REVIEW OF INSURANCE, GUARANTEES

Export credit protection vital in competitive era

Foreign Credit Insurance Assn., Eximbank programs meet increasing acceptance

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Today more than ever this question faces U.S. exporters: are they finding it increasingly difficult to sell in traditional markets or to expand sales into new markets because competing sellers in foreign countries are offering better terms? And to manufacturers selling only in the United States, have they been considering overseas markets only to be deterred by the apparent financial and political risks involved in such trade?

An official of the Export-Import Bank of Washington (Eximbank) has stated the problem confronting today's present and potential exporter. "Success in today's more highly competitive export market places greater emphasis on the availability of credit than has been the case in the past. Exporters who previously were able to sell for cash with order or on a confirmed irrevocable letter of credit basis now find their foreign customer demanding the right to purchase on terms which may run from cash on arrival of documents or of goods to time drafts, open account, or instalment payments spread over a number of years."

It has not been unusual for large corporations to be able to adjust to these competitive credit terms and even carry their own export paper. Nevertheless, many of the largest corporations are availing themselves, and profitably, of insurance protection. Extended credit terms can especially, however, put a strain on the working capital of the smaller exporter, and it is essentially for him that credit insurance and guarantees have been made possible.

Since February 1962, the U.S. Government, through the Eximbank, and in cooperation with the country's commercial banks and insurance industry, has been providing protection for the exporter against the various commercial and political risks inherent in overseas trade.

Export credit insurance as we know it today is relatively new in the United States; although the Eximbank had been offering a system of export guarantees to commercial banks. In February, 1961, in a message to the Congress, President Kennedy directed the Eximbank to devise a new program that would place U.S. exporters on a basis of equality with their foreign competitors and to seek a way whereby private financial institutions could participate.

The result of this directive was the establishment of a "partnership" between the Eximbank and private insurance companies to provide protection to American exporters against commercial credit and political risks when they are obliged to sell on extended terms. This is an example of successful constructive cooperation between government and private enterprise to assist America's businessmen.

In October, 1961, the Foreign Credit Insurance Association was established and today comprises an association of about 60 of the country's leading stock and mutual insurance companies. FCIA is also backed up by the resources and experience of the Eximbank. This is the U.S. Government agency that underwrites all of the political risks and a part of the commercial risks of the policies issued by FCIA.

Though slow to be accepted by our country's exporters, an appreciation of the value of this program has become evident. In fiscal year 1967 close to $700 million in exports were declared by FCIA policyholders. Some policyholders, perhaps about half of them, had never exported before the availability of this protection; others have reported an increase in export sales of 50 to 100%.

The chart on page 6 describes in detail the various insurance programs which are available; insurance protection through FCIA, and guarantees through Eximbank. It may be helpful, however, to emphasize a few of the advantages of each policy.

FCIA policies

1. **SHORT-TERM INSURANCE** (up to 180 days). This policy is issued to the exporter. He may insure only against political risks, retaining commercial risks for his own account, or he may take out a comprehensive policy protecting him against both commercial and political risks.

In obtaining this insurance the shipper takes out what is known as a "whole turnover policy" where he agrees, except for specified exceptions to insure all of his eligible short-term export credit sales. Like any type of insurance, the insurer, in this case FCIA, expects a reasonable spread of risk in order to be able to offer a reasonable premium.

FCIA may permit exclusion of sales to certain major buyers or countries, or allow coverage to be confined to sales of certain product lines, and these exceptions to the "whole turnover policy" can be negotiated.

When the policy is issued FCIA will, on request of the exporter, assign a *discretionary limit* for each of the exporter's customers within which the exporter may extend credit without prior approval of FCIA. Whenever an exporter has one or more large customers or occasional outsize shipments which exceed the established discretionary limit, FCIA will, upon application, grant a "Special Buyer Limit."

Additional coverage

An exporter may obtain additional coverage over and above the basic policy terms by means of an endorsement and extra premium. This includes coverage during the period of manufacture or assembly of the merchandise (the basic policy applies only from the time of shipment), or coverage of merchandise on