CRISIS: WHAT REALLY HAPPENED

11.1 What Happened in the Private Export Credit Insurance Sector?

In this area, it is necessary to try to distinguish fact from myth, not least since facts are scarce and myths are plentiful.

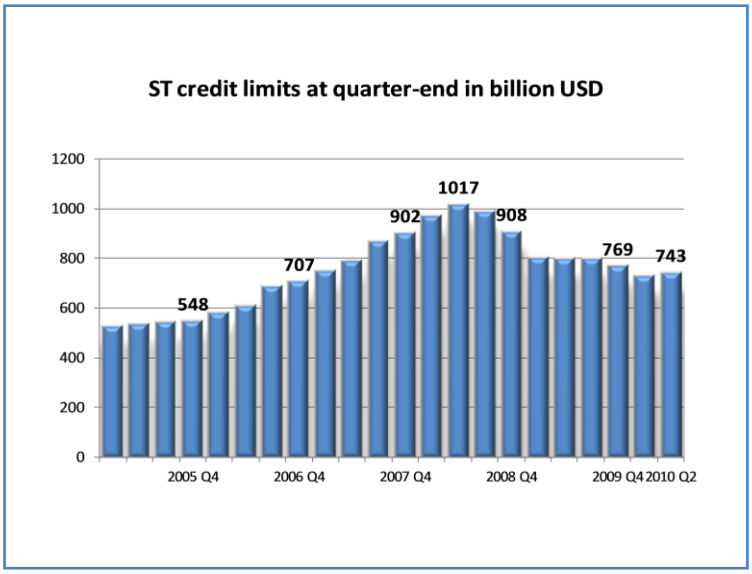
The myth is that, when the GFC struck, the private insurers withdrew or cancelled credit limits across the board and left exporters stranded. In addition, premium rates were significantly increased. And, crucially from the standpoint of exporters, the insurers failed dismally to communicate what was going on thus leaving the adversely effected exporters almost totally in the dark. Exporters were not alone in being worried that sudden withdrawal of credit limits would not only severely prejudice future trading relationships with buyers but cutting lines and limits would almost certainly cause buyer defaults and so claims and losses for both insurers and insureds. Exporters might have expected limits to be reviewed in certain sectors in certain countries but were both baffled and adversely impacted by both wholesale across the board limit cancellations and by the almost complete absence of information and explanation or guidance from their insurers.

We have tried to establish how valid these points are.

Credit limits are a crucial area. Figure 2 shows the trend in credit limits of Berne Union members which declined by over 25% from a peak of US$1 trillion in 2008 to the middle of 2010.

The ICISA told us that 300,000 credit limits were withdrawn during the first few months of 2009 but that this represented less than 5% of all outstanding limits. However, 300,000 is a substantial number and the exposure involved (if cancelled limits were being fully used) is estimated at EU 75 billion.

Figure 2: Short Term Credit Limits



Source: Berne Union

The ICISA also told us that credit insured exposure at the end of 2008 was at the same level as at the end of 2007 and that renewal rates for short-term whole turnover policies stand at more than 90% in some countries – thus arguing that business has continued in spite of the GFC and that there has not been a mass migration of exporters away from private insurers.

There is no doubt that claims paid by private insurers rose during the GFC as the following figures illustrate.

Table 6: Claims Paid by Private Insurers

Year	Euro Billion
2010	2.027
2009	4.529
2008	4.485
2007	2.390
2006	2.143
2005	1.728

Source: ICISA Secretariat

The ICISA further told us that the number of claims was very high but that the size of claims was "medium/'low". Interestingly, we were told that large exposures performed much better than smaller credit limits during the crisis.

The ICISA also told us that the OECD countries most affected by the crisis were: Spain, United Kingdom, Italy, Greece, Ireland, Iceland, Baltics, Portugal, France, Slovenia, and Turkey. Trade sectors most affected by the crisis: Construction, Automotive, Steel, Timber/ construction materials, and Textiles.

It is important to recognise that the fact that trade flows may have fallen during the GFC does not necessarily mean that this was caused by problems or restrictions in the supply of credit insurance or bank finance in exporting countries. It is invariably the case that, during a crisis, buyers themselves reduce their imports due to perceived difficulties in on-selling goods or shortages of finance or a fear of building up stocks or because they are unable to get letters of credit from their banks. In other words, the demand for credit insurance and trade finance facilities in exporting countries will be directly impacted by a reduction in orders from buyers.

A point made to us very frequently, including by companies, brokers and banks, was that the large private insurers had caused significant difficulties for their clients by withdrawing limits suddenly and without notice, and on a large scale. Though not uniformly. Coupled with this was the fact that the clients felt that they had not been adequately notified by their insurers as to what was being done and why and for how long limits would remain cancelled.

These points seem to have been recognised as having some validity in that the ICISA told us that since the crisis 50% of EU ICISA members (over 80% market share) have introduced changes in how they communicate with policyholders on credit limit decisions. The main changes include:

- More explanation/improved information on decisions made (83% of respondents)
- More advanced notice of decisions (33% of respondents)

Other changes that have been introduced include more transparency on processes, direct access to underwriters and faster service.

11.2 What did ECAs do as a Result of the GFC?

It may be helpful to look first at some aggregate figures on short term business.

Table 7: Short Term Turnover (Business Covered)

Short Term Export Credit Insurance USD Million						
	2005	**2006**	**2007**	**2008**	**2009**	**2010**
Berne Union Total	**843,719**	**975,262**	**1,126,721**	**1,290,878**	**1,123,195**	**1,189,522**
Private members –	578,457	672,401	837,760	992,269	775,929	711,222
In EU/EEA	*536,714*	*622,616*	*783,795*	*936,904*	*725,377*	*650,954*
Public Members –	265,263	302,861	288,960	304,610	347,266	478,800
In EU/EEA	*19,506*	*21,082*	*25,068*	*30,418*	*26,137*	*35,840*

Source: Berne Union Secretariat

These figures obviously show the fall in total business in 2009 and 2010 but it is useful to bear in mind that this has been partly caused by a fall in demand.

However, they also show a decrease in the business underwritten by private insurers both generally and within the EU in 2009 and 2010 and an increase in business underwritten by public insurers both generally and by those ECAs within the EU in both these years.

The increased business done by EU ECAs is not surprising given that a number of Members States applied for – and were given – exceptions. The exceptions enabled the ECA in the Members States to underwrite business which had previously been regarded as “marketable” (under the Communication risks are divided into two categories – marketable and non-marketable – and ECAs are only allowed to operate as the second category). Not all Members States applied for exceptions.

The table below sets out the details of the temporary exceptions that were granted by the EC for those Members States which applied. Appendix E summarises the exceptions granted by buying country.

Table 8: EC Decisions under Temporary Framework

Applying Country	Date of Submission	Date of Decision	Date of Expiration	Buying Countries Covered
Austria	20-Jul-09	17-Dec-09	31-Dec-10	Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Netherlands, Portugal, Spain, Sweden, United Kingdom, Australia, Canada, Iceland, Japan, Norway, Switzerland, United States
Belgium	25-Sep-09	6-Nov-09	31-Dec-10	All EU and OECD Countries
Denmark	27-Feb-09	6-May-09	31-Dec-10	All EU and OECD Countries
Finland	29-Apr-09	22-Jun-09	31-Dec-10	All EU and OECD Countries
France	23-Jul-09	5-Oct-09	31-Dec-10	All EU and OECD Countries
Germany	30-Mar-09	5-Aug-09	31-Dec-10	All EU and OECD Countries
Hungary	18-May-10	5-Jul-10	31-Dec-11	Countries listed in the Annex of the Communication, except of Denmark, Ireland, Malta, Sweden, Austria, the Netherlands, Portugal, Luxembourg, Switzerland, Iceland, United States of America, Japan, Australia, and New Zealand.
Hungary	21-Oct-10	21-Jul-10	31-Dec-11	All EU and OECD Countries
Latvia	2-Apr-09	10-Jun-10	31-Dec-10	All EU and OECD Countries
Lithuania	11-Nov-09	21-Dec-10	31-Dec-11	All EU and OECD Countries
Luxembourg	23-Jan-09	20-Apr-09	31-Dec-10	All EU and OECD Countries
Netherlands	8-Jul-09	2-Oct-09	31-Dec-10	All EU and OECD Countries
Slovenia	21-Dec-09	16-Mar-10	31-Dec-10	All EU and OECD Countries Except Japan
Sweden	3-Nov-09	25-Dec-09	31-Dec-11	All EU and OECD Countries
Portugal	9-Nov-09	NA	NA	Still under Assessment

An interesting question is, of course, the amount of business done by Members States under the exceptions. However, despite efforts we have unable to get figures on ECA activities under these exceptions.

Interestingly, as the Table above shows, most of the exceptions granted had the effect of enabling the ECA in the Member State to cover the business in respect of any buying country, i.e. virtually every country became non-marketable for the ECA involved.

12. HAS THE COMMUNICATION BEEN EFFECTIVE?

12.1 Objectives of the Communication

The Communication says that the "purpose of this Communication is to remove such distortions due to State aid in that sector of the export credit insurance business in which there is competition between public or publicly supported export credit insurers and private export credit insurers".[14] The Communication earlier states "*distortions of competition can occur not only between exporters in different Members States in their trade within and outside the Community but also between export credit insurers offering their services in the Community*".[15]

However, competition can have a number of contexts, e.g. competition between private and public insurers in any Member State or competition between the public insurers in Members States or the competition between exporters in Members States or, importantly, the competition between exporters in the EU and exporters outside the EU (and the impact on this competition of the whole package of credit insurers and finance including support from Governments).

We sought some clarification of this from the Commission and we were told that "*the main objective is to remove distortions of competition due to State Aid in the sector of export credit insurance where there is competition between public or publicly supported insurers and private insurers… [The] main objective remains for ensuring a level playing field and avoiding distortions of competition*".[16]

We asked the Commission whether its key policy objective was public versus private competition or competition between Member State Governments. The Commission responded: "*The objective is both: by establishing uniform rules applying to all Members States, we ensure a level playing field avoiding distortions of competition also between Members States*".[17]

We have thought long and hard about this and, particularly, about the applicability to all Members States of "uniform rules".

We have especially in mind the situation where – as appears to be the case – the private sector insurance options, in terms of cost and capacity, may differ between Members States. In other words, where there is not a level playing field between Members States on the availability of private export credit insurance.

Where would this leave the concept of "uniform rules" whose key objective is to provide a level playing field?

[14] OJ C 281, 17/09/1997, p. 4-10
[15] Ibid
[16] Email correspondence between project team and DG COMP dated June 20, 2011
[17] Ibid

We put this point to the Commission who responded that:

> "*The Commission defines a common framework that sets out the same rules for all Members States. However, this implies also that, if the situation of the market is different between Members States, then a different level of involvement by Members States may also be justified. The rules leave thus flexibility to cater for national specificities such as differences in the concrete market situation (e.g. because private insurers might not offer certain products in certain Members States) without generating undue distortions*".[18]

12.2 The Application and Implementation of the Temporary Framework during the GFC

The process by which Members States applied for and received approval by the EC for temporary exceptions was subject to extensive feedback during our consultations.

It is important to note that when a exception is granted and so when the Commission agrees that a buying country formerly regarded as marketable could in future be regarded as non-marketable, this relaxation applies only to the ECA in the Members States which made the application, i.e. all other Members States are still bound by terms of the Communication. In other words, a buying country is regarded by the ECA's in some Members States as marketable (i.e. those Members States who have not sought and received exceptions) whilst ECAs in other Members States (i.e. those Member States who have sought and receive exceptions) can treat the same buying country as non-marketable.

The evidence which the Commission required Members States to provide when submitting an exception application originally involved written confirmation of the non-availability of insurance from two large international private insurers as well as a national insurer. However, this was relaxed during the crisis to accept evidence from either one large international insurer and a national insurer, or four refusal letters from insurers for well-established exporters[19].

We asked the Commission how it dealt with the question of premium since it is not easy to see how it could be established what premium private insurers would have charged had they been willing to provide cover. In other words, if private insurers are not willing to provide insurance there is unlikely to be a private sector premium rate for such business. The policy intention in this area would presumably be that ECAs did not charge a lower premium rate than a private insurer would charge and so the ECA would not impede the private insurer "taking back" the business when it found the risks acceptable. The formal position is that the Commission requires a public insurer to "*align its premium rates for such risks with the rates charged elsewhere by private export credit insurers for the type of risk in question*".[20]

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[18] Ibid
[19] OJ C 16, 22.01.2009, p. 1
[20] OJ C 006 , 11.01.2011, p. 5 - 15

The Commission told us that they felt that, for the exceptions "*agreed during the GFC, the requirements of the Communication were complied with when the average premium rates under the public schemes are set at a higher level than the average premiums charged by private credit insurers*".[21]

The Commission went on to say that:

> *"The fact that the premiums charged under the public schemes are higher than the market levels was also partially explained by the difference in the type of policy offered. The private insurers operate on a whole turnover basis, which provides for the diversification of risk. At the same time, a higher level of the premiums charged by the public schemes limits to the minimum the risk of crowding out of the private insurers as the exporters have an incentive to seek cover with private insurers. Therefore we considered that schemes contained an in-built mechanism that should lead to phasing out of the state intervention as soon as the private insurance market revives, since the level of premium charged would ensure that the exporters return to the private insurers as soon as the market conditions allow and the risk becomes marketable again.*
>
> *In relation to the evidence, Members States had to notify the premium levels charged under the schemes. For the level of premiums charged in the private market, we assessed the evidence provided by Members States (not by private insurers). In some cases, the evidence was in the form of statistics on the level of premiums pre-crisis; in others Members States provided also some figures on the evolution of prices during the crisis. However, comparing prices has been a challenging exercise, as the State supported schemes were in most cases covering different types of risks than the one available under private coverage".*[22]

In reaching decisions on exceptions, the Commission did not seek information on premium etc. from anyone outside itself and the Member State Government entity making the application and relied, essentially, on the application itself as the written evidence/confirmation of the non-availability of insurance provided by the company(ies) in its Members States.

In other words, no information or comment or views of any sort were sought from private sector insurers (especially the 'Big 3'), from brokers or from the ICISA (or the Berne Union) or Rating Agencies on either the availability or the cost of the insurance involved in the Exception Application. The absence of communication with the private sector on the issue of individual exceptions during the financial crisis was a particular problem for private insurers.

We were told on a number of occasions that there was disappointment at the length of time it took to get responses from the Commission and, thus, to get its exceptions up and running. Many people told us that the processes were bureaucratic and extended over many months. There were therefore delays in enabling ECAs to respond to market gaps and this put EU exporters at a disadvantage compared to their competitors outside the EU whose ECAs were able to respond much more quickly.

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[21] Email correspondence between project team and DG COMP dated June 20, 2011
[22] Ibid

12.3 Effectiveness of the Communication

Without a doubt, the Communication has played a useful role in inhibiting unfair competition between EU ECAs and private insurers.

However, it risks not taking account of the ECAs outside the EU and the impact of their activities on EU exporters.

In addition, the processes seem unnecessary bureaucratic and take too long. Also, the process of seeking evidence, especially from the 'Big 3' insurers, cannot be seen as an objective evaluation of the alleged market gap. It does not seem appropriate for the consideration and decisions to be taken solely within the Commission who seem not consult anyone outside the Commission.

Premium is an especially sensitive area and even if the objective is that ECAs should not charge lower premium rates than the private insurers, account needs to be taken of the fact, not only that ECAs, do not pay insurance premium tax, but also that it is not easy to get a private sector premium rate for risks which the private sector are not prepared to underwrite.

We are puzzled that when exceptions are granted they only apply in Member State which sought the exception and so the position is then the unsatisfactory one that the same buying country is regarded as non-marketable for some Members States and marketable for others.

Even the relaxed burden of proof for evidence of a market gap for exporters does not have the same impact on all Member States, e.g. Member States with a small number of exporters would find it harder to meet the required burden of proof than it would in a large Members States with many exporters. This is especially true when the buying country is a small and unfamiliar one.

Given that there are differences between Member States as regards the ECA structure and the private sector arrangements, it is important that the Commission rules are sufficiently flexible to account of these differences.

13. GUIDING PRINCIPLES FOR THE FUTURE

It seems inevitable that there will be crises in the future and that situations may emerge again where private insurance capacity will be insufficient to meet the legitimate needs of EU exporters. It is therefore important that the development of future options for the Communication consider following Guiding Principles:

1. **The Communication should be based on objective and clear criteria.**
   Specifying what detailed policy goals the Communication is designed to accomplish and why is crucial to ensuring the Communication is effective.

2. **The Communication should recognize the competitive position of EU exporters compared to their non-EU counterparts.**
   The Communication's objectives in terms of levelling the playing field must be set in the context of global trade and competition, and not simply within the more narrow context of competition between public/state-backed and private insurers operating within the EU.

3. **The decisions should apply to all Members States.**
   Given the nature of credit insurance where risks are taken on buyers and buying countries, whether an exporter is based in Spain or Estonia should be irrelevant. Once a buyer or a buying country is deemed to be "non-marketable", this should apply to all Members States and not just to the Member State which is applying for a exception.

4. **Decisions should be made quickly and published widely to ensure maximum transparency.**
   The impact of EC decisions on market players cannot be overstated and so ensuring the private insurers and ECAs are aware of any changes and notifying some key bodies such as the ICISA and the Berne Union is critical.

5. **The process of consideration and decision on applications should go wider than the Commission alone.**
   The credit insurance market is a very dynamic and technical area. Thus, there is a need for objective, ongoing and expert advice to provide input into the Commission's evaluation of the evidence provided by Member States.

6. **A system is needed which can be adapted either permanently or temporarily to take account of changes in the ST credit insurance market.**
   The market is changing all the time so a system which can cope with a dynamic and evolving situation is necessary, especially since it will never be clear how long any particular change or market development will last. There is therefore a need for expert and objective examination of any market change and its likely duration.

7. **Flexibility is required to recognize the significant differences between ECAs and private market capacity in Members States.**
   There are many business models for ECAs in operation within the EU Members

States and so the Communication must take this into account. It should not be the case that the EC insists ECAs change their delivery methods in order to fit the Commission requirements.

8. **The Communication needs to be under and ongoing review.**
   Given the changing market conditions, a Communication which remains static cannot meet the real and legitimate requirements of the market and therefore a mechanism to ensure regular and ongoing review of the position is necessary.

9. **A more effective system of ensuring premium charged by ECAs is not market distortive is required.**
   It is perfectly normal for premium rates to increase if risks increase. Therefore an increase in premium rate should not be any justification for a market gap or for ECA involvement. Otherwise, an ECA could price a risk at a level which the private market is not prepared to accept, thus creating a market gap by crowding out the private insurers.

10. **All Members States should not automatically and permanently be regarded as marketable since conditions may necessitate that this be reviewed periodically.**
    Although it is understandable why the EC considers membership in the EU means that the risk can now be automatically deemed marketable, in reality this is not always the case. Membership in the EU does not automatically mean the private insurers would be willing to take risks on buyers in a Member State.

14. OPTIONS FOR THE FUTURE OF THE COMMUNICATION

14.1 Possible Options

In defining potential options for the future of the Communication, it is helpful to consider the Guiding Principles.

Option 1: Status Quo

Inevitably, consideration of options must consider the Status Quo, whose advantages and disadvantages have been detailed in this report. The advantages of Status Quo is that it is well-entrenched and understood now after 14 years, applies to all Members States equally and sets out a very clear delineation defining what risks the ECAs can and cannot underwrite. The disadvantages include its inflexibility to respond to market dynamics, and the process by which exceptions can be sought.

Option 2: Enhanced Status Quo

This option takes the best features of Option 1 and introduces a better system of adapting to and processing change by relying on the expertise of external market players who have a day-to-day understanding of the market and can assess the nature and validity of the exceptions being sought.

Option 3: No Communication

This option entails eliminating the Communication altogether and simply allowing the market to decide. The advantages are that the Commission would not need to become involved in deciding where the ECAs can or cannot be active. The market players – both state-backed and private insurers – would be free to decide what risks they underwrite or not.

The disadvantage is that there would be no EU-wide means of ensuring that ECAs were not encroaching on the domain of the private insurers where the private insurers are perfectly happy with the risks. ECAs could compete on any business that they wished, be it marketable or non-marketable. In those areas which are marketable, there is a likelihood of the ECA competing with the private insurer. Because ECAs enjoy certain inherent benefits that the private insurers do not (such as exemption from insurance premium taxes and implicit government guarantees), some argue that this creates unfair competition. Without a clear line defining where the ECAs can and cannot operate, there is a strong risk that the ECAs and the private insurers will be competing for the same business.

An enhanced version of this Option is to put in place an ombudsman which would review cases or complaints of non-competitive practices of the ECAs. However, given the nature of credit insurance where decisions on buyer limits are taken in a matter of minutes or hours, any mechanism for complaints would be "after the fact" of a transaction and could not be structured to address a problem case within the necessary response time.

Option 4: Restricting ECA Activity to Reinsurance only

This Option would force the ECAs to operate on the basis of reinsurance only. The private insurers would have the opportunity to underwrite the business and, for those risks for which they are unable to obtain reinsurance from the private reinsurance market, they could seek reinsurance from the ECAs. This is the model for ST business operated by the Danish and UK systems.

The merit in this Option is that the ECAs would not compete with the private insurers as they would not offer the same product. They might however compete with the private reinsurance market.

The disadvantage of this Option is that it would require fundamental change to the way the rest of the EU ECAs operate. The additional disadvantage is that it would eliminate the ability of the ECAs to offer direct credit insurance to companies who are not able to access the facilities of the private market, e.g. some SMEs in some markets.

Option 5: Eliminate the distinction between Marketable and Non-Marketable

This Option in essence eliminates the delineation of marketable and non-marketable risks and assumes all risks are marketable, unless proven otherwise. It would have the effect of removing the ECAs from operating entirely in the area of short-term credit insurance.

The disadvantage of this Option is best assessed in light of the GFC when exporters saw buyer limits cut drastically and suddenly and were left without critical cover.

14.2 Conclusion

On the basis of the above analysis of Options, we consider that on balance the best Option is to continue to have a Communication defining marketable and non-marketable risks but to consider a restructuring of the system for reviewing and processing exceptions (Option 2). In our view, the problems identified earlier in this Report clearly demonstrate the need for a fundamental change in the methodology both for assessing changes in the short term credit insurance market and for handling the need for any consequent amendments to the definitions of marketable/non-marketable risks in relation to the involvement of ECAs.

A suggested revised and improved methodology is set out in the next Section.

15. A NEW APPROACH

Our strong view is that the present methodology is fundamentally flawed and needs radical changes.

For example:

- The time taken to react to changes in the ST credit insurance market is simply too long which has a serious impact on the competitive position of exporters in the EU as compared with exporters in countries outside the EU
- The Commission does not have the current and detailed market experience and technical expertise to process and take decisions on applications for exceptions.
- There is a lack of objective and professional input to the analysis and decision taking process e.g. the Big 3 are active and dominant participants in the market and are thus not a valid source of impartial advice or objective evidence.
- No use is currently made by the Commission of external advice or professional expertise e.g. from the ICISA or the Berne Union or from the specialist brokers.
- If exceptions are agreed, they only apply to the EU Member State which has made the application.

We believe that the best source of expert, professional, totally up-to-date and objective advice and expertise would be from the specialist brokers who operate in more than one Member State.

Against this background, the Commission could establish a Specialist Brokers Panel of 3 or 4 people who would serve in a personal capacity and not as representatives of the companies for which they work. Nominations could be sought from ICISA, the Berne Union and the appropriate a Brokers' Association (e.g. a European Federation of Insurance Intermediaries, BIPAR)[23]. Members could be appointed for specified period of, say, 2 years with the possibility of renewal. Costs could be refunded but remuneration might not be necessary. This could, in part, depend on the work and time necessary to carry out the role and the tasks given to the panel.

The essential qualification for serving on the Panel should be day-to-day involvement in the ST credit insurance market in the EU and a knowledge/experience of the situation in more than one Member State.

[23] www.bipar.eu

In practice, the system might operate on the following basis:

1. In the event of any perceived problems due to exporters in a Member State being unable to obtain ST credit insurance from private insurers in respect of exports to a marketable country, the Member State (or ECA or other Stakeholder) would notify the Commission with details.
2. The Commission would immediately send the details to the Specialist Brokers Panel (SBP).
3. The SBP would investigate the facts of the case, including whether problems were specific to some particular feature of the case or wider/more systemic.
4. The SBP could consult any other parties thought relevant (e.g. the ICISA or Berne Union, insurers, reinsurers or other brokers) and could contact both the insurer and exporter directly if considered necessary.
5. The SBP would report back to the Commission with a recommendation - if this involved buying countries becoming eligible for ECA involvement, then the recommendation should include premium rate considerations. An important feature of the recommendation should relate to the period for which any change should be valid (e.g. whether any exception granted by the commission should be valid for 6 months or 1 year etc.)
6. The Commission would review the recommendation.
7. Member States should have the opportunity to comment on the recommendation.
8. The decision would be taken by the Commission.
9. All Member States would be notified and the ICISA and the Berne Union would be informed.
10. Decisions would apply to all Member States and not only to the Member State which had raised the case.
11. Two or three months before any exception was due to expire, the SBP should be asked by the Commission to review the position.

Each stage of the process should be subject to a maximum time period - to be set in days and not in weeks or months.

Recommendation #8: Specialist Brokers Panel

We recommend that a Specialist Brokers Panel should be established by the Commission which should have a central role in work leading to decisions on any changes to the definitions of Marketable/Non Marketable Countries. Decisions taken should apply to all Member States.

16. RECOMMENDATIONS

Recommendation 1: Definition and Analysis of Market Gaps (Section 4, page 17)
We recommend that the existence of a market gap be defined by cover being unavailable and that a gap should not be regarded to be existing just because premium increases occur. We recommend analysis be undertaken of the gaps, assessing the nature of the market gap, i.e. whether it is general or specific, and the basis for the market gap, i.e. whether there really is an inability to get cover and what are the reasons. Recommendation #9 describes the process and structure by which this can be achieved.

Recommendation 2: Other Short-Term Products (Section 5, page 19)
We do not recommend any of the products or techniques other than short-term credit insurance to be included in any future Communication. Nor do we believe that there is a need for the Commission to issue any "Regulations or Rules" in respect of Governments/ECAs activities in these areas.

Recommendation 3: Business on terms between 6 and 24 months (Section 6, page 21)
On the evidence available to us, we do not think there is a systemic shortage or non-availability of cover in this area. However, it seems that there may be differing positions within different Member States and therefore it might be prudent to seek input from a panel of experts, as per Recommendation 9.

Recommendation 4: Domestic Credit Insurance (Section 7, page 24)
We recommend that the Communication prohibit ECAs (and other Member State government entities) from providing short-term domestic credit insurance.

Recommendation 5: SMEs (Section 8, page 27)
We would not recommend any change in the threshold for SMEs, i.e. ECAs' activities should be restricted to companies with a turnover of EUR 2mn or less.

Recommendation 6: MLT Business (Section 9, page 29)
Against this background, we can see no reason or benefit to any party of the Commission extending its operations or controls in the MLT area or in adding any new provisions or requirements to the Communications in relation to MLT business. The reasons for our recommendation are: 1) there is strong evidence of co-operation in the MLT area between private insurers and ECAs; 2) there were no complaints raised about the activities of ECAs in this area; and 3) there seems no basis or good reason to seek to include MLT facilities, not least given the existence of the OECD Arrangement.

Recommendation 7: ECA Subsidiaries (Section 10, page 30)
We recommend that the Commission should look at whether it is justified in current circumstances to regard these ECA subsidiaries as private companies.

Recommendation 8: Specialist Brokers Panel (Section 15, page 44)
We recommend that a Specialist Brokers Panel should be established by the Commission which should have a central role in work leading to decisions on any changes to the definitions of Marketable/Non Marketable Countries. Decisions taken should apply to all Member States.

APPENDIX A: TERMS OF REFERENCE

1. Purpose and context of the contract

In some Members States official export-credit agencies insure short-term export risks for the account or with the guarantee of the State by financing transactions in the Union and with a large number of third countries. From a competition viewpoint, the fact that these credit-insurance agencies enjoy certain financial advantages granted by the State enables them to offer better credit-insurance terms, and this may distort competition on the credit insurance market.

In order to remove distortions of competition due to state aid in the export-credit insurance sector the European Commission adopted in 1997 the communication of the Commission to the Members States pursuant to Article 93(1) of the EC Treaty applying Articles 92 and 93 of the Treaty to short-term export-credit insurance[24] (hereinafter referred to as 'the Communication'). The Communication was subsequently amended and its validity extended in 2001[25], 2004[26] and 2005[27] and 2010[28] and is to expire on 31 December 2012.

In December 2008, as a consequence of the financial crisis, the Commission adopted the Communication from the Commission - Temporary framework for State aid measures to support access to finance in the current financial and economic crisis[29], which introduced a temporary procedural simplification to point 4.4 of the 1997 communication, regarding the demonstration of the unavailability of cover for short-term export-credit. This procedural simplification will be valid till 31 December 2011.

The Communication stipulates that marketable risks cannot be covered by export-credit insurance with the support of Members States. Marketable risks are commercial and political risks on public and non-public debtors established in countries listed in the Annex to that Communication, with a maximum risk period of less than two years. However, point 4.4 of the Communication gives the possibility under certain conditions to temporarily take on the account of a public or publicly supported export credit insurer those marketable risks. The Communication does not, however, deal with the insurance of medium and long-term export-credit risks, which are considered largely non-marketable at the present time.

The Commission recognises that over recent years, the business environment of trade financing and insurance has changed, resulting in the redesign of business models, concentration of insurance providers and the blurring of traditional lines between import,

24 OJ C 281, 17.9.1997, p. 4.
25 OJ C 217, 2.8.2001, p. 2.
26 OJ C 307, 11.12.2004, p. 12.
27 OJ C 325, 22.12.2005, p. 22.
28 OJ C 329, 7.12.2010, p. 6.
29 OJ C 16, 22.01.2009, p. 1

export and investment as well as distinctions between domestic and international business. Those developments raise the question whether the current state aid rules reflect accurately the situation in the market for trade finance and trade credit insurance.

2. Subject of contract

The purpose of the study is to provide information to the European Commission on the functioning of the market for trade finance and credit insurance in the European Union, on how well the existing instruments meet the legitimate needs and aspirations of exporters and those who provide the financing and insurance for the exports and what is the role of the state to play in the business[30]. The findings of the study will assist the European Commission to adapt the state aid rules to the current developments of the market.

The study should cover the following specific tasks:

1. Provide detailed analysis of the supply by private operators of trade finance and trade credit insurance, as well as a detailed analysis of the credit reinsurance market, for marketable risks in the European Union, focussing on trade both within and between the EU Members States (and the other countries in Annex I of the Communication). This should analyse which risks can be considered as marketable. The analysis should include supply substitutability of various products (e.g. export credits, credit insurance, guarantees, factoring), information on contract types and characteristics, contract duration, contract volume, pricing methods, type of enterprises providing financing / insurance and risks covered. It should include business models and the strategy followed by the main players in the market. It should discuss whether private operators differentiate between domestic and non-domestic operations, and if so, how. Further, it should identify potential factors facilitating / discouraging market consolidation and those, which might market entry barriers for new players. The study should also cover the role of intermediaries between the credit/insurance/reinsurance providers and the exporting companies

2. Provide information on the level of pricing of available credit insurance products (provided by both private and public market participants) on a comparable basis i.e. pricing of whole-turnover products compared to pricing based on the available credit limit or outstanding amounts for comparable durations. Indicate which sources could represent a valid source to establish proxies for market premium. Analyse the specificities of the price adjustment mechanism in the market and the main factors determining the premium levels. Provide a decomposition of price into its components: pure risk premium, management fees etc.. Propose an explanation why the prices in the market are sticky and why insurers in many cases reduce cover limits rather than increasing the pricing for creditors with increasingly risky portfolio of buyers. Provide price and product comparisons among regions / Members States.

[30] The objective of the contract is not to provide an update of the Report on The Market Trends of Private Reinsurance in the Field of Export Credit Insurance, which has been prepared for the European Commission by IMC Consultants Limited in May 2005. The Commission is seeking a comprehensive report (not solely focused on the role of ECAs) which would provide a more detailed picture of the current situation on the market for trade finance and credit insurance.

3. Provide detailed analysis of the demand for short-term trade finance and trade credit insurance, including reinsurance, for marketable risks. This should include demand substitutability of various products (e.g. export credits, credit insurance, guarantees, factoring), contract duration, contract volume, pricing and risks covered. Where possible a distinction should be made with regard to the size and type of companies (in particular in relation to SMEs and new clients: either start-ups or companies which have never used specific financing or insurance services before) seeking to finance and/or insure their export-related risks as well as with regard to the various sectors of activities concerned.

4. Provide a meaningful definition of "market failure" in this market. Provide a detailed analysis of factors, which may lead to such a market failure.

5. Analyse the potential role of state intervention in addressing any market failure identified, and assess the pros and cons of such intervention.

6. Examine the current and likely future market trends with regards to trade finance and trade credit insurance for marketable risks in the European Union. Present the drivers of change affecting trade finance and insurance and how the main providers and exporters are responding to the current and likely future market trends.

In fulfilling the tasks the Contractor should review relevant literature existing on the subject and rely on existing relevant data, reports and industry statistics. In particular, the Contractor should take into account the structure of the whole existing portfolio of the private trade and credit providers / insurers and the public export credit agencies.

APPENDIX B: WEB SURVEY

INTERNATIONAL
FINANCIAL
CONSULTING

International Financial Consulting Ltd has been engaged by the European Commission to undertake a study on short-term export credit insurance in the European Union.

The purpose of the study is to provide information to the European Commission on the functioning of the market for trade finance and credit insurance in the European Union, including how well the existing instruments meet the legitimate needs and aspirations of exporters and those who provide the financing and insurance for the exports and what role the state should play. We welcome views of any interested parties – public or private – who wish to contribute to our information-gathering process on a confidential basis. Submissions can be made online below or by email by no later than **August 8, 2011**.

Some points to be considered in your submission:

- What happened during the Global Financial Crisis to export credit insurance, particularly in regard to availability and cost of export credit insurance?
- Following the Global Financial Crisis, have there been any lasting changes, particularly in regard to availability and cost of export credit insurance?
- Do you have any difficulty as regards accessing export credit insurance for transactions with credit periods between 6 months and 2 years?
- What changes would you most like to see in the future in this area?

To the extent you have data or specific cases which reflect your comments, please provide these to us.

All submissions, including specific cases, will be treated in confidence and will not be published or made available to the European Commission.

Submissions may be in either English or French either online below or by email.

If you experience technical difficulties, please save your responses on a separate document and refresh the page. If this does not resolve the issue, please contact our webmaster by email or by phone (+1 904 742 0970).

Please make your submission here: Browse...

Information

Required fields are denoted by an asterisk.

What country is your company based in?*

What category of stakeholder are you?* Select One

If you are a European exporter, is your competition mostly from companies within the European Union or elsewhere?*
- Within the European Union
- Elsewhere

How long has your company been in business? (years)*

What is your company's:

Annual Turnover?*

Annual Export Turnover?*

Number of employees?*

What happened during the Global Financial Crisis to export credit insurance, particularly in regard to availability and cost of export credit insurance? **(Optional)**

Following the Global Financial Crisis, have there been any lasting changes, particularly in regard to availability and cost of export credit insurance? **(Optional)**

Do you have any difficulty as regards accessing export credit insurance for transactions with credit periods between 6 months and 2 years? **(Optional)**

What changes would you most like to see in the future in this area? **(Optional)**

Any Final Comments? **(Optional)**

Contact information (Optional)

Name

Company Name

Position

Email

Phone Number

Should we require clarification, may International Financial Consulting Ltd. contact you directly to discuss your responses*

Yes

No

Submit

APPENDIX C: SUMMARY OF RESPONDENTS TO WEB SURVEY

Stakeholder Category	Country	Institution/Company
Bank	Italy	
Bank	Poland	
Bank	Portugal	
Bank	Slovenia	
Broker	UK	
Exporter	Croatia	
Exporter	Finland	
Exporter	Finland	
Exporter	Finland	
Exporter	Finland	
Exporter	Finland	
Exporter	Germany	
Exporter	Germany	
Exporter	Germany	
Exporter	Germany	
Exporter	Germany	
Exporter	Sweden	
Exporter	Finland	
Exporter	Finland	
Exporter	Finland	
Exporter	Finland	
Insurer - Private	Germany	EULER HERMES KREDITVERSICHERUNGS-AG
Insurer - Private	South Africa	Credit Guarantee Insurance Corporation of Africa Limited
Insurer - Private	USA	Chartis Insurance
Insurer - Private	USA	Zurich NA
Insurer - Public	Austria	OeKB
Insurer - Public	Croatia	Hrvatsko Kreditno
Insurer - Public	Denmark	EKF
Insurer - Public	Finland	Finnvera
Insurer - Public	Italy	SACE
Insurer - Public	Latvia	Latvian Guarantee Agency
Insurer - Public	Sweden	EKN
Insurer - Public	Switzerland	Swiss Export Risk Insurance (SREV)
Insurer - Public	Germany	Euler Hermes, State Account
Insurer - Public	UK	ECGD
Trade Association	EU	EuroCommerce
Trade Association	Germany	Federation of the German Export Trade

Trade Association	Germany	Association of German Chambers of Industry and Commerce (DIHK), the Federation of German Industry (BDI) and the Federation of German Wholesale, Foreign Trade and Services (BGA)
Trade Association	UK	Institute of Credit Management
Trade Association	Netherlands	International Credit Insurance & Surety Association
Trade Association	UK	British Exporters Association
Trade Association	UK	EEF - The Manufacturer's Organization

APPENDIX D: EUROPEAN MEMBER STATES' EXPORT CREDIT AGENCIES

Country Member	ECA	Business Model	Web	Founded	Major Facilities
Austria	Oesterreichischische Kontrollbank Aktiengesellschaft (OeKB)	Private Sector	www.oekb.at		Export Credit Insurance for Capital Goods, Project Finance, Investment Insurance, Bonds and Guarantees
Belgium	Office national du Ducroire Nationale Delcrederedienst (ONDD)	Stand-Alone Government Agency	www.ondd.be		Contract Types Covered, Risk Covered, Causes of Loss Covered, Amounts Covered
Bulgaria	Bulgarian Export Insurance Agency (BAEZ)	Stand-Alone Government Agency	www.baez-gb.com	1998	Export Credit Insurance, Export Financing, Insurance of Credit and Financing
Cyprus	Export Credit Insurance Service (ECIS)	Stand-Alone Government Agency	N/A		N/A
Czech Republic	Export Guarantee and Insurance Corporation (EGAP)	Stand-Alone Government Agency	www.egap.cz	1992	Insurance with state support against commercial and political risk, Export credit insurance (buyer and supplier credits), Insurance of supplier credits financed by a bank, Insurance of export contract-related bonds (advance payment bonds, bid bonds and performance bonds) against unfair and fair calling, Manufacturing risks insurance, Pre-export financing insurance, Insurance of a conformed letter of credit, Investment insurance, Insurance of a credit for financing of investments, insurance of market prospection
Denmark	Eksport Kredit Fonden (EKF)	Stand-Alone Government Agency	www.ekf.dk	1996 (as successor to EKR)	Export Credit Insurance, Export finance, Project Finance, Investment Guarantees, Bonds and Guarantees

Estonia	Credit & Export Guarantee Fund Estonia	Stand-Alone Government Agency	www.kredex.se	2000	ST export credit insurance, MLT export credit insurance, Pre-shipment insurance, Investment insurance, Business loan guarantees (including guarantees for bonds), Leasing guarantees, Mezzanine loans, Housing loan guarantees
Finland	Finnvera	Stand-Alone Government Agency	www.finnvera.fi	1963	Export credit insurance, Investment insurance, Bonds and Guarantees
France	Compagnie Française d'Assurance pour le Commerce Exterieur (COFACE)	Private Sector	www.coface.com	1946	COFACE's mission is to facilitate global business to business trade by offering companies four product lines to help them manage, finance and protect their receivables: Company information, Receivables management, Receivables protection, Receivables financing; COFACE also offers two other business lines: Guarantee insurance, Public procedures management for export guarantees given by the French state (notably, investment insurance)
Germany	Euler Hermes Kreditversicherungs-AG (EH)	Private Sector	www.agaportal.de/en/ag	1917	Export Credit Insurance, Project Finance, Bonds and Guarantees
Greece	Export Credit Insurance Organization (ECIO)	Stand-Alone Government Agency	www.oaep.gr/	1988	Short Term export credit insurance, Medium-long term export credit insurance, construction works insurance, buyer's credit insurance, overseas investment insurance
Hungary	Hungarian Export Credit Insurance Ltd (MEHIB)	Stand-Alone Government Agency	www.mehib.hu	1994	Export Credit Insurance, Investment Insurance
Ireland	The Insurance Corporation of Ireland (ICI)	Department	N/A		N/A
Italy	Istituto per i Servizi Assicurativi del Credito all'Esportazione (SACE)	Stand-Alone Government Agency	www.sace.it	1977	Export Credit Coverage, Project Finance Coverage, Political Risk Insurance

Latvia	Latvian Guarantee Agency (LGA)	Stand-Alone Government Agency	www.lga.lv	2003	Short-term export-credit insurance coverage - issuance of guarantee for bank loans and leasing financing. It also operates as a fund in the venture capital sector by participating in the funding and operations of VC funds
Lithuania	INVEGA	Stand-Alone Government Agency		2009	Short-term export-credit insurance
Luxembourg	Office du Ducroire (ODL)	Stand-Alone Government Agency	www.ducroire.lu/en	1961	Export Credit Insurance - ST insurance, MLT insurance, Insurance of contract guarantee, Insurance of contract guarantees, Foreign Investment Insurance, Pre-shipment insurance facility
Malta	Malta Export Credit Guarantee Company	Stand-Alone Government Agency			
Netherlands	Atradius	Private Sector	http://global.atradius.com	1925	Export Credit Insurance, Global Policy, Debt Collections
Poland	Export Credit Insurance Corporation (KUKE)	Stand-Alone Government Agency	www.kuke.com.pl	1991	Export Credit insurance, Investment insurance, Bonds and guarantees, Domestic credit insurance
Portugal	Companhia de Seguro de Créditos, S.A. (COSEC)	Private Sector	www.cosec.pt	1969	Export credit insurance – ST insurance, MLT insurance, Insurance of contract guarantee, Investment insurance, Bonds and Guarantees
Romania	Eximbank of Romania (EXIM R)	Some State Ownership (Majority)	www.eximbank.ro		EximBank Romania provides the following insurance types: ST insurance policy against foreign payment default risk, MLT insurance policy against foreign payment default risk, Buyer credit insurance policy, Insurance policy of equity investments abroad
Slovakia	Export-Import Bank of the Slovak Republic (EXIMBANKA)	Stand-Alone Government Agency	www.eximbanka.sk	1997	Insurance products, Banking Products
Slovenia	Slovene Export Corporation Inc (SID)	Government-Owned Bank	www.sid.si/sidslo.nsf	1992	Export Credit Insurance, Investment Insurance, Financing, Guarantees

Spain	Compania Espanola de Seguros de Credito a la Exportacion (CESCE)	Some State Ownership (Majority)		1970	Export Credit Insurance, Investment insurance
Sweden	Exportkreditnämnden (EKN)	Stand-Alone Government Agency	www.ekn.se/sv	1933	Export Credit Insurance, Project Finance, Bonds and Guarantees, Investment insurance, Other products
United Kingdom	Export Credits Guarantee Department (ECGD)	Government Department	www.ecgd.gov.uk	1919	Guarantees for Finance, Project Finance, Export Credit Insurance, Bonds and Guarantees, Investment Insurance

APPENDIX E: SUMMARY OF TEMPORARY EXCEPTIONS

Buying Countries for which exceptions sought *	Marketable Risk Countries																						
	European Union Members States at Time of Original Communication (1997)														OECD Countries								
Member Country Application for Exceptions	Austria	Belgium	Denmark	Finland	France	Germany	Greece	Ireland	Italy	Luxembourg	Netherlands	Portugal	Spain	Sweden	United Kingdom	Australia	Canada	Iceland	Japan	New Zealand	Norway	Switzerland	United States
Austria	–	X	X	X	X	X	X	X	X		X	X	X	X	X	X	X	X	X		X	X	X
Belgium	X	–	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Denmark	X	X	–	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Finland	X	X	X	–	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
France	X	X	X	X	–	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Germany	X	X		X	X	–	X		X				X		X		X				X		
Hungary	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Latvia	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Lithuania	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Luxembourg	X	X	X	X	X	X	X	X	X	–	X	X	X	X	X	X	X	X	X	X	X	X	X
Netherlands	X	X	X	X	X	X	X	X	X	X	–	X	X	X	X	X	X	X	X	X	X	X	X
Portugal	X	X	X	X	X	X	X	X	X	X	X	–	X	X	X	X	X	X	X	X	X	X	X
Slovenia	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X		X	X	X	X
Sweden	X	X	X	X	X	X	X	X	X	X	X	X	X	–	X	X	X	X	X	X	X	X	X

* Buying Countries – X denotes country included in exception

Buying Countries for which exceptions sought *	Marketable Risk Countries											
	New European Union Members States Post-1997											
Member Country Application for Exceptions	Bulgaria	Cyprus	Czech Republic	Estonia	Hungary	Latvia	Lithuania	Malta	Poland	Romania	Slovakia	Slovenia
Austria	X	X	X	X	X	X	X	X	X	X	X	X
Belgium	X	X	X	X	X	X	X	X	X	X	X	X
Denmark	X	X	X	X	X	X	X	X	X	X	X	X
Finland	X	X	X	X	X	X	X	X	X	X	X	X
France	X	X	X	X	X	X	X	X	X	X	X	X
Germany	X	X	X	X	X	X	X	X	X	X	X	X
Hungary	X	X	X	X	–	X	X	X	X	X	X	X
Hungary	X	X	X	X	–	X	X	X	X	X	X	X
Latvia	X	X	X	X	X	–	X	X	X	X	X	X
Lithuania	X	X	X	X	X	X	–	X	X	X	X	X
Luxembourg	X	X	X	X	X	X	X	X	X	X	X	X
Netherlands	X	X	X	X	X	X	X	X	X	X	X	X
Portugal	X	X	X	X	X	X	X	X	X	X	X	X
Slovenia	X	X	X	X	X	X	X	X	X	X	X	–
Sweden	X	X	X	X	X	X	X	X	X	X	X	X

*Buying Countries – X denotes country included in exception

APPENDIX F: MEMBERS OF ICISA

Association	Countries	Web
Afianzadora Latinoamericana	Argentina	www.afianzadora.com.ar
Allianz SE Reinsurance	Germany	www.allianzre.com
PT. Askrindo (Persero)	Indonesia	www.askrindo.co.id
Aspen Re Europe	Switzerland	www.aspen-re.com
Atradius N.V.	Netherlands	www.atradius.com
AXA Assurcredit	France	www.axa-winterthur.ch/credit
AXIS Re Ltd	Switzerland	www.axiscapital.com
Catlin Re Switzerland Ltd.	Switzerland	www.CatlinReSwitzerland.com
CESCE	Spain	www.cesce.com
China National Investment & Guaranty Co., Ltd.	China	www.guaranty.com.cn
CLAL Credit Insurance Ltd.	Israel	www.clalcredit.co.il
Coface	France	www.coface.com
Cosec	Portugal	www.cosec.pt
Credit Guarantee	South Africa	www.creditguarantee.co.za
Ducroire I Delcredere S.A. N.V.	Belgium	www.ducroiredelcredere.eu
ECICS Limited	Singapore	www.ecics.com.sg
Euler Hermes	France	www.eulerhermes.com
Fianzas Atlas	Mexico	www.fianzasatlas.com.mx
Fianzas Monterrey	Mexico	www.fianzasmonterrey.com
Garant	Austria	www.garantinsurance.com
The Guarantee Company of North America (GCNA)	Canada	www.gcna.com
Groupama Assurance-Crédit	France	www.groupama.com
Hannover Re	Germany	www.hannover-re.com
HCC International	United Kingdom	www.hccint.com
ICIC	Israel	www.icic.co.il

Lombard Insurance Group	South Africa	www.lombardins.com
Mapfre Caución y Crédito	Spain	www.mapfrecred.com
Mitsui Sumitomo Insurance Co.,Ltd.	Japan	www.ms-ins.com
Munich Re	Germany	www.munichre.com
Nationale Borg	Netherlands	www.nationaleborg.nl
Novae Group plc	United Kingdom	www.novae.com
Partner Re Ltd	France, Switzerland	www.partnerre.com
PICC Property and Casualty Company Limited	China	www.piccnet.com.cn
Prisma	Austria	www.prisma-kredit.com
QBE	Australia	www.qbe.com
SACE BT	Italy	www.sacebt.it
SCOR	Switzerland	www.scor.com
Seoul Guarantee Insurance Company (SGI)	Korea	www.sgic.co.kr
SID – First Credit Insurance Company Inc.	Slovenia	www.sid-pkz.si
Sompo Japan	Japan	www.sompo-japan.co.jp
Swiss Re	Switzerland	www.swissre.com
Tokio Marine & Nichido Fire	Japan	www.tokiomarine-nichido.co.jp
Tryg Garantiforsikring A/S	Denmark	www.modernagaranti.com
Zurich Insurance plc, Centre of Excellence Credit & Surety	Germany	www.zurich.de/kredit
Zurich Surety UK	United Kingdom	www.zurich.co.uk/surety
Zurich Surety, Credit and Political Risk	USA	www.zurichna.com

APPENDIX G: REFERENCES

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The purpose of this Study is to analyse the functioning of the trade finance and credit insurance market within the European Union (EU) for the European Commission. It analyses how well the existing instruments meet the legitimate needs and aspirations of exporters in order for them to be internationally competitive, as well as the needs of those who provide the financing and insurance for the exports. The report also looks at the appropriate role for the state to play in the business, in the context of the financial crisis and beyond.

The analysis in this report draws on a range of sources, relevant background information and on the consultants' own experience and knowledge of the short term credit insurance market both within the EU and worldwide. It also reflects detailed consultations with and feedback received from stakeholders during the consultation period from June to October 2011.

The report demonstrates the need for a fundamental change in the methodology, both for assessing changes in the short term credit insurance market and for handling the need for any consequent amendments to the definitions of marketable/non-marketable risks in relation to the involvement of export credit agencies.

The report concludes with a list of recommendations for future state aid rules in this area.

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