



Export Insurance Policy – Insurance for exporters

As an exporter, one of the problems that you may face is not being paid by your buyers. This may happen for a number of reasons; your buyer may go bankrupt, war may break out in its country preventing repayment or the country may simply run out of foreign exchange. ECGD can provide insurance to protect you against such buyer and political risks through our Export Insurance Policy (EXIP).

This insurance is suitable for transactions, which involve capital goods, provision of services and/or construction projects. Please note that insurance for contracts involving the sale of consumer goods or commodities on short payment terms can generally be obtained from the private insurance market.

What is the Export Insurance Policy?

The EXIP provides you with insurance against the risk of not being paid under your contract. Contracts involving cash or credit payment terms can be covered but if your buyer requires credit, you will probably find our finance facilities of greater interest, as these allow you to arrange for payment as the contract is performed (for example as the goods are shipped). More information is available in the sections on Buyer Credit and the Supplier Credit Finance Facility. If you use any of our finance facilities, the EXIP may still provide some useful additional cover.

ECGD insures each contract under an individual EXIP. Cover is provided for those parts of the contract in which you have a direct insurable interest (in other words those parts of the contract on which you the exporter may suffer loss).

Your EXIP will be tailored to meet the requirements of your contract. For example you may be contracting:

- Directly with the overseas buyer;
- As a member of a joint venture or consortium;
- As a sub-contractor to an overseas main contractor who is in turn contracting to an end buyer overseas;
- With a buyer that has financial links with your company.

Risks Insured

The EXIP provides insurance against buyer risks and political risks. Full details are set out in the EXIP document, but the risks resulting in your suffering loss under your contract include:

Buyer Risks

- The insolvency of your buyer, and of any surety (if applicable);
- Your buyer's (and surety's, if applicable) failure to pay within six months of due date;
- Your buyer's failure to meet its contractual obligations.

Political Risks

- Political, economic or administrative events arising outside the UK that prevent the conversion or the transfer of payments due under the contract;
- Actions of overseas governments or legislatures that affect performance of the contract;
- The application of a law that means a payment which does not discharge the buyer's contractual obligation to you but nevertheless discharges the buyer's payment obligation under the law of his country;
- Hostilities or civil disturbances outside the UK that affect performance of the contract;
- Administrative or legislative measures occurring in the UK after the date of the contract that affect performance of the contract, for example cancellation or non-renewal of a UK export licence or the imposition of new export licensing restrictions.

Risks of sub-contracting

If you are a sub-contractor, ECGD can insure you against risks relating both to the main contractor (if based overseas) and to the overseas end buyer. If your right to payment under the contract is unconditional you will only need insurance against the main contractor. However, if you have a conditional contract (such that you are entitled to payment only if the main contractor is paid) then you can choose whether to cover the risks relating to the end buyer only, or to both the end buyer and the main contractor.



Nature and extent of cover

The EXIP can cover you against two types of loss. You can choose to cover just one type of loss, or both. Most exporters usually insure against both types of loss.

In performing your contract you may incur costs before delivering goods to your buyer or otherwise establishing your contractual right to payment. For example, you may need to buy raw materials, manufacture parts, or hire staff. The EXIP can provide cover for such costs incurred. If you cannot recoup such costs because of the occurrence of an insured risk, the EXIP will cover all relevant costs including your overheads. This cover is strongly recommended for project-related exports or sales of capital goods or "tailor-made" items, which involve a lengthy manufacturing period and where an alternative buyer may not easily be found if something goes wrong.

As goods are delivered, or works/services are performed under the contract, you may become entitled to receive payment from the buyer. The EXIP will cover you for non-payment of such amounts owing.

The EXIP can also cover plant you use to perform your contract overseas against the risks of loss you may incur caused by confiscation of that plant, restrictions on its movement and damage to it caused by hostilities. Additional premium is payable for this cover.

ECGD will reimburse you for up to 95 per cent of the total value of any loss that you suffer under the terms of the EXIP. You can, when taking out the EXIP, choose a lower percentage, which will be reflected in a lower premium although in these circumstances ECGD will require you to retain your beneficial interest in the "uninsured percentage". This interest cannot be laid off on a third party.

If you expect any loss to be significantly lower than the value of your contract (for example, you may be paid monthly and will only be exposed to three monthly invoices being unpaid before you can cancel the contract) ECGD can offer you reduced exposure cover.

This cover can be based on an insured amount of as little as 20 per cent of your contract price and even that percentage may be less where the contract is solely for the provision of services.

Subject to this minimum limit, you select the amount of cover that will cover your maximum expected exposure to loss, taking into account the likelihood of contractual variations and the time and expense needed to suspend or terminate the contract in the event of problems arising.

The EXIP contains a limit on the total amount of loss, which you may claim, and this amount is denominated in sterling. However, valid claims in foreign currency will be paid to you in the currency of loss wherever possible.

All claims are subject to a claims waiting period of up to six months, depending on the cause and nature of loss. Full details of the applicable waiting periods are set out in the EXIP.

Insurance for finance packages

The EXIP can provide you with supplemental cover where ECGD provides a guarantee to support finance for your contract. This can provide insurance against risks affecting those elements of your contract for which finance has been arranged during the period when you are not yet able to obtain payment from the finance facility, but are already exposed to loss – for example, during design, manufacture and shipment. It can also insure any elements of the contract that are not being financed with our support, such as goods and services that are ineligible for ECGD-supported finance (for example certain foreign goods), or progress payments or retention payments payable directly to you by your buyer. The type of supplemental EXIP cover for your contract will depend on which of our finance facilities you are using.

If you are using the Supplier Credit Finance Facility, or a "simple" Buyer Credit (that is, one which does not provide for payment of termination settlements or arbitration awards in respect of your contract from the financed loan) on a disbursement basis, EXIP cover may be obtained for both the financed elements and any unfinanced elements.

If you are using a "complex" disbursement Buyer Credit which does permit the financing of termination settlements and arbitration awards, EXIP cover cannot be provided for the financed elements of the contract, but is still available to insure any unfinanced elements.

If you are using a Buyer Credit or Supplier Credit Finance Facility which provides for your buyer to pay you directly under the contract and then obtain reimbursement from the ECGD supported finance, you may obtain EXIP cover for your entire contract in the same way as if no ECGD finance support existed.

Your obligations

The EXIP is a contract of insurance between you and ECGD and, like all such contracts it imposes certain obligations on you as well as ECGD. These are clearly set out in the EXIP document, which should be studied carefully. Some of the more important obligations include:

- Your performing the contract as prudently and carefully as if your contract were uninsured;
- Telling ECGD promptly of all facts that affect the insured risks;
- Taking all reasonable action to prevent or minimise loss, including any action that ECGD requires you to take;
- Providing us with proof that your claims are valid.



Premium

Premium rates are determined case by case, based on ECGD's assessment of the creditworthiness of both the buyer and the buyer's country and upon the length of time during which ECGD is at risk. ECGD's premium is normally charged as a percentage of the value that you are insuring with it. If you have chosen a reduced percentage of cover, the premium will be based on the reduced value. Premium is payable in sterling irrespective of the currency of your contract.

Next Steps

If you are considering bidding for a contract for which you may require EXIP cover, please let ECGD know of your likely cover requirements as soon as possible. ECGD can then help you to put together competitive payment arrangements in your proposals to the buyer.

You can approach our underwriters for a written indication (entirely without commitment for you or ECGD) as to whether cover is available in principle for your proposed contract. ECGD can give you an approximate premium rate for costing purposes, an indication of acceptable terms of payment, and advise you of any other likely preconditions to an offer of EXIP cover (for example a third party guarantee of payment).

If cover can be considered, ECGD will ask you to complete an EXIP Proposal Form giving full details of your contract and of your insurance requirements.

If your Proposal is acceptable to us, ECGD will issue you with an offer of cover following an award of the contract to you, which will include your tailored EXIP document. You then decide whether to accept this offer and pay us the premium due.

A list of underwriting contacts is shown in our quarterly ECGD News. You can also contact our Helpline on (+44) (0) 20 7512 7887 for information.