Export Credit Insurance: A literature review

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1 INTRODUCTION **3**
1.1 INTRODUCTION 3
1.2 RESEARCH QUESTIONS 3
1.3 INDUSTRIAL REVOLUTION AND INTERNATIONAL TRADE 3
1.4 RELATION CREDIT INSURERS AND OPEN ACCOUNT TRANSACTIONS 4
2 BUSINESS ON OPEN ACCOUNT: WHAT ARE THE REASONS? **4**
2.1 TRADE CREDIT INSTEAD OF BANK LOANS 4
2.2 TRADE CREDIT AS A SECURITY 4
2.3 TRADE CREDIT AS A SUBSTITUTE OF BANK LOANS 5
3 THE RISE OF EXPORT CREDIT INSURANCE **5**
3.1 UNITED KINGDOM INITIATOR OF EXPORT CREDIT INSURANCE 5
3.2 HISTORY OF EXPORT CREDIT INSURANCE IN THE U.S. 6
3.3 THE RISE OF PRIVATE CREDIT INSURERS 7
4 CREDIT INSURANCE AND OTHER CREDIT RISK MITIGATION TECHNIQUES **7**
4.1 AVAILABLE COVERAGE'S IN THE CREDIT INSURANCE MARKET OF THE NETHERLANDS 7
4.1.1 Commercial risk *8*
4.1.2 Political risk *8*
4.1.3 Fabrications risk *8*
4.2 INTRODUCTION OTHER TECHNIQUES TO MITIGATE CREDIT RISKS 8
4.2.1 Letters of Credit *8*
4.2.2 Factoring *8*
4.2.3 Cash in advance *9*
4.2.3 Bank guarantee *9*
4.2.4 Documentary collection *9*
5 NON-GOVERNMENTAL ORGANIZATIONS **9**
5.1 THE NEED OF AN INDEPENDENT ORGANIZATION 9
5.2 BERNE UNION 10
5.2.1 Main tasks Berne Union *10*
5.2.2 Headlines General Understanding *11*
5.2.3 Exchange of information among members *11*
5.2.4 General Understanding and the Arrangement *12*
5.2.5 Short, medium and long-term exposures *12*
5.3 OECD 13
5.3.1 Main tasks *13*
5.3.2 The Arrangement *14*
5.4 DATA CREDIT INSURANCE DURING THE CREDIT CRISIS 15
6 GENERAL REVIEW OF THE U.S. ECA AND THE DUTCH ECA **17**
6.1 EXPORT-IMPORT BANK 17
6.2 DUTCH ECA 18
6.3 RESPONSE ECAS DURING THE CREDIT CRISIS 19
6.3.1 General response *19*
6.3.2 Response Dutch ECA *19*
6.3.3 Response U.S. ECA *20*
7 CONCLUSION **20**
REFERENCES **21**

1 Introduction

1.1 Introduction

International trade is important for the world economy. The firms are therefore vulnerable to credit risks in domestic- and export revenue. An estimated 80 to 90 percent of world trade relies on some form of credit, insurance or guarantee, issued by a bank or other financial institution (Auboin, 2007) Export credit insurance is an important tool to manage these credit risks. If the credit risks are better covered the firms should be able to expand sales. Therefore I want to write a thesis about export credit insurance. The main focus will be on export credit insurance and the involvement of the export credit agencies (ECAs).

1.2 Research Questions

This paper wants provide the answer what the main differences are between the U.S. and the Dutch ECA about the export credit regulations.

I also want to give the answer of which non-governmental organizations set regulations in the market of credit insurance and how the ECAs integrate these regulations.

1.3 Industrial revolution and international trade

We will now introduce the industrial revolution, which leads to the increase of international trade. I want to remind you that this is an important part to the existence of export credit insurance.

Around 1800, the time of the Industrial revolution, the economic progress has been fast in the developing countries. Before 1800 the economic growth is not so fast. The most obvious explanation is technology. Scientific- technological threshold has made possible enormous advances in productivity. Commerce produced production through expansion of the market. (Kohn, 2010)

Since the 1970s, globalization has advanced broadly. Declining trade barriers have contributed significantly to this expansion. In the developing countries the rush to free trade started in the mid-1980s. The International Monetary Fund (IMF) states in 1992 that in the mid-1980s there have been changes in the trades of most developing countries. The developing countries declined most protection barriers for their

economies. You can imagine that this increased the international trade. Even the less developing countries were changing the rules for protectionism. Milner, Kubota (2005).

International trade increased competition between the firms wherever they operate. Therefore the buyer has more power to the suppliers. This means that the supplier must seduce the customer to buy his product or services. Suppliers give their customers time to pay their invoice. This is also known as an open account or trade credit.

1.4 Relation credit insurers and open account transactions

Credit insurers are heavily depending on open account transactions in the business-to-business market. An open account transaction is a sale where goods or services are delivered before payment is due. “Open account is as old as commerce” (Bhattacharya, 2008). The oldest view of trade credit is on basis of open account.

Several studies show that trade credit is the second important supply of short-term finance. These studies haven been made in the U.S., U.K, and Japan by respectively (Petersen and Rajan, 1997); (Pike and Cheng, 2001); (Miwa and Ramseyer, 2004).

2 Business on open account: what are the reasons?

2.1 Trade credit instead of bank loans

The question here is why buyers use trade credit as a fund of finance instead of bank loans. Financial theories suggest that suppliers have a benefit against lenders in financing the buyer also known as the borrower. Suppliers should have access to more inside information than a regular lender. (Biaus & Gollier, 1997). In the case that a buyer cannot pay the invoice, the supplier can repossess the delivered product and sell it to another buyer. (Frank and Maksimovic, 2004)

2.2 Trade credit as a security

Another motive for buyers to use trade credit is to control the delivered goods or services. If the goods do not meet the requirements as agreed than the buyer can send the goods back to the supplier. (Smith 1987, Long & Malitz & Ravid 1993).

2.3 Trade credit as a substitute of bank loans

Trade credit can also be used as a substitute of bank loans in case that the bank does not provide the necessary loan. A research in loans issued by financial firms disclosed that firms, with a longer relationship with a financial firm, depends less on trade credit. (Petersen & Rajan, 1997)

Firms who are internationally active also deliver goods or services in their own domestic markets. Firms who do international business have additional risks like country risks. They can cover these risks with a credit insurance policy. Not one firm is immune for trade credit risk. This brings me to describe rise of export credit insurance.

3 The rise of export credit insurance

3.1 United Kingdom initiator of export credit insurance

In the development of export credit insurance, the United Kingdom has been a pioneer. In 1919 the British government sets up insurance to cover political risks and commercial risks. In 1934 the European countries, like The Netherlands, have adopted some form of export credit insurance either in part or in total carried by the government (Dietrich 1935). This is the beginning of the export credit insurance that we know today.

The United Kingdom has been experimenting with export credit insurance since 1919. The Export Credits Department within the Department of Overseas was opened officially on September 1919. Invoice value becomes the basis of the risk insured. Making a calculation of the cost of risk was too difficult to calculate

The First Guarantee Scheme was set up in 1921. Before the first scheme the government has to find money to make the advances possible. In the first scheme the government guaranteed the bill. The facilities are used for financial credit and insurance, which is limited to 42,5% of the invoice value. The results of the scheme are not good. They covered 6.305.629 pound sterling, a very small percentage of the total trade. The los in the first five years was 31.000 pound sterling. Due to the bad results a Credit Insurance Committee investigated why the exporters ignored the facility made by the government.

The report concludes among other things that the demand for credit insurance exists and that the current credit insurance is not sufficient for the current demand.

The Second Guarantee Scheme is set up in 1926. The credit insurance is set at 75% maximum guarantee instead of the previous 42,5% in the first scheme for the exporter. The premiums in 1928 were 75 basis points for a 90 days payment term. For developed countries like France, Germany, Holland, Belgium and Switzerland the premiums is set at 10 basis points.

The third scheme also known as The Credit Insurance Scheme is introduced in 1930. It allowed determining for each contract the risk insured, the premium and the length of the credit. The premiums were estimated at 50 basis points till 150 basis points.

In 1933 The Comprehensive Contract was introduced. This contract insured all losses excess of an agreed amount between the exporter and The Department who issued this contract. This is currently known as an excess of loss policy.

3.2 History of export credit insurance in the U.S.

I want to describe the history of the U.S. export credit insurance for the reason that I describe the differences between the ECA of the U.S. and that of the Dutch.

The U.S. export credit insurance scheme starts in 1962. The Export Import Bank has offered different guarantees that are similar to credit insurance before 1962. The Foreign Credit Insurance Association (FCIA), which presents many insurers in The United States, is the administrating agency. The Export Import Bank took care of the political risks and partly of the commercial risks. In 1964 the FCIA takes all of the commercial risks, but reinsures it at Export Import Bank. An important reason to start this scheme is that exporters could compete with foreign competitors. (Greene, 1965)

FCIA receives premiums of $23 million, 46 percent of the received premiums aere paid out in claims in 1979. During the years the export credit insurance is made more attractive to exporters. The U.S. is really interested in expanding exports due to deficits. Several rules are changed to attract the export credit insurance. The authority is decentralized to make rapid decisions for acceptance of credit risks of a foreign buyer. Coverage extends also to interest losses. This is especially the case for medium and long-term sales. (Hiszagh and Green, 1982) The rise of private credit insurers will now be discussed.

3.3 The rise of private credit insurers

Governments do not only dominate the market of credit insurers. Private insurers can also deliver credit insurance. Private credit insurance becomes important during the 90's in Europe as governments are only allowed to insure long credit risks with a minimum of two year. Private insurers are very indisposes to cover these large risks. There are three main players in the field of short-term private credit insurance: Atradius, Euler Hermes and Coface. In 2008, global trade credit insurance premiums revenue is EUR 5.3 billion. (Jones P.M., 2010)

A credit insurance policy covers the risks of payment after the delivery of goods and services. The traditional short-term credit insurers also known as the big three in the credit insurance market usually cover a whole portfolio of debtors. Atradius, Coface and Euler Hermes coveres 87 percent of the world market in 2010: Euler Hermes (36%), Atradius (31%) and Coface (20%) (Van Der Veer, 2010). Atradius is set in August 2003, which is a merger between Gerling Credit and the Dutch credit insurer Nederlandsche Credietverzekering Maatschappij also known as NCM. Gerling Credit was the first private insurer, which offered credit insurance. In January 2008 Atradius merged with Crédito y Caución without changing the name.

There are several definitions about the length of short-term and medium-term exposures. There are no discussions about the long-term exposures. Short-term exposures are less then one year or less then 2 years. Middle-term exposures are between one or two years till five years. Long-term exposures are more then five years.

4 Credit insurance and other credit risk mitigation techniques

4.1 Available coverage's in the credit insurance market of The Netherlands

The firms have access to a credit insurance policy that covers commercial risk, political risk and fabrication risk. I use the Dutch credit insurance market because of to the knowledge I have in this market.

4.1.1 Commercial risk

Commercial risk is the risk that the buyer of good or services fails to make the contractual payment. This is the case when the buyer becomes insolvent or bankrupt.

4.1.2 Political risk

"Political risk is the risk that a government buyer or a country prevents the fulfilment of a transaction, or fails to meet its payment obligation, or the risk that is beyond the scope of an individual buyer or falls outside the individual buyer's responsibility." (www.atradius.co.uk, 2011)

4.1.3 Fabrications risk

Fabrication risk is the risk that the firm is not able to deliver the goods due to circumstances of the buyer of these goods. The fabrications risk are used by firms who make tailor made products for their customers.

4.2 Introduction other techniques to mitigate credit risks

The Netherlands is an open economy; this implies that a high degree of financial technical progress is made. Globalisation has a great impact on financial development since the 1970s. The paper will now discuss the alternative product/techniques to decrease the credit risks.

4.2.1 Letters of Credit

Letters of credit (LC). A documentary letter of credit is a bank's agreement to guarantee the payment of a buyer's obligation for the amount due. A letter of credit will only cover a single transaction. Normally the letters of credits are more expensive than credit insurance.

4.2.2 Factoring

Factoring is a product that pre-finances the firms who supplies the product to the buyer. The factor (private firm) pays a percentage of the face value of the invoice to the supplier on the day that the supplier delivers to the buyer. In the basis you have two different types of factoring. Non-recourse factoring is including credit risk. In case of default of a buyer the factor will not reclaim the money from the supplier. Full recourse factoring is on the risk of the firm who delivers the goods or services. In

case of insolvency the factor will claim the money from the supplier. This product is more expensive than credit insurance.

4.2.3 Cash in advance

Cash in advance is the risk free method for the firm who supplies. Due to commercial reason this is not an accepted or common method in international or domestic trade.

4.2.3 Bank guarantee

A bank guarantee can be used in two ways. The first way is that the buyer of the products or services pays in advance and wants certainty that the goods or services will be delivered. The bank of the supplier guarantees that the goods or services will be delivered. The second way is exactly contrary, so the bank of the buyer guarantees the payment if the goods or services are delivered. This is an expensive method in comparison with credit insurance.

4.2.4 Documentary collection

Documentary collection is a method that the supplier sends a draft or other demand for payment with the related shipping documents through bank channels to the buyer's bank. The bank releases the documents of possession to the buyer upon receipt of payment or promise of payment. The banks involved in facilitating this collection process have no responsibility to pay the seller should the buyer default of the buyer's bank. It is generally safer for suppliers to require that bills of lading be "made out to shipper's order and endorsed in blank" to allow them and the banks more flexible control of the merchandise Giovannucci (2007). This paper has discussed various methods to reduce the risks of non-payment. We will now discuss several non-governmental organizations that promote the use of export credit insurance.

5 Non-governmental organizations

5.1 The need of an independent organization

ECAs have been very competitive in the 1970s: a level playing field was necessary. The reason for this is that the buyers choose the supplier with the most favorable trade credit conditions instead of the quality or the price of the product. The Berne Union is an excellent outcome to set the level playing field. The competition among firms must be on quality and price of the product and not of the benefits of the export

credit insurance. Many ECAs and private insurers are member of The Berne Union. Most of the ECAs are connected with the Organization for Economic Co-operation and Development (OECD). The member countries are: Australia, Austria, Belgium, Canada, Chile, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, Korea, Luxembourg, Mexico, The Netherlands, New Zeeland, Norway, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Turkey, United Kingdom and The United States. (www.oecd.org, 2011)

5.2 Berne Union

Berne union is a non-profit organization for export credit and investment insurance worldwide. Berne union is founded in 1934. French, Italian, British, and Spanish credit insurers were the first initiators of the non-profit organization. After the World War II, the Berne Union became bigger due to the boom in capital goods and the need for finance on the long term. Export Credit Agencies also become bigger due to the previous events. Berne Union works for cooperation and stability in cross-border trading. The members of The Berne Union cover USD $1.4 trillions worth of business in 2009, which is about 10% of the world's total export trade. Among the members are Atradius, Coface and Euler Hermes and many ECAs, like the Import-Export Bank en the Dutch ECA. Berne Union promotes behaviors and practices that contribute to sustainable growth in global economic exchanges. If a credit insurer wants to become a member of Berne Union he has to meet several requirements. The credit insurer has to be in the business of credit insurance for at least three years, has a premium income of $5 million or a portfolio with a minimum of $450 million in insured credit risk.

5.2.1 Main tasks Berne Union

The Berne Union has three main goals: promote export credit insurance, deliver useful information to its members and ensure that credit is well known in the international practice. The Berne Union is not only an association where the members can discuss current issues with credit insurance. They also set rules for the credit insurance policies. These rules are the Berne Union General Understanding.

These rules are divided in three parts: general discipline, sector agreements and reporting and exchange of information. At this time the Berne Union is “the association” that has a guideline for credit insurers in the short-term market.

5.2.2 Headlines General Understanding

The members of The Berne Union Group see the General Understanding as an obligation to follow these prescriptions. Hereunder I will explain the sector agreements, in specific the underwriting guidelines. Goods and services are defined into seven sectors and these categories are dealing with 5 main criteria’s. The members of the Berne Union have to follow the criteria’s that complies with the relevant sector.

The categories are as follow:

Raw Materials, Primary Products and Semi Manufactures, Consumer Goods and Consumer Services, Consumer Durables, including Related Services, Parts and Components (Intermediate Goods), including Related Services, Quasi Capital Goods, including Related Services, Capital Goods and Project Services and Complete Plants.

The criteria’s are: definitions, Starting point of credit, length of credit, down payments and installments. For the full understanding of these prescriptions I will discuss one sector on which all criteria’s are used. The Quasi-capital goods, including related services is set a sector. Definitions: Machinery or equipment that are used for industrial process. Starting point of credit: Not later than the date of acceptance of the goods. Length of credit: Maximum of 5 years. Down payment: No requirements if lees than 2 years, If the credit exceeds two years than a down payments must been made for at least 15%.

5.2.3 Exchange of information among members

The paper will now discuss the exchange of information. Members are obliged to give answers to other members in case of a question of the lengths of credit. An example for the general information is the length of the credit.

The members are obliged to provide information in case of violation of the rules as described above. They must provide the information to all the members. The notifications must consist: the deviation, the buyers’ country, the goods, the insured

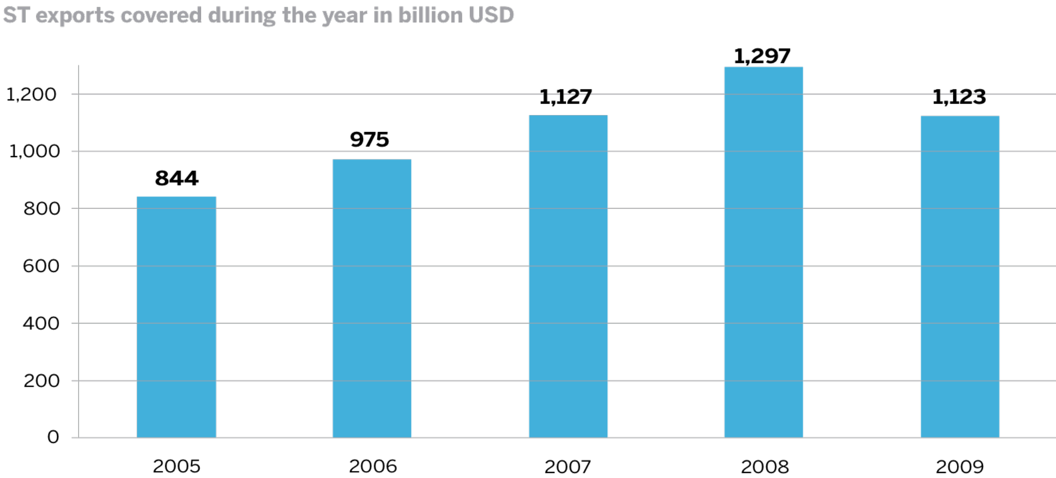
amount, terms of credit (the criteria's as described above), date of effectiveness of contract and the reason of the deviation.

5.2.4 General Understanding and the Arrangement

The OECD has an arrangement for officially supported export credits. In chapter 9 of The Berne Union General Understanding they are referring to this arrangement. The Agreement will be discussed further in this paper. This arrangement must be followed for all support provided by the government or on behalf of a government. According to the Berne Union Understanding the Non-OECD Union members are expected to follow the guidelines as described in the OECD Arrangement regarding down payments, starting point of credit, lengths of credit, installments and local costs. The guidelines from the OECD allow in several cases for longer credit terms. The acceptance of these longer credit terms has to be decided by underwriting. If longer terms are given as set in the General Understanding or the OECD arrangement a notification has to be made to the members of the Berne Union.

5.2.5 Short, medium and long-term exposures

The Berne Union practices are divided in three elements: Short-Term (ST) Export Credit Insurance, Medium and Long-Term (MLT) Credit Insurance and Investment Insurance. Hereunder you can see some data regarding insured short-term exposures.



Figure[1]

[1] source: Berne Union "Credit insurance in support of international trade, Observations throughout the crisis"

Figure [2]

Share of ST credit limits private – public

	2006 - 2008	2009	2010
Private insurers	85%	79%	72%
ECAs	15%	21%	28%

Credit insurance is more than just an insurance that only insure losses made by debtors. Credit insurance must also been seen as a source of useful information and it provides services of collections of unpaid bills. This is particularly useful in the short-term business.

In the medium- term and long-term business coverage is mostly provided by ECAs who are financed by governments. The business in short-term coverage or medium-, long-term coverage is dissimilar. The difference is not only that the short-term coverage is mainly provided by private credit insurance and the coverage for longer exposures is mostly provided by ECAs. Also the goods involved are different. Capital goods play an important role within MLT transactions. In the ST business service and goods are more present. This paper shows in this chapter and the next chapter what the reactions are during the credit crisis from the private insurers' perspective and from the ECAs' perspective. We will now introduce another non-governmental organization.

5.3 OECD

5.3.1 Main tasks

Organization for Economic Co-operation and Development (OECD) is an organization that wants to improve the economy and well being of people through the world. The OECD arranges meetings with governments so that they can discuss experiences to improve the economy and well being of people. The OECD deposit

[2] source: Berne Union "Credit insurance in support of international trade, Observations throughout the crisis"

standards on many issues like, safety for chemicals and nuclear power plants but also standards for trade credit for the governments.

5.3.2 The Arrangement

These standard is called “Arrangement on officially supported Export Credits” referred to throughout this document as the Arrangement. The purpose of the Arrangement is to deliver a framework for the use of officially supported export credits. The Arrangement wants to increase competition between exporters based on quality and price of goods and services and decrease the dependence on exaggerate financial government support.

The Arrangement is introduced in April 1978 in Paris. The Arrangement is a Gentlemen’s Agreement among the members of OECD. Take into notice that this is not an act from the OECD. The members of the arrangement are: Australia, Canada, the European Union, Japan, Korea, New Zealand, Norway, Switzerland and the United States.

The Arrangement has specific rules for the following sectors: Ships, Nuclear Power Plants, Civil Aircraft and Renewable Energies and Water Projects. The other sectors must follow the rules from the normal conditions. Exports of Military equipment and Agricultural Commodities are not taken part of the Arrangement.

The Arrangement takes not into account restrictive financial terms and conditions on certain trade or industrial sectors. The Arrangement asks his members to respect these restrictive financial terms and conditions.

The Arrangement asks from his members to receive down payments from the buyer of a minimum of 15% of the face value of the good or services before or at starting point of credit. The exporter can insure these down payments by official support.

The members of the OECD can offer the exporter a protection against non-payment. The premium for credit risks must be in relation with the credit risks. To calculate the credit risks the OECD members must use the Minimum Premium Rate (MPR) for country and sovereign Risk. The MPR does count for public and private firms. There is no distinction in pricing the credit risks between public and private firms. MPR takes into account the country risk classification, the Horizon of Risk (HOR), the

percentage of cover and the quality of the product exported and country risk mitigation techniques.

Countries set in Category 0, which is the lowest risk country classification, do not receive a premium based on the MPR. The members are expected to use available market pricing. In case that the country is classified in Category 7, which is the highest risk country classification, the member of the OECD shall calculate the premium itself. The Knaepen Package underwrites that members must use market prices for countries in Category 0.

The countries will be ranked from 0 to 7, where 0 is the lowest classification and 7 the highest classification. OECD and Euro Area countries are set in Category 0. There are five elements to assess a countries credit risk. These will be described below:

General moratorium on repayments, which mean that there is temporary prohibition to pay, forced by a legal authority. Political events or economic issues that are outside the country of the exporter, which delays the payment. Payment is made in local currency due to legal provisions in the buyer's country, which do not cover the amount of debt at the date of the transfer. Decision form a legal authority of a foreign country to cancel the payment. Circumstances beyond control of the exporter's country: war, civil war, expropriation, revolution, riot, civil disturbances, cyclones, floods, earthquakes, eruptions, tidal waves and nuclear accidents.

The price of the credit premium is also dependent on the mitigation techniques by the buyer's government.

5.4 Data credit insurance during the credit crisis

In the time when the credit crisis is at its peak due to the fall of the Lehman Brothers in September 2008 the ECA has a stable risk adoption. The short-term coverage decreases as the private credit insurers cut the credit limits. In the table you can see an increase in the percentage by the ECAs in the short-term exposure in 2009 and 2010. During the highest peak of the credit crisis the ECAs are taking credit risk exposure so that the commercial banks financed the exporters. Insurance coverage was a requirement to obtain a loan from a bank. (Morel, 2010)

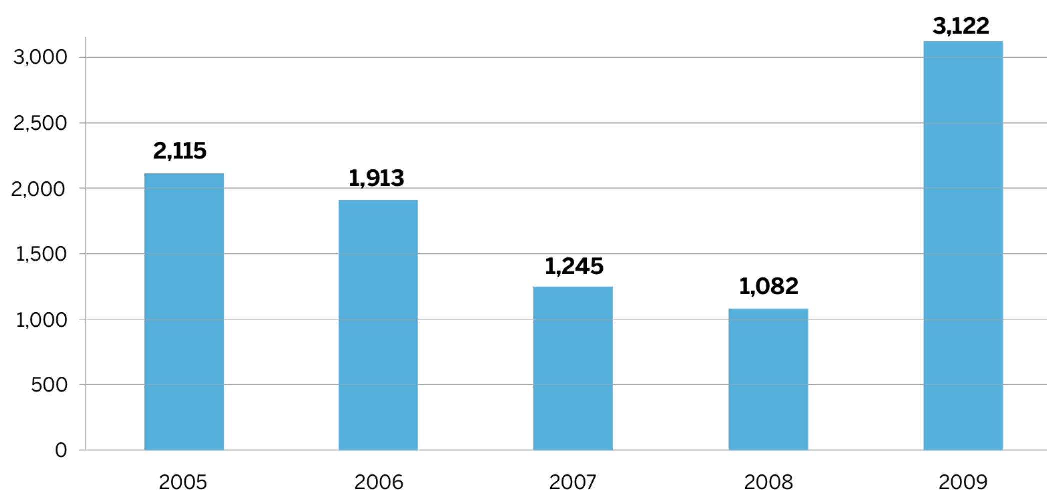
Figure [3]

Share of MLT exports under cover per destination region

	2005	2006	2007	2008	2009
Africa	9%	8%	9%	9%	9%
Americas	23%	24%	22%	22%	25%
Asia	45%	45%	45%	43%	38%
Europe	22%	23%	23%	25%	25%
Oceania	1%	1%	1%	1%	2%
Total exports under cover (USD bn)	292	353	417	450	511

Medium and long-term exposure covers mostly the countries in the emerging markets as shown above. Russia, Brazil, Indonesia, India, China, The United Arab Emirates, Turkey, Saudi Arabia and Mexico are taken part of the emerging market.

Figure *



[3]* source: Berne Union "Credit insurance in support of international trade, Observations throughout the crisis"

The claims paid in 2009 were significantly higher than the previous years. The loss ratio in 2009 is 66%. The support of ECAs during the credit crisis increased due to higher demand from the market. ECAs are familiar with the risks taken in the transactions of MLT exposures. In the past the ECAs have been able to recover the most non-payments. In the next part we will discuss another organizations that deals with export credit risks. Most transactions of MLT exposure involve capital goods.

6 General review of the U.S. ECA and the Dutch ECA

6.1 Export-Import Bank

The United States has wholly integrated the Arrangement in their law. The Export-Import Bank (Ex-Im Bank) establishes part of the Arrangement in their Acts. The Ex-Im Bank can only insure 85% of the total export invoice value like the Arrangement says. The Ex-Im Bank only provides direct loans that are in line with international standards.

Export-Import Bank is the Export Credit Agency from the U.S. The goal of the Ex-Im Bank is to promote exports of U.S. goods and services. They do this by accepting commercial and political risk which private insurers are unwilling to take these risks. Ex-Im Bank assist small and medium firms. Ex-Im Bank delivers three programs to subsidize U.S. exports: direct loans, export credit guarantees and credit insurance.

Ex-import Bank uses the direct loan to help an exporter to compete with a foreign government who also helps his exporter for the same contract. These direct loans are offered to the exporters within the agreement of the Arrangement. The direct loans are used to equal the advantage of the exporters. In this case the exporters compete with the price and the quality of the product instead of the favorable terms of the governments involved.

Insurances and guarantees have the main focus of the Ex-Im bank. Both transfer risk techniques decreases the credit risk involved in exporting for the exporters. Commercial and political risks are transferred to the government. There is a huge difference between guarantees and insurance. If an exporter insures his commercial and political risk with insurance he must meet several requirements to get paid out his claim in case of non-payment of the buyer. A guarantee has fewer restrictions for

the exporter. The Ex-Im Bank has an agreement with a commercial bank to full repayment in case of non-payment.

Ex-Im Bank also has a program for small and medium sized firm to help their working capital. Working capital is the current assets minus the current liabilities. It the total sum is positive the firm will have less financial difficulties on the short term. In many cases small and medium sized firms have a negative working capital. Firms that do have the quality to export can apply for the program of Ex-Im Bank. U.S. exporters are not sure about the Arrangement strength. The goal of the Arrangement is to reduce government involvement in export trading, but several countries are supporting the export through financial vehicles that are not subject to the Arrangement. The Arrangement has less power than normal acts from the OECD. Keep in mind that the Arrangement is a Gentlemen agreement. A disadvantage from the Arrangement is that a country is not obliged to stick with the Arrangement. If a country wants to deliver low premiums below the Arrangement's policy it can do so by notifying the other country members from the OECD. The OECD cannot fine or impose a sanction against that particular country. China the second biggest economic in the world is not a member from the OECD. China can heavily compete with their credit rating agency.

Some economists are against subsidizing the export, because they have doubts about the benefits for the economy of the specific nation. They conclude that finance insurance exports will does not add value tot the economy. Other reasons are that the economy must pay the credit risk if the buyer is unable to pay.

6.2 Dutch ECA

Since 1932 the Dutch ECA is in use now serving the firms under the name Atradius Dutch State Business. As you notice, Atradius is also a private credit insurer, but it has a separate department, which deals with MLT exposures, which is subsidized by the Dutch government. One important requirement to obtain cover from the Dutch government is that The Netherlands must benefit from the transaction. The Netherlands accepts under certain cases foreign involvement of more than 50% of a contracts value to insure the credit risks. In that case the contracts value must have a large national interest.

The risks that are accepted under this facility are varying between hundred thousands to hundreds of millions of euros. Atradius has the approval from the government to cover credit risks to an unknown amount. If a contract exceeds that unknown amount then the Minister of Finance must take a decision.

6.3 Response ECAs during the credit crisis

6.3.1 General response

In the next part this paper will reveal the respond of the credit crisis from the OECD and other economically important countries. Then the responds of the ECAs from the U.S. and The Netherlands will be described. On 2 April 2009 members of the OECD, important economically countries, the European Commission, International Monetary Fund, World Bank and other important organizations met in London to talk about the current export environment and the way how to finance the short term transactions which is under pressure due to freezing bank loans and credit limit cuts by the credit insurers.

The countries and the institutions committed availability for $ 250 billion for the next two years to keep up trade finance in particular export credit. In November 2008 the OECD, The European Communitiy and the WTO ensured that they wanted to be reliable associates to exporters and banks who finance the exporters. They made a statement that they had enough capacity to help the international trade flows. This is in addition of the previous supporting agreement.

They recognized that the world trade is a fundamental part of the economic recovery. The decreased volume in international trade and frozen markets made trade finance very expensive for short-term transactions, but also for middle- and long-term transactions. Emerging markets and developing countries are the countries that will suffer the most from expensive trade finance.

6.3.2 Response Dutch ECA

In the next part the measures are written that have been taken from the Dutch ECA. The Dutch government decided that capacity that was designed to middle- and long-term transactions also was available for short-term transactions. A temporary measure for the middle- and long-term transactions was to increase the amount of funding available for export business. Another temporary measure for the middle-

and long-term transaction is a lower requirement to obtain an export credit facility. The normal procedure is that contracts must exceed EUR 250 million to obtain an export credit facility. The Dutch government also decreased the rules to obtain cover from a country perspective.

6.3.3 Response U.S. ECA

The U.S. offers to small business premium reductions to credit insurance policies. The main aim of the U.S. is to give small business the opportunity to the market of credit insurance. The ECAs also expected an increase in short-term credit insurances serviced by the ECAs.

The U.S. and China's ECAs set up an export credit facilities for the Emerging Markets. The ECAs jointly offer credit facilities for the short-term, middle-term and long-term transactions. The U.S. also supports other programs such as Warranty Letters and several Working Capital Programs.

7 Conclusion

Credit insurances are used to cover credit risks. In the short-term market the private credit insurance are the main providers of credit insurance. At the start of the credit insurance ECAs made the credit facilities very competitive so that the exporter could get the contract much easier. This was also the case in the short-term market. This situations leads that buyers choose a supplier with the most favourable credit conditions which was facilitated from an ECA of a particular country. The buyer must choose a product on the quality and the price of product and not who has the favourable condition that is provided by the ECA. The ECA of The Netherlands in this case Atradius Dutch State Business is merely obliged to follow the guidelines from the Berne Union and the OECD. The U.S. also integrated the Arrangement in their law. In the time of the credit crisis the private credit insurers cut the credit limits. In the presented graph the ECA maintain the acceptance of credit risk and the private credit insurers are taking care of their balance sheets. Some countries do not participate with the OECD or the Berne Union Group. These countries can instruct their ECAs to construct competitive credit facilities. This will decrease the attitude to follow the regulations provided by the OECD and the Berne Union Group. The facilities that are given by the ECAs must be on the same line so that the competition is based on price and quality.

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