

FCIA in brief

The Foreign Credit Insurance Association is an unincorporated group of about 60 private insurance companies, operating in partnership with the Export-Import Bank of Washington. It was established in October, 1961. During fiscal year 1967 the amount of short and medium-term export credit insurance authorized by FCIA reached \$690 million.

FCIA headquarters is at 250 Broadway, New York, N.Y. 10007.

Representative offices are located across the country: in New England, at Room 510, John Fitzgerald Kennedy Federal Bldg., Boston, Mass. 02203; in the Midwest, at 85 Front St., P.O. Box 272, Berea, Ohio 44016; in the South, at 1520 Texas Ave., Houston, Tex. 77002, and in the West, at 24 California St., San Francisco, Calif. 94111.

portion that does not exceed 6 percent.

► Coverage on the basic policy starts from date of shipment, but insurance may be obtained to cover the period of manufacture (pre-shipment coverage) by an endorsement and payment of an additional premium.

► The policy does not apply to any loss with respect to which a dispute exists between the insured and the buyer until the loss is determined to be a valid and legally enforceable indebtedness of the buyer or until the dispute is otherwise settled to the satisfaction of FCIA.

► In some instances, when the buyer lacks adequate financial strength for the transaction in question, FCIA may require a local guarantor such as a local bank or an acceptable commercial firm. Public buyers generally must arrange Central Bank or Ministry of Finance guarantees.

► Policy assignable. The medium-term policy carries the privilege of assigning the policy proceeds to a commercial bank. Exporters should note that this frequently can be done whether the bank finances the transaction with or without recourse to the exporter, and once again the protection afforded by the insurance serves as a strong stimulant to the banking community to assist in export transactions that might not otherwise qualify for bank financing.

Protection against what risks?

The chart on page 6 indicates the types of protection available under these policies but let's call attention to a few of the more important points.

1. Insolvency of the buyer; or failure to pay the insured within 6 months of the due date of the obligation.

2. Transfer risk; inability to convert the buyer's local currency deposited in payment of the obligation into U.S. dollars.

3. Cancellation or non-renewal of export license prior to shipment.

4. War, civil war, rebellion, civil motion.

5. Expropriation, confiscation or intervention in the business of the buyer or guarantor by a government authority.

6. Transport or insurance charges incurred after shipment by diversion of the carrier, due to political causes.

7. Cancellation of the import license prior to arrival of merchandise.

8. Also available by an endorsement to the policy and for an additional premium are: preshipment contracts, providing coverage from date of execution of contract rather than from date of shipment; protection for consigned merchandise and sales from consigned stocks or overseas warehouses.

As in any insurance program, there will be risks which cannot be covered. Policyholders should consult with FCIA or its agents to understand fully the limits of coverage.

MEDIUM-TERM GUARANTEES TO COMMERCIAL BANKS (180 days to 5 years). As an alternative to the FCIA medium-term insurance policy, an exporter may obtain assistance for his credit sales abroad through guarantees issued by Eximbank to U.S. commercial banks. Eximbank offers this unique protection only when banks agree to finance medium-term export sales without recourse to the exporter.

This Eximbank program serves the same basic purpose as FCIA medium-term comprehensive insurance and in general its cost to the exporter is about the same. Its approach, however, is different.

In the FCIA programs an exporter obtains the insurance and follows through with the necessary paperwork. If he desires financing, he assigns the proceeds of the insurance policy to his bank. In the guarantee program, the commercial bank is the prime mover seeking a guarantee

for a credit it is willing to extend for an exporter. The commercial bank is responsible for satisfying itself regarding the soundness of the transaction, making the necessary credit judgment, preparing and submitting the application for the Eximbank guarantee and following through with the necessary paperwork.

As the commercial bank carries part of the commercial risk under such a guarantee, some banks which are relatively inexperienced in foreign trade transactions may not be willing or able to handle Eximbank guarantees. Also, a bank's outstanding commitments and judgment of the risks involved are factors in its decision to take on additional guarantee business.

Nevertheless, in the past year some 90 commercial banks or financial institutions—including most of the large banks with experienced international departments in major commercial cities—participated in this program. In all, Eximbank authorized guarantees covering nearly \$200 million of export obligations in fiscal year 1967. The facilities of these banks may be available to exporters in other locations as well, since many of them have correspondent relationships with banks which are distant from the major commercial centers.

Sizeable transactions

Although the Eximbank guarantee program is by no means confined to large transactions, many of these guarantees cover sizeable transactions. Some commercial banks prefer not to request Eximbank guarantees for the small medium-term transactions, recommending insurance coverage instead. On the other hand, banks familiar with the guarantee program and willing to take the additional risk, often utilize guarantees rather than FCIA insurance for many transactions, particularly since the collateral advantages to the bank may be greater than when it is assigned an FCIA policy.

Under the guarantee program the commercial bank is required to provide financing to the exporter usually for 90% of the credit on a non-recourse basis. The bank takes the commercial risk on the early maturities for its own account and Eximbank guarantees the commercial risk on the later maturities. Eximbank guarantees against political risks for the entire term of the loan.

As under FCIA insurance, the buyer provides a cash payment—generally 20% of the invoice value—and the exporter retains at least 10% of the remainder, that is, the portion to be financed. The remaining portion of the invoice value is financed by the commercial bank, with