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THE USA AND UK EXPERIENCE OF STIMULATING EXPORT POTENTIAL OF THE COUNTRY THROUGH EXPORT CREDIT INSURANCE

The article analyzes the US and UK experience of export credit insurance as one of the tools to stimulate export potential of the country. The benefits of export credit insurance for the exporter have been determined. On the basis of the analysis of the experience of export credit insurance, suggestions on the development of the export credit insurance system in Ukraine have been formulated. It has been investigated that the world market development of export credit insurance began in the 20-30 years of the XX century, which led to the emergence and improvement of the world private-public insurance sector. It has been found that private insurance companies in the world leading countries are mainly unable to cover large financial risks associated with high volumes of export credits. Thus, the state provides exporters with the risk insurance based on the exporter/ importer assessment and consideration of the individual characteristics of the buyer's solvency and location.

Keywords: export credit, export credit insurance, exporter, importer, commercial and non-commercial risks.

Problem statement. Today in Ukraine, there are many shortcomings in the export credit insurance market, primarily due to the lack of the state support for export operations, the ill-conceived mechanism of credit insurance related to the export of goods, the lack of market infrastructure, high risks of insurance companies related to business risk insurance. Therefore, in this context, the analysis of the experience of export credit insurance in the leading countries of the world, such as the United States and Great Britain, is becoming particularly urgent.

The object of the article. The purpose of the study is to analyze the experience of leading countries in stimulating the export potential of the country through export credit insurance and identifying opportunities for using this experience in Ukraine.

Key findings of the article. In the study by O. Sokolovska[1], it is noted that the export credit insurance market began to emerge in different countries mainly in the 20-30 years of the twentieth century. Thus, first institutions of the export credit insurance market arose in Switzerland in 1906, in the UK – in 1919-1933, in Belgium, Germany, Italy, Australia, France, Spain, mainly in 1921-1929, in Japan, Poland, Sweden, Ireland- in 1930-1933, in the USA – in 1934. However, in developing countries, the export credit insurance market began to develop in 1960-1990. In Ukraine, Hungary, Kazakhstan, Poland and Russia, it has started to emerge since 1990. That is why today the leading countries of the world effectively provide exporters with export credit insurance services.

Export credit insurance is important for both domestic and global trade. The importance of export credit insurance as a protection against the default of a trade partner is growing with the liberalization of markets and the increase in cross-border shipments over the past decades.

Nowadays, the credit insurance market continues to develop due to the growth of economies in different countries of the world, different economic and political risks as well as the needs of exporters to ensure the fulfillment of obligations of buyers-importers. Thus, Fig. 1 shows the dynamics of world-wide volume of insured export credits in 2005-2015, which indicates an increase in the covered risk amount.

[1] Sokolovska, O. (2016). Trade credit insurance: theoretical background and some international practices. *Munich Personal RePEc Archive* <https://mpra.ub.uni-muenchen.de/74303/1/MPRA_paper_74303.pdf>. (2018, June, 09).

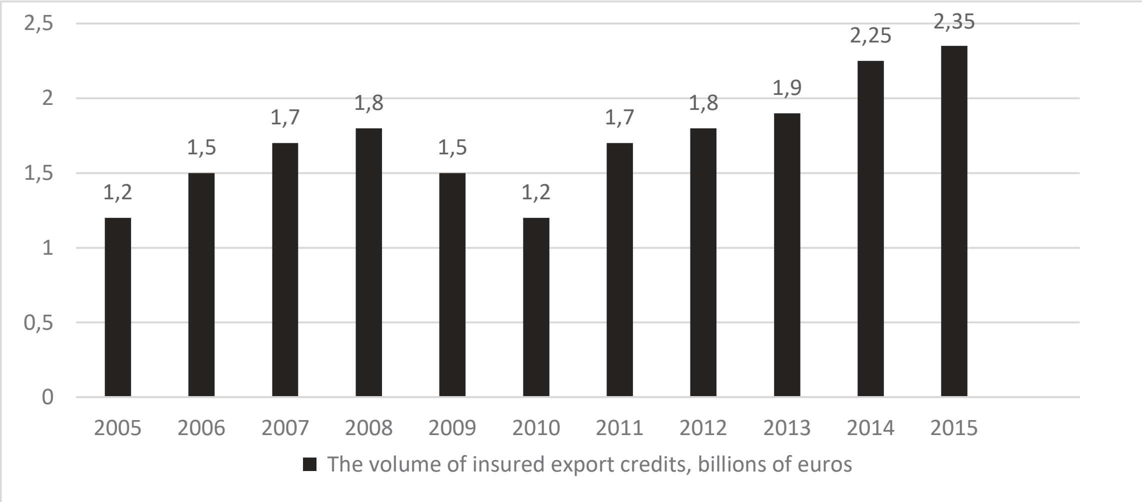

Fig.1. Dynamics of world-wide volume of insured export credits in 2005-2015, billions of euros

Source: International credit insurance & surety association. <http://www.icisa.org/ statistics/1563/> (2018, June, 09).

In general, we can also note that the economic downturn and crisis phenomena do not contribute to the development of the export credit insurance market, as they lead to a reduction in the country's exports, which is clearly confirmed by the data in fig. 1, and at the same time they increase the level of commercial risk.

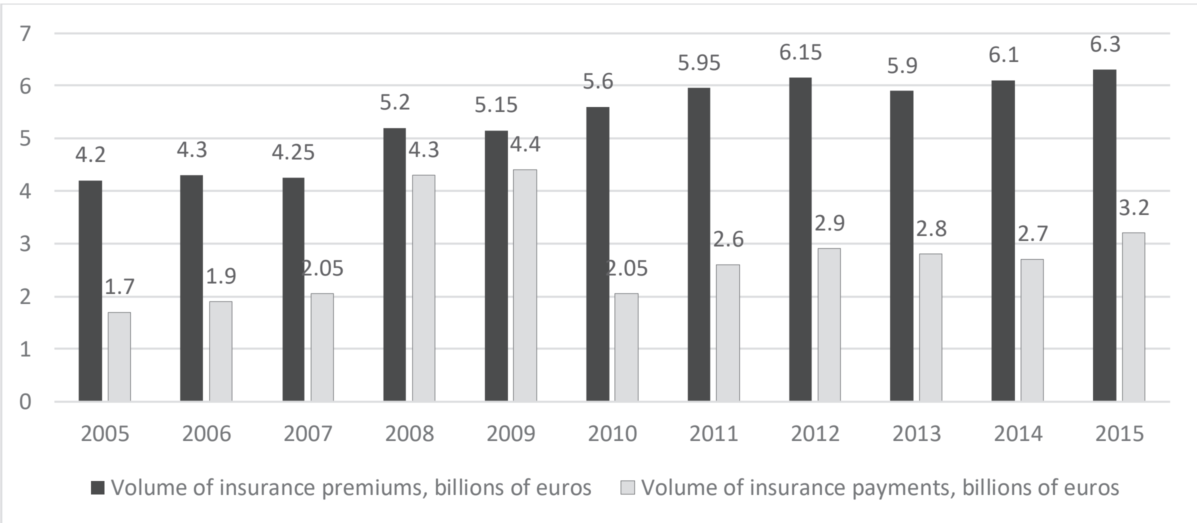

Fig.2. Dynamics of world-class volume of insurance premiums and payments from export credit insurance in 2005-2015, billions of euros

Source: International credit insurance & surety association. <http://www.icisa.org/ statistics/1563/> (2018, June, 09).

At the same time, crisis phenomena lead to an increase in the importer's insolvency risk, which is confirmed by the data in Fig. 2 on the dynamics of world- class volume of insurance premiums and payments from insurance of export credit in 2005-2015. Despite a constant growth in insurance premiums, received by insurance companies and institutions from export credit insurance, the volume of insurance payments increases accordingly.

International practice shows that the functioning of specialized agencies – Export Credit Agencies (hereinafter – ECA), one of the main products of which is export and export credit insurance, is effective in stimulating the export potential.

Today, ECA operate in more than 100 countries around the world. The most famous are the French agency "COFACE" and the German insurance company "HERMES", as well as the Export-Import Bank in the USA and "Control Bank" in Austria.

We shall pay more attention to the peculiarities of export credit insurance in the USA. In the United States, export credit insurance is carried out by both private commercial risk insurance companies and the United States Export-Import Bank (Ex-Im Bank) , a government agency that assists in financing the exports of US goods and services in international markets. American exporters constantly use the services of a special insurance broker, who selects the most favorable rates. Private companies offer exporters an individual definition of insurance premiums depending on the risk factors, while permanent and experienced exporters are offered specially designed insurance programs. As a whole, the insurance rate for export operations is 1%, but the increased risks can lead to its rise. Insurance companies can usually offer flexible and discretionary credit limits. The Export-Import Bank of the United States offers risk coverage for exporters that deliver goods and services to emerging markets, since insurance companies do not provide insurance services because of high risks and possible losses[1].

The advantages of export credit insurance in the United States market can be:

1. Reduction of the non-payment risk: protecting against financial loss due to the buyer-importer's insolvency to 95% of invoiced sales.
2. Increased competitiveness of exporters: the opportunity to offer buyers the credit necessary to expand the exporters' activity in new markets and increase sales.
3. Improved liquidity: increasing cash flow by borrowing foreign receivables.
4. Assessment of credit management: export credit insurance improves credit risk management on the basis of the international EXIM Expertise.
5. There is neither commission nor minimum premium. To execute the insurance contract, the exporter must make a one-time advance deposit of $ 500.
6. The possibility of paying an insurance premium 30 days after the shipment of products[2].

Depending on the exporter's needs and the risk, export credit insurance costs can vary from $ 0.55 to $ 1.77 for every $ 100 of the invoice value. For example, the most popular insurance product "Express Insurance" allows an exporter to pay $ 0.65 for every $ 100 of the invoice value subject to a credit of up to 60 days. For a foreign buyer to ship the goods or provide services worth up to 10,000 US dollars the exporter will spend on export credit insurance only 65 US dollars.

Table 1 shows the cost of export credit insurance for small business exporters in the USA.

We can conclude that the Export-Import Bank of the USA offers the cheapest cost of export credit insurance for exporters, therefore it is a competitive financial institution that stimulates the export performance of producers.

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[1] International Trade Administration of USA (2018). *Export Credit Insurance*. <https://www.export.gov/article?id=Trade-Finance-Guide-Chapter-9-Export-Credit-Insurance> (2018, June, 09).

[2] Exim Export-Import Bank of the United States (2018). *Official site of the Exim Export-Import Bank of the United States* <https://www.exim.gov/> (2018, June, 09).

Table 1

The cost of export credit insurance for small business exporters in the USA

Export credit term	Private insurance companies, US dollars for every 100 US dollars of	Bank, US dollars for every 100 US dollars of	State insurance, US dollars for every 100 US dollars of
1-60 days	0,55	0,20	0,16
61-120 days	0,90	0,33	0,27
121-180 days	1,15	0,43	0,35
181-270 days	1,45	0,54	0,43
271-360 days	1,77	0,65	0,53

Source: Exim Export-Import Bank of the United States. – Accessed mode : <https://www.exim.gov/> (2018, June, 09).

In the UK, there is also a public-private export credit insurance market; however, as in the United States, private insurance companies cannot cover significant financial risks and great export operational costs.

Therefore, today in the UK, there is an Export Credits Guarantee Department (works as the UK Export Finance Department, UKEF). The Department requires that the exporter should conduct business in the UK, the term of the contract with the buyer-importer should be more than two years if the buyer conducts business in the country, belonging to the European Union or other high-income countries (Australia, Canada, Iceland, Japan, New Zealand, Norway, Switzerland and the United States of America , but this restriction does not apply to Greece at present) – the delivery volume under the foreign economic contract should be at least 20% of that in the United Kingdom; the exporter should prove the inability to obtain export credit insurance from private insurance market entities[1].

The state export credit insurance in the UK today covers 95% of the exporter's potential loss. In addition, it provides insurance against such risks as the buyer's insolvency, the buyer's non-payment of any export contract amount, political, economic or administrative changes in the import country that prevent the buyer's export contract payments, military actions or civil unrest in the buyer's country, which adversely affect the execution of the export contract. The insurance value is determined separately in each case and also depends on the level of potential risks.

It is appropriate to provide statistics on possible insurance sums for export operations which can be covered by the Export Credits Guarantee Department in the UK in the context of importing countries (Table 2).

In general, export credit insurance in the UK depends on the political and economic situation in the country of the buyer-importer. Therefore, the Table 2 data allows us to draw several conclusions: UK exporters working with buyers of developed countries can cover a higher level of financial risks, they are given the opportunity for both short-term and long-term risk coverage (Georgia, China, India). At the same time, UK exporters that have established sales in such countries as Australia, Austria, Belgium, Canada, Estonia, France, Italy, Japan, the Netherlands, Poland and South Africa are unable to take advantage of export credit insurance on a short-term basis. In our opinion, this is due to the possibility for private sector insurance, as these countries have a stable economic and political situation, which leads to a reduction in the risk of harm

[1] Government of UK (2018). *Export Insurance Policy* <https://www.gov.uk/guidance/export-insurance-policy> (2018, June, 09).

Table 2

Limitations on export credit insurance in the UK in the context of importing countries in 2018

	Country	Possible amount of insurance cover	Short-term insurance cover	Medium-term or long-term credit insurance cover
1	Argentina	1-2 billion euros	+	+
2	Armenia	250-500 million	+	+
3	Australia	At least 4 billion euros	-	+
4	Austria	At least 4 billion euros	-	+
5	The Bahamas	1-2 billion euros	+	+
6	Belgium	At least 4 billion euros	-	+
7	Canada	At least 4 billion euros	-	+
8	China	At least 4 billion euros	+	+
9	Estonia	2-3 billion euros	-	+
10	France	At least 4 billion euros	-	+
11	Georgia	500-750 million euros	+	+
12	Germany	At least 4 billion euros	-	+
13	Greece	The possibility for credit operations insurance with buyers-importers of the country		
14	India	At least 4 billion euros	+	+
15	Iran	The possibility for credit operations insurance with buyers-importers of the country		
16	Ipaq	250-500 million	+	+
17	Italy	2-3 billion euros	-	+
18	Japan	At least 4 billion euros	-	+
19	Kosovo	Insurance risks are not covered	-	-
20	Libya	The possibility for credit operations insurance with buyers-importers of the country		
21	Netherlands	At least 4 billion euros	-	+
22	Poland	At least 4 billion euros	-	+
23	The Russian Federation	The possibility for credit operations insurance with buyers-importers of the country		
24	South Africa	2-3 billion euros	+	+
25	Ukraine	The possibility for credit operations insurance with buyers-importers of the country		

Source: compiled by the author on the basis of the UK Government Export Insurance Policy. Accessed mode : <*https://www.gov.uk/guidance/country-cover-policy-and-indicators*> *(2018, June, 09).*

to private insurers. The UK exporters who can establish relations with importers of high-risk countries, such as Ukraine, Russia, Greece, Libya, Iran, where there is a significant non-commercial risk (military conflicts, crises, slow economic growth) have little opportunity to get government insurance services to cover export risks.

So, we can conclude that both in the UK and in the US, export credit state insurance is carried out primarily in case of the inability of the private sector to cover commercial and non-commercial export risks. Such a policy stimulates exports and production in countries and provides producers with an opportunity to cooperate with foreign buyers. In these countries, the export credit insurance value depends on the assessed risks and is based on the individual assessment of the export credit size, the duration of the exporter-importer business relations, as well as financial and political risks in the importer country.

Conclusions and further research perspectives. Consequently, the study leads to the following conclusions: the export credit insurance market is constantly evolving and growing due to the needs of exporters in covering commercial and non-commercial risks. In the world developed countries, insurance is provided primarily by the public sector, whose services are significantly cheaper than the cost of insurance from private insurers. This trend is caused by a high risk of export credits for the private sector due to existing political risks. The government of the world leading countries has created special state agencies, particularly in the United Kingdom and the USA, which provide export credit insurance in order to stimulate exports and develop the economy. The mechanism of export credit insurance of these institutions is quite simple and is based on the risk assessment of export operations which is influenced primarily by the political and economic factors of the importing country. Thus, public institutions introduce financial restrictions on export credit insurance for those exporters who deliver goods and services to high-risk countries. And in many cases, insurers individually consider the possibility of providing export credit insurance services because of the high political risk.

Unlike the United States and Great Britain, Ukraine does not have its own system of state financial support for exports, and therefore cannot stimulate export development in a sufficient amount. The introduction of effective mechanisms will allow to create new opportunities for the economic development of Ukraine. The first stage of these changes should be the development of a clear export insurance program in terms of export countries and leading Ukrainian partners taking into account the level of the countries' political and economic risk and determining the maximum allowable insurance amounts to minimize insolvency risks, as well as introducing flexible insurance rates depending on the credit terms and introducing an individual approach to insurance. It is also necessary to accelerate the formation of the state export credit insurance market and the mechanism for its implementation and maximum simplifying the procedure of licensing insurance companies that will provide export credit insurance services. The next step must be to get banking institutions interested in the cooperation on export credit insurance by including the service in the list of first-class deposits on an equal basis with the domestic government bonds. And at the end it is also important to stimulate the development of a private export credit market in Ukraine and to assign the function of the main insurer to the state, which should become the main insolvency guarantor. This will ensure trust building in insurance services in Ukraine.

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