

**REPORT**  
**OF THE**  
**EXPORT CREDIT GUARANTEE**  
**COMMITTEE**



**GOVERNMENT OF INDIA**  
**MINISTRY OF COMMERCE AND INDUSTRY**

**JUNE 30, 1956**  
**NEW DELHI**

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## CONTENTS

	Page
I. INTRODUCTORY	1
II. CASE FOR EXPORT CREDIT INSURANCE	7
III. EXPORTERS' RISKS	12
IV. PERIODS FOR WHICH RISKS CAN BE COVERED	25
V. PERCENTAGES OF COVER	28
VI. BUYERS' RISKS	31
VII. EXPORT FINANCE	32
VIII. SPLIT OF RISKS	36
IX. SPREAD OF RISKS	40
X. HOW AND WHEN CLAIMS SHOULD BECOME PAYABLE	46
XI. BASIS OF PREMIUM RATES	48
XII. STRUCTURE OF THE INDIAN INSURANCE ORGANIZATION	63
XIII. MISCELLANEOUS	68
XIV. SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS	72
XV. ACKNOWLEDGMENTS	89

### APPENDICES

(Appendices I to VIII not printed).

IX. Summaries of some foreign export credit insurance schemes	95
X. Sources from which economic and financial information regarding buyers' countries should be collected	144

*Note.*—In this report the expressions "Export Credit Guarantee Organization" and "Export Credit Insurance Organisation" are used in the same sense.

# Report of the Export Credit Guarantee Committee

## CHAPTER I

### INTRODUCTORY

**Previous inquiry**—As part of the export promotion drive, the Government of India have been considering from time to time the question of introducing an export credit guarantee scheme on the lines of the schemes in operation in various foreign countries. This idea was also considered by the Export Promotion Committee appointed by the Government of India in 1949 to make recommendations as to the measures for stepping up exports. That Committee was not, however, in favour of such a scheme on the following grounds :—

“The scope of such a scheme is very limited in India. The nature of our exports, the traditional ties between exporter and foreign importer, the absence of political interference with export trade in most of the countries to which we export, all these make such a scheme unnecessary. Moreover, in order that insurance should work satisfactorily, the number of insured must be quite large and the business must continue regularly. In the U. K., for instance, a shipper taking advantage of the scheme cannot pick and choose the consignments which he will insure.....Apart from other considerations, there is not likely to be that amount of business which would allow such a scheme to be worked successfully, and, in all the circumstances, it would be best not to waste further time in consideration of this and other similar projects, but to apply ourselves to the real remedies for increasing exports—reduction in price, use of good material and suitable workmanship.”

**2. Draft scheme considered by the Export Advisory Council**—Notwithstanding the views of the Export Promotion Committee (1949), the rapid changes in the pattern and mechanism of export trade and the gradual conversion from a seller's market to a buyer's

market with the consequential demand for payment terms more favourable to the buyers than heretofore, necessitated an examination of the position. A need was felt for providing Indian exporters with the same credit insurance facilities as were available to the exporters in most foreign countries. A proposal for the introduction of an export credit guarantee scheme to stimulate exports was placed before the Export Advisory Council on 29th November, 1953. The Council were however, divided in their opinion about the necessity and the scope of the scheme. The Ministry of Commerce & Industry re-examined the matter and circulated in May, 1955, a new draft of the scheme to the Export Advisory Council and some chambers of commerce and trade associations. This scheme is reproduced in Appendix I to this Report.

**3. Opinions on the draft scheme**—The opinions expressed on this draft scheme were sharply divided. While there was a consensus of opinion that an export credit guarantee scheme was generally necessary as a means of stepping up Indian exports, several views were expressed in regard to the scope of the scheme and the manner of its implementation. A large volume of opinion was not in favour of the second part of the scheme, which aimed at covering the foreign buyer's risk, *i. e.*, insuring the foreign buyer against the failure of the Indian Exporter to fulfil the terms of the contract.

**4. Present inquiry : Terms of reference**—In view of the differences in the opinions expressed, the Government of India appointed this Committee by Resolution No. EP/56 dated the 7th January, 1956, which is reproduced below :

**No. EP/55.** The Government of India have had under consideration a proposal to introduce an Export Credit Guarantee Scheme for India with a view to stimulating exports.

2. The scheme is conceived to be mainly based on the principle of insurance and is intended to provide a guarantee to the exporter against losses resulting from circumstances which are beyond his control and which are not ordinarily accepted as insurable risks by Insurance Companies such as insolvency of the foreign buyer, unforeseen changes in regulations relating to foreign exchange, occurrence of war, incurring of extra delivery charges, etc.

3. While the need for an effective organisation to provide guarantees against export risks is generally recognised, several views have been expressed in regard to the scope of the scheme and the manner of its implementation. The Government of India have accordingly decided to appoint an expert committee with the following terms of reference :—

- (1) to examine the suggestions made in this behalf and to consider the scope of the Export Credit Guarantee Scheme ;
- (2) to make recommendations in regard to :
  - (a) the nature of risks to be covered ;
  - (b) the basis on which premia should be fixed ;
  - (c) the structure of the organisation that will be required for the implementation of the scheme; and
  - (d) any other matter necessary for the successful operation of the scheme.

4. The Committee will consist of :—

*Chairman :*

Shri T. C. Kapur,

Retired General-Manager of the Bombay Mutual Life Assurance Society Ltd., Bombay.

*Members :*

1. Shri W. A. Foges,  
M/s. United Traders Ltd., Bombay.
2. Shri E. P. W. Da Costa,  
Editor, Eastern Economist, New Delhi.
3. Shri S. Gupta,  
Secretary & Treasurer of the State Bank of India,  
Calcutta.
4. Shri S. C. Roy,  
Director, The National Rolling and Steel Ropes Ltd.,  
Calcutta.
5. Shri T. S. Ramaswami, Under Secretary,  
Ministry of Commerce & Industry, New Delhi—  
Member-Secretary.

Government also propose to appoint an Expert Advisor, having knowledge of the working of an Export Credit Guarantee Scheme in one of the foreign countries, to assist the Committee.

5. The Committee may co-opt, with the approval of the Government of India, such additional members as may be found to be necessary from time to time.

6. The Committee is requested to undertake the necessary enquiries and to make its recommendations by 6th May, 1956.

7. The headquarters of the Committee will be at Delhi and it may visit such places as it may consider necessary for the purpose of this enquiry.

8. The Government of India trust that firms, Chambers of Commerce and Associations, etc. will afford the Committee all the assistance that it may require and will comply with any request for information that may be made.

*Note* :—(1) Mr. F. C. Mann, Midlands Manager, Export Credits Guarantee Department in the U. K., was appointed by the Government as an Expert Adviser to assist the Committee.

(2) Shri S. S. T. Chari, Director, Best & Co. Ltd., Madras, was co-opted on 27th February, 1956, as a member with the approval of the Government.

(3) The time for submitting the report was extended to 30th June, 1956 by Government's Resolution No. EP/56 dated 17th April, 1956.

5. The terms of reference required the Committee to examine the suggestions already made regarding the Scheme, but from the files made available to us, it was found that only 21 organisations and 18 persons, mostly members of the Export Advisory Council, had expressed their opinion. It was, therefore, felt necessary fully to understand the pattern of trade and the requirements of Indian exporters in the matter of export credit insurance before any recommendation could be made. With a view to eliciting information and views, it was considered essential that questionnaires should be prepared and issued to exporters, to banks and to a large number of trade organisations. The first two weeks were accordingly spent in preparing the questionnaires.

6. **Method of inquiry**—The first meeting of the Committee was inaugurated by Shri T. T. Krishnamachari, Minister of Commerce and Industry, on the 23rd January, 1956. A few days later one questionnaire was issued to all export interests through Chambers of Commerce, trade associations and Export Promotion Councils. This questionnaire was also published in the Trade Notices issued by the Export Trade Controllers at the ports, the "Journal of Industry and Trade", and the 'Indian Trade Journal'. At the same time, the Committee addressed a special questionnaire to all banks. A copy of these questionnaires will be found in Appendices II and III. A list of trade organisations, banks, and other bodies through whom the main questionnaire was distributed to individual exporters and who were themselves requested to submit memoranda on the various points raised by the questionnaire, will be found in Appendix IV. This Appendix also gives the names and addresses of organisations who sent memoranda and/or detailed replies to the questionnaire.

7. The divergent views expressed by various interests on the draft scheme circulated by the Ministry last year showed that the trade had not fully appreciated the scope and the manner of operation of the guarantee schemes in other countries and the benefits that accrued to insured exporters. With a view to eliciting the fullest possible answers to the questionnaires, the Chairman, the Member-Secretary and the Adviser visited Bombay from the 9th to 16th February, 1956. In company with Mr. W.A. Foges, they met representatives of various Chambers of Commerce and exporters Associations, Export Promotion Councils and Bankers' Associations at Bombay, and explained the implications of the various aspects of the guarantee schemes in operation in foreign countries. The committee also held similar discussions with Government officials and export interests at Calcutta between the 20th and 23rd February, 1956. More formal discussions were held at Calcutta between 21st and 24th March, 1956; at Madras on 9th to 12th April and 19th April, 1956; at Bangalore on 14th April, 1956; at Ernakulam (Cochin) on 16th, 17th and 18th April, 1956; at Bezwada on 20th April, 1956; again at Bombay on 4th May, 1956, and at New Delhi on 26th and 27th April and 9th May, 1956. A list of organisations and individuals who accepted invitations to meet the Committee as well a list of those who did not respond to the Committee's invitation, will be found in Appendix V.



8. The Committee received 271 replies to the questionnaire issued to individual exporters. The poor response in spite of extension of the time limit for submission of replies, may be attributed to an inadequate appreciation of the issues involved by the great majority of the exporters. However, a great deal of useful information has been supplied and a summary of the replies from individual exporters, is given in Appendix VI. Appendix IV (1) (a) gives the names and addresses of the exporters who have answered the questionnaire.

9. The Committee received memoranda from 66 chambers of commerce and trade associations. A large number of organisations did not send their views, possibly because their members were not interested in export trade or because they had little to add to the replies submitted by their constituents directly to the Committee. In the discussions held with the associations, several new points were made. A summary of the points raised by them in their memoranda as well as in oral evidence before us is contained in Appendix VII.

10. A summary of the replies to the special questionnaire received from banks, and of the discussions held with the Bankers' Associations will be found in Appendix VIII.

11. It came to the notice of the Government that the Annual General Meeting of the Union d'Assureurs pour le Controle des Credits Internationaux, Berne, an association of the Export Credit Guarantee Organisations in about a dozen countries was being held at Cannes from 13th to 18th May, 1956. As some of the items on the agenda of the meeting were of great importance to the Committee, the Government deputed the Chairman of the Committee to attend the meeting as an Observer and if necessary, to visit the head offices of some of the European Organisations. During his stay at Cannes, the Chairman discussed important problems regarding export credit insurance with most of the members who attended the meeting; he also visited the head offices of the French, Netherlands, German and Swiss organisations and discussed with their managements certain important aspects of the problems which the Committee had to consider and decide. The Chairman left for Europe on 10th May and returned to India on 1st June, 1956.

## CHAPTER II

### CASE FOR EXPORT CREDIT INSURANCE

From the stage of production or manufacture of goods to the stage of marketing and receiving payment, every entrepreneur faces certain risks. There are the risks of fire; riot, transport, theft, war damage, and finally loss due to inability to receive the sale price from the buyer for any reason. Every entrepreneur needs protection against such risks. It is possible for him to cover himself against risks of fire, riot, transport, theft, and if such a situation arises, war damage; but at present, an Indian entrepreneur has no means of covering his risks of losses inherent in the sale of goods on credit.

2. Credit is the essence of economic development, the history of man's economic development is the history of credit. Modern economic civilization is largely based on the credit system. When goods are sold on credit and the buyer and the seller are in the same country, the main risk involved is that on the buyer, that is the refusal or inability of the buyer to pay for the goods purchased by him. But, if the buyer and the seller are in two different countries then apart from the risk on the buyer, there are other risks which are created by the political, financial and economic situation of the buyer's country. These risks have been described in detail in Chapter III. At the present time, credit in world trade is in greater demand than ever before; for, due to the efforts that have been and are being progressively made in various countries to develop and expand industries, competition has considerably increased in recent years. For most commodities, the seller's market has given place to the buyer's market. This is creating a demand for goods being sold on credit terms, *i. e.*, where payment is due to be made in the buyer's country after shipment. If goods are sold on credit terms, there will be a need for protecting oneself against bad debts just as there is need for protecting oneself against fire, theft, loss in transit, etc.

3. Protection against export risks is provided by export credit insurance schemes which are operating successfully in the following countries :—

Austria, Belgium, Canada, Denmark, France, Western Germany, Holland Irish Republic, Italy, Japan, Norway, Spain, Sweden, Switzerland, and the U.K.

In Australia, the bill for setting up an export Payments Insurance Corporation has been passed by the Parliament. In addition, new schemes are in course of preparation in South Africa, and the U.S.A., and it is believed that other countries are also interested in the introduction of export credit insurance. These schemes (Summaries of some, of which will be found in Appendix IX) help the exporter in the following manner :—

- (a) By insuring against loss from export risks, the insured is enabled to sell on credit terms and thereby successfully compete with exporters from other countries, and increase his volume of business.
- (b) To the extent to which a risk is covered, credit insurance obviates the necessity for transfers to bad debt reserve, which are liable to income-tax.
- (c) Where goods are specially prepared for particular markets or buyers and cannot easily be sold elsewhere, Export Credit Guarantees insure the exporter against loss arising from frustration of the contract before the goods are delivered to the buyer.
- (d) Credit insurance assists in maintaining working capital intact in so far as it enables the exporter to recoup any losses arising out of any of the risks covered. Furthermore, credit insurance, by reason of the increased security which it affords, enables the exporter to raise finance more readily than otherwise would be the case. Working capital is an asset which is not insurable and therefore, cannot normally be used for raising finance.
- (e) The credit insurance organisation performs the important function of independently investigating and checking the credit standing of foreign buyers. Thus, the organisation is able to advise insured exporters about fixing the credit limits on their buyers (see Chapter III paragraphs 10 to 14)
- (f) A credit insurance organisation, being interested in credits granted all over the world, and having access to official sources of information, is in a better position to study the economic and political developments in foreign countries

than an individual exporter and can advise him of likely dangers. Such advice is of special value when exporters are prospecting for business in countries of which they have little or no experience.

4. It should be mentioned here that, where standard goods are sold on terms of confirmed irrevocable sight letters of credit, there are normally no post-shipment risks to insure and such contracts would be excluded from export credit policies. It has not been possible for the Committee to ascertain what Percentage of Indian exports is on the basis of letters of credit, though many widely differing estimates have been given to us.

5. The question arises whether the Indian exporter needs credit insurance. Some exporters, particularly those who export jute fabrics, tea, minerals and cotton textiles have mentioned that they do not need any insurance facilities. This is because a large percentage of these goods is exported on a letter of credit basis. There is some evidence, however, to show that the strength of competition is beginning to force some extension of payment terms for these goods and that this tendency is likely to become more pronounced in the future. It has been admitted in the course of discussions with us by associations of jute manufacturers that, while the need for a scheme of this nature is not felt to be immediate in their case, growing competition will eventually make them recognise its utility; in fact, one jute association requested that the scheme should be made compulsorily applicable to all jute exporters forthwith. The position regarding tea appears to be same. One of the tea associations has also urged that the scheme should be compulsorily applicable to all exports of tea. We are informed that in cotton textiles percentage of exports on terms other than letters of credit is steadily increasing. Exporters of silk and rayon, engineering and plastic goods have represented to the Committee that there is an immediate need for export credit insurance and have urged that the scheme should be brought into force immediately. So far as other exports are concerned the position appears to be that the need for insurance is being felt to the extent to which goods are being exported on terms other than letter of credit.

6. It has been brought to our notice that in one foreign market Indian goods are not being preferred because Indian exporters insist on letters of credit being opened. The buyers, therefore, buy

goods from other countries and deal with Indian exporters only if they find that, after allowing for the expense involved in opening the letters of credit and the loss of interest, Indian goods are still cheaper than goods imported from other countries. By insisting on letters of credit in this market, Indian exporters are losing a considerable volume of business. It is likely that a similar situation obtains in other markets. The Indian exporter is either ignorant of the business lost or his insistence on letters of credit is due to facilities for covering himself against export risks not being available.

7. Further, an important feature of the structure of India's export trade is that the great majority of exporters consist of small and medium-sized firms which cannot command the same capital resources as the big and established exporters. The number of such small and medium-sized firms is increasing every day because of the greater freedom and greater facilities that have now been created due to changes in the political, economic and industrial conditions in the country. Such firms need greater financial facilities to enable them to meet foreign competition. Their prospects of obtaining these facilities will improve if they can offer their bankers additional security in the form of an export credit insurance policy.

8. In most European countries including the U. K., the Government insurance organisations have introduced new types of policies for "Dollar Drive" exports and for the development of new markets for specialised products. Under these policies the insurers share with the exporters the risk that their expenditure in market surveys, advertising, holding of consignment stocks, and sales promotion campaigns, may not be recovered through increased sales over a specified period. This part of the scheme will be useful in the development of markets for Indian manufactures generally and handloom products artware, and numerous other cottage industry products particularly.

9. The Second Five-year Plan emphasizes the need to increase earnings of foreign exchange. This objective can be largely achieved by developing exports. Various steps have been or are being taken by Government in this direction, but while we do not minimise the importance of such steps, they do not enable Indian

exporters to offer the same payment terms as their foreign competitors who are backed by export credit guarantee organisations in their own countries.

10. In view of the following facts, *viz.*,
  - (a) demand for credit terms is being made for all exports and is likely to increase even for the exports of jute fabrics, tea, minerals, cotton textiles,
  - (b) more small and medium-sized firms are coming into the export business and this class of firms has a great need for insurance,
  - (c) export credit insurance makes the export finance facilities more readily available,
  - (d) the insurance helps the exporter to develop new markets,
  - (e) competition from exporters from other countries having insurance facilities can be met if, other things being the same, Indian exporters are placed in a similar position as their competitors in regard to credit insurance, and
  - (f) there is a pressing need to earn foreign exchange, we are of the opinion that an export credit insurance scheme is an important export promotion measure, and therefore recommend that this scheme be started in India without delay.

## CHAPTER III

### EXPORTERS' RISKS

1. In this chapter we consider the nature of the risks to be covered by the Indian Export Insurance Organization. We are not concerned herewith the risks of fire, theft, or marine risks for which adequate cover is available from general insurance companies.

2. In the case of every export there are some risks which are operative before the goods are shipped, and where goods are sold on credit, there are other risks which arise after shipment. The first are called pre-shipment risks, and the others post-shipment risks. Post-shipment risks become operative from the shipping stage and end when the payment has been received in the exporter's country. Pre-shipment risks commence as soon as the exporter has committed himself to expenditure after the conclusion of the sales contract and end on the date of shipment, when the post-shipment risks commence. In this context, shipment means "the despatch of goods from India by any means of transport." In the case of goods which can be sold without loss in the home market and or in various foreign markets, post-shipment risks are more important ; and in the case of goods which have been prepared for a particular buyer or for a particular market and the possibility of their sale in the home market or in other foreign markets is limited, pre-shipment risks are usually as important as post-shipment risks.

#### Post-Shipment Risks

3. The following risks become operative as soon as goods are shipped :—

(a) *Diversion Risks.*—Due to interruption or diversion of voyage outside the exporting country, the exporter may have to incur in respect of goods shipped from his country, additional handling, transport or insurance charges which it is impracticable to recover from the buyer.

(b) *Import Control Risk.*—The importer may have placed orders for goods but he may not hold a valid import licence when the goods arrive. He may not have been able to obtain the necessary licence or his licence may have been cancelled or may have expired and cannot be renewed. Even if there were no import restrictions when the order was placed, new import restrictions may have been imposed.

(c) *Repudiation Risk.*—A solvent buyer may repudiate his contract, refuse to open a letter of credit or to accept goods.

(d) *Insolvency Risk.*—The buyer may become insolvent.

(e) *Default Risk.*—The buyer may accept the goods on credit terms and on the due date refuse to make payment or may temporarily be unable to pay.

[Both (d) and (e) together are called Commercial or Del Credere Risks].

(f) *War Risk.*—War between the buyer's country and the exporter's country may occur.

(g) *War and Civil War Risk.*—There may occur war, hostilities, civil war, rebellion, revolution, insurrection or other disturbance in the buyer's country or other countries through which the goods must pass.

If any of the contingencies referred to in (f) and (g) occurs, the exporter may suffer losses because,

(i) he may be prevented from delivering goods ; or

(ii) he may be prevented from removing his goods from a country involved in war ; or

(iii) the buyer may be prevented from making payment ; or

(iv) the foreign bank to which the buyer has paid his debt may be prevented from remitting payment to the exporter.

(h) *Transfer Risk.*—The operation of a law or an order decree or regulation having the force of law, which in



circumstances outside the control of the exporter and of the buyer, may prevent, restrict or control the transfer of payments from the buyer's country to the exporter's country.

(j) *Exchange Fluctuation and Devaluation Risks*.—If the sale has been made in a currency other than that of the exporter's country, the exporter may, apart from the blockage of funds, suffer loss because of—

(i) fluctuations in the currency ; or

(ii) the devaluation of the currency.

(The first is Exchange Fluctuation Risk and the second is Devaluation Risk).

(j) *Omnibus Risk*.—Any other cause not being within the control of the exporter or of the buyer which arises from events occurring outside the exporters's country. (This may be called Omnibus Risk).

Risks (a) and (b), and (f) to (j) are called Political Risks.

4. Between the date the exporter has committed himself to expenditure and the date of shipment of goods, the contract may become frustrated and the exporter may suffer losses because of events happening either within or outside his country. If his contract does not become frustrated before shipment and he ships the goods, post-shipment risks will become operative.

#### Pre-shipment Risks

5. The main pre-shipment risks which are beyond the exporter's control and arise in his country are :—

(a) ban or restrictions on the import of raw material or semi-manufactured goods which may be necessary to manufacture the goods to be exported ;

(b) non-issue, non-renewal or cancellation of his export licence, or the imposition of fresh restrictions on the export of goods ;

- (c) increase in export duty or the imposition of a new export duty which, under the terms of contract, cannot be recovered from the foreign buyer ;
- (d) non-availability of transport and or of berthing space for steamers ;
- (e) strikes ;
- (f) increase in the manufacturing costs which cannot be passed on to the buyer.

6. Risks which arise because of events happening outside the exporter's country and which make it impossible and/or in advisable to export goods when ready for shipment are :—

- (a) repudiation of contract by a buyer (Repudiation Risk) ;
- (b) insolvency of the buyer (Insolvency Risk) ;
- (c) inability of the buyer to make payment due to imposition of restrictions on the transfer of funds (Transfer Risk) ;
- (d) expiry of the import licence against which the buyer had placed the order and its non-renewal ; or cancellation of his import licence or the imposition of fresh import restrictions ; (Import Control Risk) ;
- (e) war or civil war in the buyer's country (War and Civil War Risks) ;
- (f) any other cause not being within the control of the exporter or of the buyer which arises from events occurring outside the exporter's country (Omnibus Risk).

7. The risks described in paragraphs 3, 5 and 6 above, usually apply to normal export transactions. There are, however, certain types of transactions which may involve special risks. Such transactions are many, but we propose to confine ourselves to those which form part of the normal pattern of the Indian export trades or are likely to do so.

- (a) The exporter may have sold his goods on a "cost, insurance and freight" basis, and between the conclusion of the contract and the date of shipment the insurance and freight rates may go up. To the extent to which these rates may increase, the exporter suffers loss. (C.I.F. Risk).

- (b) Goods may have been exported to an agent in a foreign country for sale in the local market there. If the said agent acts as a principal and is responsible for payment to the exporter in the currency of the exporter's country, then the risks involved are the same as for a normal export. But if the agent holds a stock of goods for sale on the exporter's behalf in local currency, then, apart from other risks, devaluation and exchange fluctuation risks are involved. Further, so long as these goods remain unsold, the following additional risks are involved on the goods themselves :—
- (i) war and civil war :
  - (ii) requisition or confiscation of the goods by the Government ;
  - (iii) prevention of re-export of the goods.
- (c) An exporter may export goods for exhibition at an overseas fair. The export may be preceded by a firm contract of sale in which case normal risks apply. Where there is no firm contract of sale, the goods may be sold either during or after the fair. The position of such goods is usually the same as that of sales from stocks overseas [see (b) above].
- (d) There may be no exports of goods but monies may become due to a firm for technical or other services rendered to a principal in a foreign country. e.g. insurance premiums, royalty and copyright payments, auditors fees or services of constructional engineers. Such a transaction may be an individual one or there may be a series of transactions extending over a period. The risks of non-payment in these cases are similar to post-shipment risks.
- (e) When a Government decides to promote exports to a particular country for earning the currency of that country or for special considerations, exporters are encouraged to export goods to that country and the export credit guarantee organizations are expected or required to cover additional risks. Examples of these additional types of cover are :—
- (i) Credit limits on individual buyers may be required to be approved for amounts larger than would commercially be prudent.

- (ii) An exporter may incur heavy expenses for market surveys, stock-holdings, advertisement and other promotional schemes for the development of sales in a particular market. Insurance may be given against the risk that these expenses may not be fully recouped by the sales made in that country.

8. The types and extent of risks covered by export credit guarantee organizations differ from country to country. Nevertheless, the practice of all the countries conforms to two basic principles, viz.,

- (a) Except in the case of some pre-shipment risks, only those risks are covered which arise out of events occurring outside the exporter's country.
- (b) Only those are covered which are outside the control of the exporter and, generally, of the buyer. Any risk which can be avoided by the exporter and/or the buyer should be excluded.

All risks which contravene the above principles are generally excluded. Some risks may not be covered by an organisation because they are considered to be beyond its scope, or are covered by commercial insurers, or are not operative in the country concerned. Some organizations cover some risks for exports to one country and may, for special reasons, refuse to cover those risks for export to the other countries.

#### **Recommendations**

9. We have carefully examined the requirements of Indian exporters regarding the risks to be covered in the light of the above stated principles and the practices of export credit insurance organizations operating in other countries and make the following recommendations :—

#### *A—Post-Shipment Risks*

- (a) Diversion risk should be covered ;
- (b) Import control risk should be covered except where

- (i) import or exchange licence is necessary but is not held by the buyer when the order is placed and he is unable to obtain it when goods arrive ; and
- (ii) import or exchange licence is cancelled for buyer's fault.

It is the duty of the buyers to obtain any necessary licence before placing a firm order, Similarly; the exporter ought to satisfy himself, before he ships the goods, that the buyer holds such authorities as are necessary to import and pay for the goods. No one can be permitted to take advantage of his own negligence. If the risk of the cancellation of licence due to the fault of the buyer is not excluded, the buyer can cover up his repudiation of contract by doing something which will necessarily lead to cancellation of his licence.

- (c) A buyer may repudiate his contract either when he finds that prices have gone down and his acceptance of goods will end in a likely loss or when the exporter has failed to supply goods of right quality, of contracted specification and quantities, and similar other reasons. Repudiation, therefore, arises either from the fault of the exporter or the buyer. It is obvious that this risk cannot be covered for insurance is based on the good faith of the parties concerned. Furthermore, if an attempt were made to insure exporters against the refusal of a solvent buyer to accept goods, some deterioration in the standards of export trade might result; for, if it became known overseas that an Indian Government Organization would compensate Indian exporters against the buyer's refusal to take up goods, the normal good relations that exist between buyer and seller would be weakened, the number of repudiation cases would increase, cases of collusion between buyer and seller would occur and some exporters would be tempted to export shoddy goods. Exceptions may, however, be made in the following cases :—

- (i) When the buyer is a public body which either cancels the contract unilaterally or refuses to accept goods. In such a case, it may not be possible to take legal steps and even if it is possible to do so, it may be inadvisable.
- (ii) When the buyer repudiates the contract and is adjudged insolvent,

- (iii) Where a buyer repudiates the contract and the exporter takes legal steps, obtains a final judgment against the buyer and even by executing the decree he cannot receive the full price of the goods because the buyer has no assets from which recoveries can be made. This is covered by the definition of insolvency.

In all such exceptional cases, the claims should become payable.

- (d) Insolvency and default risks should be covered and for this purpose a buyer may be deemed insolvent when—

- (i) he is declared bankrupt; or
- (ii) he has made a valid assignment, composition or other arrangement for the benefit of his creditors generally; or
- (iii) a Receiver has been appointed to manage his estate; or

If an incorporated body,

- (iv) an order has been made for compulsory winding up; or
- (v) an effective resolution has been passed for voluntary winding up provided that such resolution is not merely for the purpose of reconstruction or amalgamation; or
- (vi) an arrangement binding on all creditors has been sanctioned by the court; or

Whether incorporated or unincorporated

- (vii) Such conditions exist as are equivalent in effect to any of the foregoing conditions.

This definition of insolvency is used by the U. K. and Canadian official organizations and is similar to the one used by the Hermes in Germany.

- (e) War and Civil War Risks should be covered.
- (f) Transfer risks should be covered. This risk, as defined in para 3, clause includes moratorium and freezing of debts imposed by the buyer's Government.
- (g) Payment for goods can be due either in the currency of exporter's country or that of the buyer's country or in that of a third country. Where the payment is to be in

the currency of the exporter's country, exchange fluctuation and devaluation risks do not arise. The position, however, is different where sale is in a currency other than that of the exporter's country. From the discussions that we had with various interests, it appears that Indian exports are generally invoiced in Indian currency, sterling or U.S.A. Dollars. Sales in other currencies are very few, It is possible to provide against losses due to exchange fluctuations and even devaluation by forward purchase of the currencies concerned. There does not, therefore, appear to be any need for an Indian Export Credit Organization to cover these risks, since such a course will lead to an encroachment on the functions of the banks. We are, therefore, not in favour of covering these risks.

In some countries, foreign exchange regulations require a customs clearance certificate to be produced before foreign exchange can be made available. If the sale is on the basis of cash against documents overseas, acceptance of a deposit in local currency may become necessary. We recommend that permission may be given to the exporter to accept such deposits provided the buyer gives an undertaking to

- (i) pay any additional amounts in the event of his country's currency losing value in terms of the currency of the exporter's country ;
  - (ii) perform all necessary formalities to ensure that the value of the deposit is transferred to the exporter with the minimum of delay.
- (h) Omnibus risk should be covered. This risk as defined in para 3. clause (j) includes risks of port strikes overseas, dock clearance delays and natural catastrophes in the buyer's country. This also includes the risk involved in the change in the standards of food and other products after goods have been shipped provided the goods at the time of shipment were of the standard then in force.

**B.—Pre-Shipment Risks :**

- (a) The risks which arise in the exporter's country prevent the exporter from either exporting goods or exporting

them in time. As these risks are beyond the control of the exporter, he cannot normally be held liable for damages for breach of contract. It has, however, been represented to us that due to instability in the Government's export policy, non-availability of transport and other circumstances, many sale contracts now provide, on the insistence of the buyers, for damages being paid by the exporters if goods are not supplied on or before the appointed date. Frequent changes in export duties particularly in an upward direction have led to buyers insisting that sale contracts provide for this duty being payable by the exporters. It has further been represented that, if the Government's action prevents the export of goods, sometimes the prices fall and exporters suffer loss on re-sale. A demand has been made that these risks should be covered. Frequent and sudden bans on exports, increases in export duties, nonavailability of wagons and shipping space and shortage of berths are among the serious problems which face Indian exporters. If these risks were covered, the exporters might, to some extent, minimise their losses but exports would not be promoted. Effective steps should be taken to solve these difficulties. It is not within our jurisdiction to make any recommendation in this connection. We have, however, to consider whether these risks should be covered.

(b) We have carefully examined the position and our recommendations are :—

(i) No serious demand has been made for covering the risk of ban or restrictions on the import of raw material or semi-manufactured goods which may be necessary to manufacture the goods to be exported. A need for covering this risk is, however, likely to arise when our existing industries expand or new industries are set up. The Indian organization may examine the position if the necessity arises and decide whether the conditions then prevalent justify the covering of this risk.

(ii) Export restrictions are usually imposed when goods are in short supply and excessive exports create or are likely to create scarcity conditions in India. To cover the



export control risk will lead to one Government organization suffering losses because of the action of the Government. We, however, find that the U. K. Export Credits Guarantee Department, Hermes in Germany, and Co. F.A.C.E. in France are covering this risk. In view of the practice of the three leading Export Credit Guarantee organizations, we recommend that this risk should be covered. The following cases should, however, be excluded from cover :

- (a) where export licence is necessary but is not held by the exporter when the order is placed and he is unable to obtain a licence at a later date, and
  - (b) where the export licence is cancelled on account of the fault of the exporter.
- (iii) Export duties are usually increased either to reduce exports or to mop up higher profits of the exporters. To cover this risk will, to some extent, frustrate the object of the Government action. We, therefore, cannot recommend the covering of this risk.
- (iv) Non-availability of wagons, shipping space and shipping berths appear to be a usual feature of the export trade. If this is so, we are being asked to give insurance cover against a certain loss. Insurance is not feasible unless either the risk or the time of its happening is uncertain. Further, these risks vary considerably between different trades, ports of shipment and means of transport. Therefore, covering of these risks would necessitate assessment of premium rates for individual exporters, which would be an exceedingly difficult, if not an impossible, task. It is also doubtful if an adequate spread of risks would be available. At present, the exporter makes every effort to overcome difficulties by using alternative means of transport or by applying pressure to the carrier, but if these risks are insured, he may become lax. This may also result indirectly in the greater use of penalty and cancellation clauses in contracts which will be against the general interest of the export trade. Settlement of claims will present difficulties which it may not be possible to resolve. For these reasons, we cannot recommend the covering of this risk.

- (v) Covering risks of strikes in the exporter's country will amount to the Government indemnifying one section of the community against the actions of another section. Further, it will be necessary to decide whether a strike is legal or otherwise, whether it was outside the control of the exporter and in some cases, whether it was justified. It will, in a way, mean dealing with matters which are under the jurisdiction of another authority. In view of this, we do not recommend coverage of this risk.
- (vi) There is no demand for covering the risk of increase in the manufacturing costs. Even if there were a demand, this risk could not be covered because of the complexity of the problem and unsurmountable difficulties involved in the proper assessment of various factors which influence the increase. We do not recommend its coverage.
- (c) The pre-shipment risks which arise in the buyer's country have been enumerated in para 6. These risks should be covered except.
  - (i) repudiation of contract by a private buyer, and
  - (ii) cancellation or non-renewal of an import licence of the buyer for his fault.

#### C. *Risks of Special Transactions*

- (i) C.I.F. risk should be covered. As such cases are not likely to be large, this risk may be covered by an endorsement on the standard policy;
- (ii) Risks of exports on consignment basis except those of devaluation and exchange fluctuation should be covered;
- (iii) Risks of goods sent for display in a foreign fair are similar to those for exports on consignment basis. These risks should be covered;
- (iv) Risks pertaining to non-receipt of money for services should be covered;
- (v) Non-recoupment of expenses incurred on market surveys, stock holdings, publicity and other promotional measures should be covered in special cases.

10. The amount of credit which can be allowed to a buyer is dependent on the strength of his financial resources, and it is,

therefore, necessary for a credit insurance organization when covering the commercial risks to set limits on the amount of business which can be covered at any one time for an exporter on any of his buyers. The Indian organization, like some other organizations, should provide for two types of limits on each buyer: :

- (i) The Credit Limit which limits the insurer's liability in respect of the value of shipments which have been delivered to the buyer on credit terms or placed at his disposal on cash against documents or equivalent terms:
- (2) The Contract (or Trading) Limit which limits the insurer's maximum liability in respect of all goods in course of (manufacture and) shipment to the buyer at any one time.

11. We recommend that the amount of the Credit Limit should be agreed by the insurer for each buyer on application by the exporter. Where, however, the exporter is shipping many small consignments to a large number of buyers, the Indian organization should accept the usual practice of allowing the exporter a discretionary (or 'non-vetting') limit within which he can ship to a buyer without reference to the insurer: provided that such amount does not at any one time exceed Rs. 4,000 in the case of credit transactions on Rs. 8,000 in the case of transactions on cash against documents or equivalent terms: Provided also that if a claim is made, the exporter can justify having granted the credit by producing either up-to-date status reports or evidence of satisfactory previous experience with the buyer within the two years preceding the policy.

12. These limits determine the maximum claim, whatever the cause of loss, which an exporter would be entitled to make against the insurer in respect of any particular account except that amounts irrevocably deposited by the buyer should be exempted from the operation of the limits.

13. We also recommend that in the case of shipment policies contract limits relating to goods, in course of shipment, be equal to twice the amount of the Credit Limit. Where, however, pre-shipment cover is given, the contract limit relating to goods in course of manufacture and shipment should be equal to four times the amount of the Credit Limit.

14. The above limits should not, however, be regarded as inflexible. We realise that there may be cases justifying variations being made at the discretion of the organization.

## CHAPTER IV

### PERIODS FOR WHICH RISKS CAN BE COVERED

The risks which have been described in the preceding chapter are normally insured by export credit organizations under one or the other of the following types of policies depending on the nature of the goods :—

- (a) Short-term policies are issued for raw materials, consumer goods and small items of machinery which do not take more than twelve months to produce or manufacture and which are normally sold on terms of payment up to six months from the date of shipment.
- (b) Medium-term policies are issued to cover individual contracts of heavy capital plant and machinery which, on account of the size of individual orders and of the length of the manufacturing and/or credit periods, can only be insured under a separate policy.

2. During the last few years a new development has been taking place. The payment terms for light capital goods and engineering products which, in the years immediately after the war, were normally sold on cash terms, have gradually been extended as a result of the demands of foreign buyers and the keen competition of manufacturers. Credit terms spread over two years from the date of shipment are not now unusual for this class of goods. A new technique is being evolved in the U. K. to cover transactions, where more than 6 months credit is given, by endorsing the exporter's normal short-term policy extending the period for which the risk is covered. This endorsement is called extended terms endorsement.

The export credit organizations are generally agreed on the maximum payment terms which should normally be underwritten for various types of goods. In general, it may be said that small engines and machines should be sold on terms appropriate to normal consumer goods and cover should be given under the usual short-term policy. For light machinery, diesel engines, tractors, commercial vehicles, and other light capital goods, payment

terms spread over two years from the date of shipment (provided there is a substantial payment by the buyer before shipment) are permissible. These contracts should be covered under an extended terms endorsement to a short-term policy. For heavier plant and major capital goods, payment terms extending from three to five years are not unusual, insurance being available under medium-term policies. The permissible payment terms depend on the following factors :—

- (a) the type of goods ;
- (b) the size of the order ;
- (c) the nature of the buyer (it is usual to approve longer terms to a public than a private buyer);
- (d) the country to which the goods are exported :
- (e) the work content of the goods ; (the higher the value of the raw material, the lower are the permissible payment terms).

4. We recommend that the risks of Indian exporters should be covered for the following periods :—

- (a) Pre-shipment risks :—for a period of four months preceding the date of shipment.
- (b) Post-shipment risks—for exports of
  - (i) raw materials—up to three months and in exceptional cases four months from the date of shipment.
  - (ii) consumer goods—up to six months from the date of shipment.
  - (iii) light capital goods for productive purposes—up to two years from the date of shipment.
  - (iv) heavy capital goods—up to three years from the date of shipment.

In exceptional cases an extension of these periods may be approved.

- (c) The risk for a credit period of more than six months should be covered only where—
  - (i) foreign competition warrants such a course,

- (ii) the type of goods and the nature of the order justify extended credit ;
- (iii) a substantial payment has been received on or before shipment ; and
- (iv) the work content is high.
- (v) any necessary authority from the Reserve Bank of India has been obtained.

## CHAPTER V

### PERCENTAGES OF COVER

Every businessman who sells goods on credit must be discriminating in the selection of his buyers, refrain from over-trading with them and when the first sign of financial weakness is noticed he must pursue his debtors with appropriate vigour. Otherwise he is bound to suffer losses. If he is assured that any losses will be fully recouped, he may become less discriminating in the selection of his buyers and will be tempted to commence over-trading and to be lax in pursuing his debtors. In the initial stages of the development of the export credit insurance business, the practice was to cover the whole of the loss. This naturally led to serious losses to the pioneers. Now, no organisation commits this mistake. All the organisations require the exporter to be a co-sharer in the risk and carry a part of the risk himself.

2. The use of this device of co-insurance which originally was used for making the exporter more cautious, is now being extended by some of the organizations to control and reduce losses in bad markets. By reducing the percentage of cover, an organization can limit its liabilities in bad markets and discourage business with those markets without unduly raising the premium rates. Variations in the percentages guaranteed, however, sometimes reduce the value of the policy for finance purposes.

3. We summarise below the extent of cover normally offered by various foreign credit insurance organizations, based on available information. It may be pointed out that the maximum limits mentioned do not bind the organizations to give cover to that extent. The organizations reserve to themselves the right to offer cover to a lesser extent in cases where they consider it necessary. The picture as given below cannot be considered as representing the exact position because the terminology used by various organizations may not necessarily mean the same thing.

- (a) The U. K., Department for political risks, the French Administration in the case of medium-term policies, and Hermes in Germany regarding conversion and transfer risks, give cover up to a maximum of 90 per cent. of invoice value.

- (b) Hermes in Germany for political and pre-shipment risks; the Canadian Corporation in the case of all normal risks; the Belgian Administration regarding political risks of private buyer; the U. K. Department regarding commercial risks; and the Danish Administration for transfer risks—give cover up to 85 per cent. of invoice value.
- (c) The Swiss cover up to 80 per cent of the cost. The Austrian Administration for all normal risks. the Belgian, Administration regarding the commercial and political risks of public buyers, and the French Administration regarding short—term policies—give cover upto 80 per cent of the invoice value.
- (d) Hermes in Germany and the Danish State organisation for commercial risks cover up to a maximum of 75 per cent. The Swedish Administration covers all risks upto a maximum of 75 per cent, with the stipulation that a first loss of atleast 10 to 15 per cent is to be borne by the exporter.
- (e) In "Dollar Drive" and similar policies, cover is given only up to 50 per cent. of the un-recouped expenses.

4. The available information indicates that, except in the case of special policies, the minimum cover is 60 per cent. and the maximum 90 per cent. In other words, the exporter is normally required to carry 10 to 40 per cent of the risk himself. It is obvious that the cover must be at least 60 per cent of the risk, because otherwise it will not be worth the exporter's while to insure, and bank finance may not be forth-coming.

5. We have carefully considered this question. The premium rates as discussed elsewhere are to be fixed on certain presumptions and they may or may not prove to be adequate. If the premium rates turn out to be inadequate and a high percentage of loss is covered, there is a danger that a great financial strain will be thrown on the Indian organization. We, therefore, recommend that the Indian organisation should give cover for

- (a) commercial risks up to 80 per cent ;
- (b) political risks up to 85 per cent ;
- (c) promotional policies, equal to 50 per cent of the unrecouped expenses,



After the Organisation has gained sufficient experience and premium rates have been found to be adequate, the Indian Organisation may increase the percentages to 85% and 90% for the commercial and political risks respectively. Discrimination between the political and commercial risks is being made because commercial risks to some extent are within the discretion of the exporter and further it is necessary to ensure that the exporter takes all necessary steps to effect recoveries. These percentages except in the case of (c) are of the value of an invoice.

## CHAPTER VI

### BUYERS' RISKS

The note on export credit guarantee scheme circulated by the Ministry of Commerce and Industry in May, 1955,\* mentioned that one of the objects of the scheme would be "to remove the importer's fear in regard to the fulfilment of contractual obligation by the Indian exporter." It also said: "As far as exports from India are concerned, we often find that there are instances of non-fulfilment of contracts, failure to supply the goods according to sample, short delivery, non-conformity with specifications, inadequate packings, etc. It may, therefore, be necessary to extend the scope of the Guarantee Scheme and provide for insuring the foreign importers against failure on the part of the Indian exporters to fulfil the terms of the contract." Accordingly it was suggested that, "in the scheme to be adopted in India, provision can be made for guarantees to be issued to compensate any foreign importer, where he has been able to establish a legitimate claim against an Indian exporter."

2. Exporting interests have practically unanimously opposed the idea of covering the buyer's risks. We do not propose to deal with this question as it is not within the terms of reference of this Committee.

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\*See Appendix I.

## CHAPTER VII

### EXPORT FINANCE

The question of export finance is closely interlinked with export credit guarantees. A credit insurance policy frees export transactions from most of the serious risks to which uninsured transactions are exposed. For this reason banks usually regard such policies as strengthening the security. The insured exporter is thus enabled to obtain finance more readily and often at a lower cost than he could otherwise do, and can, therefore, use his capital resources to greater advantage and increase his turnover. Furthermore, with the support of the bank finance which a credit insurance policy makes possible, he is enabled to offer his customers more favourable credit terms and so meet the competition of suppliers from other countries.

2. It should, however, be pointed out that extended payment terms should not unnecessarily be encouraged for they are to the detriment of the individual exporter and of the Indian economy as a whole, being tantamount to the giving of a loan to a buyer in a foreign country. However, the demands of foreign buyers and the strength of competition between foreign suppliers (many of whom are backed by Export Credit Insurance Schemes in their own countries) have led to the extension of credit terms for many commodities of the export trade, and it will not be possible for many Indian exporters to compete unless they are able to offer facilities at least comparable to those offered by their competitors in other countries. The formation of an export credit guarantee organization and the co-operation of bankers in India would assist Indian exporters to meet the growing competition from other countries.

3. To enhance the value of the policies to banks, provision is usually made to allow exporters to assign to their banks the benefits of their export credit policies. In the U.K. an exporter can assign to his bank payments which may become due in respect of :—

- (a) individual bills ;
- (b) exports to one country ;
- (c) the whole policy.

The letter of assignment signed by the exporter is an authority to the insurer to pay direct to the bank any monies that may become payable under the policy and to accept the banks' receipt in full discharge. This authority is irrevocable without the consent of the bank concerned. This arrangement is normally considered by banks as being a very satisfactory form of security.

4. In certain circumstances, the security offered by an exporter in the form of export bills or otherwise may not, even with the assignment of a credit insurance policy to a bank, be regarded by the bank as adequate cover. In such cases some export credit insurance organisations issue policies direct to the exporter's bank, unconditionally guaranteeing payments by the overseas buyer. In the U. K. these policies to banks are issued only in respect of large and important contracts and may be of two types :—

(a) Where the contract between the exporter and buyer is on extended payment terms, and a cash advance facility is afforded by the bank to the exporter without recourse, the U.K. Department gives the bank an unconditional guarantee that, if the buyer fails to pay, for goods accepted by him, the Department will pay the bank 85% of the debt 3 months after the due date. The Department retains recourse to the exporter in case it has to pay a claim to the bank in circumstances which would not be covered by its standard policy.

(b) Where the contract between the exporter and the buyer is on cash terms, the buyer may enter into an agreement with a U.K. bank for an overdraft facility from the U.K. bank whereby the bank pays the exporter on the due date under the contract and receives payment from the buyer at the end of an agreed period. The Department guarantees the payment under the agreement, but in this case no recourse to the exporter is necessary.

5. In Norway, Statens Eksport Kreditt Kommissjon gives guarantees to Norwegian banks in respect of their advances to exporters for completion of exports provided security is given in the form of a claim on, or guarantee by, a foreign Government or National Bank or other security approved by the Norwegian Ministry of Commerce. For such guarantees the Kommissjon may stipulate recourse to the exporter for the whole or part of any amount they may have to pay out as a claim. Under Japanese

Exports Insurance Law the Government can guarantee to the banks loans on bills or discounts of such bills in respect of goods exported and in favour of the exporters, under which Government undertakes to compensate the banks for the loans which are not repaid or bills which are dishonoured where the exporters have been prevented from exporting or failed to collect the proceeds of such goods if exported. Financial guarantees to banks with no risk to them, but where necessary, with full recourse to the exporter are available in Sweden and Denmark,

6. In cases where there may be difficulty in providing export finance especially for medium-term contracts, a special credit fund for financing insured bills may be set up. In Germany, a bank can get financial aid from Ausfuhr Kredit A.G. on its own and the exporter's security provided there is the additional security of export credit guarantee.

Oesterreichische Kontrollbank A.G. of Austria guarantees an accepted bill of exchange to enable the exporter to discount it with his bankers. Such bills are rediscountable with the National Bank. This guarantee is without recourse to the exporter provided the payment is not refused because of a fault on his part.

In the U.K., finance is normally obtained from private banks but the Export Credits Guarantee Department has authority from Parliament to purchase with monies borrowed from the Consolidated Fund any securities (bonds, stocks, shares, bills and promissory notes) which it has itself guaranteed. This authority has in fact only been exercised to finance a small number of credit agreements under which the promissory notes of foreign Governments are purchased to enable them to buy U.K. goods on extended credit terms. The authority, however, could be employed for the provision of finance to exporters or banks against securities guaranteed under the normal policies of the Export Credits Guarantee Department.

7. It has been represented to us by banks in India that they are already finding difficulty in meeting demands for export finance and that, with a greater emphasis on exports for earning foreign exchange, Indian banks may not be able to meet the demands for additional finance which the conditions of international trade are likely to create. It has been suggested to us that arrangements might be made to enable the banks to rediscount

with the Reserve Bank of India, or with a special agency to be set up for the purpose, exporters' bills which were covered by a policy of the Indian export credit insurance organisation.

8. We recommend that the Indian Export Credit Insurance Organisation should :—

(i) provide by its regulations for the registration of assignments made by Exporters to their Banks.

(ii) have the authority in contracts of national importance to

(a) provide in the case of approved parties financial guarantees to banks and others with no risk to them but with recourse to the exporter where necessary in connection with export of goods to the extent of 80% of the bills provided a policy to cover both the commercial and political risks has been taken out and assigned to the organization,

(b) provide, where necessary as agents of the Government financial help for the purchase of Indian exports on extended payment terms.

9. We do not think it advisable that the Indian organization should normally discount or rediscount insured bills so long as such facilities are available from other organizations, unless the Government specially instructs it to do so,

## CHAPTER VIII

### SPLIT OF RISKS

In the course of our discussions with trade and industry, the suggestion has been made by a few organisations that choice should be given to an exporter to select one or more of his risks for insurance. Basically this suggestion is in accordance with the normal insurance practice, but so far as an Export Credit Guarantee Organisation is concerned, there are several practical complications which make it extremely difficult if not impossible to give such a wide choice.

2. The practice of other credit insurers in respect of this split of risks for short-term business is as follows :—

- (a) *U. K. & Canada*.—The Government organisations in these countries insist that exporters must insure all risks under one policy. The exporters cannot select their risks for insurance. But the insurer would exclude commercial risks on contracts with buyers in whose business the exporter has a substantial financial interest. Exporters who wish to insure commercial risks only can do so through private insurers.
- (b) *France*—Co. F. A. C. E. covers commercial risks on its own account and political risks on behalf of the State. It is open to an exporter to cover only commercial risks but if he wants to cover the political risks, he must also cover commercial risks.
- (c) *West Germany*—Transfer risks can be insured separately but otherwise separate cover cannot be given for commercial and political risks.
- (d) *Netherlands, Denmark and Sweden*—Separate policies are issued for commercial and transfer risks. An exporter can take either the one or the other or both.
- (e) *Belgium, Switzerland and Italy*—State organisations cover only political risks. An exporter can cover commercial risks with a private insurer.

3. It will be seen from the above that the practice obtaining in the matter of giving commercial and political risks is not uniform. In most countries exporters are free to cover only the commercial risk without having also to cover the political risks. While in some countries exporters are free to cover only the political risks, while in some countries exporters are free to cover only the political risks, in some other countries, they must at the same time cover commercial risks also.

4. We believe the ideal policy for an exporter is that which covers both the commercial and political risks together because every insurable risk which can cause loss will be provided for. The exporter receives the widest cover at the lowest comparative cost and can in all events look forward to the insurer meeting his losses. No complications can arise in the matter of settlement of a claim when more than one event occurs and each one can be interpreted as having contributed to the loss.

5. Losses are often due to a combination of risks and in many cases it may not be easy to decide whether a particular loss is due to one cause or another. To avoid any misunderstandings due to such a combination, the insurer who covers political risks only has to impose conditions which further narrow down the risks which are covered, e.g., where commercial risks are excluded, the U. K. and Canadian organisations cease to be under risk 30 days after the due date if the sale was on credit terms and payment is not made by the buyer in the meantime. This is so because, if the payment is not so made on due date, default risk becomes operative. Sometimes, loss by a political event occurs and is aggravated by a commercial cause, e.g., if transfer difficulties occur and the foreign Government seeks to resolve its problems by devaluing its currency. Some buyers may be unable to meet their obligations to make up the value of deposits they have made in favour of the exporters so as to maintain their value in terms of foreign currencies. In such a case, the Belgian Organisation which covers transfer risk will, if devaluation has taken place before payment, pay an amount in Belgian currency equal to what the payment in local currency will buy and, if the devaluation takes place after the claim has been paid and the buyer cannot pay an additional amount to make up the shortfall, it recovers the same amount from the exporter. The Danish organisation, however, once the claim has been paid accepts the loss equal to the shortfall.



6. If, however, the demand of the Indian trade associations is not met and even a limited choice of risks to be insured is not permitted as an experimental measure in the initial stages, it may not be easy for a new Indian organisation working on a voluntary basis to attract sufficient business to become self-supporting on a reasonably low level of premium rates. A concession to the representations made by trade interests will help development and be a useful selling point. Apart from this, a few other advantages will accrue to the Indian organisation if a limited split of risks is allowed. They are :—

- (a) There would be some administrative advantages to the Organisation initially if it carries only a limited amount of "commercial" business. The task of gathering together and keeping up-to-date a library of status information on every foreign buyer of Indian goods as also the training of underwriting staff can be spread over a longer period.
- (b) When the premium schedule to cover non-commercial risks has been prepared after taking into consideration the diverse factors discussed in Chapter XI, the application of the schedule will be a matter of routine. This will not be so in respect of commercial risks where the credit-worthiness of buyers must be under-written individually.

7. Our fear that a split of risks may entail a comparatively heavier financial strain has to a large extent, been set at rest by the information that has been made available to us regarding the experience of those organisations which cover transfer or political risks without necessarily covering commercial risks. We are informed that their experience has not been unsatisfactory. One of these organisations is, however, considering the desirability of taking some steps to get a greater spread of risks, which at present is not available to it because the exporters can choose the shipments they will insure.

8 Taking into consideration the above, and the nature of India's export trade, we have come to the conclusion that a limited split of risks should be allowed and separate policies made available in respect of-

- (a) commercial and political risks together,
- (b) the following political risks together.

- (i) Import Control risk,
- (ii) Diversion risk, if under the sale agreement the charges for diversion have to be borne by the exporter.
- (iii) Non-payment due to moratorium or freezing of commercial debts by an order, decree, or law of the Government of the buyer's country.
- (iv) Non-transfer provided that the payment has been made within 30 days of the due date. In case devaluation takes place before a claim is paid, the amount to be paid in Indian currency by the insurer to the insured should be based on the devalued rate. After a claim is paid the recoveries should be shared by the insured and the insurer. This will be applicable also in case of any change in the value of the currency.
- (v) C. I. F. risk.
- (vi) Risk of change in the standard imposed in the buyer's country on the import of food and other products after goods have been shipped.
- (vii) War between the buyer's country and the exporter's country before expiry of 30 days of due date.

*Note* :—some of the political risks have been excluded to avoid complications arising due to more than one cause supervening.

9. The above risks apply to private buyers and where an exporter enters into contracts with public buyers, either of the proposed policies should be endorsed to cover all political risks on such contracts, including default and repudiation of the contracts.

## CHAPTER IX

### SPREAD OF RISKS.

It is a cardinal principle of insurance that risks must be well spread. Any insurance organization would be in a precarious position if it accepted any abnormal risk which did not give it the benefit of the basic principle of insurance, *viz.*, the law of averages. Fortunately for them, most commercial insurance organizations do not need to concern themselves very much about this problem. A life insurance company, for example, has a spread of risk which can be measured by the number of lives it has insured ; it normally accepts insurance from different races, towns and sometimes countries so that no single catastrophe can cause a serious strain on its resources ; and if an exceptionally large risk is to be insured the insurer can usually protect himself by reinsurance. An export credit insurance organisation, however, stands on a different footing. Its spread of risks is very limited because the same risks are covered by many of its policyholders and no facilities for reinsurance of political risks are possible.

2. As far as commercial risks are concerned, the experience of export credit insurance organizations shows that many shipments are made by different exporters to the same buyer. It might be thought that a credit insurance organization carried as many risks as the number of buyers whose payments it had guaranteed. But it should be remembered that conditions in a particular trade or a particular country can force the insolvency or default of a large number of buyers at the same time ; to this extent, the spread commercial risks is limited by the amount of business offered to the credit insurer in different trades and in different countries.

3. In regard to political risks, it is clear that most of these risks relate to the *country* of the buyer, and, therefore, the spread of risks is in proportion to the amounts insured for the various foreign countries. In this respect, the credit insurer is in the same position as would be a life insurance company that had issued a large number of policies covering only a few lives.

4. It is essential that an export credit insurance organization should have as wide a spread of risk by countries, by trades, by

buyers, and over time, as possible, in order to ensure that it operates on a sound basis and that no single event, (such as might involve claims on all insured shipments to a particular country) may result in serious loss. Some organizations achieve this object by insisting that wherever possible each exporter insures with them the whole (or at least a reasonable spread) of his export risks. As premium rates for each country are based on the estimated risks of trading with that country, the exporter pays a low premium rate for the good countries and a somewhat higher rate for doubtful countries; he is generally able to exclude sales covered by pre-payments or confirmed irrevocable letters of credit and sales to associated companies. Thus the insurance organization has the benefit of spread of risk which enables it to quote relatively low premium rates and to give a more flexible and continuous cover to exporters.

5. The opinion has been expressed by various chambers of commerce and other exporting interests that individual exporters should be permitted to insure with the proposed Indian export credit organization their accounts with particular buyers or with particular countries: If this were permitted, it is reasonable to assume that only the exports to doubtful buyers or to those countries that present the most serious risks to the exporter would be offered for insurance. Experience in other countries has shown that any credit insurance organization that set out to work on such a basis of specific underwriting had to be extremely selective in the risks it insured, impose very careful safeguards on the operation and control of each contract, restrict the amount of cover and charge a high premium rate. Even so, the majority of its liabilities are likely to be spread over a few hazardous markets and buyers.

6. If the Indian organization has to achieve its object of helping the exporters to increase their turnover, its premium rates should be as low as possible. These rates can be low only, if in its working, the organization has the benefit of the law of averages. This benefit cannot and will not accrue if the exporters are given the option of choosing the transactions they will insure. We are of the opinion that the Indian organization should take advantage of the experience gained by other organizations in this respect and generally follow their practice of requiring wherever possible every exporter to insure all his exports of the trade in a year. In other words, all exports to all countries in a period of twelve months from the date of insurance should be required to be covered. We

are recommending a period of twelve months to enable the insurance organization to have a spread of risk over time also. A period longer than twelve months is likely to be less acceptable to exporters and a period less than this will deprive the organization of a sufficient spread. In special cases, however, an exporter may be permitted to exclude his exports to any one or more countries, or to any one or more buyers, provided, in the opinion of the organization, what is left after this exclusion is a proper spread of risks and provided also the exporter agrees to pay an additional premium. These recommendations equally apply where only political risks are covered.

7. The Committee have reviewed very carefully the evidence on a vital issue with which they were faced, namely, whether it was desirable to introduce any element of compulsion. The evidence has been far from uniform and it is difficult to indicate what weight is to be attached to the views of various trade interests which have suggested a limited element of compulsion. Our broad impression, however, is that the business community as a whole does not welcome compulsion in any form and that, where an element of compulsion has been suggested, it has been because of a fear, for the most part not substantiated, that a particular exporter might be handicapped if his competitors did not insure to the same extent.

8. Opinion as to the extent to which compulsion can be employed has varied. The Federation of Indian Chambers of Commerce and Industry and some other associations have suggested that compulsion be applied to certain selected semi-capital and durable consumer goods such as the following:—

Agricultural implements, electrical transformers, diesel engines, fans, bicycles, and sewing machines.

It will be seen that these goods form a very small part of our export trade at the moment. In the calendar year 1955, exports of engineering products were of the order of only 4 crores of rupees out of a total export of about Rs. 600 crores. Some of these exports—we have not been able to ascertain how much—were covered by letters of credit. It may be that in all these industries the total volume of business which could be obtained if compulsion were applied would be about Rs. 2 crores at present. Thus this proposal would have an insignificant impact on the volume of insured business.

9. Similarly, certain other associations, notably the Calcutta Tea Merchants' Association and the Calcutta Gunny Trades' Association have asked that an element of compulsion should be introduced in the tea and jute trades, respectively. The volume of export business which the members of these associations handle is small as compared with the business handled by the members of other associations who are opposed to any form of compulsion.

10. The problem of tea and jute is somewhat different from that of the engineering industry in that in both these cases exports are very large. The evidence that we have received however indicates that, in the case of tea, either direct consignments or letters of credit obtain over 90 per cent of the field. Thus, only about ten per cent of tea exports would be available for insurance. In jute, the figure might be even less.

11. Our committee has carefully considered the advantages of a voluntary as compared with a compulsory scheme and is disposed to think that the advantages of compulsion are illusory. In view of the fact that the advantages of compulsion are limited, both by the small area over which it might be expected to operate and the extent of opposition to compulsion which has been stressed in evidence by important associations as well as by a large number of exporters, it would be inexpedient to depart from the general principle of voluntary credit insurance.

12. We have arrived at this conclusion also because of the need to enlist the cooperation of potential clients. There has been some suspicion in these circles that our Committee was designed to force an unacceptable compulsory scheme upon exporters. A great deal of our work was intended to remove this apprehension and to assure those who presented evidence that no pre-conceived notion in this matter existed. Nevertheless, in dispelling these doubts; we ourselves were left in no uncertainty that a strong feeling prevails in most sections of the business community that, if an element of compulsion were introduced, the psychological effect would be unwholesome. Both to secure cooperation for the new organization and to reassure the business community, it would be desirable to accept the widespread view that as a general principle compulsion should be avoided.

13. We attach the most vital importance to cooperation of the exporting and allied interests. It has been made clear by the

experience of all credit insurance organizations that, unless the cooperation of private interests and particularly banks is obtained, it would be quite impossible for an organization of this kind to develop its business or to acquire the necessary information on the status of foreign buyers without which a scheme of this kind cannot be worked successfully. If this cooperation could be enhanced by a voluntary scheme, that would be adequate compensation in our opinion, for any loss in coverage that might result from the rejection of compulsion.

14. With a view to making our scheme more attractive to potential clients of the organization, we consider it advisable to avoid any element of rigidity even to the extent that obtains in the United Kingdom at the present time in the condition that an exporter shall normally insure all types of goods that he exports. We have suggested separately that political risks should be separated from commercial risks, and we now advocate that, when an exporter has many lines of business, he should be free to insure only a particular line of business, meaning a substantial group of exports which might come under a single reasonable category.

15. The degree of freedom which can be allowed in this case cannot be described in general terms, and the management of the organization must have full discretion in determining whether or not the wide degree of liberty we suggest is feasible in particular cases, and is one which contributes to the popularity of our scheme. We consider that the premium rates should be assessed from the outset at the level which it is expected will prove to be economic on the basis of the business anticipated after five years, by which time the organization is expected to have established itself and to be insuring a reasonable level of Indian exports. Some loss may accrue as a result of this arrangement but it is to be remembered that it is designed as a selling point and is, therefore, to some extent a substitute for higher sales expenditure. We would, therefore, stress the point that patience will be needed in the first few years.

16. We have indicated elsewhere that we envisage at the end of five years about 8 to 9 per cent of our export trade will be insured in this manner, but we would consider in view of the slow progress in other countries that this is an upper limit of what is likely to take place. It is to be remembered that the first two or three years

will be spent in building a stable organization, and apart from the volume of business, difficulties will be incurred in finding suitable personnel and in training staff to the necessary administrative standards. In any case, it would be wise even while fixing premium rates on the basis of business expected at the end of five years to recognize that the period of stabilization of an organization of this kind cannot normally take place within this period. It is likely that a period of not much less than ten years will be needed. It is only at the end of that period, we recommend, that a thorough review of all the circumstances then prevailing be undertaken.

17. Although we are satisfied that the scheme in principle should be a voluntary one, we cannot entirely overlook the views expressed in oral evidence by 16 trade associations (including the Federation of Indian Chambers of Commerce and Industry and the Indian Merchants Chamber, Bombay) that the scheme should have provision in various degrees for an element of compulsion in particular trades. It appears that in most cases these representations have been made because the exporters concerned were anxious to obtain the benefits of insurance but feared that their competitive capacity would be impaired if other members of their trade were not also insured. While we do not subscribe to this view this outlook may, in the initial stages reduce the amount of business which might otherwise be placed with the insurance organization. We, therefore, recommend that if, after the facilities of the organization have been available for a reasonable period, a request is made by the great majority of any particular trade (measured both by the number of exporters and the value of the goods exported) that all exports of the trade not on a letter of credit basis should be covered by the scheme, their request should be examined by the management of the insurance organization; and, if it is acceptable to them, they should recommend it to Government. In such cases, it should be possible for the organization to give to all exporters of the trade concerned a rebate in the premium rates of 15 to 25% dependent on the additional spread of risks obtained. Similar arrangements might be made, should the Government be satisfied that the use of credit insurance by all exporters of a particular commodity is in the interests of the export trade as a whole and of the individual trade concerned.



## CHAPTER X

### HOW AND WHEN CLAIMS SHOULD BECOME PAYABLE

We have learnt from our inquiries that the majority of Indian exports are invoiced in Indian rupees, in sterling or in U. S. dollars. Some goods, particularly those to continental Europe, are invoiced in other currencies but these represent only a small proportion of the total value of Indian exports.

2. It is therefore necessary to consider the arrangements which an Indian export credit organization should make when covering goods sold in foreign currencies. The normal insurance practice is that claims are payable in the same currency in which the premiums are paid. As all the insurances for export credits will be taken in India, the premiums will be payable in rupees and, therefore, it follows that claims should also be payable in Indian currency.

3. As rates of exchange between the Indian rupee and most other currencies fluctuate from day to day, it will be necessary to state in the policy the rate of exchange which will be adopted for the calculation of claims in respect of goods invoiced in foreign currencies. The usual practice of other organizations is that, where pre-shipment risks have been covered, the claim is payable at the rate of exchange effective on the date of contract; and, where only post-shipment risks have been covered, the claim is payable at the rate ruling on the date of shipment. We consider that the Indian organization should follow the same practice.

4. The date on which claims are normally payable under export credit Policies varies according to the risk concerned:—

- (a) claims under the insolvency risk, are normally payable as soon as the buyer is adjudged insolvent; the same practice should be followed by the Indian organization;
- (b) In the case of default risk, the practice of the U. K., Canadian and French Organizations is to pay claims twelve months after due date. Most of the other organizations that insure Commercial Risks pay default claims after six months. Various trade organizations in

India have represented to us that the period of twelve months is too long and have asked for reduction of this period to six months or less. In view of the representations made to the Committee and the need to give Indian exporters the maximum assistance possible, and the practice of most other organizations, we recommend that default claims should be payable six months after the due date.

- (c) C. I. F. and Diversion risks claims should be paid as soon as the proof of loss to the satisfaction of the organization is furnished.
- (d) In the case of promotional policies issued in connection with the development of markets (like the U. K. Dollar Drive policies), claims should be paid 60 days after the final audited accounts for the period covered by the policy are furnished to the organization.
- (e) Claims on account of non-transfer should be paid 6 months after the due date and on account of other events six months after the date of the event which is the cause of loss.

5. In almost all cases recoveries can be made after the payment of claims. These recoveries may be from the receiver in the case of insolvency, from the buyer in case of default, by sale of goods in the case of Import Control and Export Control Risk and from foreign countries for the risks. Where these recoveries are made, these should be divided between the insurer and the insured in the same proportion in which they carry the risks.

## CHAPTER XI

### BASIS OF PREMIUM RATES

The rates of premiums charged by export credit guarantee organisations in other countries are not published. These rates are treated as strictly confidential. Even the policy-holder is required to give an undertaking that the fact of his having insured and the premiums paid by him would be kept confidential. He may, however, in confidence inform his own banker of the fact of insurance to enable him to obtain finance. If the information that the exporter has insured his goods is made public, it is likely to affect the normal good relations between him and his buyers and also to cause the overseas agent of the exporter to become lax in safeguarding his interests. Apart from the risk of insolvency or default of a foreign buyer, there are political risks whose nature and intensity depend upon the economic and political conditions of the countries to which the goods are exported, necessitating different rates of premiums for exports to different countries. The fact that exporters to certain countries are charged higher rates of premium than those to other countries cannot be disclosed without detriment to diplomatic relations.

2. We have, however, been able to collect information about the range of premium rates and the average rates of other credit insurance organisations. We find that there are considerable variations in their premium schedules. This is partly because the nature of cover varies between the different organisations and partly because the differing patterns and backgrounds of export trade lead to a different emphasis of risk between one exporting country and another. For these reasons, premium rates of other credit insurance organisations, even if available, would not be of much help to an Indian organisation. It will need to draw up its own premium schedule based on the circumstances and risks which affect Indian export trade. The organisation will have to make experiments, perhaps commit errors, may suffer losses and will arrive at a correct schedule of premium rates only after it has worked for a few years.

3. Before dealing with the various factors which have to be taken into consideration when fixing the premium rates, we may

make a preliminary observation. The object of export credit guarantees is to promote exports, not to make profits. Organisations in other countries work on a "no profit, no loss" basis. The premiums to be charged by the Indian organisation should therefore, only cover the net claims which it has to pay and expenses which it has to incur. It must be borne in mind that the success or failure of an export credit guarantee organisation or the sufficiency or otherwise of the premiums charged cannot be judged on the basis of its working for a year or two. All the types of risks which are usually covered by such organisations do not occur with any regularity. This is particularly true of political risks and risks of natural catastrophes. It is impossible to forecast the losses an organisation is likely to incur in any one year. Losses caused by political and natural catastrophes may not be very frequent; but, when they do occur, they may prove to be heavy. It is possible that for several years such risks may not supervene, and the organisation may go on accumulating reserves. Growing reserves do not necessarily indicate that the premiums charged are higher than necessary. The reverse is also equally possible. An organisation may, in the initial years, have to pay heavy claims. Heavy encroachments on the organisation's resources cannot, therefore, be treated as evidence that the premiums charged are insufficient.

4. **Factors governing the premium rates.**—Broadly speaking, the following factors should be taken into consideration in fixing the premium rates:—

- (i) the types of risks and their causes;
- (ii) the markets to which the goods are exported;
- (iii) the type of goods;
- (iv) the period for which the risks are covered;
- (v) the past experience of the exporter and the spread of risks offered by him for insurance; and
- (vi) the expenses of management.

We deal with each of these factors in detail.

### **Commercial Risks**

5. The commercial risks are the insolvency of the buyer and protracted default on his part. Insolvency and default both apply to private buyers. Only default applies to public buyer i.e. foreign

governments, their various organisations and semi-government bodies like municipalities, but default by a public buyer is really a political risk.

6. **Insolvency Risk of a Private Buyer**—There are many causes of insolvency of a private buyer. These may be grouped as follows:-

- (a) causes within the buyer's control ;
- (b) circumstances which are beyond his control, viz.—
  - (i) conditions of the trade ;
  - (ii) national conditions, political and economic ; and
  - (iii) natural catastrophes.

*The buyer as a credit risk.*—Organisational and administrative inefficiency, under-capitalization and overtrading, faulty judgment, over-optimism, and lack of business integrity are causes of insolvency which are under the buyer's control. Insolvency from these causes may also follow the death of the owner or managing partner of a firm or managing director of a company, or change of control. It is difficult to forecast the behaviour of a buyer at any time. The difficulty of assessing the risk in terms of money has led most credit insurers to charge the same premium rates for all buyers in any one country. The risk of loss is, however, avoided or controlled either by not covering sales to a buyer who is considered a bad risk or by fixing the limit up to which credit may be allowed to him.

*Conditions of the trade.*—Insolvencies are likely to increase when there is:—

- (a) a trade depression, national or local,
- (b) over-ordering by the trade as a whole, or
- (c) a reduction in demand.

*National conditions*—Examples of national causes that increase chances of insolvencies are:—

- (a) legal limitations on margins of profit and/or limitations on the maximum prices at which goods can be sold ;
- (b) legal intervention in the affairs of importing firms and/or taking over of the trade by nationalisation ;

- (c) a legal ban on the sale of certain types of goods or imposition of restrictions on the business of traders who are of foreign origin or belong to a particular race or religion ;
- (d) changes in public tastes, leading to a reduction in the demand for goods which have ceased to be in fashion ;
- (e) introduction of new methods depressing demands of certain goods, e g., electrification of a town may considerably reduce sales of hurricane lamps ;
- (f) boycott of foreign goods or a prejudice against the use of goods from a particular country ;
- (g) religious or racial discrimination or persecution leading to migration of population or of the traders,

*Natural Catastrophes.*—These cause insolvencies in the following ways :—

- (a) Uninsured stocks may be wholly or partially destroyed. For loss of insured goods the buyer may receive inadequate or delayed compensation ;
- (b) destruction of the buyer's property or his trade by earthquakes, hurricanes, or other catastrophes.

In order to underwrite the insolvency risk, we consider that the insurance organisation should have the following information for the purpose of assessing the risk in terms of money :—

*A.—Re. buyer :—*

- (i) the capital and financial strength generally of the buyer ;
- (ii) the experience gained by him in his particular business ;
- (iii) his turnover ; and
- (iv) his integrity and general repute.

*B.—Re. trade :—*

- (i) the current trade conditions ;
- (ii) the situation in the particular line of business of the buyer as regards competition, stocks and marketing possibilities ;
- (iii) customary and/or legal trade practices ; and
- (iv) general business morality,

C.—*Re. country*

(a) *Economic* :

- (i) the stability or otherwise of the national economy and its likely effect on internal trade ;
- (ii) the incidence of taxation measures on internal trade ;
- (iii) the importance of the buyer's trade to the national economy and the extent and the possibility of Government intervention.

(b) *Political*

Any prejudice on national, racial and/or religious grounds, and its likely effects on the buyer's trade.

(c) *Legal*

- (i) laws relating to
  - (1) bankruptcy, composition and liquidations ;
  - (2) decrees and their execution ;
  - (3) arbitration and enforcement of arbitral awards ;
- (ii) laws relating to constitution and conduct of firms with special reference to rights of creditors ;
- (iii) prohibition of a specified trade on national, racial or religious grounds ;
- (iv) subsidies, control of prices and/or margins of profit ;
- (v) State intervention in the affairs of importing concerns ;  
and
- (vi) the acceptance by the buyer's country of the provisions of the Geneva Convention of 1927 for the enforcement of arbitral awards.

**7. Default by a Private Buyer.**—In some countries it may not be possible or practicable to get a buyer declared insolvent. Accordingly, most credit insurance organisations that cover commercial risks agree to regard a buyer as in a state equivalent to insolvency when payment for goods which he has accepted has been outstanding for a period from 6 to 12 months after the due date. The risk is therefore an extension of the insolvency risk. The difference is that an insolvent buyer cannot pay, and the defaulter either will not pay or is temporarily unable to pay. This risk can, therefore, be dealt with in the same way as insolvency risk.

## POLITICAL RISKS

8. **Default by a Public Buyer.**—A government department or agency or a municipality may repudiate its contract or fail to pay its debts due to shortage of funds, mal-administration or for political reasons. There are countries where the exporter has no means of redress against such buyers. The economic causes and the information required are similar to those for the insolvency risk, but with particular emphasis on the financial position of the public buyer.

9. Shortage of foreign currencies in a country arises from an excess of expenditure over earnings. If an adverse balance of payments for any country is not corrected, foreign exchange reserves will be depleted, and delays will result in the allocation of foreign currency to importers for the settlement of their foreign debts. These delays may mean a considerable extension of the time during which a part of an exporter's capital resources are locked up in an overseas transaction and may cause him considerable financial embarrassment even though he may ultimately receive the full value of the debt. There is the added complication that if the buyer's country allows its currency to depreciate, the buyer may be legally exempted from paying or may be unable to pay the further amount in local currency required to maintain the foreign exchange value of his deposit; and in this case the exporter will inevitably suffer loss as well as delay.

10. Apart from the case instanced above the exporter may have to accept payment in the currency of the buyer's country when goods have to be invoiced in the buyer's currency under the import and exchange regulations of the country or where foreign exchange cannot be allocated until the goods have cleared customs. Such transactions involve additional risks to the exporter.

11. In order to maintain an even balance of payments, to protect their infant industries or for other reasons most governments impose a system of import and/or exchange licensing. These systems, which, if successful, obviate the transfer risk, themselves lead to serious losses in the export trade as a result of the changes in control which must inevitably be made from time to time. The manner of administering the import and exchange controls affect the risks borne by the exporter. For example



where the import and exchange licences are linked together, there is less risk to the exporter than in a country which imposes no limitation on imports but may refuse foreign currency when the goods have been imported. Similarly if licences are issued only to the extent of existing foreign exchange holdings, there is less risk than there would be if licences were issued up to the limit of anticipated earnings of foreign exchange.

12. **Basic financial and economic information for assessing political Risk.**—From the above brief survey, it is clear that as much detailed information as possible must be collected and considered, under the following heads for a Proper assessment of political risks in terms of money :—

*A.—General*

- (i) chief industries and/or crops ;
- (ii) main imports and exports ;
- (iii) trade and payments agreements, if any, and foreign relations with India ;
- (iv) trade and payments agreements and foreign relations with other countries and their likely effect on trade with India ;
- (v) obligations of the buyer's country by virtue of membership of or other commitments towards international organisations, e.g., the I.M.F., G.A.T.T., and O.E.E
- (vi) the annual income and expenditure of the Central Government ; and
- (vii) the latest known national income estimate.

*B.—Balance of payments position*

- (i) total imports into and exports from the country ;
- (ii) imports from and exports to India ; and
- (iii) imports from and exports to the Sterling Area and if the importing country is the centre of a monetary area other than the Sterling Area, the quantum of trade between that area and the Sterling Area together ; and

- (v) invisible items of an exceptional nature affecting the balance of payments, e.g., loans from international banking organisations or other governmental or private agencies.

*C.—Financial position*

- (i) the gold and exchange reserves of the country
- (ii) the amount of notes in circulation, bank deposits, bank advances, bills discounted, and cheque clearances ;
- (iii) statutory or conventional relationship, if any, of monetary circulation to gold and/or exchange reserves;
- (iv) the amount of purchases and sales of exchange by the Central Bank of the country.

*D.—Import Control :*

- (i) Whether an import licence is required for all or any type of goods, and whether there is any differentiation between imports from various countries ;
- (ii) whether import licences are classified in categories of essentiality ;
- (iii) if import licence is required, then
  - (a) at what earliest stage in an import transaction it can or must be obtained ;
  - (b) for how long it is valid—whether its validity runs up to the date of shipment or date of arrival of goods ;
  - (c) whether, in what circumstances, and for how long an import licence can be renewed ;
  - (d) whether any special conditions are generally imposed for licences for particular commodities.
- (iv) whether the importer must take a deposit of currency to get a licence ; and if so, how much and in whose favour this deposit is made and whether it is irrevocable ; and
- (v) whether the import permit must be produced or its number quoted before a consular invoice can be signed.

*E.—Exchange Control :*

- (i) whether, and in what form, the import licence carries with it the grant of or licence for foreign exchange ;

- (ii) if a separate exchange licence is required, information on this similar to those in D. (i) to (v) become necessary ;
- (iii) Whether rupee currency can be transferred ;
- (a) in advance of shipment or arrival of goods ; or
- (b) after customs clearance has taken place ;
- (iv) whether letters of credit can be opened, if so ;
- (a) in what circumstances,
- (b) whether there is a limit set to their period of validity, and
- (c) whether these can be renewed and in what circumstances ;
- (v) whether the country stipulates terms or methods of payment for imports ;
- (vi) whether terms of payment against documents can be offered and enforced ;
- (vii) if payment in rupee currency against documents is not possible, the exact conditions under which cash against documents transactions are effected ;
- (viii) whether deposit of local currency gives the importer legal discharge of rupee debt ;
- (ix) whether, when such a deposit is made, an undertaking to cover exchange fluctuations can be obtained from the importer ; if so, whether such an undertaking is legally enforceable ;
- (x) whether the obligations under international agreements on trade or payments are likely to affect the prospects of obtaining payment in Indian currency or sterling for exports from India ; and
- (xi) the past record of the country in controlling its foreign exchange.

*F.—Rate of exchange :*

- (i) effective rates of exchange for Indian rupee and sterling ;
- (ii) whether they are (a) stable, (b) fluctuating, or (c) eccentric ;

- (iii) if there are more than one rate for imports, the classes of imports to which each rate applies : and
- (iv) any exchange surcharge or tax.

*G.—Other regulations :*

- (i) the period for which goods remain in Customs before clearance ; and
- (ii) whether they are subject to fines or auctions or seizure after this period has lapsed.

*H.—Where the goods have been sold on the basis of the currency of the importer's country, whether—*

- (i) invoicing in local currency is permitted by the regulations of the buyer's country and whether such invoicing would delay or prejudice transfer in rupees or sterling ;
- (ii) in the case of sales from overseas stocks, the licence used by the agent to import the goods authorises transfer, in rupees or sterling, of the local currency paid by the ultimate buyers.

**13. War and Civil War Risks :—**It is difficult to assess these political risks in terms of money. However, a close watch should be kept on the trend of international events and on any event in the buyer's country, which may lead to frequent changes in the government and to civil commotion. Whenever there is any likelihood of impending trouble, the covering of new business in the country concerned should be suspended or higher premiums charged to compensate for the additional risks involved.

**14. Diversion of Voyage :—**This risk may arise due to the imminence or the outbreak of war. It may also arise when there is extreme congestion in a harbour or when the harbour is put out of commission owing to natural calamities, so as to necessitate the diversion of the ship to another harbour. Such a diversion may involve increased freight charges. If the contract of sale does not provide for such additional charges to be borne by the buyer or, if it is not possible to recover them from the buyer, the exporter may have to bear the extra cost. The diversion risk is not also predictable. Efforts should, however, be made to maintain a close watch on the conditions which entail diversion of voyages, e.g., the possibility of closure of the Suez or Panama Canal.

15. **Sources of Information:**—The sources from which information, mentioned in paragraphs 11, 12 and 13 above, can be gathered are listed in the Appendix X.

16. **Export Control Policy of the Seller's Country:**—(1) As we have already observed, among the preshipment risks, arising from governmental action falls the cancellation of an export licence or the imposition of a ban or fresh restrictions on exports after the contract of sale to the foreign buyer has been concluded. As we have recommended that this risk which is beyond the control of the seller and the buyer, should be covered, it is necessary to keep a watch on the factors leading to such risk.

(2) The need for controls over exports arises for the following reasons:—

(a) when the commodity to be exported is in demand in the home market and heavier exports are likely to cause scarcity and abnormal rise in prices at home;

(b) if new industries are set up in India it may become necessary to divert raw materials from export trade to home trade. To the extent to which they are needed for manufacturing purposes, restrictions on their export may be necessary;

(c) to prevent certain goods from reaching certain destinations either directly or through any other country.

(3) There are several commodities exports of which are controlled at present. Relaxation may take place regarding export of certain controlled goods and restrictions may be imposed on new types of goods. It is, therefore, essential to keep a close watch on the market rates of commodities and the reasons which are likely to become operative for any particular type of goods coming under control. Premiums, if necessary, may be adjusted accordingly.

17. **Adjustment to Changing Situations:**—The premium rates must be revised from time to time to provide for changing circumstances. In extreme cases, the insurance organisation might even advise insured exporters to suspend or discontinue, exports to certain countries. With that object in view, arrangements must be

made to review the information on record at regular intervals. In this respect the cooperation and assistance of the Government's trade and commercial representatives abroad will be of the utmost importance. These representatives should re-examine the information pertaining to their territories, on various points at quarterly intervals, and send reports regarding changes that may have taken place. Where there are tendencies to show that losses are likely to increase, information should be communicated to the insurance organisation immediately. Arrangements should also be made to get reports regarding foreign buyers regularly. Any laxity in the matter of keeping information up to date or taking prompt action, is likely to enhance the losses of the insurance organisation.

**18. Grouping of Countries.**—To fix the rate of premium for each country separately will be a cumbersome process. The practical course is to place the countries in a few groups according to the nature and intensity of the risk involved. We recommend the following groups :

- (a) countries which are important traditional buyers of Indian goods, where the administration of economic affairs is particularly efficient, and where the foreseeable risks of loss from transfer or other causes are very small;
- (b) countries whose economies are soundly based and well administered and where transfer losses are unlikely to occur ;
- (c) countries which are relatively stable, but where minor risks of losses can be foreseen ;
- (d) countries whose economies are not broadly based and where fluctuations may occur with possible risks of loss ;
- (e) countries which are relatively unstable or whose economies are deteriorating and where there is persistent risk of transfer and/or other losses ;
- (f) countries whose economies are chronically unstable, where transfer and/or other losses have recently occurred or are in prospect.

**19. Grouping of Commodities.**—The nature of commodities exported may mitigate or enhance the risk. Commodities which are of perishable nature or are likely to deteriorate are bad risks. Commodities which are easily saleable in the home market or in

several foreign markets are the least risky. Between these two groups are certain commodities which have limited resale value. As in the case of countries, to fix the rate of premium for each commodity separately will not be practicable. We suggest the following groups :—

- (a) raw materials ;
- (b) manufactured goods which are easily saleable in more than one market ; and
- (c) all other goods not included in (a) and (b) such as expensive manufactured articles and goods whose resale possibilities are limited that are subject to changing fashions, that deteriorate rapidly or those goods falling under (a) and (b) of which the insurance organisation has un-satisfactory experience.

20. **Grouping to be Flexible.**—The suggestions regarding groupings of countries as well as of commodities need not be adhered to rigidly. We recommend certain groups to be made at the initial stage. In the light of experience changes can be made from time to time.

21. **Period for which the risk is covered.**—(1) The rate of premium has also to depend on the period for which the risk is covered. The periods for which credits are allowed by exporters will vary according to the market, the buyer and the commodity. To fix different rates separately for differing periods, each period of credit being taken as a whole, would be rather complicated. We think it would be advisable to fix basic rates of premium applicable to the cases where cash is to be received against documents in the buyer's country and where credit up to 30 days after delivery is given. Where payment terms provide for credit longer than 30 days an extra premium dependent on the period in excess of 30 days should be charged at a rate fixed for every additional month. This extra obviously will, like the basic premium, differ from country to country.

(2) The exporter may wish to insure the peshipment risks as well. This means that insurance will commence at an earlier date, and the period for which risks will be covered will be longer than that for which postshipment risks are covered. In addition, there are preshipment risks such as the cancellation of the export licence or the imposition of new restrictions on the export of goods after the contract of sale had been concluded. Premium will, therefore,

have to be charged for the period from the date of contract up to the date of payment by the buyer if such pre-shipment risks are to be insured. The behaviour of different countries towards contracts already in hand when imposing restrictions on the import of goods is an important factor in assessing pre-shipment risks. In some countries care is taken to exclude the firm order of imports or at least the goods already shipped from the application of the changes in the policy. This means the import control risk is reduced. There are, however, countries where the new rules are made, applicable to all goods arriving after the date fixed for the enforcement of the new policy. In such cases, import control risk is heavy. It is desirable to place the countries for pre-shipment risks into three groups :-

- (i) where pre-shipment risks are very slight;
- (ii) where additional risks exist in the pre-shipment period but are not considerable ;
- (iii) where the additional risks in the pre-shipment period are very real.

(3) The premium rating schedule for transactions involving payment terms of more than six months' credit from the date of shipment is based on a forward projection of the normal premium schedule, and takes into account the following additional factors :—

- (a) the length of manufacturing period ;
- (b) the spread of shipments and payments ;
- (c) the class of buyer (whether public or private) ; and
- (d) the degree of specialisation of the goods.

Such contracts, normally involve a spread of shipments and of payments ; and, instead of quoting separate premium rates for each shipment, it is better to quote a single average rate for the whole contract.

22. **Past experience of the Exporter.**—A further factor which must be taken into consideration in assessing premium rates is the character of business which a particular exporter offers for insurance. For example; an exporter who has suffered no losses in his export business for many years will expect, quite reasonably, to be charged lower rates of premium than his less cautious competitor notwithstanding the fact that the risks he is proposing to cover are



substantially beyond his control. Furthermore, an exporter who wishes to exclude from his policy shipments to one or more markets must expect, if his proposal is accepted, to be charged somewhat higher rates of premium than if he had insured all his good and bad markets together. Also, in cases where a large volume of exports is covered by a single policy, the exporter will expect some reduction in premium because administrative work on a large policy is proportionately less than on a small policy. We are of the opinion that in such cases the insured should be allowed a small rebate in premium charged for him. The amount of rebate naturally will depend on the saving in administrative work and on the spread of risk offered to the insurance organization.

23. **Expenses of Management**—An estimate of the expenses of the insurance organization should be prepared as also of the premiums likely to be collected in the first five years of the working, and on that basis expense loading to the risk premium can be arrived at. Great care must be taken in preparing the estimate. Under-estimation of expenses and over-estimation of income will be suicidal. Similarly over-estimation of expenses and under-estimation of income will make premiums too high and make insurance unattractive. The provision for expenses in the premiums on the basis of the actual cost of administration should be reviewed from year to year.

## CHAPTER XII.

### STRUCTURE OF THE INDIAN INSURANCE ORGANISATION

The risks which an exporter has to face fall, as mentioned earlier, into two groups, namely, commercial risks and political risks. Commercial risks can perhaps be covered by private enterprise, but there has been a tendency of late for private credit insurers to seek State backing in some cases. But so far as political risks are concerned, it is impossible for any one to cover them without harnessing the credit of the State either directly or indirectly. It is significant that every foreign export credit insurance organization covering the political risks has the direct or indirect backing of the State concerned. It has, therefore, to be accepted that no private insurer can bear these risks.

2. Thus we find that export credit guarantees are being given:-

(a) by a Government Department in the U. K., Denmark and Sweden, or

(b) by a State-owned Corporation in Canada, or

(c) by a private company which re-insures with the State the whole of political and commercial risks in the Netherlands and Germany, or

(d) either by the State Corporation in respect of commercial and political risks or by a private insurer who covers commercial risks only and reinsures them fully with the State Corporation in France, or

(e) by the State for only political risks, leaving it to private enterprise to cover commercial risks in Switzerland, Belgium and Italy.

3. It is understood that in Germany, Netherlands, France and Belgium, private companies have been insuring commercial risks for many years and that, when it was found necessary to set up State organizations in these countries to cover political risks, the experience of the private companies was harnessed to the new organizations by arranging that the private companies should issue guarantees to exporters on behalf of the State organizations.

4. It is obvious that, so far as political risks are concerned, they can be carried only by the Government. The insurance organization can, however be :—

- (a) a government department ; or
- (b) a corporation owned by the State ; or
- (c) a private company acting for and on behalf of the State.

So far as commercial risks are concerned, the position in India today is that there is no private company which is carrying on the work of insuring credits for even internal trade. If there had been a private company, transacting credit insurance business for home trade, advantage of its experience might be taken by employing such a company to handle the work of export credit guarantees. This work cannot be entrusted to private companies which are carrying on general insurance business because they have no experience of handling this very complex and specialized form of insurance. In view of the above, the choice, so far as the Indian organization is concerned, lies between a government department and a State-owned corporation.

5. Various interests in the course of discussions with us have urged that the Government should set up a separate corporation to carry on the business of export credit guarantees and not entrust it to a department of its own. The organization has to work on commercial lines and has to provide for all the needs of the trade at present and the needs that may arise in the future. The very nature of this business requires promptness and flexibility in its work. Any delay in the matter of giving covers may deprive an exporter of the chances of supplying goods in time. Any delay in quoting premium may prevent an exporter from negotiating the sale with a foreign buyer. Any laxity in making adjustment or taking necessary steps may cause avoidable losses both to the exporter and the organization. We think that an organization which is not tied down to red tape and is not bound by rigid rules of procedure, which is more sympathetic and more responsive to the needs of exporters, which is able and ready to adapt itself to changes in the trade and other conditions, which is easily accessible to the public, which can be prompt to deal with the requirements of the exporters, and which can draw on Government and commercial sources of information, is likely to command the confidence and cooperation of the trader. Taking these factors into consideration, we recommend

that the work of the Indian organization should be entrusted to a Corporation wholly owned by the State.

6. **Name of the Corporation.**—The Corporation should be named Export Risks Insurance Corporation.

7. **Objects of the Corporation.**—The Corporation may

(a) for the purpose of encouraging, facilitating and developing trade with other countries, make arrangements for giving guarantees to or for the benefit of persons carrying on business in India, being guarantees in connection with the export, manufacture, treatment, or distribution of goods, the rendering of services or any other matter which is conducive to the said purpose;

(b) for the purpose referred to in (a), make arrangement for giving guarantees to or for the benefit of persons residing in, or belonging to a foreign country, being guarantees in connection with goods exported or services rendered from India;

(c) give facilities for financing exports;

(d) act as agent of the Government to

(i) give guarantees beyond its scope which are considered by the Government as necessary in national interest;

(ii) acquire any securities (which expression includes bonds, stocks, shares, bills and promissory notes) which the Corporation has guaranteed, hold any such security for such period as may be directed by the Government, collect any sum falling due whether by way of principal or interest in respect thereof, and dispose of any such security at such time and in such a manner as directed by the Government;

(e) do all such things as may be incidental to or consequential upon the carrying out of its objects mentioned in clauses (a) to (d) above.

8. The subscribed and paid up capital of the Corporation will depend on the maximum amount of risk which it has to carry at any point of time. Total exports in 1955 were of the value of about Rs. 600 crores. It has not been possible to ascertain the

exact amount of exports on letter of credit basis. From the discussions that we had with banks and others, we believe that business other than on letters of credit basis is about Rs. 250 crores. How much business it will be possible for the Corporation to underwrite in the first five years of its work cannot be estimated with any degree of accuracy, particularly if the insurance is to be on a voluntary basis. Experience of other organizations in this respect is divergent. Other organizations are covering up to about 15 per cent of total exports in their countries. We consider that the Indian Corporation will be able to cover about 8 to 9 per cent of total exports, *i e.*, about Rs. 50 crores. This will represent about 20 per cent of the exports not covered by letter of credit. We think that the Corporation should fix a target of Rs. 50 crores to be achieved by the end of the first five years, and with the cooperation of the Banks, Export Promotion Councils, various commodity Boards and trade associations to take all necessary steps to reach that target. The constitution of the Corporation should in the initial stages prescribe a limit of Rs. 50 crores on the maximum risk it should carry at any one time. Preceding on this basis, we recommend that the authorised and subscribed capital should be Rs. 5 crores. This recommendation is being made following the precedent of the Canadian Corporation. In the case of this Corporation the maximum risk which it has to carry is fixed at 10 times the capital. The paid up capital of the Indian Corporation should be 10 % of the subscribed capital and no limit need be placed on the calls to be made. To infuse confidence in the mind of exporters, it is necessary that every policy issued by the Corporation should carry a Government guarantee.

9. **Management.**—The management of the affairs of the Corporation should vest in a Board of Directors consisting of seven members including either a whole-time Chairman or a whole-time Managing Director. The directors may delegate powers for day to day administration to the principal officer whether he be the Chairman or the Managing Director.

10. There should be an Advisory Council consisting of not more than 21 members representing the export trade, banks engaged in financing exports, various Export Promotion Councils and Commodity Boards. This Council will advise the Corporation regarding the insurance needs of the export trade, the changes taking

place in the export trade and the steps to be taken to provide for new conditions. The Advisory Council may elect two members to be appointed as Directors of the Corporation.

11. **Offices.**—The registered and main office of the Corporation should be at New Delhi, The Corporation may open branch offices and, where necessary, set up Local Advisory Boards to help and advise the Branch Offices, appoint brokers to introduce business and appoint agents elsewhere than in India for enforcing any right that, as a result of contract of an insurance, may have vested in the Corporation.

12. **Borrowing Powers.**—The Corporation may borrow monies, raise loans, and for that purpose, if necessary, may issue and sell bonds and debentures bearing such rates of interest and subject to such terms and conditions as the Board of Directors may approve.

## CHAPTER XIII

### MISCELLANEOUS

**Legal position under the Insurance Act :—**Section 3 of the Insurance Act, 1938 (IV of 1938), provides that no insurer can carry on any class of insurance business without having obtained from the Controller a certificate of registration. Export credit insurance would appear to fall under the definition of "miscellaneous insurance business" given in section 2 (13 B), which provides that "miscellaneous insurance business" means the business of effecting contract of insurance which is not principally of wholly of any kind included in clauses (6A) (II) and (13A). Sub-section (6A) defines fire insurance business ; (II) defines life insurance business and (13A) marine insurance business.

The export credit insurance organization would be a corporation wholly owned by the State and as such would appear to be exempted by section 118 of the said Act. In case business done by the Government through a corporation owned by it is held to be not "any insurance business carried on by the Central Government" a change in the Insurance Act will be necessary.

**2. Premium rates to be kept confidential :—**In paragraph I of Chapter XI, we have explained the reasons why the premium rates should be kept confidential. In this connection we reproduce one of the clauses of the Declaration which an exporter has to make to the Administration in the U. K. :—

"All discussions and correspondence in connection with this proposal and with any Policy arising therefrom are to be treated by both sides as confidential and we undertake not to disclose either the existence of the Policy or any of the details thereof to our agents or to the buyer or to any other person or concern other than in confidence to our bankers without the prior consent of the Department in writing."

This means that the premiums paid will have to form part of the overhead expenses of the exporter. These cannot be shown in the invoice as an item charged to the buyer. Even if the agree-

ment of sale is on a c.i.f. basis, the premiums should not be shown separately because the term "insurance" in a "c.i.f. contract" only means marine and war risk insurance and cannot be deemed to include credit risks. If any rule or regulation necessitates such a premium being shown separately in any return or statement, it is necessary that a suitable amendment should be made.

3. **Penalty clause** :—It is necessary that the Export Risks Insurance Corporation should be protected against false statements made by an exporter. Two methods have been adopted to achieve this objective. The Canadian Export Credits Insurance Act provides that "Every person is guilty of an Indictable offence and liable to imprisonment for a term not exceeding two years who wilfully makes any false statement

- (a) in any application for insurance under this Act, or
- (b) in any instrument given to the Corporation under the authority of this Act."

A similar provision has been incorporated in the Australian Export Payments Insurance Corporation Act. In the U.K. and other countries, however, no such legal provision exists. The organisations in these countries protect themselves by providing in a policy contract that it will become ineffective in the event of

- (a) any warranty by the insured proving to be false; and
- (b) the insured failing duly to perform or observe any of the stipulations in the proposal papers and policy bond.

No one can and will object to such provisions being made as these are accepted by everyone who insures his life, goods and property.

We recommend that every policy issued by the Corporation should have clauses to the following effect :—

- (a) The Proposal and Declaration thereto shall be incorporated with this policy as the basis thereof and if any of the statements contained in the Proposal or Declaration be untrue or incorrect in any respect, this Policy shall be void, but the Corporation may retain any premium that has been paid;



- (b) Due performance and observance of each and every stipulation contained herein and in the Proposal and Declaration thereto shall be a condition precedent to any liability of the Corporation hereunder.

If, however, it appears that absence of penal clause has not fully protected the Corporation, it may become necessary to legislate on the basis of the Canadian and Australian Acts. We, however, trust that such a contingency will not arise,

**4. Insurance organisation to be exempt from payment of income-tax.**—We have explained in para 3 of Chapter XI that the export credit insurance organisation should be deemed to be a non-profit making concern and that any reserves built up should not be treated as profit in the commercial sense. Any difference between the Income and Outgo should not therefore be treated as a profit and made liable to Income Tax. For this purpose necessary legislative or administrative action should be taken.

**5. Insurance premiums to be a deductible expense for purposes of income-tax.**—The premiums which an exporter pays to the Export Risks Insurance Corporation is part of his normal expenditure and as such should be an allowable deduction for the purposes of income-tax. The position of this premium is not, in any way, different from the premiums paid for Fire or Marine or Accident insurance policies. We may mention that the practice in other countries is the same.

**6. Membership of the Berne Union ;—UNION D' ASSUREURS POUR LE CONTROLE DES CREDITS INTERNATIONAUX,** Berne, (Union of Insurers for the Supervision of International Credits) is an association of Export Credit Guarantee Organizations. Its registered office is at Berne and it has a central office in Paris. At present its membership consists of organizations operating in Austria, Belgium, Canada, Denmark, France, Germany Great Britain, Holland, Ireland, Italy, Norway, Spain, Sweden, and Switzerland.

The object of the Association as given in Article 2 of its Statutes is :—

“ The principal object of the Union is to work for the rational developmant of credit insurances on the international

field by improvement of the members' information services by means of making known to one another the results obtained in this field and, generally, to favour the regular exchange of views regarding the essential questions in the branch, as well as on the problems which are put in the field of technique and organization."

We recommend that the Indian Corporation should become a member of that Association.

**7. Certain suggestions made by export interests for assisting export trade.**—In the written as well as oral evidence, our attention has been drawn to various problems of the export trade which are outside the terms of reference of the Committee. These difficulties appear to be retarding the development of export trade. We have considered it necessary to include them in the summaries of the written and oral evidence in Appendices VI & VII and we trust that the difficulties will receive careful consideration of the Government and effective steps will be taken to resolve them.

**8. Foreign Exchange Regulations.**— In this connection, our attention has been drawn to the fact that the existing foreign exchange regulations stipulate that the value of the goods exported must be received in India within six months of the shipment of goods. We also learn that in cases where the money is not received within this period, the exporter concerned has to offer an explanation to the Reserve Bank of India. There are cases where the money is not received in time and the Reserve Bank grants extension of time. Such a provision may be necessary but we must mention that some of the commodities cannot be exported unless payment terms provide for a longer term of credit than six months. In such cases, an exporter cannot give declaration that the money would be received within six months without exposing himself to legal penalties. We believe that in the interest of promoting exports, it is necessary that where competition forces an exporter to give credit for a period longer than six months, he should be protected and his time-declaration should be accepted by the Reserve Bank of India. In case the Bank has no discretion to do so, we recommend that necessary change in the regulations be made.

## CHAPTER XIV

### SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

Our conclusions and recommendations in the preceding Chapter are summarised below :—

#### Case for Export Credit Insurance

1. An export credit insurance scheme is an important export promotion measure, and this scheme should be started in India without delay, for the following reasons :—

- (a) demand for credit terms is being made for all exports and is likely to increase even for traditional exports of jute fabrics, tea, minerals, cotton textiles,
- (b) more small and medium-sized firms are coming into the exports business and this class of firms has a great need for insurance;
- (c) export credit insurance makes export finance facilities more readily available,
- (d) the insurance helps the exporter to develop new markets,
- (e) competition from exporters from other countries having insurance facilities can be met if, other things being the same. Indian exporters are placed in a similar position as their competitors in regard to credit insurance, and
- (f) there is a pressing need to earn foreign exchange.

[Chapter II, paragraph 10]

#### Exporters' Risks

2. The types and extent of risks covered by export credit guarantee organisations differ from country to country. Nevertheless, the practice of all the countries conforms to two basic principles, viz.,

- (a) Except in the case of some pre-shipment risks, only those risks are covered which arise out of events occurring outside the exporter's country.

- (b) Only those risks are covered which are outside the control of the exporter and, generally, of the buyer. Any risk which can be avoided by the exporter and/or the buyer should be excluded.

All risks which contravene the above principles or for which cover is available from other insurers are generally excluded.

[Chapter III, paragraph 8]

3. The Indian export credit insurance organisation should cover the following risks.

#### Post-shipment Risks

- (a) *Diversion risks*.—Due to interruption or diversion of voyage outside the exporting country, the exporter may have to incur in respect of goods shipped from his country, additional handling, transport or insurance charges which it is impracticable to recover from the buyer.
- (b) *Import Control Risks*.—The buyer's import or exchange licence may be cancelled or may have expired and it cannot be renewed; or new restrictions may be imposed on the import or payment.

This risk should not be covered where

- (i) import or exchange licence is necessary but is not held by the buyer when the order is placed and he is unable to obtain it when goods arrive; and
- (ii) import or exchange licence is cancelled for buyer's fault.
- (c) *Repudiation Risk*.—A buyer may repudiate his contract, refuse to open a letter of credit or to accept goods

This risk is to be covered only in the following cases:—

- (i) when the buyer is a public body which either cancels the contract unilaterally or refuses to accept goods, not due to any fault of the exporter;
- (ii) when the buyer repudiates the contract and is adjudged insolvent;

(iii) where a buyer repudiates the contract and the exporter takes legal steps, obtains a final judgment against the buyer and even by executing the decree he cannot receive the full price of the goods because the buyer has no assets from which recoveries can be made.

(d) *Insolvency Risk*.—The buyer may become insolvent.

(e) *Default Risk*.—The buyer may accept the goods on credit terms and on the due date refuse to make payment or may temporarily be unable to pay,

[Both (d) and (e) together are called *Commercial* or *Del Credere Risks*.]

(f) *War and Civil War Risks*.—There may occur war between the buyer's country and the exporter's country; or war, hostilities, civil war, rebellion, revolution, insurrection or other disturbance may occur in the buyer's country or other countries through which the goods must pass. In all these contingencies, the exporter may suffer losses.

(g) *Transfer Risk*.—The operation of a law or an order, decree or regulation having the force of law, which, in circumstances outside the control of the exporter and of the buyer, may prevent, restrict or control the transfer of payments from the buyer's country to the exporter's country.

(h) *Omnibus Risk*.—Any other cause not being within the control of exporter or of the buyer which arises from events occurring outside the exporter's country. Omnibus risk includes risks of port strikes overseas, dock clearance delays and natural catastrophes (floods, earthquakes and hurricanes) in the buyer's country. This also includes the risk involved in the change in the standards of food and other products after goods have been shipped, provided the goods at the time of shipment were of the standard then in force.

[Risks (a) and (b), (c) (i), (f), (g) and (h) are called *Political Risks*.]

[Chapter III, paragraphs 3 and 9, A]

### PRE-SHIPMENT RISKS

4. Risks (a) to (h) of 3 as also the Export Control Risk (*i.e.*, non-renewal or cancellation of the export licence or the imposition of fresh restrictions on the export of goods) should be covered during the pre-shipment period. The Export Control Risk should, however, be not covered in the following cases :—

- (i) Where export licence is necessary but is not held by the exporter when the order is placed and he is unable to obtain a licence at a later date. and
- (ii) where the export licence is cancelled on account of the fault of the exporter.

[Chapter III, paragraph 9, B (b) (ii) and (c)]

### RISKS OF SPECIAL TRANSACTIONS

5. The following risks of special transactions should be covered :—

- (i) C. I. F. Risks ; *i. e.*, increase in insurance and freight rates after a sale has been concluded on a "cost, insurance and freight basis."
- (ii) Risks of exports on consignment basis.
- (iii) Risks (similar to those in (ii) above) of goods sent for display in a foreign fair.
- (iv) Risks pertaining to non-receipt of money for services rendered to a principal in a foreign country.
- (v) Expenses incurred on market surveys, publicity, stock-holdings and other promotional measures, for the development of a particular market, if such expenses are not fully recouped by sales made in that country.

[Chapter III, paragraph 7 and 9, C]

### RISKS NOT TO BE COVERED

6. The following risks should not be covered :—

- (1) Repudiation Risk, except in the cases mentioned in 3 (c).
- (2) Exchange Fluctuation and Devaluation Risks.
- (3) During the pre-shipment period—

- (a) ban or restrictions on the import of raw material or semi-manufactured goods which may be necessary to manufacture the goods to be exported;
- (b) increase in export duty or the imposition of a new export duty which, under the terms of the contract, cannot be recovered from the foreign buyer;
- (c) non-availability of railway transport, shipping space or of berthing space for steamers;
- (d) strikes;
- (e) increase in manufacturing costs.

[Chapter III, paragraph 9, B]

7. The Indian export credit insurance organisation should, when covering commercial risks, set limits on the amount of business which can be covered at any one time for an exporter on any of his buyers. The limits should be of the following types:—

- (a) *The Credit Limit*, which limits the insurer's liability in respect of the value of shipments which have been delivered to the buyer on credit terms or placed at his disposal on cash against documents or equivalent terms,
- (b) *The Contract (or Trading) Limit*, which limits the insurer's maximum liability in respect of all the goods in course of (manufacture and) shipment to the buyer at any one time.

[Chapter III, paragraph 10]

(2) The amount of the Credit Limit should be agreed by the insurer for each buyer on application by the exporter, or a discretionary limit can be agreed, within which the exporter, on the basis of his own knowledge and experience of the buyer, can ship without reference to the insurer. Normally the maximum amount of this discretionary limit should be Rs. 4,000 in the case of credit transactions or Rs. 8,000 in the case of transactions on cash against documents or equivalent terms.

[Chapter III, paragraph 11]

(3) The Contract Limit set in the case of shipment policies relating to goods in course of shipment should be equal to twice

the amount of the Credit Limit and in the case of pre-shipment policies relating to course of manufacture and shipment should be equal to four times the amount of the Credit Limit.

[Chapter III, paragraph 13]

*Periods for which risks can be covered*

8. (1) The periods for which the risks of the Indian exporters should be covered are specified below :—

(a) *Pre-shipment Risks*.—For a period of four months preceding the date of shipment.

(b) *Post-shipment Risks*.

(i) *for exports of raw materials*—up to three months and, exceptionally, four months from the date of shipment.

(ii) *for exports of consumer goods*.—up to six months from the date of shipment.

(iii) *for exports of light capital goods*.—A spread of payments up to two years from the date of shipment.

(iv) *for exports of capital goods*.—A spread of payments up to three years from the date of shipment.

These periods may be extended in exceptional cases.

[Chapter IV, paragraph 4]

(2) The risks for a credit period of more than six months should be covered only where

(i) foreign competition warrants such a course ;

(ii) the type of goods and the nature of the order justify extended credit ;

(iii) a substantial payment has been received before or on shipment ;

(iv) the work content is high ;

(v) any necessary authority from the Reserve Bank of India has been obtained.

[Chapter IV, paragraph 4]



*Percentages of Cover*

9. An accepted principle of credit insurance is that the insured should carry a part of every risk. The Indian organisation should in the initial stages give cover for.—

- (a) commercial risks-up to 80 per cent ;
- (b) political risks-up to 85 per cent ;
- (c) promotional policies-equal to 50 per cent of the unrecovered expenses

These percentages, except in the case of (c), are of the value of an invoice.

[Chapter V, paragraphs 3, 4 and 5]

*Export Finance*

10. (1) Credit Insurance policies are accepted by banks as a satisfactory form of security and therefore export finance becomes more readily available. The Indian export credit insurance organisation should provide by its regulations for the registration of assignments the benefits under their policies made by exporter to their banks.

[Chapter VII, paragraphs 1 and 3]

(2) In the case of contracts of national importance, the Indian export credit insurance organisation should have the authority—

- (a) to provide, in the case of approved parties, financial guarantees to banks and others with no risk to them but with recourse to the exporter where necessary in connection with the export of goods, to the extent of 80 per cent of the bills provided a policy to cover both the commercial and political risks has been taken out and assigned to the organisation ;
- (b) to provide, where necessary, as agents of the Government, financial help for the purchase of Indian exports on extended payment terms

(Chapter VII, paragraph 8)

(3) The Indian organisation should not normally discount or rediscount insured bills so long as such facilities are available from

other organisations, unless the Government specially instructs it to do so.

(Chapter VII, paragraph 9)

*Split of Risks*

11. (1) The ideal policy for an exporter is that which covers both the commercial and political risks together because every insurable risk which can cause loss will be provided for; but a demand by certain trade interests for a split of commercial and political risks can be accepted.

(Chapter VIII, paragraphs 4 & 6)

(2) Having examined the demand regarding split of risks in the light of the practices of foreign Export Credit Insurance Organisations, it is recommended that a limited split of risks should be allowed and separate policies made available for exports to private buyers in respect of:—

- (a) commercial and political risks together; and
- (b) the following political risks together, viz.,
  - (i) Import Control risk.
  - (ii) Diversion risk, if under the sale agreement the charges for diversion have to be borne by the exporter.
  - (iii) Non-payment due to moratorium or freezing of commercial debts by an order, decree, or law of the Government of the buyer's country.
  - (iv) Non-transfer provided that the payment has been made within 30 days of the due date. In case devaluation takes place before a claim is paid, the amount to be paid in Indian currency by the insurer to the insured should be based on the devalued rate. After a claim is paid the recoveries should be shared by the insured and the insurer. This will be applicable also in case of any change in the value of the currency.
  - (v) C. I. F. risk.
  - (vi) Risk of change in standards imposed in the buyer's country on the import of food and other products after goods have been shipped.

(vii) War between the buyer's country and the exporter's country before expiry of 30 days of due date.

[Chapter VIII, paragraph 8]

(3) For exports to public buyers, either of the proposed policies described in (a) and (b) of clause (2) should cover all political risks, including default and repudiation of the contracts.

[Chapter VIII, paragraph 9]

### Spread of Risks

12. (1) It is necessary that an expert credit insurance organisation should have as wide a spread of risks by countries, by trades, by buyers, and over time, as possible. To achieve this object, the Indian organisation should require every exporter to insure all his exports of the trade in a period of twelve months (normally excluding sales on confirmed irrevocable letters of credit). In special cases, however, an exporter may be permitted to exclude his exports to any one or more countries, or to any one or more buyers provided, in the opinion of the organisation, what is left after this exclusion is a proper spread of risks and provided also the exporter agrees to pay an additional premium.

[Chapter IX, paragraphs 4 and 6]

(2) Exporters dealing with goods in more than one trade should be allowed, in appropriate cases, to insure only a substantial group of exports which might come under a single reasonable category. Premium rates should be assessed from the outset at the level which it is expected will prove economic on the basis of business anticipated at the end of five years. Patience will, therefore, be needed in the first few years which will be spent in building a stable organisation, and some losses may be experienced.

[Chapter IX, paragraphs 14 & 15]

(3) Evidence on the desirability of any element of compulsion for selected commodities has been far from uniform. Broadly, it is thought that the business community does not welcome compulsion in any form, and as the advantages of a limited compulsory scheme are considered to be illusory, it would be inexpedient to depart from the general principle of voluntary credit insurance. However, if after the facilities of the organization have been available for a reasonable period, a request is made by the great majority of any particular trade that all exports in the trade, not on a letter

of credit basis should be covered by the scheme, their request should be examined. If it is agreed, a rebate in premium rates of between 15 and 25 per cent should be possible. Similar arrangements might be made, should the Government be satisfied that the use of credit insurance by all exporters of a particular commodity is in the interest of the export trade as a whole and of the individual trade concerned.

[Chapter IX, paragraphs 7, 11, and 17]

*How and when claims should become payable*

13. (1) Claims, in respect of goods invoiced in foreign currencies, should, like the premiums, be payable in Indian currency at the rate of exchange effective on the date of commencement of risks,

[Chapter X, paragraphs 1, 2, and 3]

(2) The Indian export credit insurance organisation should pay claims as under :

(a) for claims under insolvency risk—as soon as the buyer is adjudged insolvent ;

(b) for claims under default risk—six months after the due date ;

(c) for claims under C. I. F. and Diversion Risks—as soon as the proof of loss to the satisfaction of the organisation is furnished ;

(d) for claims under promotional policies issued in connection with the development of particular markets—60 days after the final audited accounts for the period covered by the policy are furnished to the organisation ;

(e) for claims under Transfer Risks—six months after the due date ;

(f) for claims under all other risks—six months after the date of the event which is the cause of loss.

[Chapter X, paragraph 4]

(3) Recoveries made after payment of claims should be divided between the insurer and the insured in the same proportion in which they carry the risks.

[Chapter X, paragraph 5]

*Basis of Premium Rates*

14. (1) As the nature and intensity of political risks depend upon the economic and political conditions of the countries to which

the goods are exported, different rates of premiums are necessary for exports to different countries. Premium rates cannot be published and must be kept confidential.

[Chapter XI, Paragraph 1 ]

(2) The Indian export credit insurance organisation, like organisations in other countries should work on a "no profit, no loss" basis. The premiums therefore should be assessed to cover only the net claims and the expenses of management.

(Chapter XI, paragraph 3)

3. The following factors should be taken into consideration in fixing the premium rates :—

- (a) the types of risks and their causes ;
- (b) the markets to which the goods are exported ;
- (c) the type of goods ;
- (d) the period for which the risks are covered ;
- (e) the past experience of the exporter and the spread of risks offered by him for insurance ; and
- (f) the expenses of management.

[Chapter XI, Paragraph 4]

4. For fixing premium rates, countries may be grouped as shown below, according to the nature and intensity of the risk involved :—

- (a) countries which are important traditional buyers of Indian goods, where the administration of economic affairs is particularly efficient, and where the foreseeable risks of loss from transfer or other causes are very small ;
- (b) countries whose economies are soundly based and well administered and where transfer losses are unlikely to occur ;
- (c) countries which are relatively stable, but where minor risks of losses can be foreseen ;
- (d) countries whose economies are not broadly based where fluctuations may occur with possible risks of loss ;
- (e) countries which are relatively unstable or whose economies are deteriorating and where there is a persistent risk of transfer and/or other losses ;

- (f) countries whose economies are chronically unstable, where transfer and/or other losses have recently occurred or are in prospect.

[Chapter XI, Paragraph 18]

5. Risks also differ according to the nature and/or type of the commodities. To fix premium rates for each commodity separately will not be practicable. The goods exported may, therefore, be grouped as under :—

- (a) raw materials ;
- (b) manufactured goods which are easily sale able in more than one market ; and
- (c) all other goods not included in (a) and (b) such as expensive manufactured articles and goods whose resale possibilities are limited that are subject to changing fashions, that deteriorate rapidly or those goods falling under (a) and (b) of which the insurance organisation has unsatisfactory experience.

[Chapter XI, Paragraph 19]

6. The rate of premium will also vary with the period for which credit is allowed by the exporter. It would be advisable to fix basic rates of premium applicable to the cases where cash is to be received against documents in the buyer's country and where credit up to 30 days after delivery is given. Where payment terms provide for credit longer than 30 days an extra premium dependent on the period in excess of 30 days should be charged at a rate fixed for every additional month. These considerations apply to post-shipment risks.

[Chapter XI, Paragraph 21 (1)]

7. Where pre-shipment risks are also covered, the premium will have to be charged for a longer period than in the case of cover for post-shipment risks only. It is desirable to place the buyers' countries for pre-shipment risks into the following three groups :—

- (i) where pre-shipment risks are very slight ;
- (ii) where additional risks exist in the pre-shipment period but are not considerable ;
- (iii) where the additional risks in the pre-shipment period are very real ;

[Chapter XI, Paragraph 21 (2)]

8. The premium rating schedule for transactions involving payment terms of more than six months' credit from the date of shipment is based on a forward projection of the normal premium schedule, and takes into account the following additional factors:—

- (a) the length of the manufacturing period ;
- (b) the spread of shipments and payments ;
- (c) the class of buyer (whether public or private) ; and
- (d) the degree of specialisation of the goods.

[Chapter XI, paragraph 21 (3)]

(9) Where an exporter offers for cover under a single policy a large volume of exports, he should be allowed a small rebate in the premium charged, depending on the spread of risk and the saving in administrative work. Conversely, an exporter who wishes to exclude from his policy shipments to one or more markets must expect, if his proposal is accepted, to be charged somewhat higher rates of premium than if he had insured all his good and bad markets together.

[Chapter XI, paragraph 22]

(10) An estimate of the expenses of the insurance organisation should be prepared as also of the premiums likely to be collected in the first five years of the working, and on that basis expense loading to the risk premium can be arrived at.

[Chapter XI, paragraph 23]

#### *Structure of the Indian Export Credit Insurance Organisation.*

15. (1) A study of the structure of credit insurance organisations in other countries shows that the organisation can be:—

- (a) a government department ; or
- (b) a corporation owned by the State ; or
- (c) a private company acting for and on behalf of the State.

There is no private company in India transacting credit insurance business even for home trade. So far as the Indian organisation is concerned, the choice lies between a Government Department and a State-owned Corporation.

(Chapter XII, paragraph 2.3 and 4)

The widespread view of the trade should be accepted that the work of the Indian organisation should be entrusted to a Corporation wholly owned by the State.

(Chapter XII, paragraph 5)

(2) The Corporation should be named Export Risks Insurance Corporation.

(Chapter XII, paragraph 6)

(3) The Corporation should be set up with the following objects :-

- (a) for the purpose of encouraging, facilitating and developing trade with other countries, it may make arrangements for giving guarantees to or for the benefit of persons carrying on business in India, being guarantees in connection with the export, manufacture, treatment, or distribution of goods, the rendering of services or any other matter which is conducive to the said purpose ;
- (b) for the purpose referred to in (a), it may make arrangements for giving guarantees to or for the benefit of persons residing in, or belonging to a foreign country, being guarantees in connection with goods exported or services rendered from India ;
- (c) it may give facilities for financing exports ;
- (d) it may act as agent of the Government to
  - (i) give guarantees beyond its scope which are considered by the Government as necessary in national interest ;
  - (ii) acquire any securities (which expression includes bonds, stocks, shares, bills and promissory notes) which the Corporation has guaranteed, hold any such security for such period as may be directed by the Government, collect any sum falling due whether by way of principal or interest in respect thereof, and dispose of any such security at such time and in such a manner as directed by the Government ;
- (e) it may do all such things as may be incidental to or consequential upon the carrying out of its object mentioned in clauses (a) to (d) above.

[Chapter XII, paragraph 7]



(4) The authorized and subscribed Capital of the Indian Corporation should be Rs. 5 crores of which 10% should be paid up. This will enable the Corporation to carry at any time, a risk upto 50 crores which is considered to be the maximum that can be achieved by the end of the first 5 years.

[Chapter XII, paragraph 8]

5. To infuse confidence in the mind of the exporters, it is necessary that every policy issued by the Corporation should carry Government guarantee.

[Chapter XII, paragraph 8]

6. The management of the affairs of the Corporation should vest in a Board of Directors consisting of seven members including either a whole-time Chairman or a whole-time Managing Director. The Directors may delegate powers for day to day administration to the principal officer whether he be the Chairman or the Managing Director.

[Chapter XII, paragraph 9]

7. There should be an Advisory Council consisting of not more than 21 members representing the export trade, banks engaged in financing exports, various Export Promotion Councils and Commodity Boards. This Council will advise the Corporation regarding the insurance needs of the export trade, the changes taking place in the export trade and the steps to be taken to provide for new conditions. The Advisory Council may elect two members to be appointed as Directors of the Corporation.

[Chapter XII, paragraph 10]

8. The registered and main office of the Corporation should be at New Delhi. The Corporation may open branch offices and, where necessary, set up Local Advisory Boards to help and advise the Branch Offices appoint brokers to introduce business and appoint agents elsewhere than in India for enforcing any right that, as a result of contract of an insurance, may have vested in the Corporation.

[Chapter XII, paragraph 11]

9. The Corporation may borrow monies, raise loans, and for that purpose, if necessary, may issue and sell bonds and debentures bearing such rates of interest and subject to such terms and conditions as the Board of Directors may approve.

[Chapter XII, paragraph 12]

*Miscellaneous*

16 (1) Export credit insurance would appear to fall under the definition of "miscellaneous insurance business" given in section 2 (13B) of the Insurance Act, 1938 (IV of 1938). The Indian export credit insurance organisation would be a Corporation wholly owned by the state and as such would appear to be exempted under section 118 of the Insurance Act. In case business done by the Government through a corporation owned by it is held to be not any insurance business carried on by the Central Government, a change in the Insurance Act will be necessary.

[Chapter XIII, paragraph 1]

(2) Since premium rates are to be kept confidential, if any rule or regulation requires an exporter to show the premium paid separately in any return or statement, suitable amendment should be made to such rule or regulation.

[Chapter XIII, paragraph 2]

(3) Every policy issued by the Corporation should have clauses to the following effect:—

(a) The Proposal and Declaration thereto shall be incorporated with this policy as the basis thereof and if any of the statements contained in the Proposal or Declaration be untrue or incorrect in any respect, this policy shall be void, but the Corporation may retain any premium that has been paid;

(b) Due performance and observance of each and every stipulation contained herein and in the Proposal and Declaration thereto shall be a condition precedent to any liability of the Corporation hereunder.

(4) The export credit insurance organisation being a non-profit making concern, reserves built up should not be treated as profit in the commercial sense and should not be made liable to income-tax. For this purpose necessary legislative or administrative action should be taken.

[Chapter XIII, paragraph 4]

(5) The premiums paid by an exporter to the Export Risks Insurance Corporation should be an allowable deduction for the purposes of income tax.

[Chapter XIII, paragraph 5]

(6) The Indian Export Risks Insurance Corporation should become a member of the UNION D'ASSUREURS POUR LE CONTROLE DES CREDITS INTERNATIONAUX (Union of Insurers for the Supervision of International Credits).

[Chapter XIII, paragraph 6]

(7) The attention of the Committee has been drawn to various difficulties which appear to be retarding the development of the export trade. These are outside the terms of reference of the Committee. Nevertheless, they have been included in the summaries of the written and oral evidence in Appendices VI and VII, with a view to effective steps being taken by Government to resolve them.

[Chapter XIII, paragraph 7]

## CHAPTER XV

### ACKNOWLEDGEMENTS

We wish to express our thanks to the State Governments of Madras, Mysore, Travancore-Cochin and Andhra who made arrangements for our accomodation during our tours to Madras, Bangalore, Ernakulam, and Vijayawada.

We thank the State Bank of India, Calcutta, the Mysore Chamber of Commerce and the Southern India Chamber of Commerce for having placed at our disposal their premises at Calcutta, Bangalore and Madras respectively for holding our meetings.

In the arrangements made for meeting the various trade organisations, we received the hearty cooperation and assistance of the officers of the Ministry of Commerce and Industry stationed at Calcutta, Bombay, Madras and Cochin.

Our thanks are due to the various Chambers of Commerce and Trade Associations, Export Promotion Councils, the banks in India and their Associations, and Individual manufacturers/exporters, who submitted detailed memoranda and replies to our questionnaires. We also thank the many witnesses who gave us the benefit of their views fully and frankly.

We wish to thank the Government of the United Kingdom for having lent the services of Mr. F. C. Mann, Midlands Manager of their Export Credits Guarantee Department, as an Expert Adviser to the Committee.

Mr. Mann, within a short time of his assumption of office, gained a sympathetic understanding of the difficulties and the requirements of Indian export trade. His intimate knowledge of the schemes operating in other countries generally and that of the U. K. particularly was a great asset. He attended every meeting of the Committee as also all meetings for taking oral evidence. The advice tendered by him was of great value. His assistance in resolving complicated problems was considerable. We cannot adequately express our gratitude to him for his valuable contribution to the work of the Committee.

Our thanks are also due to the management of the Lakshmi Insurance Co. Ltd., Delhi, for having lent the services of one of their experienced officers, Shri K. G. Sahni, to work as Assistant Secretary to the Committee.

We thank the authorities of the Union d' Assureurs Pour Le Control Des Credits Internationaux, Berne, for having allowed the Chairman to attend the Union's annual meeting held at Cannes (France) on 13th to 18th May, 1956 as an Observer. The discussions held by the Chairman with representatives of various credit insurance organisations have been of great assistance to us in formulating our recommendations.

We have great pleasure in placing on record the services rendered, hard work put in, and the valuable contribution made by Shri T. S. Ramaswami, our Member-Secretary. His efforts in the interests of the Committee's work were remarkable and his knowledge and experience were of considerable assistance to us.

We also place on record the valuable services rendered by the Assistant Secretary and other members of the Staff. They worked under great strain. Their willing cooperation and efficient performance helped the Chairman and the Member-Secretary in finishing the work in the short time allotted to us. Some of them have now a good grasp of the principles and practices of export risks insurance.

T. C. KAPUR, *Chairman*

W. A. FOGES, *Member.*

E. DA COSTA, *Member*

S. GUPTA, *Member.*

\*S. C. ROY, *Member.*

S. S. T. CHARI, *Member.*

T. S. RAMASWAMI, *Member-secretary.*

NEW DELHI

30th June, 1956.

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\* Subject to Note of Dissent attached.

## NOTE OF DISSENT

On an examination of all the relevant circumstances, I regret that it is not possible for me to accept without reservation all the conclusions set out in the report. I am therefore obliged to append this note of dissent. While it is common ground that an Export Credit Guarantee Scheme will be of considerable assistance in any programme for the expansion of the export trade of the country, I have grave doubts whether the scheme of insurance outlined in the report, under which exporters will take out cover on a voluntary basis, will be successful in actual working. The general pattern of the country's foreign trade as has been shaped by historical circumstances and the various interests prominent in the field severely limit the scope of any such scheme in India on a voluntary basis.

The conditions for the success of any such scheme are

- (1) adequate volume of business, and
- (2) proper spread of risks.

The second to some extent is dependent on the first, but in export credit insurance, spread of risks requires special attention as there is a tendency for concentration of risks, and, under a voluntary scheme, there is likelihood of adverse selection and unhealthy concentration of risks in certain markets. Where, as in India, the export trade to particular countries is almost exclusively controlled by particular concerns which have built up connections over a long period, a voluntary scheme of insurance is likely to leave the proposed Export Credit Guarantee Corporation with a residue of bad risks, thus prejudicing its eventual success.

The suggested scheme of insurance will cover a variety of political and commercial risks to which exports are subject, and will be available to those who ask for it. But those who do so will be expected to insure all their exports over a stipulated period. But, at the same time, it is provided that an exporter may be permitted to exclude his exports to any one country or to anyone or more buyers, provided what is left after the exclusion is, in the opinion of the organisation, a proper spread of risks

Exports paid for by irrevocable letters of credit will, in any case, be excluded from the scope of the scheme. The same, applies to exports by concerns in India to their associates abroad, so far as the commercial risks are concerned. It is a point for consideration whether what will be left after these substantial exclusions will provide for either an adequate volume of business or a reasonable spread of risks.

On a close examination of such data as are available, I am inclined to think that the residual business available to the proposed Export Credit Guarantee Corporation will be totally inadequate and will not justify the launching of such a venture under the auspices of the State unless an element of compulsion is enforced.

The total value of exports from India in 1955 was of the order of Rs. 600 crores. It has been estimated that, out of this, 60% of the exports are paid for by letters of credit and will not come under the scope of the scheme. Excluding this and allowing for possible expansion of exports, the upper limit of business available for insurance has been estimated to be of the order of Rs. 300 crores. But there are other categories of business which may also have to be left out. So, under a voluntary scheme, the actual amount of business offered for insurance will be much smaller. This may necessitate a high rate of premium, thereby handicapping the Indian exporters, particularly the smaller ones, in foreign markets.

One of the important witnesses stated in his evidence that the big Indian Exporters did not take kindly to the intrusion of small traders into the field of export business. It is hardly likely that they will take more kindly to an Export Credit Scheme which will help the small man to consolidate his position and cover his risks with the help of insurance. The evidence led on behalf of the principal commercial organisations concerned with the export trade in important items like tea, jute, textiles, etc., only serves to strengthen doubts on this score.

Taking into consideration the facts that—

- (a) small and new exporters need protection against exporters' risks and the bigger exporters, and

(b) the scheme must work on a self-sufficiency basis,

I recommend that the scheme should be made forthwith compulsorily applicable to all those commodities where major portion of exports are on credit basis. If the Government do not consider it appropriate to introduce the scheme on a compulsory basis, it may be advisable to confine the scheme only to political risks and leave the remaining field open for exploitation by private enterprise.

NEW DELHI

26th June, 1956.

S. C. Roy.



**APPENDIX IX**  
**SUMMARIES OF SOME FOREIGN EXPORT**  
**CREDIT INSURANCE SCHEMES**

## BELGIUM

### OFFICE NATIONAL DU DUCROIRE (O.N.D.)

#### I. Structure

(1) (a) A para-statal organisation acting under guarantee of the state. It is controlled by a Conseil d' Administration consisting of members of Government departments, public credit institutions and representatives of trade and industry, nominated by the Government Ministerial delegates who can veto decisions. The Conseil d' administration has complete control and takes all major under-writing decisions.

(b) Capital—B. Frs, 550 million (Rs. 6 crores) has been given in property to the organisation in the form of Government stock. O.N.D. has complete financial autonomy (frequently it resorts to the money market in order to meet provisional claims payment). The Government is ultimately liable for loss and gives O.N.D. an annual payment (drawn from the revenue of the Government stocks) equal to its premium income. But in spite of this payment O.N.D. has succeeded in its endeavour to balance premium incomes and claims paid.

(2) Maximum statutory liability is 15 times the capital i.e. B. Frs. 9750 million.

(3) O.N.D. was formed in 1921 and reconstituted in 1935 as an independent public agency of the Government.

(4) O.N.D. re-insures the foreign commercial business of Compagnie Belge d' assurance Credit S.A., a private company which insures insolvency and protracted default mainly in the home market.

#### II. Risks covered by Standard Policies

(a) Commercial risks are not directly covered by O.N.D. but they re-insure commercial export risk (insolvency and protected default) accepted by Compagnie Belge D' Assurance Credit S.A. Powers were, however, conferred on O.N.D. in 1939 to cover directly insolvency and default risks. No use has so far been made of these powers.

(b) Risks are defined as follows :—

(1) **Non-Payment (Public Buyers only)** : Failure of the debtor to effect contractual payments within a period fixed by the policy.

(2) **Non-Transfer (Public Buyers Only)** : Non-transfer within the period fixed by the policy of sums due in execution of the contract which have been deposited by the debtor either with a bank or with an organisation officially charged with the transfer of funds to Belgium.

(3) **Political Risks** : (Private Buyers) :

(i) delay in payment beyond the period fixed in the policy, due to a purely political event such as war, revolution, revolt, closure of frontiers or any measure taken by the government of the importer's country, including moratorium of commercial debts, which prevents the fulfilment of the debtor's obligations at contractual due date ;

(ii) As (2) above, with the additional proviso that all the formalities necessary with a view to the transfer of the funds or the granting of foreign exchange have been complied with ;

(iii) loss due to the absolute default of the importer or his banker in so far as this default is exclusively due to a political event or "fait du prince" (administrative action) of which the importer or his banker is a victim.

(iv) "conversion loss", i.e. loss which arises when, at the time of transfer, the payments made by the importer in fulfilment of his obligation converted into the contractual currency, are less than the amount stipulated in the contract, as a result of measures of fiscal or exchange policy, taken by the Government of the importer's country. This loss is only covered however, to the extent that the payments are declared to discharge the importer's obligation by virtue of law or

administrative measure of the government of the importer's country, so that recourse to the importer is excluded. (O. N. D.) have never had to pay a claim under this heading).

(v) inability of the importer to take possession of the goods after contractual delivery provided that this is exclusively due to a political event or a "fait du prince" and that it can in no way be attributed to any action or default on the part of the importer or a third party.

(4) **Cancellation of Contract before Delivery:** Loss due to the total or partial cancellation of the contract before delivery of the goods or execution of the services. Cancellation must result from:

(A) *Public Buyer:*

- (i) judgment of a Belgian court following a default on the part of the foreign importer;
- (ii) non-execution of the foreign importer's contractual obligations. (O. N. D. must agree to cancellation in this case before a claim can be made).
- (iii) inability of the exporter to carry out the contract; e. g. due to impossibility of obtaining supplies or transport or of effecting delivery by reason of international events or purely political measures taken by the authorities in the importer's country or any other foreign country (O. N. D. must agree to cancellation in this case before a claim can be paid);
- (iv) amicable arrangement between exporter and importer (O. N. D. must agree to cancellation in this case before a claim can be paid);
- (v) failure of the importer to take possession of the goods in so far as this is due exclusively to the ill-will or negligence of the importer.

(B) *Private Buyer:*

- (i) arbitrary and unforeseen measures taken by the government of the importer's country in the

matter of foreign trade—e. g, arbitrary withdrawal of an import or foreign exchange licence—which prevents normal execution of the contract (O.N.D. must agree to cancellation in this case before a claim can be paid).

(ii) as 4(A) (iii) above.

(5) **Inability of the Buyer to Accept the goods :** (Public Buyer)—Inability of the buyer to accept the goods after contractual delivery by reason of international events or measures of a purely political character taken by the authorities in the importer's country or any other foreign country.

(6) **Refusal of the Buyer to Accept the Goods** (Public Buyer) :—Refusal to accept the goods after contractual delivery due exclusively to the ill-will or negligence of the importer.

(C) *Excluded Risks :* O. N. D. has no authority to cover exchange fluctuations, price increase, "prospecting" (special dollar Drive facilities) or losses due to the fault of the exporter. It does not cover external trade. In respect of retention moneys O. N. D. covers the transfer risks only. If a contract provides for arbitration in the buyer's country O. N. D. would not accept loss arising there from.

### III. Extent of Cover :

(a) The normal policies cover risks from the date of shipment. Preshipment cover is given either by a separate policy or by endorsement to a "shipments" policy. Insurance is usually refused if the contract has already been signed. For "Pre-shipment" cover, the percentage of guarantee is applied to the exporter's net loss i.e. costs less proceeds, part-payments and value of unshipped goods or materials; profit is not covered.

(b) Public Buyers—80% ; Private Buyer—85%. In difficult cases, the percentage may be reduced as low as 60%.

### IV. Selectivity :

The usual policies are :

(a) Public buyers-specific 'shipments' Policy-payment and transfer,

- (b) Private Buyers-specific 'shipments' policy-political risks.
- (c) Private buyers-turnover 'shipments' policy-political risks for individual countries.
- (d) Public or private buyer-specific policy-cancellation of contract before delivery (*i.e.* pre-shipment).

#### V. Premiums :

- (a) Rates depend on :—

- (i) Economic condition of buyer's country :
- (ii) Risks covered ;
- (iii) Payment terms ;
- (iv) Any guarantees accessory to the contract.

(b) Average premium for 1954 was 0.9%. For short-term business, premium rates vary according to markets, from 0.15 to 1.25% for Cash Against Documents to  $\frac{1}{4}/1\frac{1}{2}\%$  for six months credit. For medium-term, rates vary from 1 to 4% according to payment terms. Premium must be paid for firm quotations.

#### VI. Other Guarantees Services :

O. N. D. also gives cover on services (e. g. contracting work overseas—including payment of labour services of engineers, consultants' fees, etc.) by means of a special clause inserted in the policy describing the risks insured, and such cover may be combined with cover on the export of capital goods. It covers the transport of goods by Belgian undertakings (provided that the price contains an elements of at least 30% for Belgian services and constructional work involving plant of Belgian origin provided that the cost of the work does not exceed 25% of the value of the plant delivered). Non-return or confiscation of goods exhibited at fairs, held in consignment stocks or used in connection with services (e. g. dredgers) are also covered ; insurance against these risks may be combined with insurance against political and transfer risks where the goods are sold.

#### VII. Other Remarks

(a) O. N. D. are required to maintain the following special reserves from premium income to cover losses under guarantees ;

- (i) an export guarantee reserve ;
- (ii) a re-insurance reserve ;
- (iii) an import guarantee reserve ;

- (iv) a special sinking fund for export guarantees and
- (v) a special sinking fund for import guarantees. O. N. D. may draw on its capital only when reserves are exhausted.

(b) Maximum payment terms normally agreed are :—

- (1) consumer goods and raw materials-six months.
- (2) medium term-up to five years (exceptionally seven years) after delivery.

Period for the Medium Term Credit depends on :—

- (i) economic position of buyer's country ;
- (ii) nature of goods ;
- (iii) the size of the order. An O. N. D. guarantee is normally required to obtain bank finance for Medium Term contracts.

(c) Policies cover goods exported from Belgium or Belgium colonies ; the goods must have been produced or transformed in these areas. No entrepot trade is covered.

(d) For losses due to conversion, "absolute default" buyer's failure to take possession of goods or cancellation of the contract before delivery, claims are usually paid six months after due date.

(e) Recoveries are shared between O. N. D. and the policy holder in proportion to their respective interests. In some cases, O. N. D. may require a bank guarantee that the exporter will repay any recovery.

# CANADA

## EXPORT CREDITS INSURANCE CORPORATION

### I. Structure :

(1) (a) The Export Credits Insurance Corporation of Canada has been set up under the Export Credits Insurance Act of 1944. The members of the Corporation are the Deputy Minister of Trade and Commerce, the Deputy Minister of Finance and the Governor of the Bank of Canada. (Section 3 of the Act.)

(b) The Corporation is under the management of a Board of Directors composed of the members of the Corporation and not more than four other Directors, one of whom is President and General Manager of the Corporation.

(c) There is an Advisory Council consisting of not more than fifteen members (Section 9). Members of this Council represent the services of banking, manufacturing industries and the primary industries of farming, fishing, lumbering and mining. Members serve without remunerations.

(2) The Corporation can establish offices or employ agents in any part of Canada and if necessary may employ agents elsewhere than in Canada for purposes of enforcing any right that as a result of contract of insurance may be vested in the corporation. (Sec. 4 (ii). Branches have been established at Montreal and Toronto, and there is a representative in Vancouver.

(3) The Corporation started functioning in 1945.

(4) (a) The authorised capital of the Corporation is fifteen million dollars. It consists of 150 thousand shares of one hundred dollars each.

(b) The Corporation can issue and sell bonds and debentures bearing, such rates of interest and subject to such terms and conditions as the Board of Directors may approve. Provision has also been made for advances by Ministry of Finance out of unappropriated monies in consolidated revenue funds. The aggregate of such loans outstanding shall not exceed the amount equal to five times the aggregate of the paid up capital and surplus.



(c) The liability of the Corporation under the contract of insurance issued and outstanding shall not at any time exceed a total of ten times the aggregate of the amount of the subscribed capital and the surplus of the Corporation.

## II. Risks covered by standard policies

(1) The Corporation insures the following main classes of business :

- (a) The insolvency of a foreign buyer;
- (b) Protracted default in payment by the buyer after he has duly accepted the goods;
- (c) Blockage of funds or transfer difficulties which prevent the Canadian exporter receiving payment for the goods he has shipped;
- (d) War or revolution in the buyer's country;
- (e) Any other cause outside the control of both the exporter and the buyer which arises from events occurring outside Canada and the continental United States of America, e.g. cancellation of an import license or the imposition of import restrictions on goods not previously subject to license.

(2) The Corporation accepts risks in all countries where the buyer under the laws of the country, can pay for the goods in Canadian dollars, U.S. dollars, or sterling which is transferable to Canadian or American account. One of the pre-requisites for transfer insurance coverages is that at the time the exporter accept the order or at the time of shipment, it must have been permissible for the buyer under the import and exchange regulations of his country to import and pay for the goods he has ordered.

(3) In some South American countries, shipments which have been made on a Documents on Payment basis must be released against a provisional deposit in local currency because local regulations require that the customs clearance papers be presented to the exchange control authorities before foreign exchange will be allocated. The Corporation recognizes that this procedure is necessary in certain countries and accordingly the Corporation is prepared to endorse an Exporter's Policy authorising him to release documents against provisional deposits in local currency covering shipments made on terms of Cash against Documents if such release is required :—

- (a) by law, or

(b) by established procedure based on official requirements of the importing country relative to the import of goods comprising a shipment.

(4) For transfer insurance protection, risks are covered for circumstance entirely outside the control of both the exporter and the buyer and the Corporation is not on risks if foreign exchange is not made available to pay the exporter due to lack of some necessary action on the part of the buyer.

(5) Following risks are not covered:

(a) Trade disputes or straight repudiation on the part of the foreign buyer is not covered. Export Credit Insurance policies do provide cover for repudiation by Government buyers. If there is any dispute between the exporter and his customer, it must be settled before the Corporation can consider a claim for loss. If a judgment is obtained against the buyer and such judgment could not be satisfied, the Corporation will pay.

(b) Devaluation of a currency is not covered but, if the buyer becomes insolvent because of devaluation, the Corporation would pay the resulting claim.

### III. Extent of Cover :

(1) The period for which the risk is covered in the case of general commodities sold on short-credit terms or credit terms which are usual in the particular trades concerned extends from Cash Against Documents terms up to a maximum of six months. In the case of capital goods sold on medium credit terms, the period extends from six months to three years or more. The period of credit is generally taken to mean the actual credit period extended to the buyer from the time the goods are placed at the buyer's disposal. In the case of capital goods, term may run to five years. There is no limit for the time under the Act.

(2) The maximum risk covered is up to 85 per cent of the amount of any loss incurred by an exporter under the terms and conditions of his policy. The co-insurance proposal depends on relevant circumstances and where circumstances require even lower percentage of risk may be covered. There have been cases in risks have been covered on a 60/40 basis, i. e. sixty per cent which by the Corporation and forty per cent by the exporter;

#### IV. Selectivity

An exporter is required as a general rule to insure exports to all countries for a year excluding sales made against irrevocable letters of credit or where cash is received in advance. An exporter may exclude exports U.S.A. If, however, an exporter wants to include his exports to U.S.A. the Corporation will consider the proposal. The Corporation is also willing to consider the exclusion of any other country provided the exporter can supply the Corporation a broad spread of risk, it is possible that favourable consideration would be given to the exclusion of a particular country.

#### V. Premiums

1. Each exporter has his own markets, credit terms, problems and difficulties and all these aspects must be taken into account in setting the premium rates. The premiums are based on the class or type of goods sold, the countries to which they are shipped, the credit terms involved, to a small extent on the volume of the Exporter's annual sales, the spread of risk afforded to the Corporation, the previous loss experience of the exporter and any other relevant factors.

The average rate of Premium quoted on risks under return for the nine years is less than one per cent.

The rates of premium are strictly confidential between the exporter and the Corporation, as is the fact that he has a policy. In making his application the exporter warrants that he will not discuss the policy or any of its details with any other person or concern except in confidence with this bankers.

The premiums which the Corporation collects must be sufficient to produce enough revenue to cover operating expenses and probable losses.

2. Countries are divided into eight groups (A to H), graded according to the seriousness of the political risk, Medium terms premium rates include an element of time premium calculated on outstandings amounting to one-eighth per cent or less, or one-fourth per cent or more per month. This may be increased by 25% if there is a heavy pre-shipment risk. When the total figure to be paid by the exporter in respect of premium has been calculated it is expressed as a percentage of the contract value, and it is this percentage that is quoted to him as premium.

## VI. Other Guarantees

1. Sec. 91 provides for other guarantees. Where the Minister reports to the Governor in Council that (a) that the Board, having regard to the limitations imposed by section 14, is of opinion that a proposed contract of insurance will impose upon the Corporation a liability for a term or in an amount in excess of that which the Corporation would normally undertake in relation to any one contract, exporter, commodity or country, and (b) in the opinion of the Minister it is in the national interest that the proposed contract be entered into, the Governor in Council may approve of and authorize the Corporation to enter into the proposed contract of insurance. The liability of the Corporation under the contracts of insurance entered into under this section and outstanding shall not at any time exceed one hundred million dollars and shall not be included in the liability of the Corporation for the purpose of section 14. All orders in council made under this section while Parliament is in session shall be laid before the Parliament during such session and, if made while Parliament is not in session, shall be laid before Parliament at the next ensuing session. For issuing such policies the Corporation acts as agent of the Government and charges commission equal to 25 per cent of the premiums.

2. All premiums are considered to be confidential, but in the case of policies falling under Sec. 21, the order in council is tabled in Parliament. This makes the fact of the contract and the Premiums chargeable known.

## VII. Experience

1. In 1954 the Corporation covered rather less than one percent of total Canadian exports. The main reasons for this comparatively low percentage are: (i) almost two-thirds of all Canadian exports go to the United States and many exporters regarded this as virtually domestic business. (They can cover the commercial risks with a private company known as the American Credit Indemnity Company); and (ii) the major Canadian exports are raw material and commodities e.g. wheat newsprint and metals which are sold on cash terms and no insurance, is required. E. C. I. C. estimate however that they cover about 45 per cent of total insurable Canadian exports.

### VIII. Other Remarks.

1. The Corporation does not wish to interfere with an Exporter's normal business and accordingly a maximum amount is established in each Policy, applicable to any buyer in any country covered by the policy up to which amount the Exporter may extend credit without reference to the Corporation. The only requirement is that the Exporter must either :—

- (a) have had previous favourable credit experience with the buyer, or
- (b) have obtained two up-to-date credit reports from independent reliable sources that would justify his extending credit to the buyer.

If the Exporter wished to extend credit to an amount greater than that set out in the policy he then applies to the Corporation for its specific approval.

Credit reports may be obtained from :—

- (a) The Importer's agent abroad ;
- (b) His Bankers ;
- (c) Department of Trade and Commerce, Ottawa (Foreign Service) ;
- (d) Mercantile agencies.

2. Much of E. C. I. C.'s business is invoiced in U. S. dollars. E. C. I. C. make payments only in Canadian dollars ; they have, therefore, to be particularly careful about defining exchange rates and they have encountered problems when dealing with recoveries when the Canadian dollar has appreciated in relation to the U. S. dollar after a claim has been paid. A legal opinion has been obtained that E. C. I. C. would be entitled to share in profits due to an exchange appreciation and the position is made clear to exporters.

3. A transaction is eligible for cover if it relates to goods exported from Canada. and there must be a contract of sale before the goods leave Canada (for this reason E. C. I. C. cannot cover Fairs or consignment stocks). Eligibility is not restricted, however, to Canadian produced goods—a large amount of Canadian exports are re-exports originally emanating from the U.S.A., but the exporter must himself be producing in Canada. If E.C.I.C. believe that an exporter is importing goods for incorporation into

products to be exported, they may ask for a statement of the percentage of the whole that the foreign element represents. If this proves to be more than 25% ECIC would probably not give cover although for capital equipment, e. g. locomotives, they would accept a higher percentage of up to 40%.

There is however some pressure for cover on consignment stocks and sales therefrom and it is believed that legislation is contemplated to make this possible.

4. When E. C. I. C pay a claim they require the exporter's banks to sign an undertaking to pay 85% of any recoveries (whether policy hypothecated or not).

5. Time of payment :—

- (a) Insolvency-immediately after the occurrence of the insolvency.
- (b) Default-12 months after the due date of payment of the debt if by that time the debtor's insolvency has not been established.
- (c) Foreign Exchange Transfer. Six months after the due date of payment of debt.
- (d) All other risks, 6 months after the occurrence of the event which is the cause of a loss.

6. Financing :

The Corporation will agree to pay to any bank the proceeds of any claim which may be payable under a Policy. The exporter has available to him, two main ways of assigning his insured accounts to his bankers. He can either assign an individual bill or he can make a blanket assignment or all his foreign accounts receivable.

7. "Every person is guilty of an indictable offence and liable to imprisonment for a term not exceeding two years who wilfully makes any false statement.

- (a) in any application for insurance under this Act, or
- (b) in any instrument given to the Corporation under the authority of this Act."

# DENMARK

## STATENS EKSPORT KREDIT UDVALG

### I. Structure

1. The system works through state Export Credit Committee. It examines and decides the applications on consideration of commercial policy as well as on the facts of individual cases and recommends them to the Ministry of Commerce who undertakes the guarantee. The Committee consists of representatives of the ministries involved, banks and trade organisations,

2. Maximum liability assumed by the Government is Rs. 33 Crores approx.

3. The State Export Credit Committee was formed in 1952.

### II. Risk covered by standard Policies

(a) Solvency guarantee or guarantee on exporters drafts accepted by foreign buyers.

(b) Transfer guarantees covering cases in which the agreed payments cannot be transferred to Denmark at due date.

*Note:*—There is however no guarantee against losses from exchange fluctuations.

### III. Extent of cover

(a) Solvency—normally 75% guaranteed exceptionally 85% guaranteed.

provided drafts are for a period not exceeding 12 months. The term of credits may, according to the circumstances be extended to 5 years particularly when there are supporting guarantees for a Government or State Bank or intermediary payments are to be made. Under quite special circumstances the guarantee may be extended to 6 years.

(b) Transfer—upto 85% guaranteed.

#### IV. Selectivity

Separate policies are issued to cover the ins & Tr. risks. Transfer guarantees may be issued separately or in connection with one of the other forms.

#### V. Premiums

For the time being the premium charged for each of the guarantees is 12½% p. a., minimum a flat rate of ½%.

#### VI. Other Guarantees

##### a) *Guarantee on Consignment Stock*

This policy can cover up to 50% of the eventual losses on stocks consigned abroad. Losses however must be proved within specified time usually ½ or 1 year after approval of the application.

##### Risks specifically Excluded from this guarantee

1. Destruction of Stocks.
2. Losses derived from the exporters' failure to secure his property right in the stocks in the event of bankruptcy or liquidation of the consignee.
3. Risk of loss from Credit extended on sale of goods from Stocks.

##### (b) *"Financing" Guarantees*

1. To enable the exporter to finance the export during the time from the shipment of the goods and until payment is received.

(Shipment Credit).

2. To enable the exporter to buy raw material and pay wages in connection with the production of goods.

#### VII. Experience

Danish Scheme has been solvent.

#### VIII. Other Remarks

It is essential that the application for any form of export credit guarantee be made before the goods are actually exported.

Guarantees to banks (vi (b) above) represent 50% of S.E.U.'s total business.



It is also laid down specially for Financial guarantees that the sums guaranteed shall apply to specific export orders and not to ordinary operating expenses.

**Claims**

- (a) In the case of Guarantees on Exporters draft—it will be paid within 3 months after the due date.
- (b) In Transfer guarantees payment is made in 6 months after the due date.

## FRANCE

### COMPAGNIE FRANCAISE D'ASSURANCE POUR LE COMMERCE EXTERIEUR (Co., F. A. C. E.)

#### 1. Structure.

1. Co. F. A. C. E. is a public corporation guaranteed by the State. Its object is to "guarantee the successful outcome of French export and import business and all overseas trade transactions generally." Any Insurance Company may ask to be authorised to transact export credit insurance but at present Co. F. A. C. E. is the only Co. authorised to transact this business.

Its capital of Francs 100 m, was subscribed by :

- (a) the Caisse Des Depots et Consignations ;
- (b) the Credit National ;
- (c) the Banque Francaise du Commerce Exterior ;
- (d) the Nationalised Insurance Cos., and
- (e) the Societe Francaise d'Assurance Pour Favoriser le Credit, (SOAFC) whose participation may not exceed 30%.

Co. F. A. C. E. maintains two financial accounts,

- (a) the 'A' Account for political risks (guaranteed by Co. F.A.C.E. on behalf of the State), and
- (b) the 'B' Account for commercial risks (guaranteed by Co. F.A C. E, on its own behalf,

In case of 'B' Account if profit is of more than 10% of the premium income a portion is transferred to 'A' Account. If loss is more than 10%; excess over 10% of loss is transferred to 'A' Account, and if at any time. there are insufficient funds in the 'A' Account, the Treasury will make advances. Ultimate liability for political risks is that of the State.

Co. F. A. C. E. gives guarantees on the advance of an Inter-ministerial Committee (the Commission des garanties et du Credit

au Commerce Extérieur) comprising representatives of Government departments, the Banque de France and the Credit National. Co. F.A.C.E. itself, the Banque Française pour le Commerce Extérieur, and the Chambers of Commerce are also represented in a consultative capacity. The Commission meets every fortnight. All medium term applications and matters of principle must be referred to the Commission.

Co. F. A. C. E. is administered by a Conseil d'Administration consisting of members nominated by the Ministry of National Economy and the Ministry of Finance; representatives of these Ministries can veto decisions of the Conseil. The Conseil meets every 4/6 weeks.

2. There is no maximum commitment for commercial risks but liability under individual policies is limited to

- (a) 30 times premium paid in respect of commercial risks up to the time of loss in the year;
- (b) under individual whole turnover policies liability for protracted default on any one buyer is subject to a maximum limit of francs 5 million.

3. Co. F.A.C.E. has no branch offices but employs brokers to obtain applications for insolvency cover. A specialised broker receives a commission of 12% and a non-specialised broker a commission of 10%.

## II. Risks Covered by Standard Policies

(a) Commercial risks (covering sale to private buyers for short term transactions only).

- (i) Insolvency of the buyer, *i. e.* inability to pay owing to bankruptcy, judicial liquidation or composition arrangement binding on all creditors; or
- (ii) Failure of the buyer, having taken possession of the goods to discharge his debt within 12 months of due date, provided that the validity or amount of the debt is not contested,

(b) Political Risks

- (i) Public buyers,

### 1. Non-Payment

Failure of the buyer to discharge his debt not due to breach of contract by the supplier.

2. Non-Transfer, Prevention or delay by political events, economic difficulties or legislation in the buyer's country of residence or transfer of funds paid out by the foreign debtor.

### 3. Interruption of Contract. (pre-shipment)

(i) Public-Buyer-Interruption of performance of contract, because of one of the following events :

- (a) non-fulfilment by buyer of his contractual obligations ;
- (b) act or decision by government of country of destination ;
- (c) occurrence in the country of destination of war, civil war, revolt, revolution, cyclones, flood, tidal wave, earthquake, volcanic eruption ;
- (d) prohibition of export by French Government ;
- (e) prohibition of manufacture by French Government
- (f) requisition of the goods by French Government ;

(If the goods are subject to export licensing at the time of the signature of contract the guarantee is not effective until delivery of an export licence).

(ii) Private buyer [not applicable to medium term operations] as above, except "non-fulfilment by buyer of his contractual obligations".

4. **War and Disturbance risks** : Failure of the buyer to discharge his debt because of war, civil war, revolution or disturbance in the buyer's country of residence or general moratorium decreed by the administrative authorities of his country.

5. **Catastrophe risks** : Failure of the buyer to discharge his debt due to the occurrence in the buyer's country of residence of cyclone, flood, tidal wave, earthquake, volcanic eruption.

6. **Exchange Risks.** (Covered by a separate policy); Loss due to difference between total sums received, converted at the rate obtaining when the guarantee was issued, and the total of sums actually received in francs at due dates.

Any profit on exchange is payable to the Ministry of Finance. This exchange risk guarantee can be issued for certain currencies only provided (i) there is no other means of covering the risks and (ii) the exporter exercises prudence and conforms with all necessary regulations.

**Risks not covered :—**

- (1) Losses due to disputes between buyer and seller or to repudiation or to the buyer's refusal to accept goods.
- (2) No cover is given against commercial risks on medium term or pre-shipment policies (but the provision of this cover is being considered).
- (3) Co. FACE. give no guarantee to foreign buyers against damages in the event of the French exporter failing to perform his contract. It is considered that type of guarantee is the province of Banks.

**III. Extent of Covers.**

- (a) For medium term transactions either pre or post shipment cover is available. The standard short term policies cover postshipment risks only, but pre-shipment political risk (not commercial risks) may be insured by a separate endorsement.
- (b) Short term 80%  
Medium term 90%

Interruption of contract or exchange 100%

Where payment terms are exceptionally long, the percentage guaranteed may be reduced but it is done very rarely.

Only 50% cover is given for insolvency risk for non-vetted accounts *i. e.* credits given by the exporter as a result of his own status enquiries) without referring the buyers to Co. F.A.C.E.

**IV. Selectivity.**

**I. Short term policies.**

- (a) *Commercial risks* Co. FACE. insist on whole turn-over or at least a fair spread of risk. It allows the exclusion only of business payable by irrevocable letter of credit, and business with specified countries.

*(b) Political and Transfer Risks*

The exporter can select his markets but this option is very seldom allowed.

2. **Medium term policies:** specific cover is given. The following M. T. policies are available to exporters :—

- (i) Sales to public authorities—non payment and—non-transfer,
- (ii) Sales to public authorities—non-payment and non-transfer, interruption of contract,
- (iii) Sales to private buyers (medium term)—political, catastrophe and non-transfer.
- (iv) Sales to private buyers (medium term)—political, catastrophe, non transfer and interruption of contract,
- (v) Guarantee against exchange risks;
- (vi) Guarantee against exchange risks (covering an export which is the subject of a price guarantee).
- (vii) Guarantee against loss due to interruption of contract.

**V. Premiums**

Premium income plus recoveries must cover claims paid. This is not applicable to experience of any one year but has to be treated to cover the experience for period of years. For short term policies separate premiums are charged for insolvency and for other risks. Insolvency premiums are included in a profit and loss account,

Premium for political risk consists of two basic rates:—

- (a) a "prime forfaitaire" calculated as a flat rate on the maximum loss which Co. F. A. C. E. can sustain. This premium is payable when cover commences and is liable to adjustment depending on maximum risks.
- (b) a "prime pro rata temporis" payable quarterly for Medium-term policies or monthly for short-term policies on the Maximum risk to Co. F.A.C E. at the end of that period.

These rates vary between  $\frac{1}{2}\%$  and  $1\frac{1}{2}\%$  for medium—Term policies according to the buyer's country. For short-term policies the 'prime forfaitaire' is 25% of the corresponding Medium-term rate and the "prime pro rata temporis" is 50% of the corresponding Medium-term rate. Further reduction proportionate to the term.

## VI. Other Guarantees

- (1) - *Dollar Drive* ("Prospecting Guarantees")  
(issued by the State directly).

These policies, designed originally for North America, have been extended to some south American and Far Eastern markets.

They cover losses arising from

- (a) market surveys,
- (b) expenses in launching certain products in these markets, publicity, setting up branches, ware-housing etc.), and
- (c) Stock-holding.

Policies cover 50% of loss calculated on either :—

- (i) the difference between the costs incurred over several years and a given percentage of the value of shipments over the same period or
- (ii) the balance of a guaranteed account showing receipts and expenses over the same period.

### (2) Price Variation Guarantees :

State issues a separate guarantee against any loss the exporter may sustain as a result of increases in production costs on a fixed price contract for capital goods provided that

- (a) the export is invoiced in foreign exchange (so that any profit on exchange, which might result from a devaluation of the franc, is offset against any price increases).
- (b) the export is in the national interest.
- (c) the period of manufacture is long.

The exporter receives 100% of loss where the production costs exceed the value in francs received from the buyer. Any profit goes to the State.

The State does a great deal of business with this type of guarantee and claim that the principle of equilibrium between price increases and exchange fluctuations has been shown to be justified.

## VII. Experience

Co. F. A. C. E. certainly covers a big share of French medium term exports, but only about 5% of short-term exports, and very

little external trade. The only guarantees on which large losses have occurred are exchange guarantees on import operations. That was first after the war. In other fields, Co. F. A. C. E. has successfully maintained solvency.

### VIII. Other Remarks

1. Guarantees may be assigned to banks.
2. In the case of medium-term guarantees, goods must be of French origin. But where spare parts and essential components are of foreign origin. Co. F. A. C. E. may give cover provided the foreign element is not more than 20% of the total.
3. Recoveries are shared between Co. F. A. C. E. and the policy holder in proportion to their respective interests in the loss.
4. Maximum periods of Credit guaranteed are :—
  - (a) Short-term normally 6 months, but up to one year for certain types of machinery.
  - (b) Medium-term 5 years, maximum from delivery. The length of credit depends on
    - (i) economic position of buyer's country.
    - (ii) nature of goods.
    - (iii) the national interest (e. g. dollar contracts); and
    - (iv) size of the order.
5. Credit limits on individual buyers are agreed, but exporter is required to contribute an annual sum to the cost of obtaining, studying and renewing status information on buyers, as far as commercial risk is concerned.



# GERMANY

## HERMES CONSORTIUM

### 1. Structure

1. A Consortium between Hermes Kreditversicherungs A. G. and the Treuarbeit Co. (Deutsche Revisions—Und Treuhand A. G.) issue guarantee documents and all risks and premiums are for the account of German Government.

The Hermes cover commercial risks in the home market for its own account.

2. The control of the export guarantees is vested in a Parliamentary Committee (The Foreign Trade Committee) which receives quarterly reports on the activities of Hermes and issues general directives to keep the operation of the Scheme in harmony with German Economic Policy ; these directives are not published.

3. The authority to issue guarantees is vested in an Inter-ministerial Committee which is composed of representatives from the Ministries of Economics, Finance and Foreign Affairs, together with representatives of Banks, Industry and Trade (the later have however no voting power).

4. Normally export finance is made available by private banks. In case of medium term projects however the banker can get financial aid from Ausfuhr Kredit A. G. on the security of the bank and export credit guarantee.

5. The maximum statutory liability is Dm. 7500 million.

6. The Hermes have a capital of 5 million D. M. for their own use but for the state business they need no capital.

7. The Hermes Consortium operates through Branch offices. These offices merely receive applications for guarantees but the final decision rests with the Inter-Ministerial Committee.

## II. Risks Covered by Standard Policies

Risks covered are :—

### 1. *Public Buyers* :—

- (a) Protracted default which means non payment within 6 months from due date or where documents have not been taken up within 6 months after arrival of goods.
- (b) Non-conversion & non-transfer of amount paid in local currency.
- (c) Exchange losses from conversion of payment in the currency of the contract. This cover is only for the period between the time of payment by the buyer & receipt of amount by the exporter.
- (d) Seizure of goods by a foreign Government Agency other than that of the buyer's Government.
- (e) War & Civil war provided this risk is not otherwise insurable,

### 2. *Private Buyers* :

- (a) Insolvency.
- (b) Non-payment due to Govt. action.
- (c) Clearing delays.
- (d) Freezing of debts.
- (e) Non-transfer & non-conversion as in (b) of 1.
- (f) Exchange losses as in (c) of 1.
- (g) (d) & (e) of 1.

## III. Extent of Cover

(a) The standard Guarantees (set out in IV below) cover risks from the date of shipment. There is, however, a manufacturing policy issued in respect of capital goods contracts against insolvency or non-delivery due to political events during the manufacturing period.

- (h) (i) Upto 75% for commercial risks,
- (ii) Upto 85% for Political and pre-shipment risks ;
- (iii) Upto 90% for conversion and transfer risks. Hermes use the percentage of risk as an underwriting control, by this means they consider that they can control ;

1. commercial risk ;
2. political risks and
3. Premium rate (which is not altered when the percentage of cover is reduced).

#### IV. Selectivity

Whole-turnover cover is not insisted upon. Exporter is free to choose his shipments. If whole turnover is offered a rebate in premium is allowed. The main types of policies are :—

- (1) a single short-term policy covering one of his shipments.
- (2) a similar short term-policy covering a fixed revolving limit for business with one named buyer ;
- (3) a whole-turnover policy covering all transactions above a fixed minimum value with all buyers. The individual buyers are named, approved and rated ;
- (4) a whole-turnover policy containing a discretionary limit operated by the exporter subject to safeguards.
- (5) a conversion and transfer policy covering these risks either on specific or whole turnover basis for short, medium or long term contracts with either private or public buyers. The buyers must have paid their debts in local currency and have fulfilled their transfer obligations. Policies are issued for one year and buyers need not be named. The policies though issued for one year continue for the following year unless notice to terminate is given by either party.

#### V. Premium.

Hermes operate under a directive that its scheme should work on a solvent basis, i. e. that administration cost and losses under guarantees should be paid out of the income. So far this has been achieved.

Average premium rate is 1.1%. Premium rates vary and depend on terms of payment. For long term payments, they are based on outstanding amounts and length of credit period.

#### Private Buyers

- (a) Cash Against Documents  $\frac{3}{4}$ % ;

- (b) Credit Terms  $1\frac{1}{2}\%$  for first 6 months and additional 1% per month thereafter.

### Public Buyers

For Post-Shipment risks for the first 2 years for exports upto 3 million DM	..... 1%
for the next 3 million D	..... $\frac{2}{3}\%$
for the balance	..... $\frac{1}{2}\%$

and thereafter an additional premium for exports upto 5 million DM  $\frac{1}{2}\%$  for every month for the balance amount  $\frac{4}{10}\%$  for every month. Where only preshiment risks are covered i.e. where risks ends in shipment 1%.

Where both pershiment and Post Shipment risks are covered  $\frac{2}{3}\%$  plus the shipment rates.

### VI. Other Guarantees.

- (1) External Trade cover is given for commercial risks on ultimate buyers and transfer risks from the intermedlate countries to Germany
- (2) Consignment stocks can be covered against political risks from time or despatch until goods are sold and against the transfer risks after sale.
- (3) Export guarantees for services rendered in connection with setting up of plants etc. and for non return of contractors equipment to Germany.

### VII. Experience

The German scheme has maintained itself on a solvent basis since 1949.

### VIII. Other Remarks

Claims in respect of Insolvency are payable within 8 weeks of the proof of insolvency and amount of loss having been furnished and in respect of political Risks for the Private Buyers six months after the date of Moratorium prohibition of payment by foreign Government. For Transfer and Conversion risks the claim is payable after three months deposit in local currency.

Hermes covers about 10% of total German export trade.

Credit limits on individual buyers are closely controlled. Considerations for determining the payment terms for medium term contracts are :—

- (a) the greater the "work" content in the product compared with the raw material content the longer could be the terms of payment.
- (b) the nature of the payment terms for public buyers could be more generous than for private buyers.
- (c) the nature of the transaction *i. e.* whether an "Advance" payment with order has been made for heavy machinery.
- (d) the size of the order.

Payment terms in excess of five years are not normally approved. But even in this period payments must be by instalments.

# INSURANCE OF EXPORT CREDIT AND FINANCING IN ITALY

## I. Structure

The law authorises the Istituto Nazionale delle Assicurazioni (existing state institution for "life insurance") to accept *export credit insurance directly* (issuing policies) or *indirectly* accepting the *total* reinsurance of the same risks underwritten by the private companies authorised by the general law of 1923 to transact business in credit branch. The direct insurance or the reinsurance is accepted by the 'Istituto' for the total account of the State naturally must be contained—as nature and as percentage of cover—in the limits indicated by the law. The National Foreign Trade Institute processes insurance and re-insurance applications in agreement with the National Insurance Institute always on behalf of the state. It has created a common secretary to study the risks and to submit them to the special Committee.

For goods sold on instalment basis, (the law indicates "special export trade") a Supervisory Committee (composed of fourteen representatives of the pertinent Italian Ministries, Government Agencies, and private financial, industrial and insurance interests) makes provisions for handling deferred payments, etc. The majority is formed by the official bodies. The resolutions must be communicated to the Ministry of Treasury.

The maximum limits up to which risks can be covered by the Institute are estimated annually in the Act by which the budget, is approved. Maximum limit for 1953-54, and 1954-55 were fixed at thirty billion liras. It is also stipulated that, if the risks assumed in 1953-54 were less than the maximum limit, the residual amount can be carried over to 1954-55.

The Institute operates through its own agencies in the country or through the agencies of the private companies which ask to be reinsured.

## II Risks covered

The Institute covers the following risks :—

- (i) War declared or undeclared; revolution; riots and popular uprisings.

- (ii) Catastrophic and elemental risk such as earthquake, tidal waves, volcanic eruptions, floods, and cyclones.
- (iii) General Moratoria adopted by the buyer's country.
- (iv) Suspension or Cancellation of orders resulting from the events referred to in (i), (ii) and (iii) above, or by Italy's Government forbidding execution of the order or the importing country banning it.
- (v) Difficulties in currency transfers which result in an exceptional delay, defined as in excess of 12 months from date of payment for the Italian exporter in collecting the lira equivalent of sums which the foreign importer has paid in conformity with the terms of contract. The coverage may be unrestrictedly granted for exports to convertible currency countries or to countries belonging to transferable currency monetary areas, as listed by the Ministry of Foreign Trade.

In other cases, coverage is granted only if the Governments of importing countries have authorized the supplies and have assumed an obligation to authorize the transfer of sums due for principal, interest, and accessory payments, through accounts provided in payment agreements and when no agreement exists, they have committed themselves not to hinder the use of the sums paid by the importer, for the purpose of goods and services for export.

Guarantees are assumed in the same currency in which the credit is expressed. Premium and indemnities are paid in lira at the rate of exchange in effect on payment days. This means the risks of fluctuations in currencies is borne by the exporter, the Istituto and the insurance agencies in proportion to the risks covered by them, respectively.

### **III Extent of Cover : (Direct insurance or reinsurance)**

The aggregate share of the Government guarantee is limited to 70 per cent of the Credit to which the risk relates, regardless of the part insured with the insurance agencies. The exporter must assume a quota of 15 per cent of the volume of credit for each individual risk. The difference of 15 per cent may be insured by the private company but not reinsured by the State. Until now

no; insurance of this part has been accepted by the Italian companies.

*Period for which risk is covered.* For deferred payments guaranteed by Supervisory Committee four years is the maximum normal delay for which the Government guarantee can be given. This is calculated from the date of shipment of exports, which, according to general commercial practice, are paid for on a progress basis, even while being manufactured, from the due date of each progress payment.

The Ministry of Treasury, on the recommendation of the Supervisory Committee, may extend guarantees on delayed payments beyond a term of four years.

#### IV Selectivity:

No information is available, because it is a confidential matter exclusively reserved to the Committee.

#### V. Premiums

The Insurance and reinsurance premiums are fixed on an annual basis within maximum and minimum limits set by a decree of the Ministry of the Treasury approved by the Ministry of Industry and Trade and of Foreign Trade. Within these limits the rates are fixed discretionally by the Committee.

#### VI. Claims

*Compensation of loss.*—Damages consist of total or partial loss of the credit and the indemnity is paid in lira in accordance with the provision of law and policy. For risks at II (i), (ii) and (iii) delay in collecting an overdue credit will be allowable after the following time-limits :

- (a) Six months after due date of credit, delay in payment is considered as a loss of 25% of the amount covered.
- (b) Nine months of the due date a further 25%.
- (c) After one year, the balance of 50%.

In case of II (iv) and (v). delay of cover a year constitutes allowable claim.

From the date payment is made, the Institute acquires, as against the insured, title to the credit for which the guarantee was granted. Sums recovered, however, are allocated in



accordance with a priority procedure in proportion to the quota of the risk assumed by each interested party. Payments are made in lira at the rate of exchange in effect on day of liquidation.

#### **VII. Experience**

No information is available.

#### **VIII. Other Remarks**

##### *1. Exemption from Tax*

- (i) Insurance and re-insurance premiums collected on State Guaranteed coverage are exempt from Insurance tax.
- (ii) Premiums collected by authorized insurance agencies which assume any portion of the risk in excess of the quota undertaken by State are also exempt from the tax on insurance provided always that the insurance is on policies approved by the Committee.

2. All Insurance contracts, policies, receipts and other documents executed in connection with the transactions relating to risk covered by State guarantees are exempt from stamp and registration taxes and other registration formalities.

3. Before supplies covered by a policy are paid for, the rights resulting from the State Guarantee may be transferred. The insurer must receive notice of the transfer of lien.

# NETHERLANDS

## I. Structure

1. To promote international trade and the exchange of services with foreign countries, credit insurance companies are enabled to reinsure with the government insurances or guarantees, effected on behalf of undertakings domiciled in the Netherlands, against the risks connected with the import and export transactions, it being understood, that the insured as well as in most cases, the credit insurance company are to take part of the risk for their own account.

2. The legal basis for these facilities is given by the yearly budget laws, which authorize the Minister of Finance to grant guarantees in connection with export and import credits. This basis is worked out in a ministerial decree of the 17th November 1946.

3. The credit insurance company, which is admitted to the above mentioned reinsurance facilities is the NEDERLANDSCHE CREDIETVERZEKERING MAATSCHAPPIJ N. V. at Amsterdam. The relationship between the Netherland State and the said company is regulated by an agreement.

4. Political risks are fully reinsured with the government. The same applies to risks in connection with medium term credits. Short term commercial risks are underwritten for account of the company and its private reinsurers.

5. In "Rijkscmissie voor Export en Import garanties", the central bank, the ministries of Finance, of Economic Affairs and of Agriculture are represented as well as trade and industry. This commission meets twice a year and only discusses problems in general in order to avoid indiscretion. The daily work-acceptance of or advice on the reinsurance of separate policies is done by daily committee, composed by officials of the central bank.

6. There exists no special guarantee fund. The premiums for account of the government are paid to the treasury and claims for account of the government are made by the treasury. These

earnings and outlays are accounted for in the same way as other governmental income and expenditure.

## II. Risks Covered

The policies in most cases cover the risk "that the exporter will not receive the amount of his invoice in guilders in the Netherlands". Thus the policies do not contain a limitative enumeration of the events which may cause a loss but give a negative description of the risk with certain exceptions and in this way give the insured the benefit of the doubt. The main risks of loss covered are :

### (a) Commercial risks

1. Insolvency ;
2. failure to pay an admitted debt for delivered goods within a certain period, varying from 6 to 12 months after due date ;

### (b) Political risks :

1. political occurrences : war, hostilities, rebellion, revolution, riots, etc. ;
2. government action, (general moratorium, restrictive exchange regulations, the freezing of funds cancellation of an import licence, etc.) ;
3. transfer difficulties and foreign exchange shortage,

### (c) Disasters : earthquakes, floods, epidemics.

### Risks excluded are :

1. Marine risks or other hazards resulting in material damage to the goods ;
2. Losses resulting from causes within the control of the exporter ;
3. Disputes as to delivery, quality of the goods etc., or repudiations on the part of foreign buyers.

The Exchange risk is normally not included in the cover. It may be covered separately in connection with medium term export-business, when cover is not possible in the forward exchange market.

### III. Extent of Risk

- (a) Cover usually starts at shipment. Preshipment risks can be covered in connection with medium term business.
- (b) Short term business is covered on standard policy premium and percentage of cover being fixed for each transaction individually.
- (c) The percentages of cover vary from 75% to 90%.
- (d) In case of currency risks, the percentage of cover usually amounts to 95%.

### IV. Selectivity

For short term business there exists no compulsion to cover the risks on whole turnover basis.

### V. Premiums

Premiums are fixed for each transaction ;

### VI. Other Guarantees

Dollar Drive Guarantees Introduced in April 1952 . Government Guarantee one half of the cost of Market research, advertising and warehousing if not covered by increased volume of sale within a specific period. These risks are under written directly by the Ministry of Economic Affairs and not by intermediary of Nederlandsche Credietverzekering Maatschappij, N.V. The Maximum liability for these guarantees is fixed at D.f. 2,000,000,

## SWEDISH SCHEME

Export kreditnamnden, Sweden

### I. Structure

1. A Government Board operating under Ministry of Trade giving guarantees on behalf of the State. It has no independent powers and no separate capital. It is controlled by an E. C. G. Board composed of top industrial organisations and Government departments; the latter exercise dominant control.

2. Maximum liability is Kr. 300 millions i.e. Rs. 27 crores. (Including Kr. 100 millions i.e. Rs 9 crores) for special guarantees.

3. Formed in 1933.

4. No insurance brokers are employed.

### II. Risks covered by Standard Policies

Individual policies are issued to cover each of the following types of risks :

- (i) Private Buyers—Insolvency and default provided there is no breach of contract by the exporter.
- (ii) Public Buyers—Non-payment where there has been no breach of contract by the exporter.
- (iii) Transfer (This policy can be issued separately or combined with (i) and (ii) above).
- (iv) Pre-shipment (Any claim is calculated on the net cost of goods to the manufacturer excluding his profit less the value of the goods at the time of the claim and less any pre-shipment received).
- (v) Import or exchange licensing controls,
- (vi) General war,
- (vii) Loss between shipment and delivery of goods.

The cover is always 75% of the loss,

Losses excluded :—

- (i) repudiation,

- (ii) increased manufacturing costs,
- (iii) devaluation,
- (iv) catastrophic risks.

### III. Extent of cover :

- (a) The cover provided by the policies mentioned at II (i), (ii), (iii), (v) and (vi) above begins when the goods are delivered to the buyer. The policy at II (iv) above covers pre-shipment risks only.
- (b) Normally 65-70 per cent is guaranteed but this percentage may be reduced where payment terms are exceptionally long or markets are difficult, and may be increased to 75%. Normally the risk covered is 70 to 85% but the policy holder always bears the first loss of at least 10 to 15 per cent. 85 per cent cover may exceptionally be agreed for agricultural and fisheries products.

### IV. Selectivity

Exporters normally insure selected contracts only, and as shown above, have option of the risks to insure.

### V. Premiums

Premiums for short-term risks range (normally 1-2%) according to market and payment terms. Rates for long term risks vary between 1 and 4 per cent per annum. All risks covered, for general policies covering the total turnover the premium is reduced by about 50%.

### VI. Other Guarantees

- (a) Dollar drive policies.
  - (i) stock-holding (very seldom),
  - (ii) financial guarantees to banks, covering the banks for 75% with no risk for the banks but with full recourse on the exporter.
  - (iii) external trade guarantees.
- (b) Services Policy (exceptionally).

### VII. Experience

E. K. N. guarantee less than 1½ per cent of the total Swedish export trade and 10 to 15% of insurable exports. It is understood

that the organisation has conducted its operations on a solvent basis since its inception.

### VIII. Other Remarks

E. K. N. have operated their scheme on a conservative basis, but during the last 2-3 years, the cover has been higher and the premium lower.

E. K. N. takes a first charge on recoveries plus interest.

Normally goods must be wholly or partly produced in Sweden (an exception may be made for dollar drive transactions) and now it may also be given for other exports.

Policies can be hypothecated to banks. Payment is normally made within six months after the due date. In some cases after 7 days after due date. In other cases upto 8 months after due date.

Payment terms approved up to six months for consumer goods and upto four years for capital goods after delivery.

## SWITZERLAND

### "EXPORT RISKS GUARANTEE (E. R. G.)

Geschäftsstelle für Die Export Risikogranterie

#### I. Structure

Swiss E. R. G. is a Government Department.

#### II. Risk covered by Standard Policies

Individual policies are issued to cover each of the following types of risk ;—

(i) *Private Buyers*: the policy covers only transfer and political risks.

(ii) *Public Buyers* . the policy covers non-payment of money by the buyer as well as the transfer and political risks.

#### *Losses excluded :*

Insolvency of private buyers. (this risk can be insured with private company, LA FEDERALE COMPAGNIE ANNONYNE D' ASSURANCES/only for 3 to 6 months.)

#### III. Extent of Cover :

(a) The cover provided by the policies mentioned above begins when the contract is made.

(b) The maximum percentage guaranteed is 80% of cost price and the average is 70%. The policy holders bear first the loss of profits which on the average is about 10% of the invoiced amount and then 20/30% of cost price as their share of loss.

#### IV. Selectivity :

Every exporter can choose his transaction for insurance.

#### V. Premiums

Until 1946, the guarantee was given by E. R. G. without any cost. Since 1947, a fixed premium of  $\frac{1}{2}$ % worked on the sum of guarantee is charged irrespective of buyer, country of destination or payment terms.



**VI. Experience**

The experience has been exceedingly satisfactory.

**VII. Other Remarks**

Maximum credit terms approved by Swiss E. R. G. are 5 years (exceptionally 7-8 years).

**UNITED KINGDOM**  
**EXPORT CREDIT GUARANTEE DEPARTMENT**

**I. Structure**

1. E.C.G.D. is a Government Department under the President of the Board of the Trade. It is empowered by Act of Parliament to give guarantees on a commercial basis, "for the purpose of encouraging trade with places outside the United Kingdom.....being guarantees for the export, manufacture, treatment or distribution of goods or the rendering of services." These guarantees are subject to a maximum liability of £ 750 millions and are given with the agreement of an Advisory Council of bankers and business men. In cases where it is desirable to issue guarantees on an extra commercial basis, business may be underwritten with the consent of the Treasury subject to a maximum liability of £ 150 millions.

2. E. C. G. D. has 13 branch offices in the U. K. and one in New York. In addition, it recognises established Insurance brokers paying them a commission varying from 5 to 9% according to the extent of business introduced.

**II. Risks Covered by Standard Policies**

(a) *Commercial Risks* :

- (i) insolvency of the buyer; and
- (ii) failure of the buyer to pay to the exporter within 12 months after the due date of payment the contract price of goods of which delivery has been duly accepted by the buyer.

(b) *Political, Transfer of Assets, etc.*

- (i) The operation of a Law or of an Order, Decree or Regulation having the force of law, which in circumstances outside the control of the Exporter and of the buyer prevents, restricts or controls the transfer of payments from the buyer's country to the U. K., or
- (ii) The occurrence of war between the buyer's country and the U. K., or

- (iii) The occurrence of war, hostilities, civil war, rebellion, revolution, insurrection, or other disturbance in the buyer's country, or
- (iv) The cancellation or non-renewal of an Export Licence or the imposition of restrictions on the export of goods not previously subject to licence, or
- (v) The incurring in respect of goods shipped from the U. K. of any additional handling, transport or insurance charges which are occasioned by interruption or diversion of voyage outside the U. K. and which it is impracticable to recover from the buyer; or
- (vi) Any other cause not being within the control of the Exporter or of the buyer which arises from events occurring outside the U. K.

*Note* :—For public buyers (which cannot be made insolvent), the following additional risks are covered :—

- (1) Failure or refusal on the part of the Buyer to fulfil the terms of the contract of sale of the goods ; such failure or refusal not arising from any breach of contract or warranty on the part of the Exporter nor from any other cause within the control of the Exporter.
- (2) The operation of a Law or of an Order, Decree, or Regulation having the force of Law, which in circumstances outside the control of the exporter prevents restricts controls the transfer of payments, from the Buyer's country to the U. K.

(c) *Risks Specifically Excluded :*

- (1) Any risks insurable elsewhere.
- (2) The buyers' failure to obtain any authority necessary at the date of contract (or 'shipment') to import or pay for the goods.
- (3) Exchange fluctuations.

*Note* :—It should be noted that the risks defined in II (a) and (b) exclude :—

- (i) Repudiation, i.e. the refusal of a solvent private buyer to accept goods he has ordered.

- (ii) Any risk (not listed in (a) and (b) above) within the control of the exporter or the buyer.
- (iii) Any loss, other than b (iv) above which occurs in the U. K.

### III. Extent of cover

(a) *The Contracts Policy* : gives cover from date of contract until exporter receives final payment.

*The Shipment Policy* : gives cover from the date of shipment until exporter receives final payment.

(b) **Percentage of Guarantee** : 85% of contract price for loss arising from commercial risks ; 90% for all other risks (including default by public buyers).

*Note* : For doubtful countries, the percentage of risks may be reduced.

### IV. Selectivity :

These policies normally cover the whole of the policy-holder's export trade for 12 months with the following exceptions :

- (a) irrevocable deposits made at date of contract ;
- (b) (shipments policies only) Payments made before shipment or by confirmed irrevocable letters of credit.
  - (i) An exporter is allowed to exclude (i) sales made to U.K. buyers for shipment overseas ;
  - (ii) business with any markets provided that the resultant spread of risk is acceptable to the Department and the exporter is agreeable to payment of additional premium.

*Note* : Exporters must insure all risks listed in II (a) and (b), but where an exporter has a substantial financial interest in the buyer, E.C.G.D will not cover the commercial risks.

### V. Premiums :

(a) Premium rates depend on the following factors :—

- (i) the Department's assessment of risks in the buyer's country ;
- (ii) the terms of payment ;

- (iii) the class of goods ;
  - (iv) Whether contracts or shipments cover is required ,
  - (v) the amount of business offered for insurance ;
  - (vi) the degree of selection allowed to the exporter ;
  - (vii) the previous claims record of the exporter.
- (b) The average premium rate for short-term business is now about  $\frac{1}{2}$ %, but premium rates for different countries vary from about .15% to 3%.

## VI. Other Guarantees

### 1. Endorsements to Standard Policies :

The following endorsements can, at the option of the exporter, be issued to holders of short-term contracts or shipments policies, to meet special requirements :—

(a) **Engineering** : The normal policies cover credit terms up to six months from shipment. In recent years, however, credit terms for light capital goods, e. g., tractors, commercial vehicles, electric generators and pumps have been gradually extended. The Engineering endorsement extends the Standard policies to cover approved goods sold on terms up to 2 years from shipment.

(b) **D/P Memorandum** : To cover contracts which stipulate for "documents against payment" and for a tenore bill of exchange to be accepted by the buyer and duly delivered to the Exporter in accordance with the contract. If the bill is dishonoured by the buyer at due date, the exporter has the right to sell the goods and charge the buyer with any shortfall. This memorandum agrees to cover such loss provided it does not exceed 85% of 25% of the amount of the bill.

(c) **Sales from Overseas Stocks** : Endorsements are available to cover sales :

(i) to an agent-buyer ;

(ii) to ultimate buyers in local currency.

(d) **Stocks Endorsement** : To cover goods owned by the exporter and held in a consignment stock overseas against the risk of

(i) requisition or confiscation ;

(ii) war, civil war, etc.

(iii) the inability of the exporter to re-export the goods to the U.K.

(e) **Re-Export Endorsement** : To cover foreign goods imported from the U. K.

(f) **Fair Endorsement** : To insure goods shipped for exhibition at a foreign Fair against the risks of—

(i) requisitioning or confiscation ;

(ii) prevention of re-export of the goods if (unsold) or prevention of transfer of payments for goods (if sold at the Fair) ;

(iii) war, civil war, etc.

## (2) Other Policies

(a) *External Trade policy*: Insures a Merchant who is buying goods in one foreign country and shipping them direct to another (without passing through the U. K.) against the risks of insolvency, transfer, war and civil war. This form of policy will only be issued in respect of goods which do not compete with British exports.

(b) *Processing Policy*.—Designed to cover risks arising from the processing of British owned goods in foreign countries ; The risks covered are

(i) requisitioning or confiscation ;

(ii) prevention of shipment from the processing country ;

(iii) war, civil war, etc.

(c) *C. I. F. Charges Policy*. Risk covered—increase in the rates of premiums for marine or war risk insurance or in freight.

(d) *Medium term Policies*.—These policies insure individual contracts for capital goods where the terms of payment and manufacturing periods are lengthy and the contract amounts are large. The exporter has freedom to select individual contracts for cover. The risks insured are the same as for the Standard Policies described in II, and the premium rates vary between 1% and 6% according to the buyer's country, the payment terms, the type of goods and the class of buyer (i.e. private or public buyer). Credit terms involving a spread of payment over 1—5 years from shipment are not unusual for large contracts.

(e) *Special Guarantee to Banks.* These guarantees are issued directly to U. K. Banks to assist the finance of major capital goods contracts.

(f) *Dollar Drive Policies.* The following are special Dollar Drive policies issued to encourage exports to North American markets and the dollar account countries of Latin American :—

(i) *Contracts and Shipments policies* for consumer goods are issued for individual markets in the same form as the ordinary short term Contracts and shipments policies. In exceptional cases cover may be given on buyers to a larger amount than would normally be considered prudent.

(ii) *Sales Promotion Policies* In order to help exporters to bear the heavy financial risks of developing sales in the dollar markets, E. C. G. D. is prepared to go into partnership with the exporter over a period of between 2 and 6 years. E. C. G. D. receives a premium, and if the promotion campaign is unsuccessful, shares the final loss equally with the exporter. An example of these guarantees is the Advertising campaign against a planned expansion of sales; if at the end of the guarantee period the estimated sales had not been fully achieved and therefore the cost of advertisement had not been fully recouped, E. C. G. D. would pay the exporter 50% of the loss. Similar types of guarantees can be issued in respect of market surveys, stockholding, and promotional expenses; in addition joint venture policies can be issued to cover the whole of an exporter's development programme in respect of one dollar market over a period of 4 to 6 years.

(g) *Services Policies:* These policies insure payments for services rendered by U. K. firms to principals abroad where there is no sale of goods, e.g. insurance premiums, royalty and copy-right payments, auditor's fees, services of constructional engineers. The policy covers 85% or 90% of loss arising from the risks of insolvency, transfer War & Civil War either for individual transactions or a series transactions over 12 months.

## VII. Experience

E. C. G. D. is charged to maintain solvency. It is not a profit-making body and its income (from premiums and claims recoveries) must over a period of years balance its expenditure (claims payments and administration costs). In general, this objective has been achieved but E. C. G. D. have experienced two periods when claims have been abnormally high ;

- (i) 1939-41—war, transfer and diversion claims and
- (ii) 1951-1953 Brazilian transfer claims
- (b) *Eligibility:* E. C. G. D. will cover all goods wholly or partly manufactured or produced in the U. K. and such foreign goods as do not compete with U. K. products.
- (c) Policies may be assigned to banks either in full or in respect of individual countries or shipments.
- (d) The maximum credit terms normally approved depend on the type of goods, as follows :
  - (i) raw materials—90 days ;
  - (ii) consumer goods—six months
  - (iii) light machinery—instalments over two years ;
  - (iv) major capital goods—instalments over 3-5 years from shipment (provided there is a substantial payment before shipment).
- (e) Payment of claims is made as follows :—
  - (i) Insolvency—immediately insolvency occurs ;
  - (ii) Default—12 months after due date ;
  - (iii) Transfer—6 months after due date ;
  - (iv) Other risks—6 months after the event which is the cause of loss.
- (f) any recoveries made after payment of a claim are divided between the exporter and E. C. G. D. in proportion to their respective interests in the debt.



## 18 APPENDIX X

Reference chapter XI, Paragraph 14

### Sources from which economic and financial information regarding buyers' countries should be collected

1. Reports from Government of India representatives overseas on economic and financial conditions in their territories. The Export Credit Insurance Organisation should receive copies of such reports direct.
2. Official and unofficial statistical and economic publications of the Government of India and of foreign Governments. Central Banks, Commercial Banks, International Organisations, Chambers of Commerce, Trade Associations.
3. Reports of Trade and Financial Delegations, official and non-official.
4. Trade and financial journals and daily press and the London Economist's Overseas Market Surveys and Commercial History, issued periodically.
5. Reports of overseas representatives of policy holders of the Export Credit Insurance Organisation.
6. Overseas officers of Government of India visiting India: Arrangements may be made that when an officer Government of India posted in a foreign country comes to India, he should meet the officers of the Export Credit Insurance Organisation for an exchange of views regarding various matters.
7. Export Credit Insurance Organisation officers going abroad They should collect and give reports on market conditions, and import, export, and exchange regulations.
8. Local representatives of the Foreign Governments in India.
9. Berne Union—Members of the Union usually exchange important information.
10. Direct approaches to the Ministries and Departments of the Government of India, the Reserve Bank of India, and Indian Embassies, High Commissions, Consulates, Legations, and Trade offices abroad.

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