Introduction to Export Credit Business

SACE SRV - Economic analysis
Milan, February 17th, 2014
Introduction to Export Credit Business

- Credit Insurance: storyline and market
- ECAs over the years
- ECAs as global players
- SACE’s new business
What’s an ECA?

- An Export Credit Agency is a private or quasi-governmental institution that acts as an intermediary between national governments and exporters to issue export financing.

- The financing can take the form of credits (financial support) or credit insurance and guarantees (pure cover) or both, depending on the mandate the ECA has been given by its government.

- ECAs can also offer credit or cover on their own account. This does not differ from normal banking activities.

- Some agencies are government-sponsored, others private, and others a bit of both.

The scope of Export Credit Agencies (ECAs)

• **ECAs were established in early 1900** to support economic growth by insuring commercial credits across border

• **Competition has increased**: private companies now dominate in the ST segment and increasingly operate also in the MLT

• **The role of ECAs has changed over time.** From “insurer of last resort” to global market player. Public-private partnerships

• **The evolution of the ECAs has led** to new business models and to new governance and ownership structures

• **There is no single business model.** Countries have adopted various approaches to support exporting firms
Alternative models for ECAs

- **Government agencies with mandate to support national interest.** This traditional model prevails in the US (Exim), in Japan (NEXI), and UK (ECGD), though there are differences.

- **Private companies operating also as state agents.** Profit-seeking, private insurance providers (Euler Hermes, COFACE, Atradius). They also operate as government agents with state guarantee (or re-insurance) in markets where the private sector cannot or is not willing to operate (e.g., MLT risks in EMs).

- **Intermediate model.** Export credit companies with a private-sector business model. The state is the main or only shareholder. The company supports domestic firms’ internationalization while ensuring adequate returns to the public capital (e.g. SACE, CESCE, ONDD and GIEK).
ECAs around the world

- Australia - Export Finance and Insurance Corporation (EFIC)
- Austria - Österreichische Kontrollbank AG (OeKB)
- Belgium - Office national du Ducoire/Nationale Delcredere dienst (ONDD)
- Canada - Export Development Canada (EDC)
- China - China Export & Credit Insurance Corporation (SINOSURE)
- Czech Republic - Export Guarantee and Insurance Corporation (EGAP), Czech Export Bank
- Denmark - Eksportkredit Fonden (EKF)
- Estonia - Kredex Krediidikindlustus (EST)
- Finland - EFInnova Oyj, Finnish Export Credit Ltd (FEC)
- France - Compagnie Française d'Assurance pour le Commerce Extérieur (COFACE), Direction des Relations Économiques Extérieures (Ministère de l’Économie) (DREE)
- Germany - Euler Hermes Kreditversicherungs-AG, Auslands-Geschäfts-Abwicklung der Bundesrepublik Deutschland
- Greece - Export Credit Insurance Organisation (ECIO)
- Hungary - Hungarian Export Credit Insurance Ltd (MEHIB), Hungarian Export-Import Bank
- India - Export-Import Bank of India, Export Credit Guarantee Corporation of India (ECG)
- Israel - Israel Foreign Trade Risks Insurance Corporation, (ASHRA)
- Italy - SACE S.p.A, Servizi Assicurativo del Commercio Estero
- Japan - Japan Bank for International Cooperation (JBIC), Nippon Export and Investment Insurance (NEXI)
- Jordan - Jordan Loan Guarantee Cooperation (JLGC), Loan Guarantee & Export Credit Guarantee
- Korea - Korea Trade Insurance Cooperation (KSURE), The Export-Import Bank of Korea (KEKIM)
- Luxembourg - Office du Dutaire (ODD)
- Mexico - Banco Nacional de Comercio Exterior (Bancomext)
- Netherlands - Atradius
- New Zealand - Export Credit Office (ECO)
- Norway - The Norwegian Guarantee Institute for Export Credits (GIEK)
- Poland - Korporacja Ubezpieczeń Kredytów Ekspresowych (KUKE)
- Portugal - Campanhia de Seguro de Créditos
- Slovakia - Export-Import Bank of the Slovak Republic (Eximbank-SR)
- Spain - CECO www.ceco.es (Ministerio de Economía)
- Sweden - Exportkreditnämnden (EKN)
- Switzerland - Swiss Export Risk Insurance (SERO)
- Turkey - Export Credit Bank of Turkey (TurkEximbank)
- United Kingdom - Export Credits Guarantee Department (ECGD)
- United States - Export-Import Bank of the United States (Ex-Im Bank)
Some Berne Union statistics

BERNE UNION: MEDIUM/LONG TERM EXPORT CREDIT INSURANCE & LENDING

MLT New Business – insured during each year

US$mn

2008  2009  2010  2011  2012

0  50,000  100,000  150,000  200,000  250,000

Sovereigns  Other public  Banks  Corporates  Projects  Unspecified  Lending

MLT Exposure – at year end

US$mn

2008  2009  2010  2011  2012

0  100,000  200,000  300,000  400,000  500,000  600,000  700,000

Commitments  Aid-related commitments  Arrears  Claims, political risk  Claims, commercial risk  Refinanced/rescheduled amounts  Overdues on refin/resch amounts  Lending
Some Berne Union statistics

MLT New Business – Top 10 countries

Russia  | United States  | India  | Saudi Arabia  | China  | Australia  | United Arab Emirates  | Korea Republic  | Italy  | Mexico  | Other

MLT Exposure 2012: Top 10 Countries

United States  | Russia  | India  | Turkey  | Brazil  | Saudi Arabia  | United Arab Emirates  | China  | Indonesia  | Mexico  | Other
Some Berne Union statistics

MLT Claims Paid – during each year

MLT Recoveries – during each year
Some Berne Union statistics

MLT Claims Paid 2012: Top 10 Countries

MLT Recoveries 2012: Top 10 Countries

- Iran
- Libya
- United States
- Korea Republic
- Ukraine
- Russia
- Mexico
- United Arab Emirates
- Kazakhstan
- Canada
- Other

- Egypt
- Indonesia
- Iraq
- Pakistan
- United Arab Emirates
- Korea Republic
- Serbia
- Iran
- Canada
- Ukraine
- Other
The current credit insurance market counts three major groups and a growing number of “second-tier” operators.

Source: Swiss Re – Sigma No. 6/2006
A concentrated and mainly European market

The top three credit insurance groups dominate the global market with an 85% market share and $5.8 billion revenues in 2005, mainly concentrated in Western Europe.
Credit insurance market penetration by country (2004): premium on GDP (%)

- FRA: 0.035%
- GER: 0.046%
- ITA: 0.020%
- NED: 0.089%
- ESP: 0.068%
- GBR: 0.029%
- W. EUROPE: 0.037%
- CENTRAL & EASTERN EUROPE: 0.011%
- N. AMERICA: 0.009%
- LATIN AMERICA: 0.009%
- CHINA: 0.007%
- WORLD: 0.016%

Source: Swiss Re – Sigma No. 6/2006

Credit insurance market penetration remains low anywhere worldwide except in Western Europe
A group of “second-tier” operators have entered (or are due to enter) the European short-term credit insurance market through dedicated companies, while other ECAs are operating in the segment with separate accounting.
# National export vs national interest

## NATIONAL EXPORT

### Targets
- Promote export
- Promote employment generation
- Support Strategic trade

### Consequence
- Export Credit (may) imply a subsidy measured by premium < expected loss and breakeven vs ROE

### Policy implications
- The public subsidy may be restricted to: companies incorporated in the national territory, with the production manufactured locally (at least up to a certain threshold), and shipment by local-flag carriers

## NATIONAL INTEREST

- Support the national economy’s internationalization
- Compete, complement and cooperate with private players.

- ECAs must trade-off between: offering “public support” and pursuing sound transactions; being driven by domestic demand (player of “last resort”) and actively pursuing business opportunities

- Criteria to restrict the scope of business loose meaning
- Attention to administrative issues needs to be reduced and focus on risks increased
- Transaction costs need to be reduced in order to be more efficient and competitive with the market
Becoming a global player

PRODUCTS

- Export Bank
- Factoring
- Bonding & Surety
- Financial Guarantee
- PRI insurance

DURATION

- Credit Insurance (Short Term)
- Working Capital Facilities
- Export Credit OECD regulated
- SME
- Credit Insurance/Enhancement
- Domestic Strategic Sectors

MARKET

Export Credit MADE BY

Export Credit UNTIED

EXPORT

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SACE’s new business: two macro-areas

- **Traditional business**
  - Export Credit
  - Political Risk Insurance

- **New instruments**
  - Internationalization
  - *Market window: untied/strategic operations*
Traditional Business

• **OECD – Consensus Traditional Business**
  - Insurance of export credit
  - Operations mainly at non-market conditions
  - Emerging Economies and medium-long tenors

• **Extra-Consensus Traditional Business**
  - PRI (Emerging Markets)
  - Coverage of non-credit risks (linked to ECI)
  - Sureties
New Instruments

• Internationalization Business
  - CIPE changes and Competitiveness Decree, 2005
  - Financial guarantees on investment abroad, guarantees for internationalization of SMEs and banks
  - Market conditions, Advanced Economies risks (i.e. Italy)

• Market window
  - Untied business as from the new framework, ex Budget Law 2007
  - New products not linked to Italian export and support to strategic sectors such as infrastructure and energy
  - Market conditions
# The New Business Model

## TRADITIONAL ACTIVITIES

**Objective:** enhancing the Italian economic system and increasing portfolio diversification

- **Export Credit**
- **Political Risk Insurance**

*Traditional activities under *non marketable* conditions*

*Activities not regulated by international legislation: insurance coverage of FDI (Foreign Direct Investments) against political events*

*Legislation:*
  - OCSE (Consensus)
  - D. lgs. 143/98

## NEW PERIMETER

**Objective:** supporting the internationalization of Italian enterprises (in particular SMEs) and to guaranteeing operations with a strategic interest for Italy, under private criteria

- **Internationalization**
- **Market Window**

*Financial guarantees, issued under marketable conditions*

*Financial guarantees, issued under market conditions, for transactions with a strategic interest for Italy (infrastructures, renewable energies, etc), competitiveness and development of productive processes and employment.*

*Legislation:*
  - D. lgs. 143/98
  - Resolution CIPE 2004
  - Competitiveness decree law 2005
  - Financial Law 2007

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(1) It includes Supplier Credits, Buyer Credits, Products for banks and Surety
(2) Internationalization guarantees and other financial guarantees
(3) Financial guarantees excluding *pre-shipment* financial guarantee

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New perimeter: the internationalization test

The feasibility of transactions characterized by a low presence of Italian goods can be determined through the application of an internationalization test, which considers two main criteria:

1. **Minimum profitability**
   - ROC higher than a minimum level for any kind of operation
     - Operations under essentially market conditions
     - Adequate return for the contracted risk
     - Adequate margin consistent with the market performances for capital remuneration

2. **Indirect benefits**
   - Presence of indirect benefits related to the concept of national interest
     - Indirect export and/or future export flows
     - Interests of Italian firms which control companies settled in foreign countries
     - Commercial externalities (for infrastructures and financial institutions)
     - Development of processes of *know-how* accumulation
     - Strategic impact on international markets of initiatives and/or proponents
     - Employment impact
Index

1. From “Made in” to “National Interest”

2. The New Business Model
Premises

- Given the unwillingness of the private sector to assume the risk associated with exporting, in the early 20th century, Official Export Credit Agencies (ECAs) were established with the objective of helping firms finance overseas sales of domestic goods and services.

- During the second half of the 20th century they financed a significant share of exports from industrialized countries and provided larger debt financing for developing countries than either multilateral creditors or other official bilateral creditors.

- Nowadays business environment facing Export Credit Agencies (ECAs) has changed significantly: the importance of officially supported trade finance has been declining relative to the rapid expansion of world trade and total capital flows to developing countries.

- The big exception to this trend is in the emerging markets where new ECAs have been set up.
The Italian answer to the market challenges

SACE’s answer to the challenges of international business meeting the requirements of Italian exporters:

- Consolidate the traditional business
- Introduce a New Business Model to better penetrate the market, increase volumes and cover the gap with big players
- Focus on the Short Term segment
- Improve the financial competitiveness of products
- Strengthening the distribution channel
Through the Group’s actions:

- enlargement of the activity scope through operations with a strategic interest for Italy (“Made In Italy”, “Made By Italy”, National Interest)
- design of new insurance products aimed at strengthening Italian enterprises on global markets such as Internazionalization and Financial Guarantees
- diversification of Group’s portfolio in terms of risks, durations, geographical areas and markets
- focus on the ST Non Marketable segment through the synergies with SACE BT
- development of SACE BT’s marketable ST products
- improvement of customer satisfaction
- development of international business through strategic alliances and acquisitions
The Italian answer to the market challenges: from Made In to Made By

The new SACE business model is based on enlargement of scope of operations through shift from the principle of “geographic location” to that of “national interest”

- **1- Insurable:** Italy-based exporter trading goods produced in Italy
- **2- Insurable:** Foreign company purchasing Italian goods for export
- **3- Insurable every time an Italian interest is present:** Italian company procuring abroad goods and services for export
- **4- Insurable every time an Italian interest is present:** Foreign company, fully or partially owned by an Italian company, procuring goods and services in Italy or abroad for export

Traditional SACE activities

Activities in SACE’s potential markets
1. From “Made in” to “National Interest”
2. The New Business Model
Group structure

SACE
Credit insurance, investment protection, reinsurance, financial guarantees, project & structured finance

SACE bt
Short term credit insurance and construction risks

SACE srv
Information providers & insurance fees management

SACE fct
Credits mobilization

Services

Factoring

Medium Long Term

Short Term
Despite the global crisis, 2012 was another year of significant results.
Our financial soundness makes us a reliable partner for banks and enterprises

### Shareholders' equity (€ mln)

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<th>Year</th>
<th>2011</th>
<th>2012</th>
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### Technical provisions (€ mln)

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### Employees

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Thank you for your attention

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