INTRODUCTION TO SHORT TERM EXPORT CREDIT INSURANCE

1. What is short-term export credit insurance?

Short-term export credit insurance is protection against the risk that an overseas customer would default on a payment obligation.

2. How is it used?

Short-term export credit insurance is used to:

- Increase sales by offering more competitive credit terms.
- Obtain financing by adding insured foreign receivables to a borrowing base.
- Minimizes the risks of extending credit overseas.
- Saves time, money and effort by replacing letters of credit with open account terms. An insured open account sale is much safer than a letter of credit with an unresolved discrepancy.
- Finance overseas customers by extending lower U.S. interest rates.
- Enhances customer relationships by using open account credit terms to exhibit trust in a customer's willingness and ability to pay.
- Gain leverage over problem accounts by using an underwriter's clout and resources.
- Provide structured approach to export credit decision-making.

3. What organizations offer short-term export credit insurance?

Coverage is offered by seven major commercial insurance companies, as well as by the U.S. Government, through the Export-Import Bank of the United States, referred to as Ex-Im Bank.

4. What type of programs are available?

Coverage is available on either a single-transaction or portfolio basis. An exporter asking to insure just *one* sale is presumed to have a relatively risky transaction (otherwise, why insure it?), whereas agreeing to insure a broad *portfolio* of exports made on credit terms permits the leveraging of desirable risks along with the not-so-desirable ones. Underwriters prefer the portfolio concept, and provide incentives to steer exporters away from the single-transaction approach.

Eximbank for Small Business multi-buyer policies requires that *all* eligible sales be insured, whereas for larger exporters using the Eximbank short-term multi-buyer policy and for commercial insurers they only require a “reasonable” spread of risk. This means that a portfolio could be designed to attract an underwriter using all accounts over $20,000 or all accounts in East Asia.

5. Will your product qualify for coverage?

Commercial insurers have virtually no product restrictions, and will readily cover shipments originating in other countries. Eximbank-insured products must be produced in the U.S. (no more than 49% foreign content); they may not be further processed outside the U.S. by the exporter; they may not be "defense products;" and all products must be shipped from the U.S. directly to an unrelated buyer located outside the U.S.

6. How does a Multi-Buyer (portfolio) policy work?

There are two aspects to a Multi-Buyer policy:

Buyer Approval: Each credit customer is approved either automatically under certain conditions, or upon specific application. The criteria for *automatic* approvals, called a Discretionary Credit Limit, include either a complete credit file for new customers, or satisfactory prior payment experience for existing customers. The *specific* approval process involves the submission of underwriting information (credit report, financial statements, etc.) to the underwriter (some insurers do their own investigations). Decisions are usually made within 5-7 working days. Approvals are generally good for 12 months, and cost nothing to put in place.

Premium Payment: Many policies permit the exporter to “pay-as-you-go,” by reporting at the end of each month the shipments made on credit terms during the *preceding* month, and paying the appropriate premium with the report. Some policies are adjusted quarterly or annually based on actual shipments.

Single Buyer policies are underwritten individually and premium is normally paid in full *prior* to policy issuance. There is no other reporting required.

7. What will it cost?

Multi-Buyer premium rates reflect the risk of the buyers' countries and the length of the credit terms extended, as well as past loss experience. Rates generally range between $0.30 and $.75 per $100 of gross invoice value. This means a $50,000 sale would cost between $150 and $375 to insure. Exporters with insured sales over $10,000,000 usually receive even lower premium rates.

Eximbank offers exceptional pricing for its "Small Business" Multi-Buyer Policy. Users must be a "small" business according to the SBA, and have average annual export sales on credit terms for the preceding two years of less than $5 million. These rates are determined primarily by the credit period extended. For example, the rate for sales to private sector buyers on open account terms up to 60 days is $0.65 per $100 of the gross invoice value, or $325 for a $50,000 shipment, no matter what the country. Small Business policies carry *no annual deductible* and feature enhanced lender protection along with a higher percentage of political risk coverage.

Rates for Short-Term Single Buyer policies depend on terms, the buyer's country, and the type of buyer (private vs. government). Due to their high minimum premiums, these policies are usually cost-effective only when total annual sales to a single customer approach $200,000.

8. What perils are covered?

Almost all policies insure against non-payment for virtually any reason. This includes events considered "political" in nature, such as wars or import/export embargoes, as well as bankruptcies and protracted defaults. Defaulted receivables are typically covered for 90-95% of the invoiced amount, after the application of the deductible (not applicable to Ex-Im Bank small business policies), plus post-maturity interest, if charged.

9. What is not covered?

Exclusions include failure to comply with policy terms, such as forgetting to report and pay premium on a sale, or non-payment due to a *legitimate* product dispute.

10. When can claims be filed?

An Eximbank policyholder may file a claim after a transaction is 90 days overdue, and must file the claim before it is more than 240 days overdue. Commercial policies have comparable waiting periods, but may require longer ones in high-risk countries.

11. Where can I obtain an export credit insurance proposal?

Global Insurance Services, LLC. is an insurance brokerage specializing in credit insurance programs. Additionally, our expertise is available at *no additional cost* to the exporter. Our role is to evaluate the optimum insurance markets for the exporter's situation, guide in the application process, and assist in administering the resulting policy. Global Insurance Services, LLC. provides access to the major credit insurance underwriters and can be reached at 410-480-0040, 410-215-4170, email: getglobal@mindspring.com or via our website: globalinsuranceservices.biz.

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