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Deputy Chief
Executive



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Dear *Hugh*

ECGD REINSURANCE FOR EXPORTS SOLD ON SHORT TERMS OF CREDIT

1 In 1991, when ECGD's insurance operations for exports sold on short terms of credit were privatised, the Government decided that in order to ensure the successful transition of that business to the private sector ECGD would provide a measure of reinsurance. This was intended as an interim arrangement which would lapse once the private market had shown itself to be generally capable of reinsuring such business.

2 Demand for short-term reinsurance from ECGD has steadily declined and our records show that no new business has been placed since 1998/99. This fall in demand and further evidence obtained during the review of ECGD short-term reinsurance in March 2000 led to the decision not to renew the then extant reinsurance arrangements. However, it was agreed to put in place a "standby" arrangement, under which ECGD would act strictly as a "reinsurer of last resort" to private insurers on a risk by risk basis should there be proven failure in the reinsurance market. We made it clear that the market's need for support would be reviewed again at the end of 2003.

3 Despite capacity problems for some classes of risk and a general contraction in the reinsurance market following the events of September 11 2001, there has been no call to activate the "standby" arrangements since their introduction in 2001. This absence of demand for cover since 1998/99, particularly given the difficult market conditions that prevailed for part of the period, further reinforces the view that the private reinsurance market has now developed to the stage where it can reliably be expected to meet the needs of insurers.

4 Moreover, whereas it was possible under our previous accounting arrangements to hold a standby reinsurance facility free of charge, under a Trading Fund we would need to commit and remunerate a certain amount of capital in order



to reserve some cover capacity for short-term reinsurance. However, without knowing in advance how much take-up there would be or the risk mix, we would not know what amount of cover capacity we had to offer.

5 Thus it has been concluded that it is no longer necessary or appropriate for ECGD to maintain a short-term reinsurance capability, even on a "standby" basis. ECGD therefore proposes to allow the current arrangements to lapse without replacement.

6 It would, of course, remain open to insurers to make a case for ECGD to re-enter the short-term reinsurance market if there was a significant failure in that market which impacted on their ability to insure UK export business. However, any such case would need to be supported by the production of concrete and verifiable evidence of a systemic and sustained market failure justifying the need for ECGD intervention.

7 The purpose of this letter is to ask if you see any reason why the UK Government should not allow ECGD's "standby" arrangements for the provision of short-term reinsurance to lapse as outlined above? Alternatively, would you be prepared to pay a commitment fee in order to reserve some cover capacity for short-term reinsurance under a capitalised regime, if we were prepared to make this available? Please provide any comments on this issue to Paul Roe of ECGD's Operational Research, Strategy and Change Division at the above address or by email to paul.roe@ecgd.gsi.gov.uk before 31 December 2004. Paul can also be telephoned on 020 7512 7007.

8 The Minister for Trade has agreed that ECGD does not need to apply the criteria of the Government Code of Practice on Consultation (see attached) in full. The Minister has decided to use the exemption provided for in the Code of Practice because of the specialised nature of the issue under consultation and the limited number of stakeholders able to make a direct input on policy for ECGD's arrangements for short-term reinsurance. However, the consultation period will last for 12 weeks as required under the Code and a copy of this letter and of ECGD's response to the consultation will immediately be made available in the Published Reports section on ECGD's website.

9 If you have any comments or queries about this consultation process please contact ECGD's External Affairs Manager, Ben Llewellyn, at ben.llewellyn@ecgd.gsi.gov.uk or on 020 7512 7733.

10 I will be in touch with you directly with our response to the consultation.

Thank you in advance for your contribution.

Yours sincerely



JOHN WEISS

CODE OF PRACTICE ON CONSULTATION

THE SIX CONSULTATION CRITERIA

Consult widely throughout the process, allowing a minimum of 12 weeks for written consultation at least once during the development of the policy.

Be clear about what your proposals are, who may be affected, what questions are being asked and the timescale for responses.

Ensure that your consultation is clear, concise and widely accessible.

Give feedback regarding the responses received and how the consultation process influenced the policy.

Monitor your department's effectiveness at consultation, including through the use of a designated consultation co-ordinator.

Ensure your consultation follows better regulation best practice, including carrying out a Regulatory Impact Assessment if appropriate.

These criteria must be reproduced within all consultation documents.

ECGD REINSURANCE FOR EXPORTS SOLD ON SHORT TERMS OF CREDIT – PUBLIC CONSULTATION

List of Consultees

Atradius

Euler Hermes UK

COFACE UK

The British Exporters Association (BExA)

The Confederation of British Industry (CBI)

The Association of British Insurers (ABI)

The British Insurance Brokers Association (BIBA)