



CONFIDENTIAL

cc JWS
D/F with PU response
on Friday 6/4

PRIME MINISTER

EXPORT CREDITS GUARANTEE DEPARTMENT

- 1 Last August I appointed a committee under Sir Peter Matthews to review ECGD's structure and functions and its present status as a Government Department. The report has now been received, and I attach it. The main recommendation is that ECGD be replaced by a public corporation, but no immediate decision is needed.
- 2 If you and other members of E(X) agree, I shall publish the report at the earliest date possible, 11 April, with a non-committal announcement by written PQ in the House.
- 3 I will ask for comments on the Report by July in the hope that we may be able to announce decisions on the recommendations before the Summer Recess.
- 4 It would be helpful, if possible, to know by 9 April if colleagues are content that I should proceed in this way.
- 5 I am sending a copy of this letter and the attached Report to the members of E(X) and to Sir Robert Armstrong.

J.C.

2 April 1984

PAUL CHANNON

TRANS : ECGD
Jan 80



-2 APR 1984

✓ cc no

REPORT OF THE COMMITTEE TO CONSIDER
THE STRUCTURE, FUNCTIONS AND
STATUS OF THE EXPORT CREDITS
GUARANTEE DEPARTMENT (ECGD)
MARCH 1984

C O N T E N T S

	<u>Paras.</u>
SECTION I - <u>INTRODUCTION</u>	
Appointment and Procedure	1 - 3
Background ...	4 - 5
SECTION II - <u>SUMMARY OF EVIDENCE</u>	
Perception of ECGD ...	6 - 11
ECGD's Objectives ...	12 - 16
The Export Guarantees Advisory Council ...	17
SECTION III - <u>CREDIT INSURANCE FACILITIES</u>	
General ...	18
International Comparisons	19 - 22
ECGD and the Private Sector Insurers ...	23 - 27
Small Exporters ...	28 - 31
SECTION IV - <u>FINANCE FOR EXPORTS</u>	
The Present Position ...	32 - 34
Possibilities for the Future ...	35 - 38
SECTION V - <u>THE CASE FOR CHANGE</u>	
General ...	39 - 41
Staff Matters and Civil Service Constraints ...	42 - 49
Financial Considerations ...	50 - 52
Export Finance ...	53
The Views of Key Individuals ...	54
Anxieties about Change ...	55
Conclusion ...	56 - 59

	<u>Paras.</u>
<u>SECTION VI - A PUBLIC CORPORATION</u>	
Recommendation ...	60
Functions and Objectives ...	61 - 64
Structure ...	65 - 68
The Treatment of Risks ...	69 - 72
Payment for Other Services	73
Export Finance ...	74
Relations with the Private Sector ...	75
 <u>SECTION VII - MANAGEMENT MATTERS</u>	
General ...	76
Organisational Matters ...	77 - 79
Operational Matters ...	80 - 85
 <u>SECTION VIII - THE TRANSITION PERIOD</u>	
A Programme of Action ...	86 - 87
 <u>SECTION IX - SUMMARY AND CONCLUSION</u>	
The Present Situation ...	88
Principal Recommendations	89 - 91

Appendix

List of Bodies which provided Evidence	A
A Comparison of the Export Credit Insurance Facilities provided by ECGD and other major Overseas Credit Insurers ...	B
Private Sector Insurance for the Exporter or Overseas Investor ...	C

REPORT OF THE COMMITTEE TO CONSIDER THE STRUCTURE,
FUNCTIONS AND STATUS OF THE EXPORT CREDITS GUARANTEE
DEPARTMENT (ECGD).

To the Right Hon Paul Channon PC, MP, Minister for Trade.

I

INTRODUCTION

Appointment and Procedure

You appointed us on 16th August 1983 with the following terms of reference:-

"to review ECGD's structure and functions and its present status as a government department, taking into account in particular - the importance to UK exporters of the quality of the credit insurance and financing facilities provided by ECGD compared with those available to their competitors; the taxpayer's interest in containing the actual and potential costs of ECGD's operations; and the possibility of devolving any functions to the private sector or collaborating with the private sector in carrying them out."

2.

We held our first meeting on 9th September and have since held 41 further meetings, including visits to the Department's offices at London, Cardiff and Birmingham, and to Hermes Kreditversicherungs - AG ("Hermes") in Hamburg, GFR and a visit from the Export Development Corporation of Canada ("EDC"). Evidence, in some cases both written and oral, was submitted to us by the government departments principally concerned, the Bank of England, organisations representing industry, commerce, banking and insurance, as well as by ECGD itself, by the Trades Union side of the Departmental Whitley Council and by individuals with close knowledge of the working of the

Department. A list of those who provided evidence is in Appendix A. We would like to record our appreciation of the assistance rendered to us by all who gave readily of their experience and views, and of the assistance we received from the Department itself.

3. We interpreted our terms of reference broadly. We did not concern ourselves with the more technical aspects of the Department's operations beyond the extent necessary to enable us to consider the scope of its functions, the structure appropriate to those functions and the status best suited for carrying them out. We also had available the views expressed by committees which had reviewed aspects of ECGD in earlier years, notably the Committee on the Organisation and Status of the ECGD, under the chairmanship of Sir Eric Speed, KCB, KBE, MC, in 1958 and the review of the Department led by Mr D G Scholey in 1972.

Background

4. ECGD is a separate government department within the Trade and Industry Group which is responsible for administering the powers conferred on the Secretary of State by successive acts of Parliament since 1919, currently the Export Guarantees and Overseas Investment Act 1978. These enable the Department to pursue activities in two principal areas designed to encourage trade with or facilitate investment in overseas countries. The first concerns the giving of guarantees, the outturn of which is reflected in the Department's annual accounts. The other concerns the operation on behalf of the Exchequer of certain other facilities in support of United Kingdom exports, the most notable of which is interest equalisation in respect of finance made available by the banks. In the former area ECGD is required to operate in the longer term at no net cost to public funds. This it has achieved by charging adequate premiums so that its income, which includes notional interest earned on cash balances built up and held in the Consolidated Fund, has been

sufficient to meet its administrative costs and the cost of claims payments less amounts recovered from debtors. Its guarantees cover very large amounts (over £42 billions at December 1983), including some denominated in foreign currencies. However, its cash reserves are all in sterling. Despite recent growth in the facilities available in the private sector for insuring overseas commercial credit risks, ECGD continues to occupy the predominant position in the United Kingdom in this field. It is alone in providing support through the banks for raising export finance.

5. An important aspect of the background to the Committee's considerations was the unprecedented financial situation of ECGD. The Department's involvement in support of United Kingdom exports covers one-third of visible exports, including a very high proportion indeed of major project business. Trading conditions have worsened in recent years and a number of countries, as well as individual enterprises, are facing severe problems in meeting their payment obligations. The effect of the resultant very high levels of claims payments on the outturn of ECGD's trading activities has been significant. It was not part of our mandate to examine or comment on the Department's current financial position but in making our recommendations we could not ignore it.

II

SUMMARY OF EVIDENCE

Perception of ECGD

6. The evidence submitted to us showed a wide appreciation of the Department throughout the exporting community. It enjoys a high reputation among exporters (especially those involved in major projects) and in the banking and commercial sectors for the way in which it discharges its responsibilities. It has been regarded in other countries as a model to be emulated. ECGD has been seen as responsive to commercial needs and appears to have developed its facilities and adjusted to market requirements to a commendable extent, given the constraints upon it to which we refer in Section V.
7. However, doubts have been expressed about some aspects of the Department's more recent performance. The evidence contained repeated criticisms reflecting concern among exporters, most notably about delays and complexity of procedures in connection with ECGD's comprehensive guarantees covering exports on short credit terms, and the lack of flexibility in the Department when providing and charging for its guarantees of various kinds. A number of organisations, particularly banks, expressed a wish for earlier consultation by ECGD about proposed changes in its facilities. Many exporters spoke particularly of problems posed for them by the Department's inflexibility, just prior to and on its withdrawing cover for a country and when restoring cover is in prospect. A number of those giving evidence, especially some major exporters, drew attention to the high levels which total premium charges can now reach. They were worried about becoming uncompetitive if further increases were to be imposed on future guarantees, in an effort to recover the considerable sums recently paid against claims under ECGD's existing guarantees.

8. The exporting community attaches great importance to the undoubted standing of ECGD's guarantees (which results from their being given by "the Secretary of State" on behalf of the government) and to the benefits which follow from that. Equally there is a wide recognition of the importance of ECGD as an instrument of the United Kingdom's economic and overseas trade policies.
9. There is no evidence that the private sector could provide the equivalent of ECGD's existing services or that the bulk of ECGD's activities could be transferred to the private sector. It does not appear to have either the capacity or wish to take them on, although there is a desire to play a greater part in export credit insurance and for closer co-operation. There is agreement that sufficient finance for exports at competitive fixed rates of interest is unlikely to be made available without the interest rate support from government which is currently provided through ECGD.
10. The evidence showed that there are significant advantages, for exporters and for the Department itself, in its current status as a department of central government. However, there was also strong evidence that its efficient operation has been hindered recently by its being required to comply with rules and measures applying to government departments and the civil service as a whole. We refer to this in more detail in Section V.
11. We found a widespread feeling in the exporting community, with one or two notable exceptions, that some degree of change is desirable in the way ECGD discharges its functions. On the other hand, there was no call for any substantial changes in the functions themselves. There was general agreement that any change would have to be so managed as to avoid disruption of ECGD's normal day to day activities. Most exporters foresaw a period of sustained international competition during which their needs for support will become greater and more complex and thus require the best possible service from the Department.

ECGD's Objectives

12. We heard much about the inherent conflict between ECGD's statutory duty to encourage trade by giving guarantees, including trade to be encouraged "in the national interest", and the requirement of government policy that it should seek to operate its guarantee activities without cost to public funds. Until recently the Department was able to meet both of these objectives without difficulty, at least on a short-term basis, but the deteriorating world trading environment of the last few years has made this an increasingly difficult task. Other government departments have an interest in or a responsibility for the promotion of overseas trade or for control of the public purse but we are not aware of another which, like ECGD, has specific duties laid upon it in both respects.
13. There are considerable benefits which flow from overseas trade but when payment is not received there is a cost that has then to be met. Initially, the burden of any insured non-payment falls on ECGD who eventually must pass it on to its policyholders through increased premiums, if there is to be no call on public funds. Thus the costs of ECGD's encouragement of that trade may fall on exporters across the whole range of its services.
14. The conflict for ECGD is most obvious in the inter-departmental discussions about support to be given under section 2 of the Export Guarantees and Overseas Investment Act to exports "in the national interest". We recognise that ECGD's own obligation to encourage trade inevitably must affect the degree to which it feels able to press its role as a prudent insurer, but on occasion its view of the risks involved may be outweighed by a majority view by other departments of the benefits to accrue. Although ECGD has a right to have the matter referred to Ministers, it has no right of sole decision to match its responsibility for the consequences. As a result, in some instances ECGD has been persuaded by pressures applied by other departments to give support to certain exports (including some

major projects) contrary to its own initial judgment. Nevertheless, the cost of such support is included, in the same way as for other exports, in ECGD's accounts.

15. Many organisations expressed their appreciation of the way in which co-ordination between ECGD and other government departments provides a wide range of support particularly for major project exports. A number, including the British Overseas Trade Board, represented to us that in future there will be an even greater need for a strong focus for the United Kingdom's export effort.

We learned of problems in one area in which close collaboration is required between ECGD and other departments, as well as exporters and banks, namely the facilitating of mixed credit packages to be offered by United Kingdom exporters in competition with similar financing on offer from other countries. These packages combine ECGD-supported finance with funds made available from the Aid and Trade Provision - a part of the funds disbursed by the Overseas Development Administration of the Foreign and Commonwealth Office. We received proposals for the use of government aid to further exports of military equipment. The United Kingdom's long term policy is to discourage the use of such techniques in the area of trade. Not all countries take the same attitude.

16. A number of organisations represented to us that the co-ordination of the elements of such packages in the United Kingdom, involving principally HM Treasury, the Department of Trade and Industry, the Overseas Development Administration and ECGD, does not allow the flexibility of approach and speed of reaction which appears to be available to competitors in other countries. They suggested that responsibility within government for the provision and terms of such packages should become the concern of a single department.

The Export Guarantees Advisory Council

17. The present role of the Export Guarantees Advisory Council is recognised generally as valuable and most helpful to ECGD, but it is limited almost entirely to the giving of advice on specific matters submitted to it by the Department, although in 1981 it did carry out and submit to your predecessor a review of some wider aspects of ECGD's activities. We observed a widely-held view, shared by the Advisory Council itself, that its role should be reconsidered and adjusted to include some concern for the management of the Department and for the quality of the services it provides.

General

18. There does not appear to be any significant need by United Kingdom exporters for credit insurance facilities which are not available from ECGD or the private sector. Needs for specialist new facilities which arise from time to time have generally been met. ECGD's own facilities are comprehensive and widely known. Although there are some criticisms, to which we referred in paragraph 7, about the way in which ECGD operates and markets its facilities, they are regarded generally as being suitable for their purpose.

International Comparisons

19. In considering that part of our terms of reference which required us to compare ECGD's credit insurance and financing facilities with those available to competitor exporters from other countries, we had available information supplied to us direct by Hermes and by EDC, as well as that provided by ECGD itself and a number of others who gave evidence mainly based on their own particular experiences. A factual comparison of the facilities offered by ECGD and members of the International Union of Credit and Investment Insurers (the Berne Union) in the United Kingdom's main competitor countries is in Appendix B. In comparing the facilities it is necessary to pay regard to the different ways in which exporters are accustomed to conducting and financing their export trade.
20. We are satisfied that the facilities offered by ECGD compare favourably with those on offer from other countries' export credit insurance organisations.

21. For business on short credit, ECGD's range of insurance facilities is very wide and the only significant omissions from its facilities, compared with those available in some other countries, are that separate insurance of political or commercial risks is not available as an option and that there is no formal differentiation in applying premium rates to private buyers and public entities. In relation to major contracts on longer credit terms, where fierce competition exists, comment was made to us about the use by other countries of particularly favourable credit terms. The Department does not initiate credit competition, but we believe that it has generally been enabled to match others. In practice the worst difficulties experienced by United Kingdom exporters in matching competitors' terms have involved those countries whose credit insurance organisations are not members of the Berne Union.
22. Wide differences exist in the ways in which finance for exports is made available. The system of providing fixed interest finance through banks mainly against guarantees from ECGD, plus an interest equalisation arrangement, so far has worked well for United Kingdom exporters, although recently this has been at a high cost to public funds.

ECGD and the Private Sector Insurers

23. We received evidence concerning facilities provided by the private sector insurers, from the insurance market, exporters and industry associations, and from the Department. There was general agreement that, whilst there had been an increase in private sector activity, particularly noticeable recently, the extent to which this had significantly affected ECGD's own level of business and so sharpened competition to the benefit of exporters was still modest. Unfortunately few statistics are available to confirm recent trends, but the figures given informally by a number of insurers provide support for this statement. A summary of the main aspects of the private sector market is given in Appendix C.

24. In the course of evidence we enquired particularly as to the reason for the absence of more rapid developments in the private sector, given the attention that this matter had attracted and the discussions held between the Department and interested parties over the last few years. The main reasons suggested to us were:
- A. Only ECGD is able to offer insurance for both commercial and political risks combined with access to finance at favourable rates. The private sector's policies do not include both the former, except on a restricted and limited basis, and it could not compete with the latter. For many risks the private sector offers no adequate alternative.
 - B. ECGD's major policyholders often have strongly based relationships with the Department which they do not wish to jeopardise.
 - C. Whilst ECGD's Comprehensive Short Term Guarantee policy, erroneously described as "whole turnover", has been modified over the years and now allows much less than the whole of an exporter's business to be insured, it still tends to inhibit exporters from moving part of their business to the private sector, in case this leads to a review by ECGD of the terms of its insurance and the premium rates.
 - D. Whilst policies of a comprehensive nature are offered by a few private sector insurers, the market generally operates through highly flexible and individual contracts based on insurance against buyer default and loss to the insured. These may be suitable for large contracts but are much less so to the short term mass market which still dominates United Kingdom exports.
 - E. As a result the private sector has tended to provide cover for risks which ECGD either does not provide or does so less

flexibly or at higher cost. We heard of cases where exporters found it cheaper and simpler to insure commercial risks with private insurers when no political risk was involved, and where investors were able to obtain more extensive insurance for existing investments than is available under ECGD's Overseas Investment Insurance Scheme.

- F. ECGD's goodwill towards the development of the private sector as a contributor to the promotion of United Kingdom exports was generally acknowledged. However, the Department's wish to ensure that its underwriting portfolio is well spread, not unnaturally, inhibits it from encouraging the private sector to take as large a share of total exporting risks as the latter appears capable of absorbing.
25. We were told of the extent to which others had found it worthwhile either co-insuring or re-insuring on the London markets. Co-insurance is a technique the Department should investigate. The question of reinsurance involves a more basic change in policy for the Department, which we discuss further in Section VI.
26. There must be significant advantages in encouraging the maximum contribution by private sector insurers in support of United Kingdom exports. It was suggested to us that, in offering a greater choice to exporters, it could lead to lower premium costs and, with the elimination of some cross-subsidies which exist within ECGD's current arrangements, to a fairer or more realistic system of charging than at present. However, the extent to which private sector insurers could absorb the relatively massive risks covered by ECGD is uncertain: in particular their capacity for insuring risks in the politically less certain markets is limited and seems likely to remain so.
27. We became aware of the difficulty for ECGD, as it is now constituted, in reacting competitively to the potential impact of any significant diversion of business to the private sector

which might ensue, for instance, from the separation of political from commercial risk insurance. The Department fears that the loss of some of its better business would inevitably lead to its having to increase premiums on that remaining. Encouragement of the private sector and increased effectiveness and efficiency at ECGD would need to move together. We foresee a continuing need for a healthy ECGD as the principal provider of export credit insurance to United Kingdom exporters.

Small Exporters

28. We received a considerable amount of evidence on the use of ECGD's services by the so-called "small exporter" and the problems which many of them experience with the complexities of documentation and procedures. There was no common line on how one could define small exporters. They include not only small companies but also a number of medium or large ones which export, or insure with ECGD, only a small proportion of their output. Her Majesty's Government has a large number of schemes to encourage small businesses generally. To the extent that those small businesses are also exporters, these schemes offer help to small exporters, but none of them has a specific export orientation; nor are they available to larger businesses who only export relatively little.
29. There was a widely held feeling that the services provided by ECGD and the premiums charged to the larger exporter were adversely affected by the proportionately greater amount of time and cost devoted by the Department to servicing the small exporter. Figures provided by the Department gave substance to these views. Over the five years to 1983, all but the largest of ECGD's comprehensive short term guarantees, taken overall, failed to contribute enough to cover their share of administrative expenses and of claims payments. This disparity was most marked for the smallest policies; for instance, almost 40% by number of such policies related to

annual exports of less than £100,000, produced less than 3% of the premium income, and accounted for nearly 20% of the administration costs. There was no significant difference in the incidence of claims between small and larger policies. The high turnover in numbers of small policy holders, a significant proportion of which each year are new exporters, is a major reason for these disproportionate administration costs. It was suggested by many of those giving evidence that there should be restrictions, based on minimum turnover, on the support available to small exporters.

30. In recent years some of the London clearing banks have introduced schemes whereby "small exporters" can obtain credit insurance under the banks' own ECGD policies. Evidence suggested that, although welcome, so far these had been only modestly successful in view of pricing and profitability problems and the limitations to business which could be written under present ECGD policies. We also heard of similar facilities available from export and confirming houses. Whilst cover is available from private insurers, premiums in general reflect the high costs of this sort of business. Thus, comparatively little business is done.

31. We believe that it is desirable - and indeed in line with government policy - that United Kingdom companies should be helped to begin exporting. However, this should not entail ECGD providing additional non-insurance services at the expense of existing exporters, as would seem to be the case now. In paragraph 73 we argue that voted funds from government should be available to provide a contribution to the costs of advice and other services provided beyond ECGD's obligations as an insurer. We recommend that this should be used to support a positive policy of seeking ways in which the private sector can assume a major part in the provision of simpler and better services to the small exporter, along the lines indicated in paragraph 30.

The Present Position

32. The provision of facilities to support financing for the exports that it insures is an important part of ECGD's activities and a vital ingredient for United Kingdom exporters and contractors where major projects are concerned. This support has been undertaken almost entirely through the Department's comprehensive and specific bank guarantee and buyer credit facilities, the latter two of which hitherto have been virtually the only means in the United Kingdom of obtaining fixed rate export finance. The minimum fixed interest rates applicable to officially supported export finance are agreed by the member countries of the OECD "Consensus". In the United Kingdom the export finance is provided by the banks and the government has met or charged to the banks the difference between such rates and the prevailing market rates. This support scheme, as we said at paragraph 4, is operated by ECGD. During most of the last decade market interest rates in the United Kingdom have far exceeded Consensus rates for the major currencies. The government has encouraged the diversification of export finance out of sterling into a wider range of currencies. The banks would not have been able to provide the required fixed rate finance without official support. In many cases, however, the banks do provide front end finance at floating rates without ECGD support.
33. The cost to public funds of this interest equalisation scheme operated through ECGD as agent has been very high in recent years (£585.4m in 1981/2) though it is now falling, partly as a consequence of the recent changes in the international Consensus to which we refer at paragraph 35 (and is estimated at £324m for 1983/84). This fall seems likely to continue although future costs are dependent largely on movements in interest rates.

34. Other countries use a variety of methods for financing their exports; through guarantees to banks, as in the United Kingdom; partly through special banking institutions as in the United States; through combining the direct provision of finance in the same institution with credit insurance as in Canada, or direct from private sector banks. We have received a number of suggestions that one or other of such methods might be appropriate to the United Kingdom.

Possibilities for the Future

35. The recently revised Consensus arrangements provide for periodic automatic adjustment of agreed minimum interest rates in line with average market levels. Although as yet untested, this development, together with the prospect of lower and possibly less volatile market interest rates, represents a significant change in the financial environment, and demands a re-evaluation of the methods of financing United Kingdom exports. The use of private sector financial resources is likely to become once again of much greater importance in arranging competitive export finance packages.
36. We heard of private sector initiatives and proposals in this field, particularly in the use of the bond markets to fund longer term fixed rate finance for specific export contracts. Such initiatives are much to be welcomed, although we believe that ECGD's guaranteed schemes will continue to have a major role for the foreseeable future in the export financing market. However, given the scale of the finance required and the likely problems in matching requirements as to currency and rate, it will be important that every encouragement is given to development of alternative forms of finance through both the banking system and the markets generally.
37. We consider that it would be a relevant and important development if ECGD were enabled to raise funds, primarily at

fixed rates, in its own right, either for specific projects or for "stock" for future lending requirements as they arise. Whilst initially such a mechanism probably would be needed only for certain currencies with low interest rates, its extension to other currencies, including sterling, should not be ruled out for future use. The name of ECGD would normally command the finest rates in the market in the same way as Her Majesty's Government itself. Clearly any implications for monetary policy and the effect on the Public Sector Borrowing Requirement, as currently defined, would have to be taken into account, but we hope that they would not be an obstacle to improving the competitive facilities available to United Kingdom exporters.

38.

It was suggested to us that a new export bank should be set up with the government having a majority share in joint ownership with private institutions. Whilst this would have some attractions, we believe that these would be insufficient to outweigh the disadvantages of creating yet a further institution which would become another separate element in the exporter's negotiations. Our proposal that ECGD itself should be able to adopt a limited financing role would have the real advantage of retaining as far as possible a "one stop" service for the exporter seeking support for finance and provide the best prospect of a speedy and flexible response to his needs.

THE CASE FOR CHANGEGeneral

39. In considering all the factual information provided to us and the expert views and opinions expressed, both in written evidence submitted and in response to our oral questions, we considered first of all whether, in the context of present and likely future trading conditions, any change in the status of ECGD would be desirable. It seemed to us at the outset that this decision would be likely to have a major bearing not only on our consideration of the Department's credit insurance facilities and the important allied matter of the provision of finance for support of exports, but also on the way we should approach a number of managerial, organisational and operational questions posed by the evidence: in short, on its structure and its functions.
40. Although there is some scope for increased private sector activities, it is clear that the private sector cannot be expected to take the place of ECGD or take over altogether any of its present activities. Neither do we see any scope for transferring a part of those activities to a new private sector organisation.
41. However, we conclude that there is now a strong case for a change of status of the Department. We see this case as being made not by one overwhelming argument, but by a number of factors which in our opinion all point in the same direction. We are conscious that earlier reviews of this question came to different conclusions. However, we believe that the balance of advantage has changed and we expect future developments to reinforce this change.

Staff Matters and Civil Service Constraints

42. In paragraphs 6 and 10 we referred to views on the constraints imposed on ECGD because it is a civil service department. We have discussed some specific and general points relating to this with those who gave evidence including retired and present senior executives of the Department, and we are satisfied that these views are substantiated and that the constraints have in fact had a damaging effect overall on the operations of the Department. We feel that its senior executives do not have sufficient freedom now to manage the business as effectively as they might.
43. The move of about 700 posts within the Department to Cardiff in 1979 and 1980 was undertaken as part of government policy to disperse jobs from London. It has secured some financial savings, but at the cost of losing some expert staff and dividing the Department, to the considerable inconvenience both of its customers, some of whom now must often visit both Cardiff and London to discuss problems, and of the more senior staff of the Department, who necessarily waste much time travelling. Subsequently, there has been much discussion on various measures to remedy the problems caused by the move, some of which probably cannot be solved within the present structure.
44. It is clear too that the staff cuts made in ECGD in recent years, though below the average for the civil service as a whole, have by their arbitrary nature been disruptive and have resulted in delays in handling the much increased volume of claims and in responding to the needs of the Department's customers. These cuts might have been sustained with less difficulty if at the same time ECGD's data processing system had been developing more quickly (see para 46).
45. We have noted that a number of good quality experienced staff have been lost to the private sector in recent years and that the Department has been unable to replace them by staff of

appropriate standing and experience through recruitment either from outside the civil service or within it. Some secondments from outside can be helpful but it should not be necessary to rely on this procedure to make up staff deficiencies.

46. ECGD has a well established computer and data processing unit at Cardiff handling some aspects of the Department's business. However, during recent years the further development of these facilities, to embrace such matters as credit control and the issuing of policies and to bring data recovery systems onto the desks of individual underwriters, appears to have lost some momentum. The existing facilities do not seem to us to be as advanced as those of most private sector insurers. There is a likelihood that unless a substantial and determined effort is made to accelerate progress in this field, ECGD will fall further behind, the more so as the leaders' greater expertise and facilities accelerate their progress. It is natural that, with the present status of the Department, the development of these facilities has been compared to progress elsewhere in the civil service. We recognise that the Department cannot expect special treatment on the grounds that it is "different". Nonetheless, its needs should be assessed by reference to the commercial nature of its operations.

47. As mentioned in paragraphs 7 and 16, we received many pleas from those who gave evidence that greater flexibility be shown by the Department. These covered a wide range of matters from the difficulty of establishing the need to match credit terms offered by other countries on large projects, to procedural matters relating to exporters' claims etc. where individual customers wanted their own problem, which they often saw as simple or unique, to be handled separately and expeditiously. There is little doubt that departmental procedures, which have much of their origin in civil service practice, tend towards uniformity rather than flexibility of response. As a government department, ECGD feels inhibited from discriminating adequately between one exporter and another for similar business, even where their individual needs differ.

48. ECGD, as a government department, has a strongly developed and rigidly organised hierarchical structure which means that it is not easy for it to act as a whole in a commercial manner, or to adopt the competitive role which we believe desirable at the interface with private sector insurers.
49. The effects of these constraints have recently become more noticeable and we do not believe that they are likely to be removed by making any series of special rules or exemptions from existing practices within the civil service.

Financial Considerations

50. The recent very high level of payments against claims has caused a diminution of ECGD's Consolidated Fund balance to the point where, for the first time in many years, it has gone into deficit, a situation which seems likely to persist for some time. In our view, it would be regrettable if, as a result, too much emphasis was placed on ECGD's cash position. We fear the consequences would be to cause the Department's underwriting judgments to become too restrictive and premium rates to rise steeply. Both of these effects would operate to disadvantage the United Kingdom's future trade prospects at a time when the priorities are to reverse the decline in its share of world trade and to improve competitiveness by reducing exporters' costs in every way possible.
51. The operating costs of the Department and its staffing levels are substantial. We consider there is some scope for reducing them and the costs to exporters and, at the same time, offering a more comprehensive service, as a consequence of promoting fair competition between the Department and private sector insurers (see also paragraphs 26 and 30). The recommendation in paragraph 31 relating to small exporters will, if implemented, have two significant effects: a reduction in the Department's costs and representation requirements in Cardiff and the regional offices, and an improvement in service to the medium-sized and larger exporter.

52. We considered a number of other matters relating to the finances and accounts of the Department. In regard to financial matters, we consider that with a change in status the handling of foreign exchange could be improved, with an option of seeking market protection to balance risks expressed in foreign currencies. Also there would be less restriction on the investment of accumulated reserves.

Although a number of changes have been instituted recently to make the accounts more like those of a commercial organisation, a change in status should allow further developments which would achieve a welcome improvement in the transparency of the operations. This for instance would be likely to reveal and subsequently lead to a reduction in cross-subsidies between different facilities.

Export Finance

53. As we make clear in section IV, we consider that future developments in the export finance field are likely to require greater flexibility and scope in the techniques of provision of finance. This could be of value both in promoting exports and in reducing to some extent the cost, or at least limiting the uncertainty of ultimate cost, of the government's support. It seems clear that the flexibility required, particularly for raising finance, could not be achieved easily within the limitations of a government department.

The Views of Key Individuals

54. We were left in no doubt that the need for a change in ECGD's status was perceived not only by outsiders but also by the Department's present top management and other individuals who had recently been involved at high level in its management and operations. They stressed, however, that any new arrangement would have to incorporate safeguards designed to enable ECGD to maintain a broadly-based service to exporters.

Anxieties about Change

55. A number of anxieties about the prospect of a change of status were expressed to us, reflecting concern to continue some of the most desirable features of ECGD's present constitution. These features were seen as being the quality of the government's guarantee, the close involvement of ECGD in the formation of government policy, and the Department's access to the information it needs from official and international sources.

Conclusion

56. We foresee that there is likely to be a long period of intense international competition for export markets and almost certainly no better than a gradual lessening of the present international financial strains. Exporters will look to the government's support services to help them stay competitive. Flexibility and speed of response will remain vital elements in seeking business, whilst the complexity of credit and financing aspects continues to grow. It is to these aspects that ECGD's own response will often be crucial.
57. We see that, as presently constituted, ECGD is not best placed to respond to the challenge. It is the repository of much specialised experience and knowledge which can be of immense value to the exporting community, but there are constraints on its freedom to deploy them to the best advantage.
58. The change in status that we recommend should lead to a more competitive, entrepreneurial and efficient organisation, which would compete in part with the private sector to the benefit of both, and hence to exporters. It would also co-operate with the private sector in reinsurance, thus widening the pool of resources available and spreading risks. However, as we have said, we see no arguments for transferring ECGD's activities, in whole or in any major part, to the private sector. The importance of the government's

backing for its guarantees means that it must remain in the public sector.

59. The financing and financial objectives of ECGD are now being widely discussed. We consider that this is a particularly opportune moment for Her Majesty's Government to give a clear signal of intention to continue to give a strong lead in promoting and facilitating exports. The Department's role is central to achieving this purpose. We believe that the proposals we make, which are aimed at reducing frustrations and promoting competition where appropriate, provide an opportunity for such a signal.

VI

A PUBLIC CORPORATION

Recommendation

60. We recommend that ECGD be replaced by a publicly owned corporation answerable to the Secretary of State for Trade and Industry. Although such an organisation would operate independently in its day-to-day activities, all the obligations it assumes would need to have, and be seen to have, the full backing of Her Majesty's Government. The change of status should be supported by a statement at the outset of the government's intent that the new corporation should undertake all ECGD's present responsibilities to the exporting community and to government.

Functions and Objectives

61. We regard it as particularly important that ECGD's functions as at present, or expanded as we propose herein, should not be sub-divided but that the whole should be retained within one organisation. The new corporation should continue to act for itself, and where appropriate on behalf of Her Majesty's Government, in the Berne Union and other international bodies.
62. The corporation should continue to have full access to diplomatic and commercial posts overseas and to Her Majesty's Government's information relating to overseas trade prospects and risks.
63. It should be unnecessary for any other government department to replicate any of the new corporation's activities.
64. The purpose of the new corporation should be to provide insurance and financial services in support of exports, and to do so at a profit. We believe these purposes are compatible, given the arrangements we propose below.

Structure

65. The new corporation should have a board of directors with statutory responsibilities, replacing the present Advisory Council arrangements. The board should include representation of Her Majesty's Government at very senior level by HM Treasury and the Department of Trade and Industry, as well as of the financial and exporting community.
66. It would be necessary to capitalise the new corporation adequately for its likely needs. The capital would have to be considered in relation to both the expected retained annual premium income and the solvency requirements which we understand are being proposed to the Council of the European Community. Regard would also have to be paid in the first instance to the extent to which ECGD's existing risks become reinsured with the government or in the market (see paragraph 70).
67. We are aware of the prospect that ECGD is likely to have a substantial deficit in its notional cash balance with the Consolidated Fund during the period of any change. However, it has large reserve assets, and with these the new corporation should be enabled to finance its cash requirements through refinancing with the public or private sector.
68. An objective of the new corporation should be to invest its reserves within such prudent guidelines as its board considers most appropriate.

The Treatment of Risks

69. The corporation should be required to operate within the financial structure thus set up. In particular, it would be for its board to determine its capacity to carry risks on its own account, having regard to its capital base and the balance of its portfolio, and to carry responsibility for its charging adequate premiums.

70.

The corporation should have the power to reinsure risks, either with Her Majesty's Government or with private sector insurers, as a means of increasing its capacity to insure risks in particular markets or overall. Her Majesty's Government should make available to the corporation reinsurance, on a treaty basis*, of either the commercial risk or the political risk or both together. This would be used in two ways: in those cases which the corporation regarded as insurable risks, but which exceeded its own capacity, it would reinsure the balance of the risk; in those cases which did not meet the corporation's criteria, but which it was decided should be insured in the national interest, it would underwrite the business and reinsure it wholly with the government. The corporation would pay the government for such reinsurance a premium representing the appropriate share of the original premium, less a commission to cover its handling charges. We consider that initially and for some time to come the corporation should have the sole right to reinsure risks with the government, but that the possibility of private sector insurers having the same facility at some time in the future should not be ruled out.

*Treaty Reinsurance: A widely used form of reinsurance involving the automatic cession of business within a certain class by the ceding company and the automatic acceptance by the reinsurer of all the business ceded for a stipulated period of time. Under such an arrangement the corporation would prepare and keep accounts for the government of those risks which the latter reinsures and would administer the insurance policies, including the handling and payment of claims.

71. The Export Guarantees Committee, or a similar interdepartmental committee, should continue to meet with the chief executive of the corporation (in place of the Secretary, ECGD) to co-ordinate the relevant government policy. Whilst the corporation would determine its own limits of risk exposure by country, the committee would determine the government's limits of risk as a reinsurer, taking account of the risks accepted by the corporation within its own capacity. The committee would also agree, or determine a reference to ministers, on support for business in the national interest.

The commercial interests of the corporation will put pressure on the members of this committee to recognise the costs and consequences which may flow when they ask the corporation to provide its facilities on a basis which the corporation would not itself otherwise propose. We suggest that a sponsoring department should be required to accept on its vote any costs of the eventual outturn of the reinsurance of such business.

72. We believe that it would be not merely advisable operationally, but in the long run better for trade, if ECGD and the new corporation were to charge more realistic individual premium rates and discriminate more between one risk and another than the Department now feels able to do.

Payment for Other Services

73. We suggest that the new corporation should receive a contribution from voted funds towards the cost of its activities on the government's behalf in administering the interest rate support scheme or any other scheme it is required to operate outside its credit insurance or financing functions. Similarly, it should not be required to meet from its own resources the cost of advice and other services it provides to small exporters beyond its obligations as an insurer, including any special services it may provide in future in association with the private sector.

Export Finance

74. The corporation should, as we propose at paragraph 37, be enabled to raise funds, primarily at fixed rates, in its own right and on its own account.

Relations with the Private Sector

75. In the interests of efficiency and hence the best support of exports, we would favour a programme of action to stimulate both co-operation and competition with the private sector by the corporation, and the removal of any present constraints to competition. For instance, we hope that in due course the corporation would feel able to offer to individual private sector insurers carefully designed packages of reinsurance of political risks, or of both commercial and political risks, at appropriate premium rates.

VII

MANAGEMENT MATTERS

General

76. A number of points which arose during our consideration of the evidence are not appropriate for specific recommendations by this committee, but are matters to be tackled by management.

Organisational Matters

77. The corporation would need to begin by taking on all the staff of ECGD. Thereafter the corporation would be responsible for its own employment and recruitment policy without constraints. A number of transitional arrangements would have to be made, such as those with the relevant trades unions, and those related to existing and future pension rights of staff.
78. It would be for the management to consider whether, for instance, any degree of reversal of ECGD's move to Cardiff would be beneficial, or whether there should be any changes in the level or functions of the regional representation; and if so, when.
79. It is clear there is leeway to be made up in regard to the use of data processing equipment, which will be dependent on adequate financial resources in the first instance. In due course the development of such processes will impact upon both manning and cost levels.

Operational Matters

80. The corporation would have more freedom in its underwriting operations than ECGD believes it has at present. This greater freedom would have to be exercised with care, particularly where the corporation has a monopoly position, but it should lead to greater flexibility and speed of response.

81. Reference was made to the Department's present lack of flexibility when coming "off cover" for a market, to which we referred in paragraph 7. We appreciate the reasons why prior notice of withdrawal of credit insurance cover cannot sensibly be given, but this is an area where management should be able to make use of greater freedom to discriminate between cases when insufficient cover is available, taking account where appropriate of specialist advice and of the longer term outlook.
82. Other leading export credit insurers charge lower premium rates for business with public sector buyers (see paragraph 21). We suggest that, although the corporation may not wish to adopt the same approach generally, its management might nevertheless feel more ready to discriminate in this way on some individual contracts where the competitive position of the exporter seems particularly to require it.
83. In those areas where the corporation would be in direct competition with the private sector, management will need to improve service in such ways as dealing more expeditiously with claims and credit limit enquiries, and simplifying procedures and documentation to the benefit of all policy holders.
84. A more commercial approach to marketing is required. Representatives of the broking community expressed their readiness to assist in such a programme by ECGD but it is apparent that, as a government department, ECGD has hesitated to appear to be competing too strongly for new business.
85. Specialist resources are available in the private market, covering such activities as collecting overdue payments (whether or not the insurer has paid a claim), the provision of backing for recourse to companies in the United Kingdom or assessing their recourse-worthiness, and in the area of debt refinancing. The use of such resources, to a greater extent than ECGD is doing now, might well be justified.

A Programme of Action

86. If our recommendations are accepted and their implementation is to be conducted smoothly, a comprehensive programme of action would need to be planned and co-ordinated before a vesting date for the new corporation. It is of prime importance that the programme be carried through to completion in such a way that the Secretary and staff of ECGD are still allowed to give their full attention throughout the period to maintaining, and continuing to improve, the Department's existing services to the exporting community. It would be unfortunate if the Department's attention was unduly diverted from these purposes during the run-up to a period of freer competition.
87. It is not our purpose to set out in detail a programme for effecting the change, but we see it as dividing into two main separate periods; the first between the policy decision to make the change and the necessary act reaching the Statute Book, and the second between then and the vesting date. We recommend that as soon as the initial decision has been made, either the role of the Export Guarantees Advisory Council should be modified, or the Chairman-designate of the corporation should be nominated, as well as perhaps one or two intended members of the board. Then a small team, with support from the absolute minimum number of officials segregated from ECGD's current tasks, can begin to plan for the change, consulting as necessary on detail of the intended legislation. In this first period the team would need to concern itself with such matters as board/top management structure, financial objectives and basis of taxation. At the second stage, once the legislation is passed, the full board should be appointed without delay, and then consideration given to the method of implementing the change, including the possibility of recruiting consultancy services or other specialist outside help.

IX

SUMMARY

The Present Situation

88. To summarise, the evidence showed that:-
- A. The services ECGD provides are widely used and appreciated by the United Kingdom's exporting community, although there were criticisms;
 - B. The quality of credit insurance and financing facilities in general compared favourably with those available to competitors in other countries, although greater flexibility and co-operation with the private sector should be encouraged;
 - C. A number of factors associated with the Department's status and activities as a government department hinder its efficient operation;
 - D. There is a widespread feeling that some change in the way the Department operates is now desirable, provided that the change does not disrupt its on-going activities;
 - E. At present it is not practicable to devolve ECGD's activities to the private sector, in whole or in part.

Principal Recommendations

89. We recommend that:
- A. ECGD is replaced by a government-owned corporation, suitably capitalised, which should retain close links to the centre of government. Its activities should embrace all those now being carried on by ECGD (paragraphs 60-63, and 66).
 - B. The corporation's guarantees should have, and be seen to have, the full backing of Her Majesty's Government (paragraph 60).

- C. The purposes of the corporation should be to provide insurance and financial services in support of exports, and to do so at a profit (paragraph 64).
 - D. The corporation should have a board of directors, with statutory responsibilities, replacing the present Advisory Council arrangements (paragraph 65).
 - E. The corporation should invest its reserves as determined by its board (paragraph 68).
 - F. The corporation should be enabled to raise funds in its own right for on-lending in certain situations (paragraphs 37,74).
 - G. The corporation should be enabled to reinsure risks with Her Majesty's Government or with private sector insurers (paragraph 70).
 - H. Its management should discriminate more between one risk and another than the Department now does (paragraph 72).
 - J. The corporation should be paid for administering schemes on behalf of Her Majesty's Government which are outside its normal credit insurance or financing functions (paragraphs 31,73).
90. The new corporation would have greater freedom in its management and operations than ECGD believes it has at present. It should use this freedom, and the flexibility it will allow, to develop both co-operation and competition with the private sector insurance market (paragraphs 25,75).
91. A number of organisational and operational matters should be tackled by management once the question of status has been resolved (paragraphs 76 - 85).

We are at your disposal to discuss any aspects of this report.

Sir Peter Matthews, AO.

K M Bevins. CBE, TD

P E Leslie.

19th March 1984

APPENDIX A

LIST OF BODIES WHICH PROVIDED EVIDENCE

The following provided evidence to the Committee:

Accepting Houses Committee, Export Finance Sub Committee

American Banks Association of London

American International Underwriters (UK) Ltd

Anzon Ltd

The Association of British Chambers of Commerce - members:

London Chamber of Commerce and Industry,

Luton, Bedford and District Chamber of Commerce and
Industry,

The Medway and Gillingham Chamber of Commerce Incorporated,

Merseyside Chamber of Commerce and Industry,

Northamptonshire Chamber of Commerce and Industry.

Association of First Division Civil Servants, ECGD Branch

The Association of the British Pharmaceutical Industry

Babcock International plc

Balfour Beatty Ltd

Bank of England

Banque Francaise du Commerce Exterieur

Birmingham Chamber of Industry and Commerce, and the following
individual members:

Blue Bird Confectionery Ltd

Brockhouse Export Ltd

Burnett & Company (Hull) Ltd

Fenchurch Credit Insurance Services Ltd

Halewood Chemicals Ltd

Titanium International Ltd

Tornado Model Products Ltd

British Aerospace plc
The British Constructional Steelwork Association Ltd
British Consultants Bureau
British Chemical Engineering Contractors Association
BEAMA Limited, Federation of British Electrotechnical and Allied
Manufacturers Association
British Export Houses Association
British Export Houses Association, Export Finance Houses
Sub-Committee, and the following individual members:

Barclays Export Services Ltd
Charterhouse Japhet Export Finance Ltd
Grindlay Brandts Export Finance Ltd
Midland International Trade Services (UK) Ltd

British Insurance Association
The British Insurance Brokers Association; The UK Credit
Insurance Brokers Committee
British National Insurance Company Limited
British Overseas & Commonwealth Banks Association
British Overseas Trade Board (jointly with the Overseas Projects
Board)
British Overseas Trade Board: East European Trade Council
British Overseas Trade Board: Latin American Trade Advisory Group
British Overseas Trade Board: Tropical Africa Advisory Group
British Overseas Trade Board: West Indies Trade Advisory Group
British Steel Corporation
C B Brook & Co Ltd
Dr P J Buckley, University of Bradford
Chemical Industries Association Ltd
Clarkson Puckle Overseas Ltd
The Cocoa, Chocolate and Confectionery Alliance/The Cake and
Biscuit Alliance
The Committee of London Clearing Bankers
The Committee of Scottish Clearing Bankers
Confederation of British Industry
Coopers (Metals) Ltd

K W Cotterill, Esq, CMG
 The Credit Insurance Association Ltd
 Department of Trade and Industry
 Doulton Insulators Limited
 Engineering Employers Federation
 The Export Association of the Electrical Cable Making Industry
 Export Credit Insurance (Comprehensive Guarantees) Group
 Export Credits Guarantee Department
 ECGD Whitley Council: Departmental Trades Union Side
 Export Guarantees Advisory Council
 Foreign and Commonwealth Office
 The General Electric Company plc
 Glasgow Chamber of Commerce
 Hawker Siddeley International Ltd
 Henry Ansbacher Export Finance Limited
 Hoare Govett Ltd
 N E Hook, Esq
 Imperial Chemical Industries plc
 The Institute of Export
 John Mowlem and Company plc
 Lloyd's
 London Chamber of Commerce and Industry
 Lyndale Wools Ltd
 Manchester Chamber of Commerce and Industry
 Massey-Ferguson Holdings Limited
 The Mining Association of the United Kingdom
 Ministry of Defence
 G Modiano (Wool and Hair) Limited
 Morgan Grenfell & Co Limited
 National Economic Development Office
 Overseas Development Administration
 Overseas Projects Board (jointly with the BOTB)
 Pegler Hattersley plc
 Process Plant Association
 Project Loan Monitoring Ltd
 Robert M Douglas Holdings plc
 Samuel Montagu & Co Limited

The Scottish Council Development and Industry
The Society of British Aerospace Companies, Ltd
K Taylor Esq CB, idc
Trade Indemnity plc
Trafalgar House Group
H M Treasury
Westland plc
Sir Malcolm Wilcox, CBE
Willis Faber & Dumas Limited
Wool Processors Limited

APPENDIX B

A COMPARISON OF THE EXPORT CREDIT INSURANCE FACILITIES PROVIDED BY ECGD AND OTHER MAJOR OVERSEAS CREDIT INSURERS

As part of the review of the quality of ECGD's facilities, we made a study of the services provided by other countries' credit insurers. The main features of our findings, as they relate to the activities of some of the major credit insurers, are detailed in the table. For this purpose the major credit insurers are regarded as being:-

Compagnie Francaise D'Assurance pour le Commerce Exterieur (France)

CoFACE is a nationalised company which undertakes some short term commercial risks for its own account but all political and major commercial risks are taken for the government account with CoFACE acting as agent.

Hermes Kreditversicherungs AG (Federal Republic of Germany)

Hermes is a private company in which the government has no share. It carries out credit insurance in the domestic field (defined as including EC markets) for its own account; in the export field Hermes acts solely as an agent of the government with both political and commercial risks being for the government account.

Export-Import Bank of the USA (USA)

As an independent agency of government, Eximbank operates essentially as a state bank concentrating on providing support (guarantees and/or part financing) for major projects. It also reinsures export credit (both commercial and political risks) for other business where applications have been processed by the Foreign Credit Insurance Association, a private company, who act in an agency capacity.

Export Insurance Division

International Trade Administration Bureau

Ministry of International Trade and Industry (Japan)

EID is a division of the Ministry of International Trade and Industry. Both political and commercial risks are normally covered for the account of the state.

Export Development Corporation (Canada)

EDC is a Crown Corporation whose entire capital is subscribed by the government. The operation is split into two functions: a corporation account following commercial disciplines and a government account which accepts certain business which the board of directors deems to be non-commercial.

Special Section for Export Credit Insurance (Italy)

SACE is a state institution operated by a board whose membership is composed of representatives of concerned ministries. It covers both political and commercial risks and all guarantees are backed by the state. SACE also reinsures part of the commercial/political export credit risks assumed by SIAC, a company owned by state-controlled enterprises.

GENERAL INFORMATION (YEAR END 1992)								SACE
RCGD	COPACE	HERMES	EXIMBANK	EID/MITI	EDC			
Percentage of national exports insured	33	9.2 ^A	8.5	36.5	4.3	16.4 (1981 figure)		
Value of national exports insured (Sw Fr Mn)	65,205	32,922	10,031	103,723	7,637	21,331		
Number of insurance policies held	25,758	47,359 ^A	4,208	491,786 (one for each transaction)	1,238	8,763		
Premium income (Sw Fr Mn)	683.8	615.4	57.2 ^B	222.3	25.4 ^B	281.7		
Number of staff employed ^C	1,028	543	323	175	175	258		
TYPES OF POLICY AND FACILITIES								
Specific Policies								
Possible for all transactions	NO	YES	NO	YES	YES	YES	YES	
Restricted to certain transactions (eg Medium/Long-term credit contracts)	YES	NO	YES		NO	NO	NO	
Global/Comprehensive/Wholturnover Policies								
Possible for all types of business	YES ^D	NO	YES		YES ^E	YES	YES	
Possible for one specified buyer	NO	YES	YES		YES ^E	NO	NO	
Guarantees to banks (Supplier Credit)	YES	NO	YES		YES	YES	NO	
Guarantees to banks (Buyer Credit)	YES	YES	YES		YES	YES	YES	
Exchange Risk Cover	NO ^F	YES	NO ^F		YES	NO ^F	YES	
Pre-Shipment Cover	YES	YES	YES		YES	YES	YES	
External Trade	YES	YES	NO		YES	NO	NO	
Performance Bonds (Unfair Calling)	YES	YES	NO		YES	YES	YES	
Investment Insurance	YES	YES	NO ^G		YES	YES	YES	
CONDITIONS OF COVER								
Is PartCover possible? for part of credit period	NO	NO	NO		NO	NO	YES	
for part of amounts outstanding	NO	NO	NO		NO	NO	YES	
Percentage of Cover								
Guarantees to Banks (Supplier Credit)	100	N/A	100 ^H	85-95 ^J		100	N/A ^K	
Guarantees to Banks (Buyer Credit)	100	95	100	100		100	90	
Political Risks	90-95	80-90	100	95		90	90	
Commercial Risks	90	80-85	90	80-90		90	90	
Risks Covered - Political and Commercial	YES ^F	YES ^H	YES	YES	YES	YES	NO	
Can exporter select risks covered?	NO	YES	NO	YES	YES	NO	YES	
Premium Rates: Are there different rates for private and public buyers?	NO	YES	YES	YES	YES	NO	YES	

FOOTNOTES: A - Inclusive of EC business; B - Excluding Interest Income; C - This figure does not account for the variation in functions and distribution of responsibilities in national arrangements; D - Except plant, projects etc; E - If exporter's only buyer; F - But available from private market; G - But available from the Overseas Private Investment Corporation (USA); H - Political Risks only; J - Commercial Risks; K - 100% for credits deriving from inter-governmental agreements.

APPENDIX C

PRIVATE SECTOR INSURANCE FOR THE EXPORTER OR OVERSEAS INVESTOR

1. The Committee received a number of comments from private sector insurers and brokers about the facilities available in the private market and how these differ from those provided by ECGD. In general, the private sector tended to stress the greater flexibility of its facilities to meet the customers' individual needs.
2. Although it is evident that there has been significant growth in private sector activity on this type of insurance, no reliable statistics are available as to the total extent of private sector business. There is significant use of reinsurance to spread risks. The following paragraphs describe some of the characteristics of the main types of insurance and reinsurance available in the commercial markets in the UK.

Commercial ("Buyer") Risks

3. Several credit insurers offer cover against overseas buyers becoming insolvent or defaulting on their payment obligations. Formerly this cover was given mainly by companies who also insured the customer's domestic trade, for example Trade Indemnity plc, but latterly some insurers, notably subsidiaries of United States companies, have specialised in export-related risks. These policies seldom cover political risks.
4. This type of insurance is restricted almost entirely to buyers in markets where the political risks are not considered significant, such as Western Europe, North America, Australasia. The recent increase in the share of total UK exports going to European Community countries has encouraged its growth. Most private sector insurance is of exports on short credit terms.

5. Cover is most often given on a wholeturnover basis, sometimes as an extension of the customer's "domestic" policy, although cover for individual transactions may be available at suitable premiums. Typical exclusions are business with public buyers, overseas subsidiaries of the exporter, or individuals. Most private sector insurers apply no restrictions on the cover they will give to exports of foreign origin. The percentage of any risk covered by private sector companies is generally lower than that by ECGD.
6. Cover against commercial risks is not available at Lloyds.
7. The recovery of overdue debts is also regarded as an important feature and some companies offer this as a separate service.
8. Private sector insurers generally give greater emphasis than does ECGD to assessment of the effectiveness of an exporter's own credit management, and less to judgment of the buyer. Sometimes cover is given on an "excess of loss" or "catastrophe" basis, with the customer bearing a substantial first loss himself. Some insurers have reciprocal reinsurance arrangements with counterparts overseas.
9. Some private sector companies insure customers whose exports are small. Where those customers also insure substantial domestic trade, the insurer may consider the business as a whole when charging premiums. Alternatively, he may increase his charges, or impose particular conditions to avoid taking on uneconomic business. ECGD's application of these techniques has been limited.

Political Risks

10. Much of the available cover against political risks is from specialist syndicates at Lloyds. Contracts are insured on an individual basis as a rule. Some cover is also available from companies. The risks covered are not those of

non-payment of debts; most often they are of contract frustration, or financial default by public sector buyers or, in the case of investments, of expropriation. The range of political risks covered is broadly similar to that by ECGD, although war risk cover is usually more restricted. The period of cover is restricted to 3, or occasionally 5 or even 7, years, though yearly rollover arrangements are common where the restriction is to 3 years.

11. Recently there have been signs of a company market developing for treaty-type insurance of political risks, sometimes combined with cover against insolvency of private buyers, though as yet this is not widely used in the United Kingdom.
12. There is also a market at Lloyds for reinsurance cover on an excess loss basis which is used, among others, by some of ECGD's counterparts abroad to limit their exposure on particular countries. Cover can also be obtained for individual contracts on occasion when the official credit insurer is off cover for a country.
13. Cover is available for new and existing investments overseas. The risks covered are again similar to ECGD's own policy, except that war risks to land-based assets are excluded and cover for restrictions on remittances is less extensive. However, separate insurance is available for loss arising from confiscation of overseas assets by government order. ECGD's cover is intended at present for new investments and is only available for existing investments where associated with a new injection of resources. Cover from the private market is available for up to 3 years at the outset (compared with up to 15 years from ECGD), but rollover arrangements are available.
14. Generally, the private sector's approach to political risks is governed by individual judgments on specific cases. It makes frequent use of a wide range of deductibles and premiums.

Other Insurance

15. There is also cover available for performance and other bonds; for barter trade contracts; for the period when ECGD's own cover is not yet unconditionally in place; against a buyer's refusal to honour an arbitration award; and for other contingent liabilities.

Brokers

16. Brokers are an important part of the private market and, where Lloyds is concerned, they are the sole access to cover. Brokerage rates vary, but ECGD, over half of whose comprehensive guarantee business is brokered, currently pays 5% of premiums on continuing business, or up to 20% for new business.
17. Credit insurance broking is a specialist section of the market, with its own sub-committee of the British Insurance Brokers Association. Its membership is quite wide but the business is largely concentrated within a few names, some of whom are active in Lloyds. They represent one of the main interfaces between the credit insurer and the exporter, with significant capacity to help growth of business.

TRADE : ECGD Jumbo