



CONSULTATION ON THE ISSUE OF EXPORT CREDIT INSURANCE AND THE REQUIREMENTS OF THE WEST MIDLANDS BUSINESS COMMUNITY

The Midlands World Trade Forum together with Birmingham and Black Country Chambers of Commerce has sought views from local companies on the issue of Export Credit Insurance.

Background

Favourable exchange rates against the US \$ and Euro put British companies in an advantageous position in order to 'export out of the recession'. However the position being taken by the key players in the export credit insurance market is not just stifling new business but is also threatening the long-standing business relationships that companies have built up with their overseas customers.

Insurance Premiums and Level of Cover

Increases in premiums have either already been enforced or are anticipated once existing agreements come to an end. The percentage increases vary from 30% to as much as 1000% in one case.

Level of Cover and Withdrawal of Cover

Premium increases are also going hand in hand with a reduction in the level of cover thus making the pro-rata increase in the premium significantly more than it first seems. Insurers are taking a blanket approach when reviewing levels of cover and either reducing or withdrawing cover based on their view of the viability of a sector rather than the financial stability of specific customers. The withdrawal of £1m of cover within the first month of renewing their insurance policy was reported by one company, whose areas of business include the construction sector in Spain.

Cover is also being withdrawn for customers whose filed accounts are more than 6 months old, which many feel is an unreasonably short period of time to be imposing.

The companies surveyed also reported the complete withdrawal of cover for markets such as Turkey, Eire, Iceland and the Caribbean.

The complete inflexibility of the key players offering export credit insurance is forcing many companies to review whether they take out insurance or not. The fear expressed by many is that the stance being

taken by the insurers such as Euler Hermes, Atradius and Coface will prolong the recession and hasten the insolvency of some SME's.

Government Help

A government backed scheme, which is prepared to accept risk and not just cover safe options is needed in order to help companies to 'export out of the recession'.

When considering any form of export credit guarantee scheme the Government should ensure that this is compatible with other initiatives offering support to exporting companies. For example the recently launched initiative aimed at identifying opportunities resulting from Global Fiscal Stimulus Programmes will signpost companies to significant investments that have been announced in the Construction Sectors in France, Germany and Spain. If this initiative does not also carry with it the guarantee that companies will be able to obtain insurance cover on new business then the initiative will be of no help to them.

A selection of comments made by some of our respondents is detailed below.

Business 1

"As a major exporter (approx 90% of turnover) we have a policy with xxxxxxxx and have done so for 25 years. It is up for renewal in October and we will not be renewing due to the complete collapse of cover on our customers. We believe we have been treated very shabbily indeed by them.

It is a very serious problem. We are trying to mitigate our risk by asking for Letters of credit, better payment terms etc. it does worry me that, when things pick up there will not be sufficient people with letter of credit experience at the banks or in industry".

Business 2

"We have been limited by our insurers to £10,000 of exports to the USA per year, which of course limits our exports to the States"

Business 3

"Many moons ago we tried to deal with the Government backed scheme, but found it very restrictive, and ultimately left it alone. Up until about 4 years ago we were insuring our export debt with xxxxxx until they again became very picky about countries they would and would not accept. In particular we have an excellent distributor in Turkey, who pays us very promptly, and yet xxxxxx demanded that they exclude Turkey from the listing. At that point we decided that it was somewhat of a waste of money, and have since paddled our own boat.

If the new Government backed export credit insurance is a proper insurance, by which I mean that they are prepared to accept risk, then we might be interested, but if they're only interested in taking the safe options, then we wouldn't be interested".

Business 4

"We have been with the same insurer for a number of years. We have tried to get out of the insurance this year as we had more than £1,000,000 of cover pulled within the first month of renewing the policy. In a lot of cases we have not had sufficient warning that the cover is to be pulled and in one situation we were half way through the biggest project the company had ever had and cover was withdrawn immediately. The reason was that xxxxx in Spain had automatically cut cover on all companies within the construction industry – whether they were doing well or not.

It would be good if this poll helps to influence ECGD as their current policy is not helping the vast majority of manufacturing SME's".

Business 5

"We have been with the same insurer for some time but after a recent claim, we find they want to try and get their money back and have increased premiums to a point where we consider it to be totally unethical and something which we cannot afford. Interesting that in good times you can get cover, but when you really need insurance companies they want to take you for a ride.

Business 6

A long standing aluminium firm in Congleton, has recently had to pull out of the market and put its business into administration due to the withdrawal of cover with the loss of many jobs. Their insurers basically got rid of anything with any risk and left them with all the things that have no risk and still want all the premium, branding insurers immoral."

Business 7

"Our insurers are reducing cover for many customers and also taking away the discretionary limit of £10k we had regardless of those customers. This is making it very difficult to offer credit terms and reducing our ability to do export sales".

Business 8

"We are unhappy with the 'blanket' approach that credit insurers are taking by withdrawing cover simply because a customer trades in a specific sector that is considered to carry a risk. We are also unhappy with the withdrawal of cover where filed accounts are more than 6 months old – there are not many companies who file within 6 months of a financial year end! We can understand withdrawal or reduction where specific information is received about a customer, but feel that insurers are using every opportunity to duck the issue".

Business 9

"Insurers are reducing level of cover, not just for export customers. Their decisions are based on industries and not just specific customers. It is coming to the point where we may think it not worthwhile having credit insurance. In that case we will probably turn a lot of business down where the value of the risk is too high".

Business 10

"Insurers have increased monthly declaration fees imposing the market rate additions clause in the policy, which can add 2% on declared turnover. This is affecting areas such as Turkey, Jordan and Jamaica".

Business 11

"Credit insurance as an institution is dying. It takes the premiums in good years and cuts cover in bad. The actions of the credit insurers will prolong the recession and hasten the insolvency of some companies. The government's Top Up scheme is too expensive and will not work".

Business 12

"We have been offered the government assisted cover but this only affects individual contracts for £20,000 cover. There is no assistance for our overseas contracts which are mainly less than £10,000".

Peter Mathews CMG, President of Midlands World Trade Forum and Black Country Chamber of Commerce initiated the survey and comments that "as the Government wants us to do our best to trade and export our way out of recession, something which the British economy can adapt to, I find that the withdrawal of insurance cover holds that recovery back substantially.

There needs to be an understanding from Government, especially ECGD of the fears of the SME sector in particular, as their viability without cover which they have been using for many years is now under serious threat; back-up insurance supported by Government needs to be in place as we head towards fragile recovery of the global market."

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