

Introduction to Export Credit Business

SACE SRV - Economic analysis
Milan, February 17th, 2014



- Credit Insurance: storyline and market
- ECAs over the years
- ECAs as global players
- SACE's new business

- 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.

Source: Wikipedia



































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

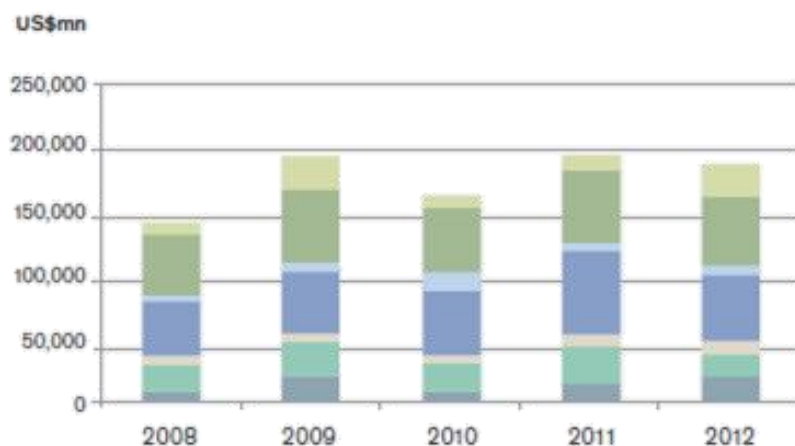
- **Government agencies with mandate to support national interest.** This traditional model prevails in the US (Exim), in Japan (NEXI), and UK (ECGD), though there are differences
- **Private companies operating also as state agents.** Profit-seeking, private insurance providers (Euler Hermes, COFACE, 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)

-  Australia - Export Finance and Insurance Corporation (EFIC)
-  Austria - ~~Oesterreichische Kontrollbank AG~~ (OeKB)
-  Belgium - Office national du Ductoire/Nationale Delcrededienst (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 - Eksport Kredit Fonden (EKF)
-  Estonia - Kredex Krediidikindlustus (EST)
-  Finland - EFinvera Oyj, Finnish Export Credit Ltd (FEC)
-  France - Compagnie Française d'Assurance pour le Commerce Extérieur (COFACE), Direction des Relations Economiques Extérieures (Ministère de l'Economie) (DREE)
-  Germany - Euler Hermes Kreditversicherungs-AG, AuslandsGeschäftsAbsicherung 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 Assicurativi 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
-  South Korea - Korea Trade Insurance Corporation (K-SURE), The Export-Import Bank of Korea (KEXIM)
-  Luxembourg - Office du Ductoire (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 Eksportowych (KUKE)
-  Portugal - Companhia de Seguro de Créditos
-  Slovakia - Export-Import Bank of the Slovak Republic (Eximbank SR)
-  Spain - CESCE www.cesce.es (Ministerio de Economía)
-  Sweden - Exportkreditnämnden (EKN)
-  Switzerland - Swiss Export Risk Insurance (SERV)
-  Turkey - Export Credit Bank of Turkey (Türk Eximbank)
-  United Kingdom - Export Credits Guarantee Department (ECGD)
-  United States - Export-Import Bank of the United States (Ex-Im Bank)

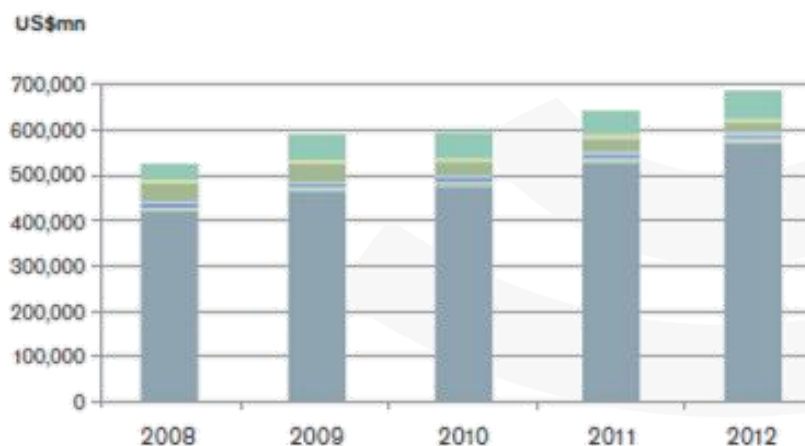


BERNE UNION: MEDIUM/LONG TERM EXPORT CREDIT INSURANCE & LENDING

MLT New Business – insured during each year



MLT Exposure – at year end



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



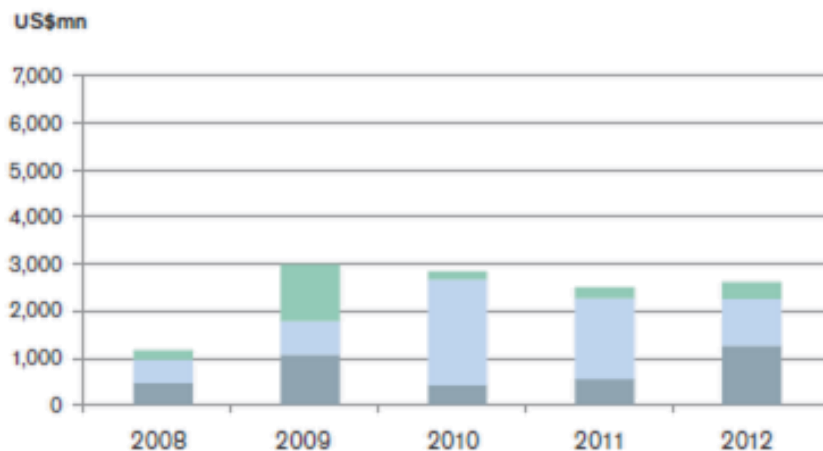
MLT Exposure 2012: Top 10 Countries



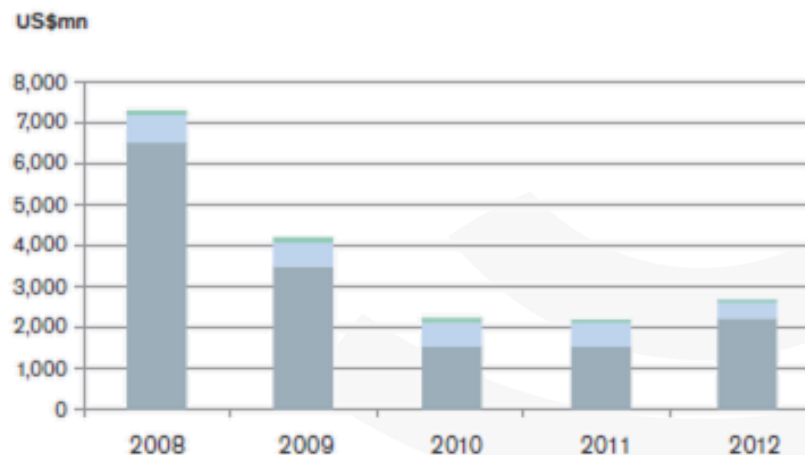
- United States
- Russia
- India
- Turkey
- Brazil
- Saudi Arabia
- United Arab Emirates
- China
- Indonesia
- Mexico
- Other



MLT Claims Paid – during each year

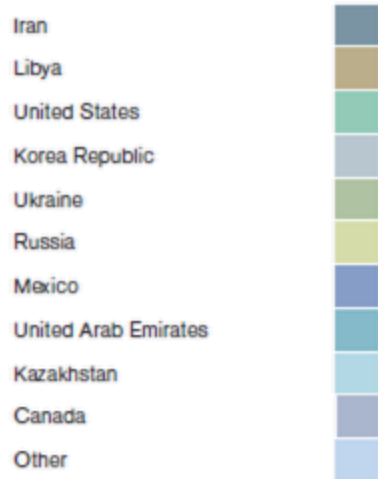
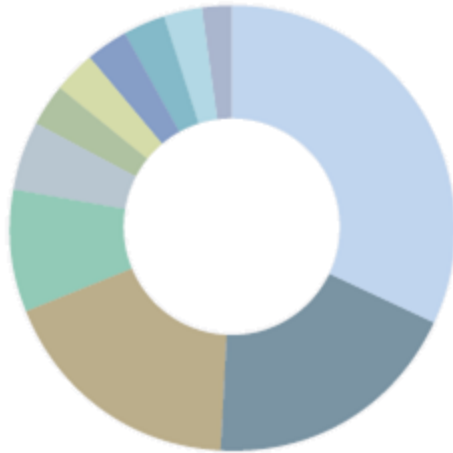


MLT Recoveries – during each year

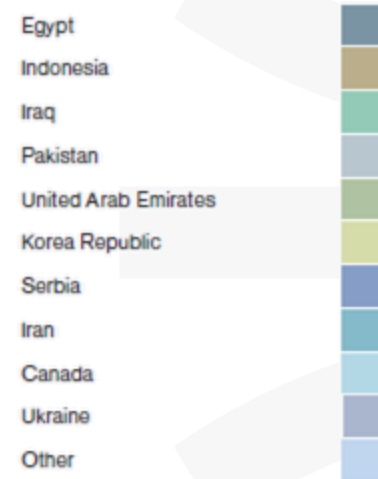
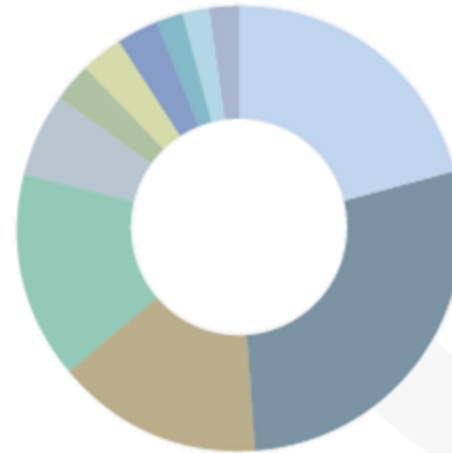


Some Berne Union statistics

MLT Claims Paid 2012: Top 10 Countries

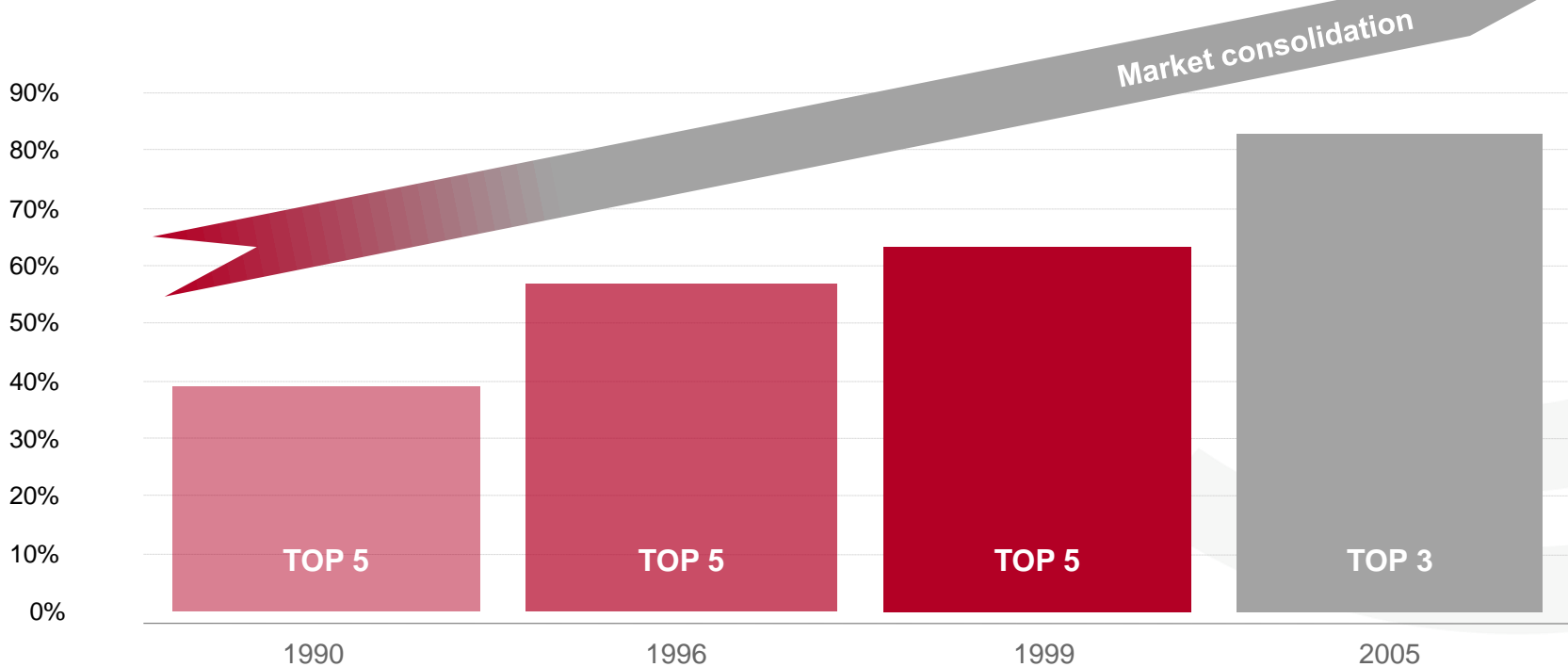


MLT Recoveries 2012: Top 10 Countries



Credit insurance storyline

Global market share of the top five (top three in 2005) credit insurance groups, 1990-2005

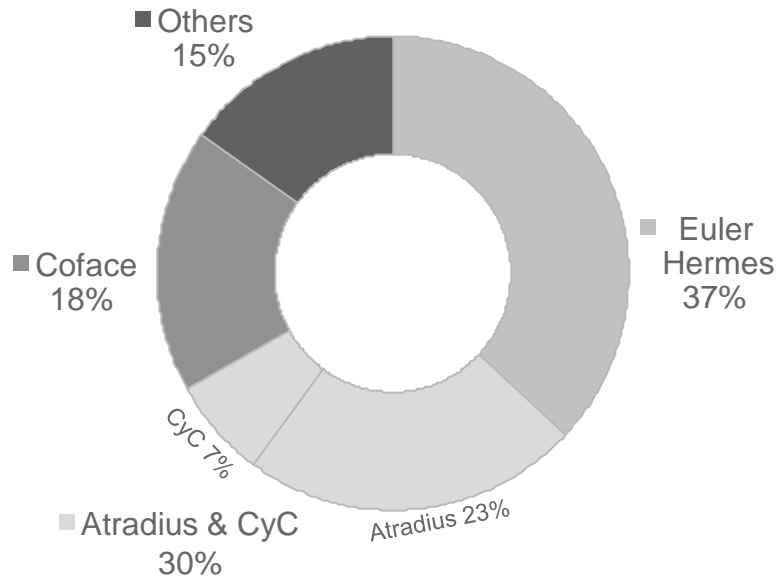


Source: Swiss Re – Sigma No. 6/2006

The current credit insurance market counts three major groups and a growing number of “second-tier” operators

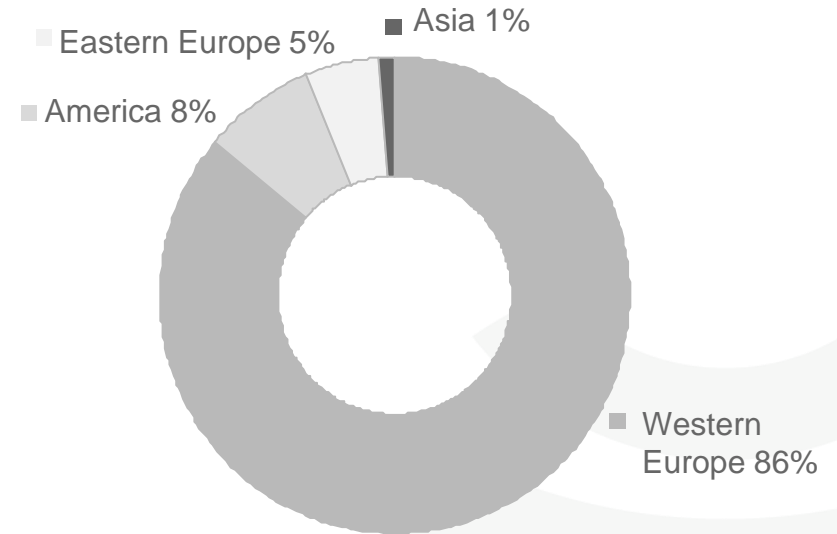
A concentrated and mainly European market

Market shares of the top credit insurance groups, 2005



Source: Swiss Re–Sigma No. 6/2006

Euler Hermes: premia and fees by geographical area, 2005

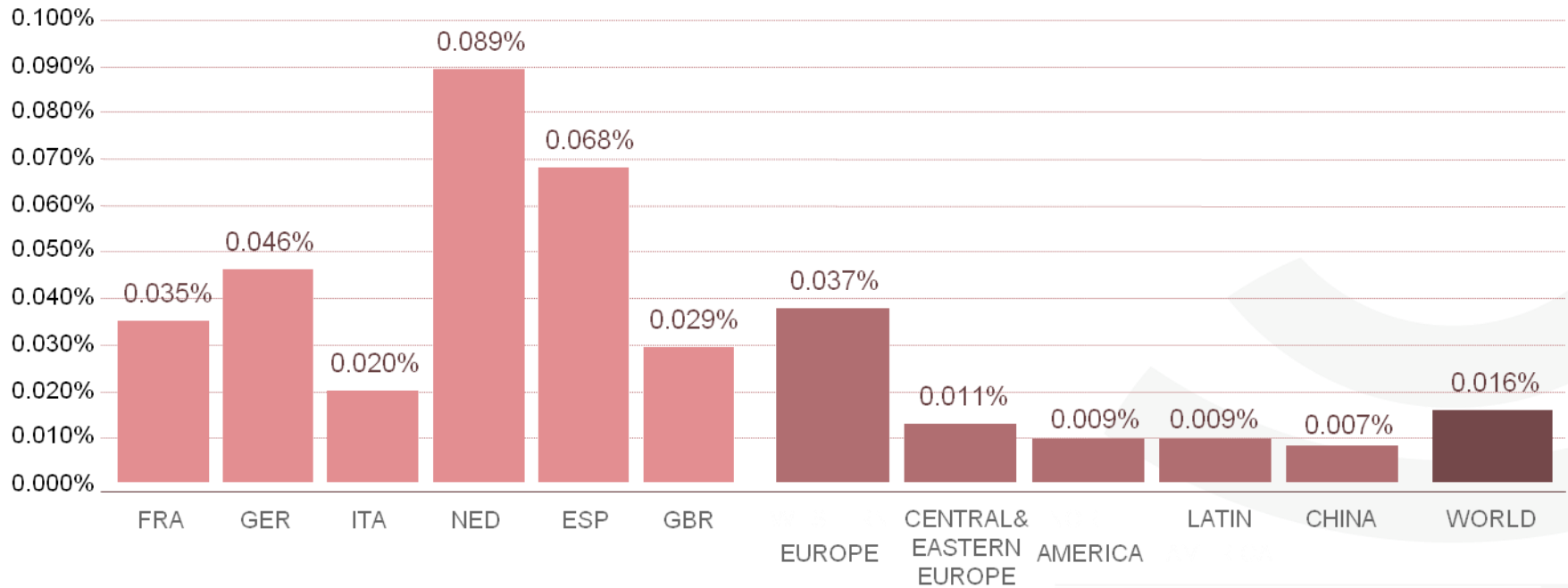


Source: Euler Hermes

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

Credit insurance market penetration by country (2004): premium on GDP (%)



Source: Swiss Re – Sigma No. 6/2006

Credit insurance market penetration remains low anywhere worldwide except in Western Europe



The new “second-tier” operators



(2001) - 100% owned by GIEK



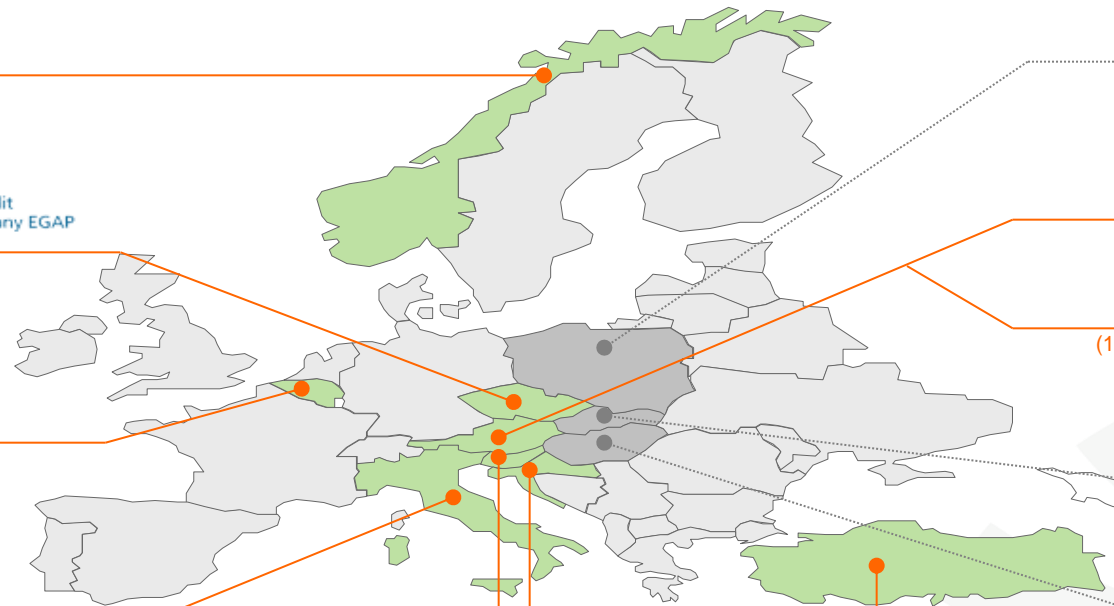
(2005) – 100% owned by EGAP



(2004) - 100% owned by ONDD



(2004) - 100% owned by SACE



(2005) – Separate accounting



(2005) - 100% owned by OEKB



(1989) – owned by OEKB (51%) and EULER HERMES (49%)



(2005) – Separate accounting



(2005) – Separate accounting



(2006) – 100% owned by SID-Banka



Company under development



Company under development

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

NATIONAL INTEREST

Targets

- Promote export
- Promote employment generation
- Support Strategic trade

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

Consequence

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

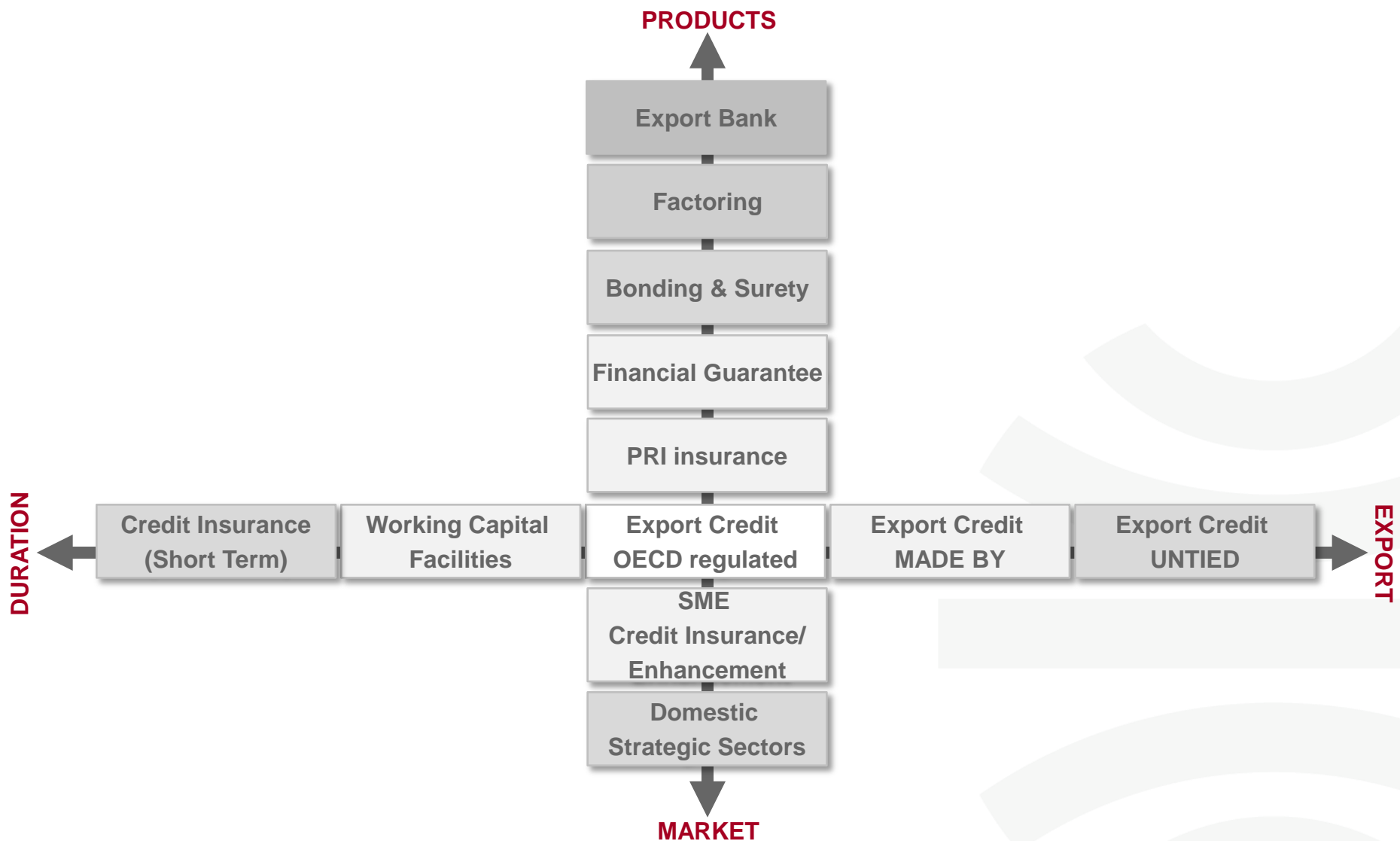
- ECAs must trade-off between: offering “public support” **and** pursuing sound transactions; being driven by domestic demand (player of “last resort”) **and** actively pursuing business opportunities

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

- 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

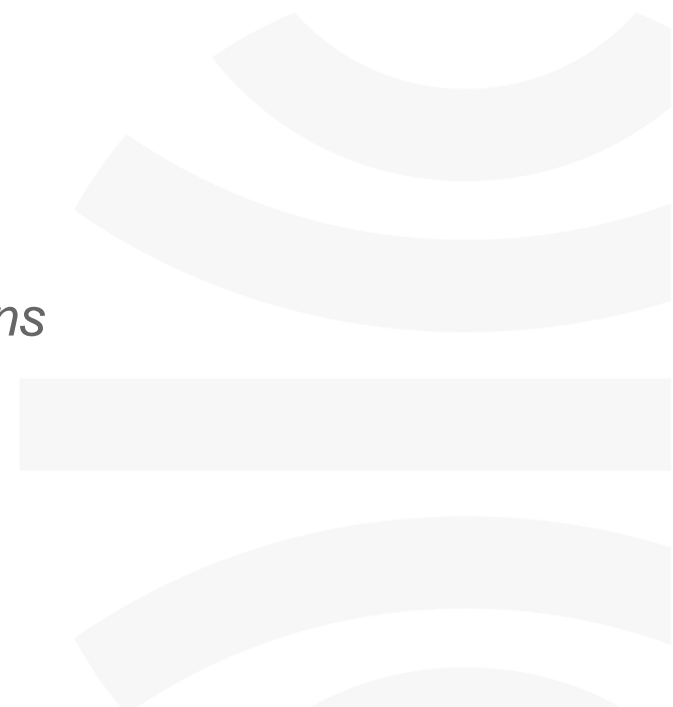




SACE's new business: two macro-areas

- **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

- **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 Credit¹

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

Legislation:

- 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

Internationalization²

Market Window³

Financial guarantees, issued under marketable conditions and not only referred to export transactions, in order to help Italian companies and their controlled firms to expand global markets.

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:

- Resolution CIPE 2004
- Competitiveness decree law 2005

Legislation:

- Financial Law 2007

(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

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



SACE Business and Strategy

Milan, February 17th, 2014



1

From “Made in” to “National Interest”

2

The New Business Model



Premises

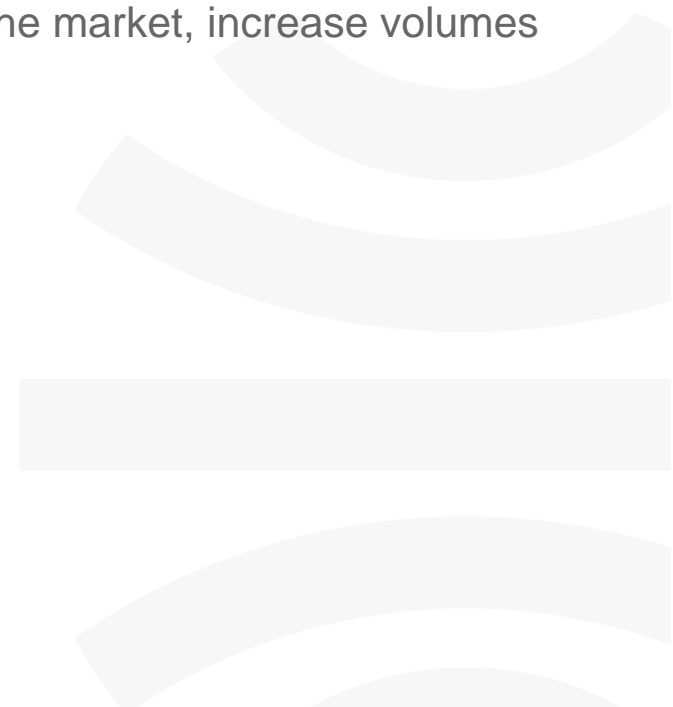
- Given the unwillingness of the private sector to assume the risk associated with exporting, in the early 20th century, Official Export Credit Agencies (ECAs) were established with the objective of helping firms finance overseas sales of domestic goods and services
- During the second half of the 20th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





The Italian answer to the market challenges (cont'd)

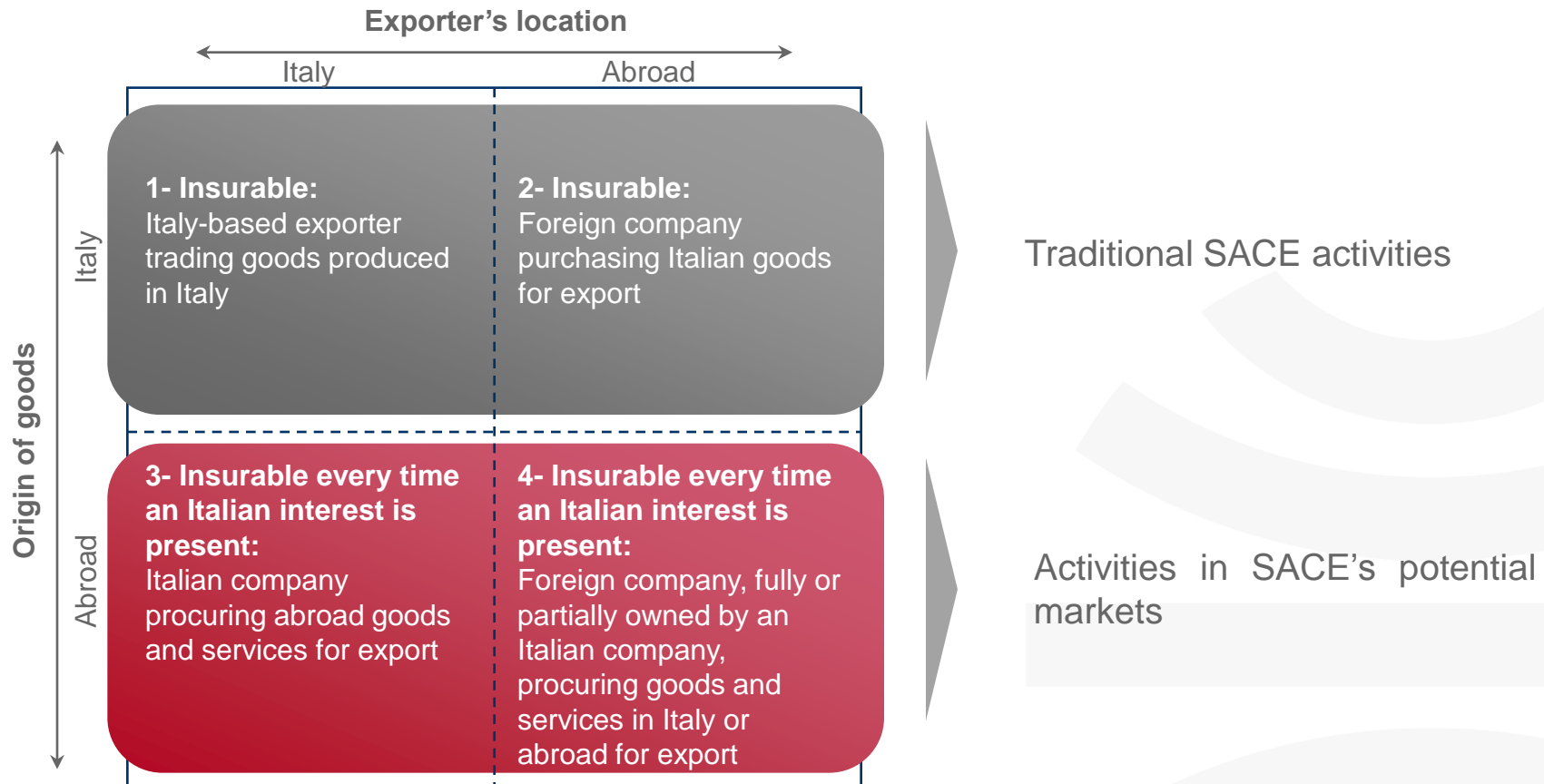
Through the Group's actions:

- 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 From “Made in” to “National Interest”
- 2 **The New Business Model**



Medium Long Term

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



Short Term

Short term credit insurance and construction risks

100%

100%



Services

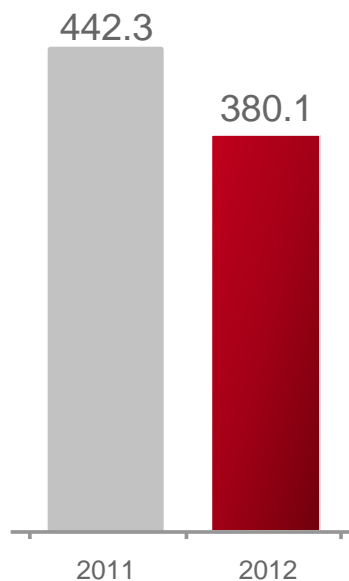
Information providers & insurance fees management

100%

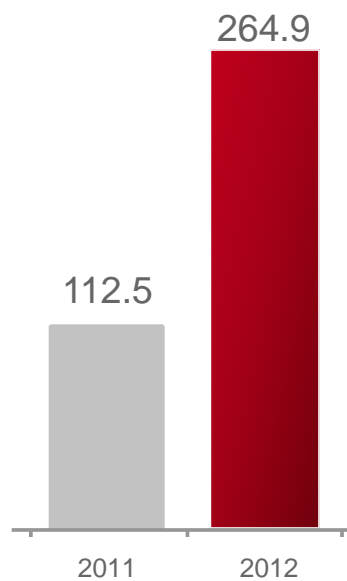


Factoring

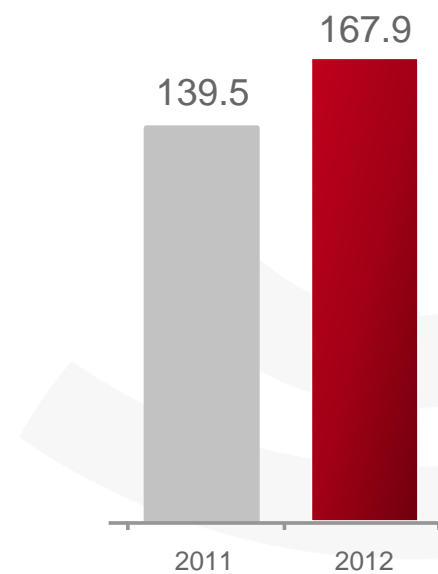
Credits mobilization



Gross premiums (€ mln)



Claims paid (€ mln)



Net profit (€ mln)

Despite the global crisis, 2012 was another year of significant results



Shareholders' equity (€ mln)



Technical provisions (€ mln)



Employees

Our financial soundness makes us a reliable partner for banks and enterprises

Thank you for your attention




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