Report

on

A Comparative Analysis of Export Credit Insurance to Exporters and Banks by ECGC: Implications for Export Performance of India

Submitted to

ECGC Limited, Mumbai

Indian Institute of Foreign Trade
(Deemed University)
January 2024

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A Comparative Analysis of Export Credit Insurance to Exporters and Banks by ECGC: Implications for Export Performance of India

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List of Abbreviations

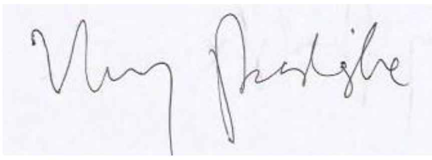
ECI	Export Credit Insurance
DNB	De Nederlandsche Bank
IMF	International Monetary Fund
OECD	Organisation for Economic Co-operation and Development
NEIA	National Export Insurance Account
SCRP	Shipments Comprehensive Risks Policy
SEP	Small Exporters' Policy
SSP	Specific Shipment Policy
ETP	Export Turnover Policy
CSA	Consignment Exports Policy
BEP	Buyer Exposure Policy
MEP	Micro Exporter Policy
SPP	Software Project Policy
MSME	Micro, Small and Medium Exporters
EME	Emerging Market Economies
AE	Advanced Economies
EMDE	Emerging Market and Developing Economies
Avg.	Average
DK/CS	Don't Know/Can't Say
ECGC	ECGC Limited
ECI	Export Credit Insurance
F2F	Face to Face
FY	Financial Year
IIFT	Indian Institute of Foreign Trade
LC	Letter of Credit
MLT	Medium and Long Term
MSME	Micro, Small & Medium Enterprises
N	Sample Size
NPH	Non-policy Holders
PH	Policy Holders
Rs	Indian Rupees
ST	Short-term

Preface

ECGC Limited, Mumbai performs two key functions to promote exports in India. First and foremost, it covers the risk of non-payment to exporters by their foreign buyers. Secondly and equally importantly, it provides surety insurance covers to banks for furnishing credit to exporters. It has, therefore, sponsored this study to identify the problems and their possible solutions for ECGC to be more effective in accomplishing both its main objectives.

This study conducted by the Indian Institute of Foreign Trade (IIFT), New Delhi, focuses on how ECGC can enhance its efforts to provide export credit insurance to exporters and banks and concludes with some recommendations for ECGC in its policy formulations. We hope the recommendations of this report will be useful in the endeavour of ECGC to expand its business in a way that will also facilitate rapid export growth in India.

We would like to thank the entire personnel of ECGC for providing critical support throughout the writing of this report. At the same time, special thanks are due to Shri Sristiraj Ambastha Vivek Tiwari, Swadesh Deepak, Shivam Tiwari, and Ankit Pathak.



(Dr. Vijay Prakash Ojha)
ECGC Chair Professor

Executive Summary

A country's economic growth is dependent not only on the economic activities performed within the country itself, but also on trade with the rest of the world. However, the international market is full of commercial risks (including delay or default in payments in addition to insolvencies, bankruptcies, liquidation, and winding-up of buyers) and political risks (including credit risks related to government buyers and government policy related risks such as regulation changes, import-export licence restrictions, confiscation, war, riot, civil war, etc.). This volatile global scenario has necessitated the role of Export Credit Agencies (ECAs) and Export Credit Insurance (ECI) in promoting exports from emerging and developed countries across the globe.

ECI strengthens the position of exporters in the international market filled with commercial and political risks and enables them to achieve export competitiveness. Generally, ECI is given either directly by public institutions or, indirectly, by banks or financial companies on the government's behalf.

During the current global slowdown, many exporters have suffered the devastating effects that bad debts have had on their businesses; many have gone bankrupt or into receivership due to financial setbacks. Fortunately, several ECAs have contributed towards offsetting these adverse effects. The greater confidence these agencies have acquired among stakeholders and the better understanding they have developed of the credit and financial status of their potential buyers via the vast credit databases provided by their underwriting partners, both locally and overseas, have enabled them to offer new opportunities to exporters. The export credit insurance schemes (ECIS) of ECAs have evolved over time, and variegated export credit risk insurance products have been developed to address the concerns and needs of exporters and commercial banks.

The major findings of the study are given below.

<u>Secondary Data Analysis</u>

<u>Global Experiences</u>:

1. Literature on export credit indicates that ECA export credit insurance is unfairly distributed. Less developed countries obtain a smaller share of ECA credit insurance while they require a greater share.
2. Increased availability of local funding capacity in developing nations like China, Brazil, Mexico, Russia, and India can shrink the market for developed country ECAs in such nations.

3. The Organisation for Economic Co-operation and Development (OECD) Arrangement is the most sophisticated non-binding agreement for regulating officially supported export credits. This Arrangement is a "Gentlemen's Agreement" among the participants, based on soft law principles entailing no binding rights and obligations in global trade. Compliance with this Arrangement is therefore limited. Nevertheless, this initiative has played a critical role in discussions across international groups seeking to resolve complex cross-border export credit support issues that raise concerns regarding national sovereignty.
4. China, which is the largest active player in export financing, is not a member of the OECD and thus, does not have to comply with these regulations. Such discrimination in the applicability of these regulations has resulted in an uneven global competition. Therefore, OECD members are experiencing a strategic dilemma of whether to abide by the Arrangement guidelines or to deviate from them to safeguard their profitability in exporting. They have been increasingly tilting towards the latter strategy.
5. The ECI industry is currently facing high uncertainty due to a global economic and geopolitical environment that has been exacerbated by the Covid-19 pandemic. As a result of this unstable environment, insurers and ECAs are unable to make reliable predictions about claims based on historical data.
6. The economic climate for 2020 has been substantially different from that for 2019. The global demand for credit insurance is projected to expand by 2.15 per cent from USD 11 billion in 2017 to USD 12.5 billion by 2023. It will be further influenced by market fluctuations, shifting trade, and the growth of small businesses in world trade.
7. OECD's medium and long-term (MLT) export credit insurance activity decreased by about 20 per cent in 2020 as a result of reduced support from major countries including Germany, Italy, Korea, the UK, and the US. Indeed, generally, there has been a decline in ECI volumes experienced by a lot of ECAs. Despite this declining trend, the ECAs of Europe except France and Asia were at the top in 2020, with the US placed just below them in a ranking of ECI providers in the world.
8. The volume of MLT export credit support given by Brazil, Russia, India, China and South Africa declined in both 2019 and 2020, accounting for a roughly 50 per cent decline in overall BRICS ECI activity in 2020.
9. The comparison of the ECGC with other major ECAs of different countries, in terms of official MLT export credit support, reveals that during the 2017 – 2020 period, the performance of ECGC relative to other major ECAs of the world deteriorated significantly. Its rank fell from 2nd in 2017 to 10th in 2020.

10. As export-led economic recovery received high priority in addressing the setback to economic growth during the coronavirus pandemic, one of the major concerns of governments has been to maintain buoyancy in exports through adequate flow in ECI.
11. It is well known that export finance is specifically vulnerable during periods of economic crisis. During such times, short-term (ST) trade finance provided by the private sector faces access issues due to the increased ST financing costs and a higher application rejection rate for MSMEs. On the other hand, medium and long-term (MLT) financing seems to be relatively resilient.
12. Keeping this in mind, governments of different nations have wanted their ECAs to fill the financial gaps left uncatered by the private market and participate in both ST and MLT export finance to alleviate the impact of the coronavirus pandemic.
13. Availability of more liquidity is a prerequisite for helping the exporters in times of pandemic. ECAs, therefore, need to raise their financial capacity to enable them to play an enhanced role in ST financing during such crises. But, for MLT financing of trade, ECAs may have less leverage for remedial action, particularly because the Covid-19 pandemic has primarily affected MLT exports through reduced demand and shrinkage of the project pipeline. These two problems cannot be resolved by merely enhancing MLT finance. The call for separate and appropriate remedial measures.
14. ECAs across the world took various measures to deal with the economic impact of coronavirus. They launched new programmes. They also restored and extended existing programmes which were created after the global financial crisis. Further, they expanded their risk appetite and financial capacity, as well as established faster approval processes, implemented contactless application processes, extended policyholder deadlines and increased time duration for notifications and claims filing.
15. However, all programmes of ECAs are bound by WTO’s Agreement on Subsidies and Countervailing Measures (ASCM) meaning that export credit support schemes that depend on the performance of exports tied to domestic goods and for which support cost is lower than provided by the commercial market are considered as prohibited subsidies. Thus, to avoid a possible WTO dispute, governments must keep this in mind while making amends or forming new programmes in response to a crisis.
16. ST financing is not sufficient to maintain trade flows as lack of availability of finance is not the only reason for the decline in exports during an epidemic. Other reasons for the decline in exports during the pandemic were a demand shock in addition to the production shock and disruptions in the supply chain. These require separate and appropriate remedial measures.

17. ECAs may need to make their MLT export support programmes more flexible by modifying their terms and conditions (either through the flexibility available in the OECD Arrangement or through amendments). The OECD can support governments in this work. If the crisis persists, governments may need to find other tools to deal with demand-side pressures, which can have as much adverse impact on MLT trade as supply side pressures, or even more.
18. Lastly, the coronavirus pandemic has also led to some *favourable* effects on the export finance market. It has amplified and accelerated some of the developments that have been emerging in the export finance market in recent times:
    - The role of the ECAs has gone beyond export-oriented support. Covid-19 has speeded up a decade-long trend and now more and more ECAs are following national interest approaches to generate economic benefits other than those from exports.
    - Despite the decrease in recent years, the amount of China's official export financing remains dominant. The declining trend over time has been explained by some experts through the argument that China's EXIM and Sinosure's approach has shifted towards providing less-risky credits, safer markets, and sustainable projects.
    - Another major evolutionary trend in 2020 is the boom in sustainable finance, which has become the focus of support by ECAs. Many ECAs have launched and expanded programmes that aim to create a greener investment portfolio and limit new commitments to carbon-intensive projects.

***Indian Experiences*:**

1. Over the years, the ECGC has developed various credit risk insurance products to accommodate the expectations of Indian exporters and banks. In recent years, its operations have shown an income-to-expenditure surplus.
2. ECGC has been of immense help to Indian exporters. It reimburses 80 per cent to 95 per cent of the losses incurred by Indian exporters. The remaining 5 per cent to 20 per cent of the losses must be borne by the exporters.
3. The portfolio of ECGC consists of about 90 per cent of micro, small and medium exporters in terms of exporter recipients, showing their unwavering support for the MSMEs. Prudent risk management policies and systems adopted by the ECGC ensure a significant surplus while fulfilling India's export promotion mandate.

4. Over three years from FY 2017-18 to FY 2019-20, the Government of India has infused equity capital to the tune of Rs 1,410 crores in ECGC to support higher volumes of export credit insurance, including exports to emerging and challenging markets[1].
5. During the month of March 2022, the number of ST Policies in force were 10292 with a total maximum liability (ML) of Rs 47,465.60 crores as against 11280 policies in force with a total ML of Rs 46,073.08 crores as on 31st March 2021. It shows a decrease of 8.76 per cent in the number of ST policies in force and growth of 3.02 per cent in the total ML.
6. During the fiscal year 2019-20, India's merchandise and services exports totalled USD 527.84 billion (Rs 37,40,881 crores), a 1.9 percent decrease from the previous fiscal year's total exports of USD 538.07 billion (Rs 37,63,940 crores). Overall imports in 2019-20 totalled USD 605.55 billion (Rs 42,88,706 crore), representing a 5.4 per cent decline from the previous year.
7. The drop in exports is primarily due to the global economic slowdown, which has been exacerbated by the Covid-19 pandemic. This has caused demand shortfall and widespread disruptions in supply chains, resulting in order cancellations.
8. The service trade balance (exports *minus* imports) showed a surplus of USD 83.05 billion (Rs 5,88,958 crore) in the fiscal year 2019-20 while the merchandise trade balance showed a deficit of USD160.75 billion (Rs 11,36,783 crore).
9. The overall trade deficit for the fiscal year 2019-20 is USD 77.70 billion (Rs 5,47,825 crores).

<u>Primary Survey Analysis</u>

A. The study also conducted a primary survey, through face-to-face and structured telephonic interviews across 10 clusters focusing on more than 10 industry sectors for a comparative analysis of export credit insurance to exporters and banks by ECGC and its implications for India’s export performance.
B. Further, this study was targeted at two key stakeholders: exporters (classified into two categories as policy holders, PH, and non-policy holders, NPH) and banks. A total of 281 respondents were interviewed: 103 PH, 100 NPH and 78 banks. The aim was to corroborate the findings of secondary data analysis with primary data results.

[1] https://pib.gov.in/PressReleaseIframePage.aspx?PRID=1655063

Exporters:

1. Among exporters, about 50 per cent of the firms were small-sized. In the remaining 50 per cent, there are micro, medium and large firms in that order of importance. Further, in terms of industry sector, one-third of exporters were from the textile and ready-made garments sectors followed by engineering goods, chemical and pharmaceuticals, leather and leather products sectors, etc.
2. In terms of the riskiness of the mode of transport, sea transport is considered the riskiest as mentioned by close to nine out of 10 exporters, followed by road transport and air transport. The top 3 destinations/countries of export were America, United Kingdom and UAE across policy holder and non-policyholder exporters.
3. Further, exporters were asked about the share of online sales; overall, 8.1 per cent was reported to be the share of online sales in total sales; the proportion was 4.3 per cent for policy holder exporters and about 12.1 per cent for non-policy holder exporters.
4. The top three factors that drive a firm's requirement to obtain ECI policy among policyholders were:
   - Geographical differences among the places of origin of exporters
   - Pressure from international competitors
   - Characteristics of the products

   According to the response of non-policyholders, the top three factors in terms of level of importance would be (if they were to avail ECI policies):
   - Regulatory requirement in foreign market
   - Country of export
   - Geographical differences while exporting and free trade agreements
5. According to PH exporters, the most important factors that influence export performance were free trade agreements, regulatory requirement in foreign market and geographical differences while exporting. Pressure from domestic competition and being part of international value chain had the least importance. According to NPH exporters, regulatory requirements in foreign markets, free trade agreements and characteristics of the products topped the list while being part of international value chain was the last.

6. Policyholder exporters were asked about the importance they attach to various factors in obtaining policies from ECGC on an importance scale with respect to cost factors, time-related issues, and market-related aspects. Within each category, following factors were on the top of the list:
    - Cost factors: Availability of finance within the firm
    - Time-related issues: Time for ascertainment of loss
    - Market-related factors: Market domination by established players, transportation time and cost
7. Further, they were asked about the importance accorded to various risks while opting for ECGC policies. Overall, PH exporters mentioned that the importance of risk related to payment default by the buyer is the highest while opting for ECGC policies followed by insolvency of the LC (Letter of Credit) opening bank and insolvency of the buyer.
8. Even after obtaining ECGC policy, there remained several risks associated with certain aspects of exporting. These aspects were: issues with letters of credit given by importers, destination markets which are provided limited risk coverage (restricted cover countries) and exchange rate fluctuation. A few other risks such as sample approval, single-window approval and banking information were also mentioned by the respondents as hampering exports.
9. Overall, 75% of the firms adopt formal risk management mechanisms; all firms among policyholders while only half among non-policy holders did so.
10. Respondents, who said that their firms formally manage risks involved in exporting, were further asked about the mechanisms chosen to minimise non-payment and finance-related risks. To cover their non-payment risks, about 70 per cent of the firms said their most preferred mechanism was purchase of ECGC insurance policies. For covering their finance risks about 16% exporters relied on banks[2] while another 16% of them took their own initiatives based on their resources (self-management).
11. Exporters using ECGC policy covers were asked about the type of risk management they practiced before adopting ECGC policies. Among such exporters, 81 per cent were not using any risk management practice while 12 per cent were managing it through banks and the remaining 8 per cent by arrangements of their own.

[2] ECGC covers the risk of non-payment to exporters by their buyers (importers). On the other hand, banks provide finance to exporters for which ECGC provides cover to the former.

12. Among the non-policy holder exporters, the top three reasons for not practicing formal risk management and/or not availing export credit insurance policies (fully or partially) were the following:
    - Delays in claim settlement
    - Issues with premium charged
    - Procedural obstacles and issues with credit limits
13. On an average, each exporter had undertaken about four ECGC policies in the last five years. In terms of types of policies, over half of the policy holders had taken ST policies while 30 per cent had taken a mix of ST and MLT policies.
14. Amongst all types of short-term insurance covers, shipment comprehensive risks policy had been taken by 70 percent policy holder exporters. Other policies often taken by exporters are buyers' exposure policy, export turnover policy, small exporters' policy, etc.
15. PH exporters have performed better as compared to NPH exporters in terms of average domestic sales as well as export sales. Moreover, they have also been able to employ about thrice the number of people employed by NPH exporters on an average. This may be due to higher sales of policyholders requiring more manpower to operate machines as well as to conduct other operations of the business.
16. The lowest gap between expected versus actual improvement through ECGC policy covers was in global market share, and in exploring and developing new markets.

    On the other hand, the highest gap between expected versus actual improvement was recorded with respect to increase in employment followed by improvement in business turnover and product diversification.
17. The sources of information that play a vital role in spreading awareness of ECGC policies were explored, and they were found to be the following:
    - Marketing efforts by ECGC: Personal visits by ECGC officials followed by conferences and seminars organised by ECGC, stalls in fairs and exhibitions
    - Internal sources within the firm or the marketing staff of the business group to which the firm belongs.
    - External sources: competitors, clients or customers followed by banks, suppliers of equipment, materials, and components.
    - Generally available information: professional conferences, meetings, and publications followed by internet or computer-based information networks.

18. Both policy holding and non-policy holding exporters termed timely availability of insurance cover and coverage of risks according to nature of goods exported as key aspects for improving ECGC's policies. Additionally, non-policyholder exporters also mentioned the extent of risks covered and ease in obtaining claims as factors determining desirability of ECGC policies.
19. ECGC is already providing a range of different policies with flexible premium rates and policy terms to exporters, of which one example is such as Customer-Specific Cover (CSC)[3]. However, it may give some more attention to faster approvals along with smoother claims settlement process.

<u>Banks</u>:

1. In terms of providing services, slightly more than 75% of banks deal in offline mode[4] while 22 per cent through online mode (mostly through bank websites). Further, in terms of online sales share, about 4.5 per cent of total bank sales are done online. Overall, about 80% banks provide short-term export credit services, while the remaining provide medium-and long-term project finance to their customers.
2. Most banks provide exports credit mainly to finance final goods followed by raw materials, and intermediate goods. They provide export credit services to all firms: micro-sized, small-sized, medium-sized and large-sized.
3. The banks offer financing solutions to exporters which includes providing export credit to them for working capital. The key sectors to which banks were providing export credit services were textile and ready-made garments, engineering goods, chemical and pharmaceuticals, and gems and jewellery.
4. In terms of importance attached to the factors in obtaining ECGC policies by banks, about 97 per cent of the bank respondents mentioned that the indirect risk protection to banks due to ECGC cover availed by the exporter client was the most important factor, followed by relief to banks in capital provisioning due to ECGC cover and indemnification through ECGC claim under risk-related issues. About 95 per cent mentioned eliminating capital loss in case of default as the most important factor followed by the time taken to obtain ECGC cover, issues of limit approval and specific approval, etc., under time-related issues.

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[3] A policy that can be suitably tailored to meet the needs of the exporters. The product, Customer Specific Cover, as the name suggests, is designed individually for each exporter with the help of some features that are common to other existing ECGC covers and other features keeping the exporter's business aspects in mind. The main aim of the product is to provide solutions for their basic and advanced business needs of exporters.

[4] Offline mode means that their website provides only information on various export-related services. However, the entire procedure is carried out in offline mode.

5. In terms of the level of importance of different risks, while obtaining ECGC covers, about 97 per cent said that protracted default of the exporter was the most important factor followed by the insolvency of exporters. The key reasons for not opting for ECI (fully or partially) were lack of funds followed by procedural obstacles and unavailability of the features of the cover specifically desired by the banks, etc.
6. Overall, about 61 per cent of banks/branches that participated in the survey had undergone mergers or acquisitions. Close to half of them said that there was no change in the number of customers seeking export credit, whereas about 42 per cent of the respondents saw an increase and 10 per cent observed a decline.
7. To the question on the impact of bank mergers, 48 per cent of respondents have said that bank mergers have influenced market share followed by 40 per cent who said that these mergers led to less competition, 19 per cent said that the impact was increased communication gaps between the banks and clients, while 33 per cent said that there were none of these impacts due to the mergers. In another response, a high share of respondents said that there were positive effects of bank mergers especially in terms of operating efficiency (92 per cent), productivity (81 per cent), and profitability (81 per cent).
8. There was a mixed response about the rise in export credit NPAs as 40 per cent of the respondents said it had increased, 31 per cent said it had decreased while 29 per cent said that it remained the same. Further, on being asked about the impact of bank mergers on the choices available to their consumers (exporters), a higher share of banks stated that the available choices of customers increased (54 per cent), while 38 per cent said that they remained the same and 8 per cent said that they decreased.
9. Similarly, in the changed situation caused by banks' mergers and acquisitions, the Covid-19 pandemic and rising NPAs, 42 per cent of respondents expect lower profitability in the next six months, while 28 per cent are unsure. In response to specific questions on mergers or acquisitions, banks responded that according to the exporters the top three sectors that have sought loan modifications were:
    - Textile and ready-made garments (64 per cent)
    - Engineering goods (40 per cent)
    - Gems and jewellery (20 per cent)

10. Overall, about 58 per cent of the bank respondents confirmed that the pandemic had influenced their regular and ECI business. They said that the number of customers seeking export credit had decreased (56 per cent), while the remaining said that there was either an increase (29 per cent) or no change (16 per cent). Respondents who have said that there was a decline in the number of customers seeking export credit after the pandemic (N=38), also mentioned that exporters of textile and ready-made garments (58 per cent), followed by gems & jewellery (21 per cent) and engineering goods, cashew, agriculture, and plantation (16 per cent each) have sought loan modifications after the pandemic. Further, the banks reported that about 18 per cent of exporters have shut down their businesses due to the COVID-19 either temporarily or permanently. Respondents who said that their banks had been influenced by the pandemic (N=45) were further asked if they expected profitability to be lower over the next six months. Forty per cent of these respondents expected lower profitability in the next six months, while 27 per cent were unsure. Respondents expecting lower profitability in the next six months (N=18) were also asked about various approaches taken by banks for cost cutting in response. The topmost approaches mentioned by respondents were the following:

    - Reducing wages, bonuses, or benefits, and reducing location-based costs (50 per cent each)
    - Reducing employment (22 per cent)
    - Reducing spending on cyber security/ IT (11 per cent)

Policy Prescription

1. **Extending Support across Various Sectors:** Being an export facilitation organization, ECGC has supported exports from various sectors in India. Most ECGC export credit insurance policy support is focused towards sectors like textiles and ready-made garments, engineering goods, chemicals and pharmaceuticals, and leather and leather product sectors. The study shows that there is scope for expanding business in other sectors like tea, marine products, plastic goods, and granite.
2. **Provision of a Digitalised Framework:** Analysis of the survey results indicate that a very small proportion of sales is done online both by the exporters and the banks. As there has been an increasing trend towards a digitalized world, there is a need to build an online platform for all stakeholders. By providing a digitalized framework to its clients, ECGC may enhance its business from all the clients including banks and exporters.

3. **Policy and Procedural-Related Suggestions:**
   - There is a need for timely availability of insurance cover to exporters, faster approval and a smoother process of claim settlements.
   - ECGC may offer better pricing, discounts, and flexible premium rates and policy terms to support more exporters and also enhance its own business. Increasing support to exporters will in turn boost India's export performance.
   - The coverage of risks needs to be extended by framing policies that facilitate easy market entry by exporters, especially in the case of goods or markets that are risker than the ones already being supported.
   - Overall credit limits may be increased to support exporters and hence, improve India's export performance.
4. **Raising Awareness about ECGC Policies:** ECGC can increase awareness about its policies among the exporters through personal visits and by organising conferences and seminars, or arranging stalls in fairs and exhibitions, etc.
5. Primary data shows that eight out of every 10 banks provide short-term export credit services while the rest provide medium-and long-term project finance to their customers. However, the share of the short-term policies in the total business of ECGC cannot be said to have peaked. There remains scope of further increasing the business in short term policies through initiatives such as providing discounted premiums as well as organizing seminars and events to engage the exporters more intensively.
6. Most banks provide export credit mainly to support exporters of final goods but only marginally to exporters of raw materials and intermediate goods. Here, ECGC through its modified insurance policies such as CSC covers for bank may play a critical role in the facilitation of credit to the exporters of raw material and intermediate goods. This may encourage the banks to offer credit for the export of raw material and intermediate goods as well, it would in turn increase the business of the ECGC.
7. ECGC may enhance their ST policy business by focusing on factors such as relief in capital provisioning for cover and by deploying the claim amount to indemnify not only the exporters but also the banks. On the other hand, the key reasons for banks not opting for ECI (fully or partially) were lack of funds, procedural obstacles, and unavailability of the features desired by the banks. Therefore, ECGC may also focus on simplification of procedures, providing doorstep services, and digitization of the services to address these issues.

8. A high share of respondents said that mergers of banks had some positive effects, especially in improving operating efficiency, productivity, and profitability. However, those maintaining that mergers had negative effects are not insignificantly small in number. It follows that the mergers or acquisitions may have had varied impacts across different sectors. Based on this finding, ECGC may expect a rise in business in some sectors if the positive impact of mergers or acquisitions outweighs its negative impact.
9. In the changed situation caused by banks' merger and acquisitions, the Covid-19 pandemic, and rising NPAs, the survey found that about 42 per cent of the respondents expected lower profitability in the next six months. Lower profitability is likely to lower the amount of export financing that banks can offer, and this could affect ECGC business adversely.
10. The three sectors seeking maximum loan modifications after the merger or acquisition of a bank were the following:
    - Textile and ready-made garments (64 per cent)
    - Engineering goods (40 per cent)
    - Gems & jewellery (20 per cent)

    To facilitate these loan modifications by the banks, ECGC may provide incentives by incorporating few appropriate adjustments in its insurance policies.
11. The primary survey shows that the pandemic has adversely influenced the export credit business of banks. Most of them said that the number of customers seeking export credit had decreased and about 18 percent of exporters have shut down their businesses due to the COVID-19 either temporarily or permanently. To address this decline in business, various approaches taken by the banks were the following:
    - Reducing wages, bonuses, or benefits & reducing location-based costs (50 per cent each)
    - Reducing employment (22 per cent)
    - Reducing spending on cyber security / IT (11 per cent)

    The closure of businesses, whether temporarily or permanently, is a major reason for the decline in the ECIB business of ECGC. To reverse this decline, ECGC may focus on few factors, such as designing special covers that may encourage banks to provide more credit to exporters.

The key suggestions for ECGC Limited to enhance its business for providing export credit insurance for banks (ECIB) and exporters include faster approval and a smoother process of claim settlement. ECGC Limited may also offer attractive discounts on premium, increase the risk coverage, raise awareness of its policies, provide relevant and timely information through online and offline channels, and introduce more customer-focused policies.

Chapter 1
An Overview of Global Agencies for Export Credit Insurance and Export Finance

1.1 Introduction

Increasing globalisation over the past few decades has meant that a country's economic growth is determined not only by the performance of its domestic economy but that of the global economy as well. Trade *per se* is risky and uncertain and international trade is even more so, given the additional risks faced by exporters in relation to loans and credit sought by them, non-payment by foreign buyers, foreign exchange fluctuations, political disturbances in importing countries etc. For promoting exports, it is therefore imperative that exporters are protected against these risks. Shielding exporters against these foreign trade risks essentially entails two functions: one is providing insurance cover to banks and other financial agencies which lend credit to exporters, and the other is furnishing export credit insurance (ECI) to exporters against default in payment by foreign buyers. In many countries, both these functions are performed by what are called as export credit agencies (ECA)[5]. In India, the key ECA is the wholly government- owned ECGC Limited. In India and other countries of the world, ECAs have become crucial facilitators of exports which nowadays are a vital component of economic growth of nations.

1.2 Role of Export Credit Insurance in Export Promotion

Export credit insurance (ECI) schemes are widespread both in developed and developing countries. Many nations have designed export credit insurance schemes as a policy instrument to protect their exporters from the adverse trade effects arising from market failures in signalling risks from uncertainties in international finance, exchange rates, politics etc. Generally, these schemes are either directly given by public institutions or banks or by other agencies on the government's behalf. In 2020, MLT (medium and long-term) export credit insurance provided by Berne Union ECAs covered approximately 13.6 per cent of total global cross-border trade. Over 110 national ECAs (including credit and insurance providers) compete on a global scale to assist their domestic exporters in a sluggish trading environment (Dawar, 2019).

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[5] In some countries, the ECA, apart from providing insurance covers to exporters and banks, also combines the role of banks and financial agencies to directly furnish export finance to the exporters.

During the current global slowdown, many exporters have suffered the devastating impact that bad debts have had on their businesses – many have gone bankrupt or into receivership for financial reasons. A major benefit of ECI schemes is that policyholders can use these policies as collateral to obtain bank loans or funding at lower interest rates, helping them improve their overall competitiveness in the global market. In brief, ECI protects exporters and banks against the risk of non-payment by their buyers due to the following:

- Commercial risks, including prolonged default or delayed payments, insolvencies, bankruptcies, liquidation, and winding-up.
- Political risks, including credit risks related to government buyers and government-related risks such as regulatory changes, import-export licence restrictions, confiscation, war, riot, civil war, etc.

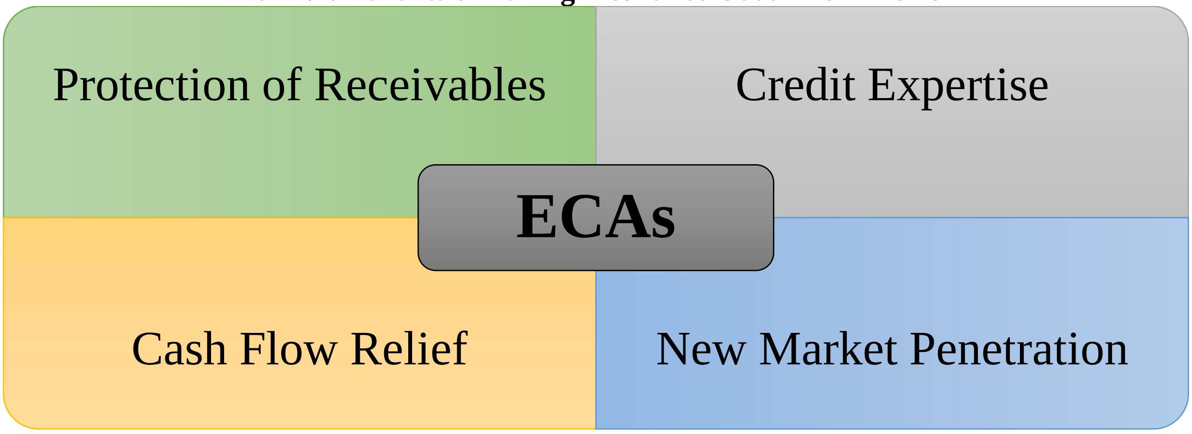
Before moving on to discuss trends in export credit insurance, it is essential to understand that there are two broad categories of credit insurance under which ECI falls. Export credit insurance covers are differentiated with respect to the tenure of the credit granted. On the basis of this differentiation, there are two types of export credit insurance policies.

- Short-term (ST) policies
- Medium & Long Term (MLT) policies.

1. **Short-term (ST) Policy:** ST export credit insurance covers are the most common form of export credit insurance, which covers for a period of less than a year, generally less than 365 days. Most short-term export credit insurance, which are in the form of insurance policy covers are provided by the private, but in the case of a few countries such as India, ST covers are also provided by public sector organizations.

2. **Medium and Long-Term Policy:** Medium- and long-term (MLT) credit insurance provides cover up to 15 years. MLT exports refer to exports of engineering goods and the execution of turnkey projects and civil construction contracts abroad collectively. MLT exports include project exports and also exports of goods.

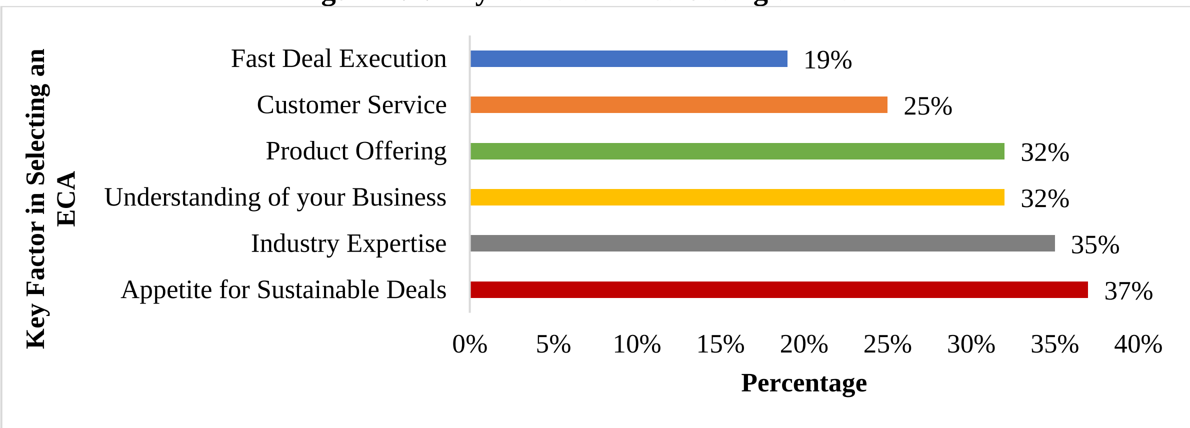
Box 1.1: Benefits of Taking Insurance Cover from ECAs



Source: Created by IIFT

Different export credit risk insurance products have been developed by ECAs to address the concerns and needs of exporters and commercial banks. Exporters in turn use the five key factors shown in the Figure 1.5 to evaluate the usefulness of ECAs.

Figure 1.1: Key Factors in Evaluating an ECA



Source: TXF Limited, Global Export Finance Industry Report 2021

1.2.1 Role of ECI in Boosting International Trade: The Theoretical Framework

ECI strengthens the position of exporters in the international market. A study done by De Nederlandsche Bank (DNB) shows that each euro invested in insuring exports generates over €2.50 in total exports. The International Monetary Fund (IMF), the World Bank, and some other nations within the Organisation for Economic Co-operation and Development (OECD) also support the argument that ECI has developed sustainable lending strategies and plays a vital role in promoting corporate social responsibility.

Export credit insurance providers of countries around the world are likely to be overprotective towards their exporters. Policies of such institutes can disrupt the level playing field for exporters across countries. To prevent this from happening, there are international treaties which regulate these organisations across nations to frame their export credit insurance policies in a manner consistent with a level playing field for exporters across nations.

Global competition among exporters should be determined by price and quality, not by competition among the ECIs across nations in making more and more lucrative offers to exporters (Drysdale, 2015). Such an irrationally competitive climate in the official export credit insurance market is sought to be prevented by the OECD Arrangement on officially supported export credit. But this OECD arrangement is not effective for the simple reason that it is not legally binding. However, WTO's Agreement on Subsidies and Countervailing Duties, has some legal bindingness[6]. Therefore, the WTO Agreement has somewhat greater effectiveness but not enough of it to prevent completely the unhealthy competition among providers of ECI schemes to boost exports through various subsidy-type provisions.

A summary of some of the major studies supporting the role of export credit insurance in boosting international trade has been provided in Table 1.1.

[6]The limit in terms of not including trade in services or the dimensions of sustainable development of official export credit support

Table 1.1: Studies in Favour of ECI Boosting International Trade

Year	Study by	Results of the Analysis
2003	Melitz	In standard new trade theory models with heterogeneous firms, export credit insurance can be seen as • lowering both fixed and variable trade costs, • implying a rise in the extensive and intensive margins of international trade.[7]
2006 2008	Egger and Url Moser et al.	The former analysed a static macro-panel for Austria's export flows disaggregated by receiving country and kind of activity[8] while the latter used a dynamic macro-panel for Germany's export flows, disaggregated by receiving countries.[9] • Both highlighted that political risk has a damaging impact on global trade. • Additionally, ECI leads to a more than proportional rise in exports, i.e., insured exports generate follow up deliveries without policy covers by an ECA.
2008	Manova	• Lack of credit reduces the firm-level exports of US firms, • Limits the type of products exported, • and leads to an increase in product churning for nations with underdeveloped financial markets.[10]
2011	Amiti and Weinstein	• Financial friction has a greater impact on international transactions than on domestic transactions. • While uncertainty and risks are a fundamental feature of businesses, businesses involved in world trade face not only local risks, but also internationals risks, such as a global financial crisis, political risks, currency depreciation or appreciation risks, etc. • The existence of export credit insurance agencies plays a significant role in increasing a nation's exports.[11]
2013	Badinger and Url	• Assessed a cross-section of firms, some of which took export credit insurance in Austria in the year 2008, and evaluated the trade effects for 71 firms. They found that ECI is positively associated with a firm's exports.[12]
2018	Lodefalk, Magnus, et al	• Found how such covers improve exports of a firm, jobs and value addition by using distinctively comprehensive and exhaustive transaction-level panel dat on insurance cover and granular information on trade, exporters and foreign buyers by performing difference-in-difference matching estimations. • Overall, the findings suggested a causal link between insurance cover and the export performance of the firm.[13]
2020	Krummaker	• ECI is a core component for the realisation of an export transaction.[14]

Source: Created by IIFT from sources provided in the footnotes

[7]Melitz, M. J. (2003). The impact of trade on intra-industry reallocations and aggregate industry productivity. Econometrica, 71(6), 1695-1725
[8]Egger, P., & Url, T. (2006), Public export credit guarantees and foreign trade structure: Evidence from Austria. World Economy, 29(4), 399-418
[9]Moser, C., Nestmann, T., & Wedow, M. (2008), Political risk and export promotion: evidence from Germany. The World Economy, 2008, vol. 31, issue 6, 781-803
[10]Manova, K. (2008), Credit constraints, equity market liberalizations and international trade. Journal of International Economics, 76(1), 33-47
[11]Amiti, M., & Weinstein, D. E. (2011), Exports and financial shocks. The Quarterly Journal of Economics, Volume 126, Issue 4, November 2011, Pages 1841–1877, https://doi.org/10.1093/qje/qjr033
[12]Badinger, H., & Url, T. (2013), Export credit guarantees and export performance: Evidence from Austrian firm-level data. The World Economy, Wiley Blackwell, vol. 36(9), pages 1115-1130, September.
[13]Lodefalk, M., Tang, A., Tano, S., Agarwal, N., & Wang, Z. (2018), Guaranteed Success? The Effects of Export Credit Guarantees on Firm Performance. https://www.academia.edu/71768409/Guaranteed_Success_The_Effects_of_Export_Credit_Guarantees_on_Firm_Performance
[14]Krummaker, Simone (2020), Export Credit Insurance Markets and Demand. In The Handbook of Global Trade Policy. Edited by Andreas Klasen. Chichester: Wiley & Sons, pp. 536–54

Herger and Lobsiger (2013) tried to find out how far officially backed export credit insurance has achieved its stated aim of stimulating exports. They estimated the gravity equations for the Swiss Export Risk Insurance Scheme using data for the three-year period, 2006-2008, and found that export credit insurance increased exports in the manufacturing sector by around 1 per cent. This export promotion effect is not evenly distributed. As regards countries, the main beneficiaries were large emerging markets such as Russia, Iran, Turkey, Mexico, and Indonesia. As regards sectors, export promotion occurred almost entirely within the manufacturing sector and within that mainly in the chemical and machinery sector.

1.2.2 Global Pandemic and Official ECI Trends

The Coronavirus (Covid-19) pandemic and the consequent lockdown measures enacted by several governments have had an adverse impact on global economic activity because of the severe disruption caused to global value chains as well as its dampening effect on global demand. Mainstream and social media often predict that the negative impact of Covid-19 may last longer than expected earlier. The OECD has projected a decline in world GDP by 3.4 per cent and a shrinkage of world trade by 10.9 per cent for the year 2020.[15]

The ECI industry, therefore, has been facing high uncertainty due to an adverse global economic and geopolitical environment that is further exacerbated by the Covid-19 pandemic. As a result of this unstable environment, insurers are unable to make reliable predictions about claims based on historical data. While private insurers face rising financial and regulatory requirements, ECIs, which typically tend to be an important part of the policy regime instituted by most governments to help exporters, need to prove that their use of financial resources is efficient, effective, and creates the desired economic and social impacts. Consequently, it is important to estimate claims, claims reserves and associated costs and benefits more accurately.

The economic climate for 2020 has been substantially different from that for 2019. Global demand for credit insurance is expected to increase by 2.15 per cent from USD 11 billion in 2017 to USD 12.5 billion by 2023. It will be influenced by fluctuations in markets, shifting trade, and the growth of small businesses in world trade.[16]

[15] OECD (2021), Trade Finance in the Covid Era: Current and Future Challenges
[16] https://exportsnews.com/post/trade-credit-insurance-market-s-growing-popularity-and-emerging-trends

1.3 Role of Export Credit in Export Promotion

Small firms have to necessarily bear high average costs because of their low turnover. Moreover, the exporters among them face acute difficulties in accessing export credit. Small firms therefore are inevitably put at a competitive disadvantage in international trade, even if they have high productivity (Berman and Héricourt, 2010, Minetti and Zhu, 2011, Forlani, 2014, Muûls, 2015). Such disadvantages suffered by a vast number of small exporters can be removed only by putting in place an export credit support system which overcomes the market bias against them.

However, some studies suggest the contrary. It is generally believed that export credit support is a catalyst for the global trade system, but to compete for contracts overseas, public resources may be used by governments to provide subsidies disguised as export finance to exporters. In other words, while export credit subsidies may be used justifiably to address international financial market failures, they can also be indefensibly overused by countries to provide undue advantage to their exporters. In the latter case, the result will be subsidy wars, in which exporting countries waste resources in an unhealthy competition against one another (Dawar, 2019) and end up shaking the very foundation of free trade.

Free trade is essential to strengthen a healthy relationship between importers and exporters. In an open economy, greater number of trade transactions leads to more trustworthy importer-exporter relationships, which reduce the need to depend on trade finance instruments. Agarwal and Wang (2016) examined the impact of the US Export-Import Bank on US exports using data on 226 countries, 94 industries, and seven years from 2007 to 2013. The results reveal that the bank is ineffective in supporting US exports within and across industries. The study also reveals that industries other than aerospace parts and products are more likely to benefit from EXIM bank authorisations, and that larger enterprises appear to be more successful in improving export performance by obtaining EXIM bank authorisations.[17]

[17]Agarwal, Natasha and Wang, Zheng (2016), Does the US EXIM Bank Really Promote US Exports?, Nottingham Research Paper 2016/12

Trade financing from ECAs has been responsible for much of the debt incurred by developing countries towards the ECAs of the developed creditor countries. The large amount of debt owed by developing countries to governmental ECAs of developed countries is not sustainable. Even restructuring of the debt does not relieve the developing countries. Ways and means must be found to keep such developing country debts within limits of sustainability (Blackmon, 2014).[18]

The volume of medium and long-term activity in China and other Asian emerging markets as compared to that of ECAs of OECD countries has been sluggish since the mid-1990s despite rapid import growth in these countries.[19] Existing information from the Bank for International Settlements (BIS) demonstrates that while cross-border lending by OECD-based commercial banks to developing countries expanded 40 per cent between 1990 and 2001, loans by local banks in developing nations in the same period increased much less.

The OECD Arrangement on Guidelines for Officially Supported Credits is perhaps the most sophisticated "Gentlemen's Agreement" for regulating official export credit support. It stipulates important requirements for repayments on types of export credit received through official support. In particular, this may involve either 'official financing support' (such as direct loans to international buyers, refinancing or interest rate support) or 'pure cover support' (like export credit insurance for private financial institutions). Official lenders providing direct loans or interest rate support must use the commercial interest reference rate (CIRR) as the minimum interest rate for fixed-rate loans. A premium also needs to be charged to cover the risk of non-payment of export credit and to compensate for long-term operating costs and losses.

Furthermore, the OECD Revised Council Recommendation on Common Approaches on the Environment and Officially Approved Export Credits requires ECAs to address anti-bribery, environmental, social, and human rights issues and to provide sustainable financing to heavily indebted developing countries for stimulating exports through export credit. These OECD arrangements entail no binding rights and duties in global trade, since they are based on soft law principles. Compliance with such arrangements is therefore limited. Nevertheless, this initiative has played a critical role in discussions among a number of international groups seeking to resolve complex cross-border export credit support issues that threaten national sovereignty.

[18]Blackmon, P. (2014), Determinants of developing country debt: The revolving door of debt rescheduling through the Paris club and export credits. Third World Quarterly, 35(8), 1423-1440.
[19]IMF (2005), Officially Supported Export Credits in a Changing World

Governments have begun to employ these measures as a prudent choice – but only for as long as curbing breaches outweigh the financial loss of any infringement. There is uncertainty concerning the suitability of tougher export credit rules due to unpredictable future conditions, so the OECD regulations have proven to be the best option. This has enabled governments and businesses from countries with ECAs to be more aware of and more secure about competing on the basis of the quality of products and services instead of price.

However, limited membership for OECD arrangements is a major constraint to its widespread adoption. China, which is the largest active player in export financing, is not a member and hence does not have to comply with these guidelines. Furthermore, although the structure provides some flexibility for its members to implement more efficient systems, a large number of export credit support mechanisms that are beyond the ambit of the OECD Arrangement have been developed and deployed by its members. In this way, OECD Arrangement compliant activity has been displaced as the primary source of export support by China and non-Arrangement activity by both OECD participants and non-participants. In other words, the applicability of the OECD Arrangement guidelines on ECAs is diminishing relatively, both in value terms as well as geographically, at a time when economies, including OECD economies, are progressively trying to fuel their growth rate through exports. Consequently, OECD members face increasing pressure to set up their own OECD Avoidance Arrangement Programmes.

Table 1.2 The Major ECA Countries by Type of Norms Followed

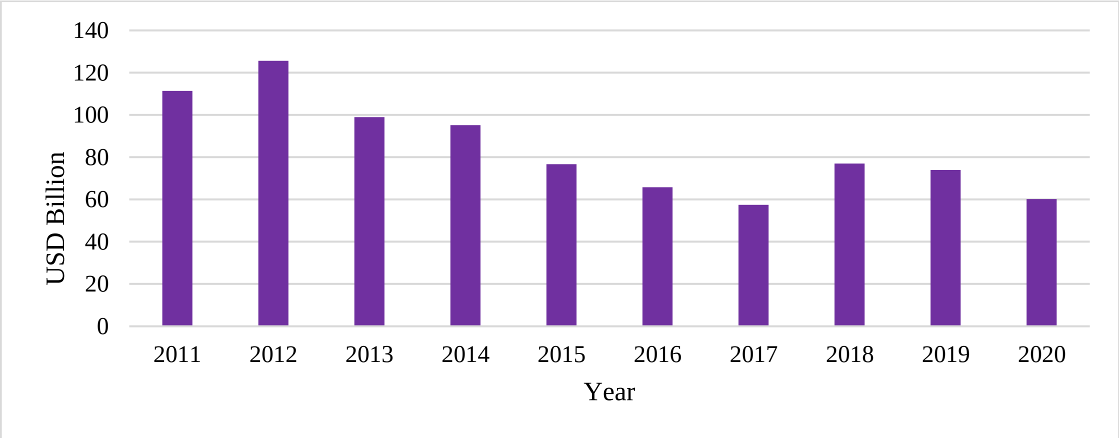
Name of the Countries	Participants to the OECD Norms Arrangement	Members of OECD, but follow Non-Arrangement MLT Programmes	Non-Participants to the OECD Norms
Australia	√	√	×
Austria	√	√	×
Belgium	√	√	×
Canada	√	√	×
Denmark	√	×	×
Finland	√	×	×
France	√	×	×
Germany	√	√	×
Italy	√	√	×
Japan	√	√	×
Korea	√	√	×
Netherlands	√	√	×
Norway	√	√	×
Spain	√	×	×
Switzerland	√	×	×
United Kingdom	√	×	×
US	√	×	×
Brazil	×	×	√
Israel	×	×	√
China	×	×	√
India	×	×	√
Mexico	×	×	√
Sweden	√	√	×
Russia	×	×	√
South-Africa	×	×	√
Turkey	×	×	√

Source: Created by IIFT using US-EXIM Bank Competitiveness Report 2019

1.3.1 MLT Export Credit Activity under the OECD Arrangement

Figure 1.1 shows the volume of official MLT export credits provided by OECD countries under the arrangement on officially supported export credits for different years. MLT export credit activity under the OECD arrangement decreased by about 20 per cent in 2020.

Figure 1.2 OECD Arrangement Official MLT Export Credits (USD Billion)



Source: Created by IIFT using US-EXIM Bank Competitiveness Report 2020 Data

This was the result of reduced support from major countries including Germany, Italy, Korea, the UK and the US. Although a number of ECAs experienced a decline in volumes in 2020, France emerged as an outlier, doubling its support from about $6 billion to around $12 billion, mainly because of providing large windfarm support in the UK, a huge shipbuilding contract and aircraft support.

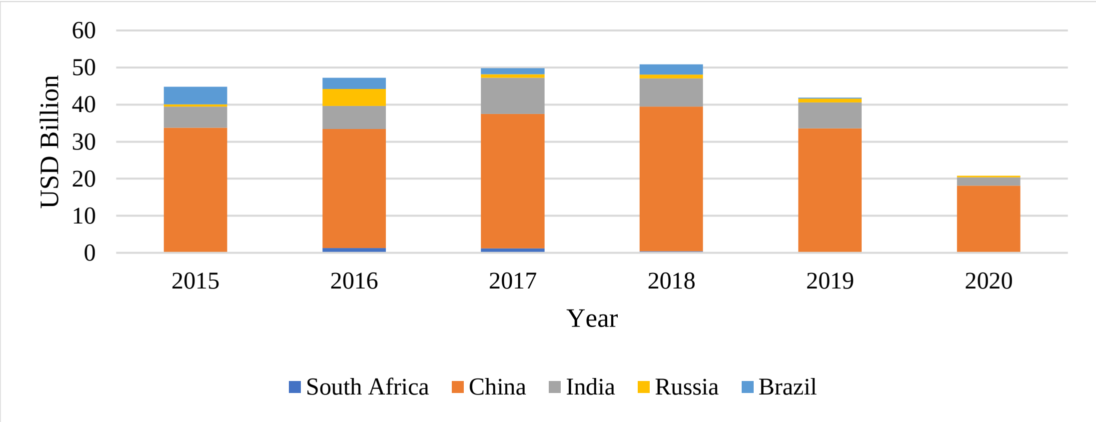
Various ECAs that took response measures in 2020 to tackle Covid-19 have not been captured by official export credit volumes as many of these programmes like short-term trade financing do not fall under standard OECD Arrangement for MLT export credit support. In addition, foreign buyers reduced their reliance on ECA support.

1.3.2 MLT Export Credit Activity of Major Non-OECD (BRICS Countries)

From the BRICS (Brazil, Russia, India, China and South Africa), China and India were the biggest players in extending official MLT export credit in the past years. In 2017, China, with export credit worth $36.3 billion, was the leading provider of MLT export credit globally and accounted for one-third of the world's total MLT export credit. Chinese ECA-related foreign trade was not covered by the OECD Agreement by 2017.

The US-EXIM Bank estimated that China's MLT export credit support decreased substantially from USD 39.1 billion in 2018 to USD 33.5 billion in 2019 and further down to USD 18 billion in 2020 but its volume is still substantially higher than that of all other major providers as can be seen in Table 1.3. Disregarding those who question the reliability of economic data of China, Chinese official financing now seems to be more risk averse.

Figure 1.3 BRICS Official MLT Export Credit Activity



Source: Created by IIFT using US-EXIM Bank Competitiveness Report 2020 Data

The volume of MLT export credit support given by Brazil, Russia, India, and South Africa also declined in both 2019 and 2020, accounting to a roughly 50 per cent decline in overall BRICS activity in 2020 as can be seen in Figure 1.2. It is important to note that India lost its rank as the second largest MLT export credit provider after China in 2017, following a sharp fall in support volumes, and was ranked tenth in 2020.

Table 1.3 Top MLT ECI Providers (USD Billion)

S. No.	Country	2017	2018	2019	2020
		USD Billion	USD Billion	USD Billion	USD Billion
1	China	36.3	39.1	33.5	18
2	France	6.8	8.9	6.2	12.1
3	Germany	7	12	10.5	8.6
4	Italy	8.9	12.4	11.1	8.4
5	Korea	7.9	10.6	5.8	5
6	Sweden	1.9	3.4	4	4.7
7	United Kingdom	2.1	2.4	6.6	3.4
8	Denmark	1.8	5.1	2.7	2.8
9	Belgium	3.1	3.2	3.2	2.5
10	India	9.7	7.6	7	2.3

Source: Created by IIFT using US-EXIM Bank Competitiveness Reports of Years 2017 to 2020

Standard MLT export credit volumes of OECD and non-OECD ECAs fell by around 9 per cent in 2019, while these volumes fell by 30 per cent in 2020 after the pandemic.

1.3.3 Global Pandemic and Steps Taken by the Official Export Finance Market

Export-led growth has received high priority in addressing a number of economic failures in the global market, increasing the importance of ECAs in developed as well as emerging countries. Consequently, during the coronavirus pandemic, one of the major concerns of governments has been to maintain export flows and export finance, which provides the necessary liquidity and security for the smooth progress of international trade. However, it is well known that export finance is vulnerable during periods of economic crisis. In past crises, governments' export support programmes have helped to tackle such situations. Keeping this in mind, governments of different nations have urged their ECAs to fill the financial gaps left by private sector players and participate in both ST and MLT export finance.

It appears that ST trade finance is facing access issues under the private sector due to increased ST financing costs for SMEs and a higher application rejection rate. To resolve this problem, ECAs should play an enhanced role in financing ST trade by first raising their financial capacity, and, subsequently, taking innovative measures for improving access of liquidity by those who need it. In MLT transactions too there has been a decline of 15 per cent in number and 34 per cent in volume. But this decline is not much, perhaps because of the resilience in MLT financing. However, ECAs may not be able to arrest or reverse this decline in MLT transactions particularly when its cause is demand deficiency and shrinking of the project pipeline occurring as in the times of Covid19 pandemic.[20]

1.3.4 ECAs' Measures to deal with the Covid-19 Pandemic

Various ECAs stated that they took the measures mentioned below to deal with the economic impact of coronavirus.

1) New and Expanded Plans/Programmes:

ECAs are well aware that the exporters are perpetually handicapped because of market uncertainties, liquidity constraints, supply chains disruptions, and delivery delays. To remove their handicaps, the least the ECAs can do is to ensure smooth flow of liquidity for them. Several ECAs launched new programmes or extended existing programmes, including in some cases the restoration of some programmes launched in the aftermath of the global financial crisis. For example, the European Union allowed its ECAs to provide short-term credit support for exports

[20]OECD (2021), Trade Finance in the Covid Era: Current and Future Challenges

to all nations. Table 1.4 represents a summary of noteworthy actions taken by the G7 ECAs and Korea.

Table 1.2 Examples of Major ECAs' Responses to the Covid-19 Crisis in Terms of New and/or Expanded Programmes

Country	ECA Name	Enhanced Programmes	New Programmes
France	Bpifrance	• Cap Francexport reinsurance of trade credit insurers • Improved ST insurance to include additional nations*	Risk cover by the state to the banks on corporate loan portfolios
Germany	Euler Hermes	Enhanced ST insurance to cover more nations*	State guarantee of trade credit insurers
Italy	SACE	• Proposal for the promotion of Made in Italy • Business Platform Financing	Reinsurance of trade credit insurers
The United Kingdom	UKEF	Export insurance policy: Improved ST insurance to include additional nations*	• Guarantee for development of exports[21] • Reinsurance of trade credit insurers
Canada	EDC	• Working Capital Solutions[22] • Domestic Powers Capability*	Business credit availability programme
Japan	JBIC	Covid-19 Emergency Window	
The United States	EXIM	• Guarantee programme for supply chain finance[23] • Working capital guarantee facility • Pre-export/ pre-delivery financing	Bridge financing
Korea	KEXIM	• Working capital guarantee	

Source: US-EXIM Bank Competitiveness Report 2020
*Note: Re-instated after being launched during the 2008 Global Financial Crisis

2) <u>Rise in Risk Appetite:</u>

As a result of the deteriorating credit status among exporters, as well as public and private foreign buyers, ECAs appear to be willing to accept more risks in 2020. A few notable actions are given in Table 1.5.

Table 1.3 Examples of Major ECAs' Responses to the Covid-19 Crisis in Terms of Increased Risk Appetite

[21] https://www.gov.uk/government/organisations/uk-export-finance/about
[22] https://www.edc.ca/women-in-trade
[23] https://www.exim.gov/about/what-we-do-dont-do

Country	ECA Name	Increased Risk Appetite of ECAs	
France	Bpifrance	For SMEs and medium-sized businesses, Bpifrance raised its coverage for credit institutions from 80 per cent to 90 per cent while for larger businesses, it raised coverage from 50 per cent to 70 per cent	Additionally, Bpifrance arranged unsecured 3- to-5-year loans for both SMEs and large companies
Canada	EDC	EDC stated that it was ready to take on higher risk than before when evaluating its ST Export Portfolio Credit Insurance coverage or new buyer coverage requests for viable buyers	
Japan	NEXI	NEXI stated that it will be available for cover in all nations, inclusive of those severely affected by the pandemic, in order to support exporters in Japan	
United States	EXIM	Supply chain finance and working capital guarantee coverage was increased from 90 per cent to 95 per cent by EXIM	EXIM reformed its policy to consider support in other markets with higher risk, but with a reasonable assurance of repayment

Source: Created by IIFT using US-EXIM Bank Competitiveness Report 2020

3) <u>Improved Financial Capacity:</u>

Some governments have provided additional finances to their ECAs as shown in Table 1.6. This is aligned with the forecast of the International Chamber of Commerce (ICC) that a capacity of USD 1.9-5.0 trillion is required in the market for trade credit to rapidly recover from the adverse impact of the pandemic.

Table 1.4 Examples of Major ECAs' Responses to the Covid-19 Crisis in Terms of Improved Financial Capacity

Country	ECA Name	Improved Financial Capacity of ECAs
Italy	SACE	A supplementary $5 billion in guarantees for contribution to Italy's Plan for the Promotion of Made in Italy in order to fulfil working capital needs and boost Italy's exports to developing markets: • About $2 billion assigned to help Italian exporters access loans from banks • Around $2.5 billion assigned to cover insurance of new credit lines • Around $600 million to guarantee SME support for novel opportunities in developing markets in Africa, South America and the Middle East
Korea	KEXIM	An extra $2 billion in loans to provide exporters with liquidity and $2 billion in guarantees at low guarantee rates
The United Kingdom	UKEF	60 per cent rise in direct lending capacity to about $11 billion to support UK exporters and its purchasers of products and services

Source: Created by IIFT using US-EXIM Bank Competitiveness Report 2020

4) Portfolio Management:

ECAs had understood the need to ensure greater flexibility for existing transactions to address the challenges arising from reduced demand, financial constraints, and disturbed logistics. Flexible restructuring, expansion and waivers visibly demonstrate the value proposition that ECAs bring to the market and their impact on future competitiveness of exporters. According to both OECD and Berne Union, many ECAs established faster approval processes, implemented contactless application processes, extended policyholder deadlines and increased time for notifications and claims filing.

Table 1.5 Examples of Major ECAs' Responses to the Covid-19 Crisis in Terms of Improved Portfolio

Country	ECA Name	Portfolio Management by ECAs
France	Bpifrance	Bpifrance extended the payment maturities of existing loans and increased the term for export pre-financing guarantee by 6 months
Italy	SACE	SACE allowed Italian companies moratoriums of up to 12 months on its loans, in line with measures given by associated banks or the Italian Banking Association. Additionally, it removed the penalties on cancellation.
Korea	KEXIM	KEXIM focused on extensions for existing loans and faster approval processes for loans, particularly in the case of SMEs
Canada	EDC	Customers of its credit insurance programme and those of its short-term programmes were exempt from claims waiting periods of 60 and 120 days respectively
Japan	NEXI	Conditions for official assistance were amended in anticipation of the private sector's retreat from the private insurance market. Deadlines on administrative processes were also extended
The United States	EXIM	As part of its relief measures, EXIM helped exporters to address their business concerns by introducing flexibility in its general policy of providing assistance to customers in FEMA-sanctioned federal disaster areas in the US. Additionally, it took a tailor-made approach to handle credits affected by the pandemic through several steps like waivers of some financial covenants, extensions in payments, and reforming EXIM's MLT portfolio

Source: Created by IIFT using US-EXIM Bank Competitiveness Report 2020

Around 43 per cent of ECAs have seen an upsurge in their business for ST products, according to an OECD Survey. The US EXIM Bank, which is one of the largest providers of government supported ST trade finance, observed a 112 per cent rise in working capital guarantees and a 12 per cent rise in short-term ECI in the year 2020.[24] These trends indicate that the risk appetite of private commercial lenders may have weakened, leading to restricted commercial trade financing for exporters and a shift towards greater lending by government supported ECAs.

However, all programmes of ECAs are bound by the WTO Agreement on Subsidies and Countervailing Measures (ASCM) – export support schemes that depend on the performance of exports and for which the support cost is lower than that provided by the commercial market are considered prohibited subsidies. Thus, to avoid a possible WTO dispute, governments need to keep this in mind while making amendments or introducing new programmes, even if they are in response to a crisis.

[24]OECD (2021), Trade Finance in the Covid Era: Current and Future Challenges

Besides, measures to improve the financial capacity of ECAs to pick up the slack in short term export credit by the private sector may prove inadequate to maintain trade flows since demand, as much as supply side factors, have affected trade flows and financing by itself cannot create demand. While MLT trade financing has proved somewhat more resilient to the pandemic shock as compared to ST trade financing, that resilience is likely to give way if the pandemic continues for long and affects the cash flow of medium and long-term projects.

To avoid this, ECAs should make their MLT export support programmes more flexible by modifying their terms and conditions (either through the flexibility available in the Arrangement or through amendments). The OECD can support governments for this work. If the crisis persists, the governments may also need to find other tools to deal with demand-side pressures, which can have as much impact on MLT trade as supply side factors, or even more.

1.4 Emerging Trends in Export Finance

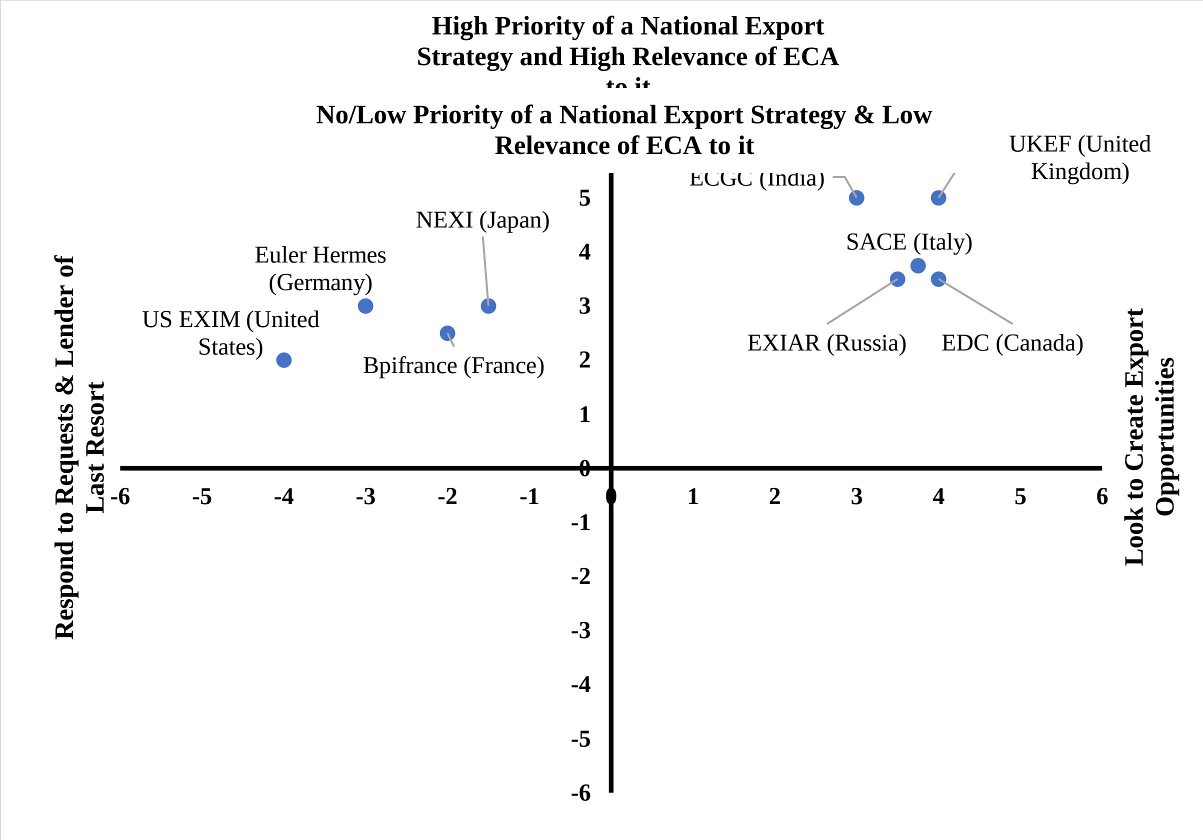
The pandemic has prompted some new developments in the export finance market. These are discussed below.

1) <u>Support for Domestic Industry and National Interests by ECAs:</u>

During the Covid-19 pandemic, the role of the ECAs got extended beyond export-oriented support. Some ECAs were authorised to assist national businesses, whether these exported their products or not, while others were directed to administer state loans or insurance cover to provide relief from pandemic related financial stress. The pandemic has speeded up a decade-long trend with more and more ECAs now following the national interest approach to generate economic benefits other than increased exports.

For example, ECAs like UKEF, SACE, EXIAR, and EDC have all signed up to boost national economic activity, inclusive of working with new customers who may not have previously exported or used official assistance for export financing. Notably, these ECAs are those that actively participate in matching foreign buyers and helping new companies to export. Expanding support for domestic-focused companies in 2020 fits naturally with their efforts to cultivate a new generation of exporters.

Figure 1.4 Role of National ECAs in 2020



Source: *Created by IIFT using US-EXIM Bank Competitiveness Report 2020 Data

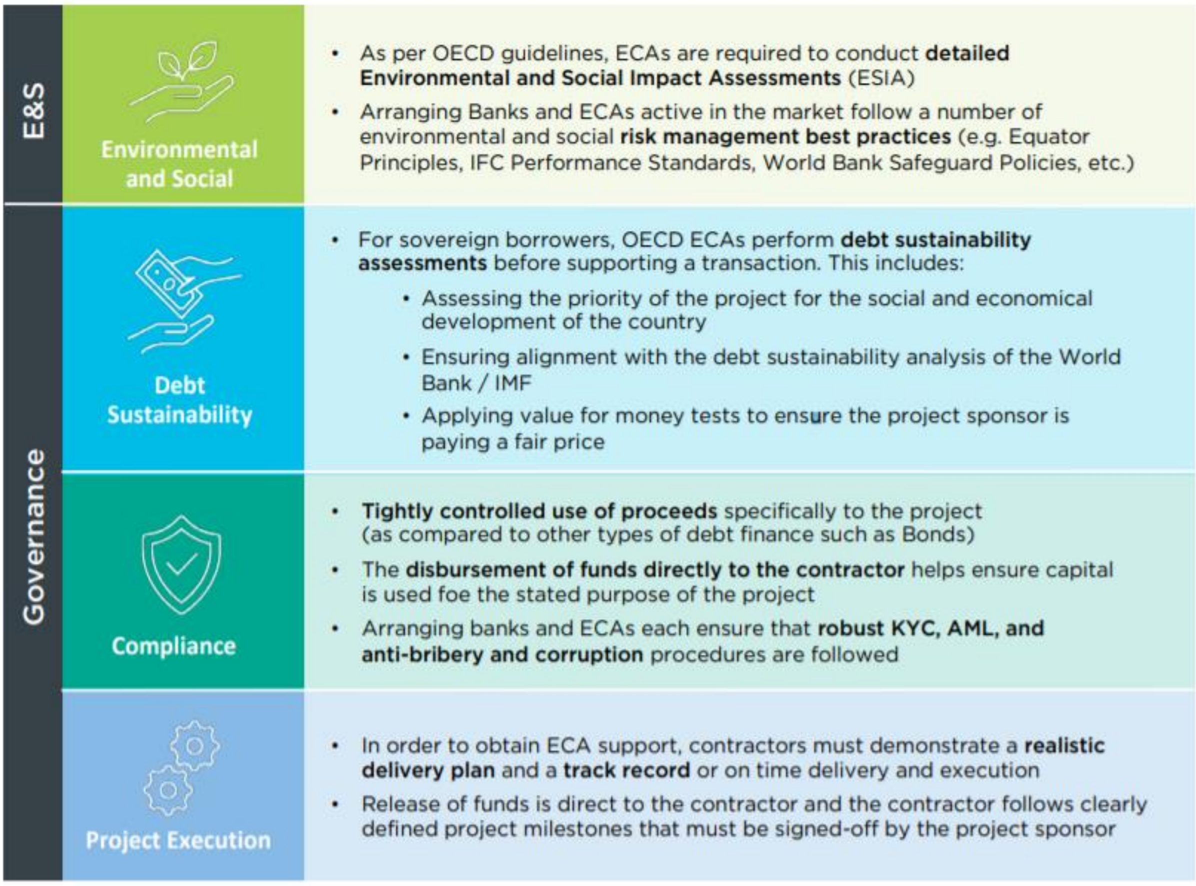
2) <u>Official Financing Volume of China has declined but Still Leading:</u>

As seen in above China's MLT export credit support declined from around $33 billion in 2019 to about $18 billion in 2020, but its volumes still remained substantially greater than those of other major providers. New evidence indicates that China has not permitted the publicising of its financing commitments except when the buyer country's laws require public disclosure, which makes even tentative inferences difficult. However, the decline in MLT export credit support does not appear to be solely because of pandemic related market disruptions since the trend was visible earlier as well (Table 1.3). Some experts have recognised that China's EXIM and Sinosure's approach to shift towards less risky credits, safer markets, and sustainable projects have reduced the prospects of their exports evinced in the latter's falling volumes.

3) <u>Sustainable Financing Takes Centre Stage:</u>

Another major evolutionary trend and driving force in 2020 is the boom in sustainable finance, which has become the focus of support for ECAs. Sustainable finance refers to the integration of environmental, social and governance (ESG) criteria into the business, investment, and risk management decisions of financial services institutions. There has been a significant growth in ESG lending in recent years, with Bloomberg LP reporting the increased issuance of ESG bonds and loans from $26.6 billion in 2013 to $732.1 billion in 2020 (Supra, 2021).

Figure 1.5 Key ESG Risk Management Practices of the Export Finance Industry



Source: Sustainability in Export Finance, International Chamber of Commerce (ICC) White Paper, September 2021

As economies across the globe intensify their efforts to combat climate change and help businesses in facilitating global energy transition, various ECAs have launched and expanded programmes that aim to create a greener investment portfolio and limit new commitments to carbon-intensive projects. Several renewable energy or "green" programmes offer incentives that significantly affect competition among ECAs.

For example, as an incentive for sustainable transactions, some ECAs have become more flexible in their content policies. An important tool used by ECAs to invite business opportunities and facilitate contact with major players in the global supply chain is the unceasing evolution of local content requirements. Other ECAs have launched new programmes specifically planned to incentivise buyers to offer their support to greener projects.

Some significant steps taken by various ECAs in this direction are highlighted below.[25]

- May 2020 marked the announcement of the Special Renewable Energies Initiative by the German Ministry of Economic Affairs and Energy, which reduced requirements of German content for eligible transactions from 51 per cent to 30 per cent. Euler Hermes will also improve its efforts to develop business and streamline its screening and decision-making processes in this sector.
- With the execution of a wider Dutch content policy for "green project finance" transactions, Atradius (Netherlands) can now insure a greater share of the transactions, providing sponsors and clients an added reason to contract Dutch businesses.
  Additionally, under certain conditions, it can offer coverage of 95 per cent on such transactions instead of the normal coverage of 70-90 per cent.
- US EXIM also introduced a content policy for its new Programme on China and Transformational Exports. For 10 transformational export areas, inclusive of energy-storage, renewable energy, and energy-efficiency exports, the total coverage by EXIM will be 85 per cent for contracts with at least 51 per cent US content, and it may offer the same support for transformational exports with less than 51 per cent US content if some requirements, including exporters providing a strategy to generate employment opportunities in the US in the next three to five years, are met.
- A "Climate Bonus" that provides "preferential export guarantee conditions" for ventures that fulfil certain climate change mitigation or sustainability criteria has been introduced

[25]US-EXIM Bank Competitiveness Report 2020

by Bpifrance. This includes 85 per cent coverage while requiring only 20 per cent French content. In certain cases, Bpifrance no more needs an advance on the premium when financing limited-recourse projects. Besides, the French Treasury has reduced the requirements for French content for Bpifrance's direct and concessional loans that favour "green" projects.

- In the UK, UKEF contributed £2.4 billion towards sustainable projects in 2020 and has set aside £2 billion of its £8-billion direct lending capacity as its new Clean Growth Direct Lending Facility.
- In Japan, under JBIC's new Growth Investment Facility introduced in January 2020, entrepreneurs promoting ventures that support renewable energy and climate change are also eligible.
- Additionally, some ECAs, specifically, Bpifrance (France), EKN (Sweden), Euler Hermes (Germany), UKEF (U.K.) and EDC (Canada) announced that they plan to phase-in restrictions for fossil-fuel projects over time.

1.5 Summary

The findings of this chapter highlight several important implications of the role of export credit insurance and its impact on a country's export performance. The major ones among them are presented below.

- Export-led economic recovery has received high priority in addressing the setback to economic growth due to the vagaries in the global market. The uncertainties in global scenario have played a vital role in enhancing the importance of export credit agencies and the export credit insurance schemes in developed and emerging countries across the globe.
- Literature indicates that ECA's export credit insurance is unfairly distributed. Less developed countries obtain a smaller share of ECA credits while they require a greater share.
- The OECD Arrangement is the most sophisticated non-binding agreement for regulating official export credit support. Such arrangements entail no binding rights and duties in global trade, since they are based on soft law principles.
- China, which is the largest active player in export financing, is not a member of the OECD and thus, does not have to comply with these guidelines. There are other non-members not abiding by OECD Arrangement guidelines. In other words, the applicability of OECD

norms for export credit agencies across the world is diminishing relatively, both geographically and in value terms. This rapid growth in non-arrangement practices has resulted in an uneven global competition, forcing OECD members to set up their own OECD Avoidance Arrangement Programmes.

- The ECI industry has been facing high uncertainty due to the global economic and geopolitical environment; the uncertainty has been further exacerbated by the Covid-19 pandemic.
- Under OECD Arrangement, MLT export credit activity decreased by about 20 per cent in 2020 as a result of reduced support from major countries including Germany, Italy, Korea, UK and the US.
- The volume of MLT export credit support given by Brazil, Russia, India, China, and South Africa declined in both 2019 and 2020, accounting for roughly 50 per cent of the decline in overall BRICS activity in 2020.
- ST trade finance is facing access issues under the private sector due to increased ST financing costs for SMEs and a higher application rejection rate. Hence, ECAs should raise their financial capacity, and take innovative measures for improving access of liquidity by those who need it. The decline in MLT transactions is rather modest, perhaps because of the resilience in MLT financing. However, ECAs may not be able to arrest or reverse this decline in MLT transactions particularly when its cause is demand deficiency and shrinking of the project pipeline occurring as in the times of Covid19 pandemic.
- ECAs across the world took various measures to deal with the economic impact of coronavirus. Several ECAs launched new programmes or extended existing programmes, including the restoration of programmes that were created in the aftermath of the global financial crisis, expanded risk appetites, improved financial capacity, established faster approval processes, implemented contactless application processes, extended policyholder deadlines, and increased the time for notifications and claims filing.
- However, these ECA programmes are bound by WTO’s Agreement on Subsidies and Countervailing Measures (ASCM) – export support schemes that depend on the performance of exports and for which the support cost is lower than that provided by the commercial market are considered as prohibited subsidies. Thus, governments must keep this in mind while making amendments or introducing new programmes to avoid a possible WTO dispute even if the programmes are introduced in response to a crisis.

- Measures to improve the financial capacity of ECAs to pick up the slack in short term export credit by the private sector may prove inadequate to maintain trade flows since demand, as much as supply side factors, have affected trade flows. Financing by itself can help boost supply but cannot create demand.
- ECAs may need to make their MLT export support programmes more flexible by modifying their terms and conditions (either through the flexibility available in the OECD Arrangement or through amendments). The OECD can support governments in this. If the crisis persists, the governments may also need to find other tools to deal with demand-side pressures, which can have as much, in not even more, of an impact on MLT trade as supply side factors.
- Finally, the pandemic has amplified and accelerated some of the developments that have been emerging in the export finance market in recent times.

1. The role of ECAs has extended beyond export-oriented support. Covid-19 has speeded up a decade long trend with more and more ECAs now following the national interest approach to generate economic benefits other than that of increased exports.
2. China's volume of official financing has reduced in the recent years, but it is still dominant. Some experts have recognised that China's EXIM and Sinosure's approach to shift towards less risky credits, safer markets, and sustainable projects have reduced the prospects of their exports evinced in the latter's falling volumes.
3. Another major development in 2020 is the boom in sustainable finance, which has become the focus of support for ECAs. Many ECAs have launched and expanded programmes that aim to create a greener investment portfolio and limit new commitments to carbon-intensive projects.

Chapter 2
Recent Trends and Dynamics of Indian Export Credit Insurance: An Analysis of the Present Policies of ECGC

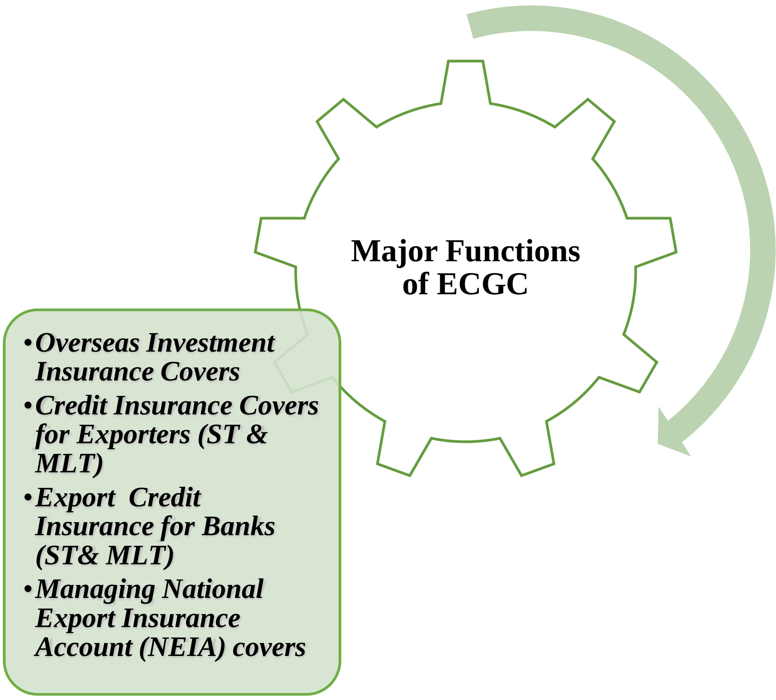
2.1 Introduction

ECGC Limited, formerly known as the Export Credit Guarantee Corporation of India, was set up in 1957 as a wholly government entity under the Ministry of Commerce and Industry, to promote exports from India by offering credit risk insurance and interrelated facilities to Indian exporters to improve their competitiveness in foreign markets. It is led by a Board of Directors including members of the government, the Reserve Bank of India, and the insurance and exporting community. It is the world's fourth-largest export credit insurance provider in terms of national export coverage. As of 31 March 2021, ECGC's paid-up capital was approximately Rs.3190 crore along with an authorised capital of Rs. 5000 crores.[26]

ECGC specifically states that its mission is to support the Indian export industry by providing cost-effective insurance and trade-related services. Further, in its vision it emphasises the need to specialise in offering export credit insurance and related business services to exporting industries, thus creating a conducive trade environment. For furthering its mission and vision, ECGC has introduced several ECI products to meet the needs of Indian exporters and financial institutions catering to exporters. Besides, ECGC also provides data to exporters on parameters such as countries' risk rating and on other relevant information about foreign buyers.

[26] https://mpeda.gov.in/

Figure 2.1 Major Functions of ECGC Limited



Source: Information provided by ECGC Limited

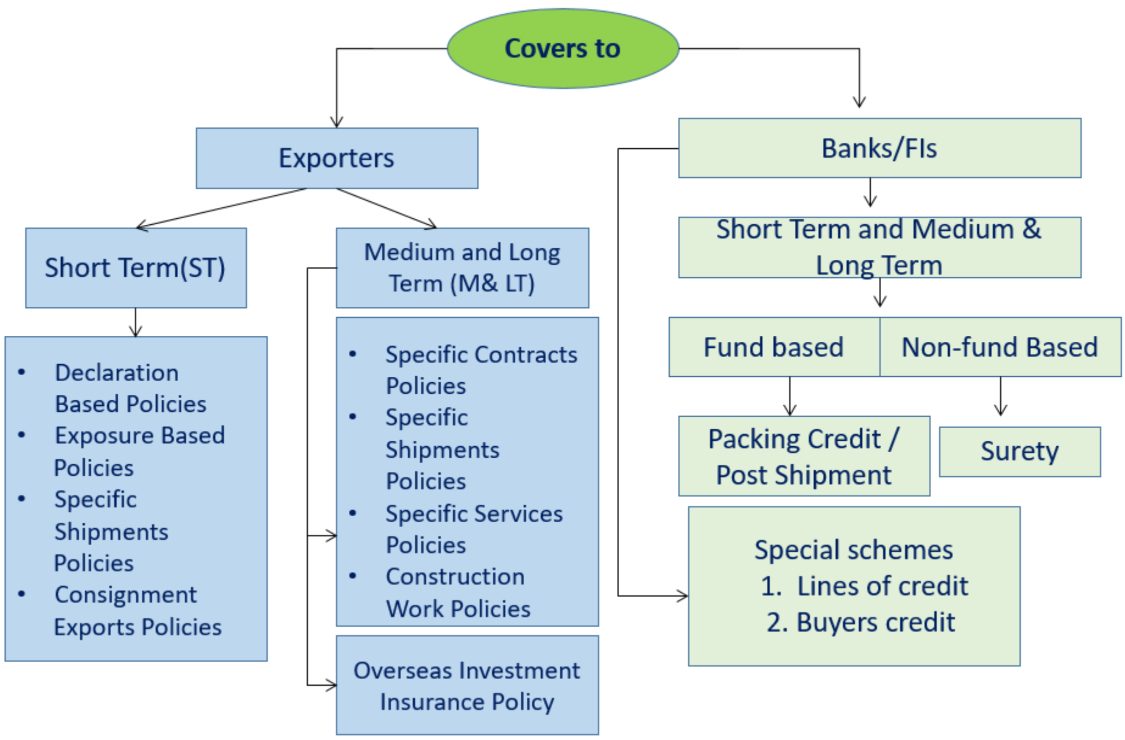
The strategic goals of the ECGC may be summarised in the following figure:

Figure 2.2 Major Objectives of the ECGC Limited

Support	• To promote and simplify globalisation of trade • To help exporters in dealing with credit risks via timely information on the trustworthiness of buyers, banks, and countries • To facilitate exports through its expertise, competence, and unwavering dedication to progress and advancement
Risk Mitigation	• To secure export industries from sudden and unexpected losses caused by buyer failure or difficulties in the buyer's country by offering cost-effective credit insurance coverage in the form of policy, factoring, and investment insurance services comparable to similar coverage available to exporters in other countries • To ensure sufficient bank financing available to exporters by providing bankers with credit insurance at reasonable rate.
Facilitating Export Performance	• To strengthen profit, growth, financial, and operating excellence indicators, and to achieve best financial return • To establish world-class credit insurance competence among employees to ensure the continuous advancement as well as to achieve high customer satisfaction by providing excellent service • Customers will be educated through consistent publicity and effective advertising strategies

Source: Information provided by ECGC Limited

Figure 2.3 ECGC's Insurance Covers to Exporters and Banks



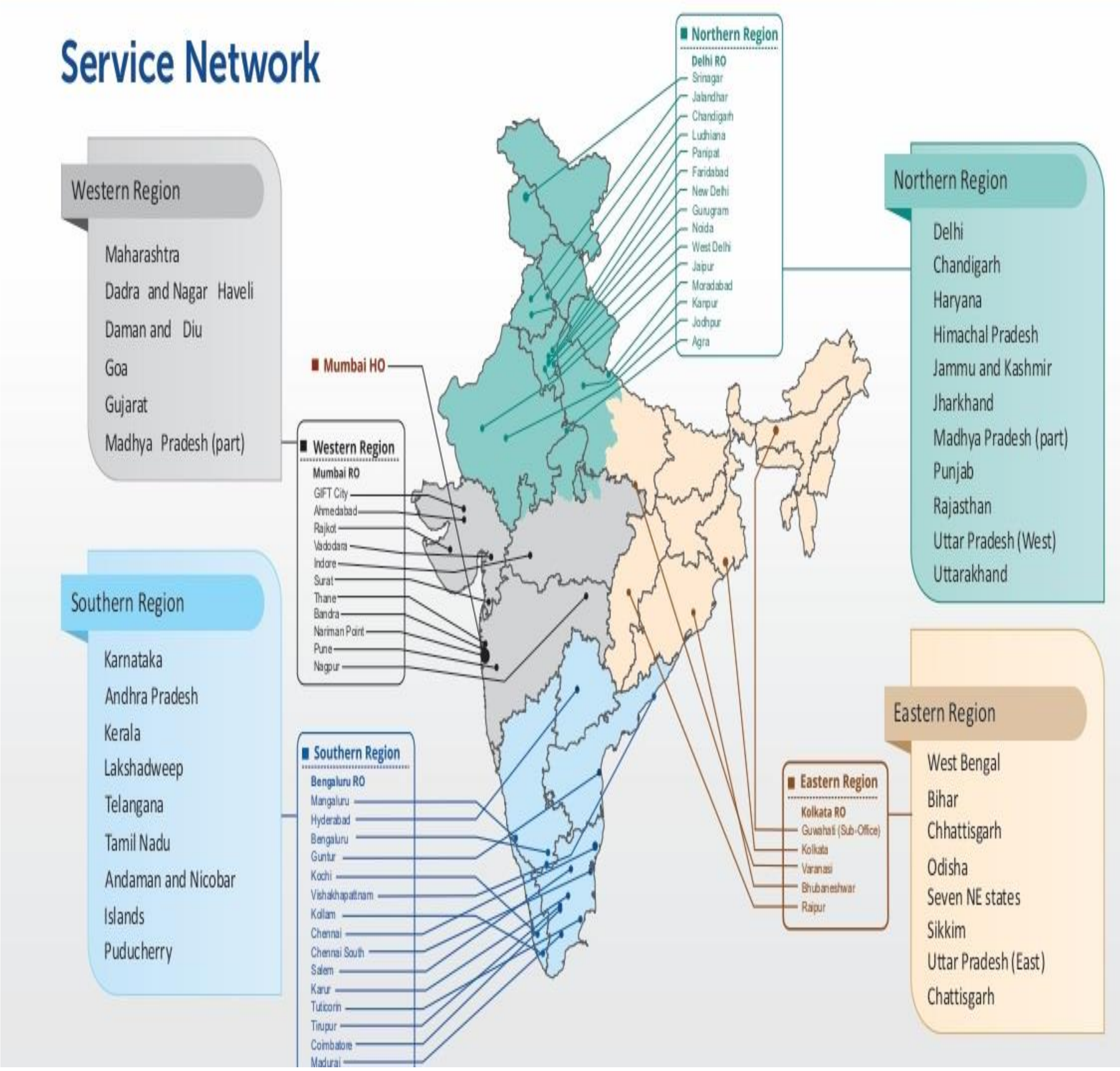
Source: Information provided by ECGC Limited

Over the years, ECGC has helped Indian exporters immensely. It reimburses 80 to 95 per cent of the losses incurred by Indian exporters. The remaining 5 per cent to 20 per cent of the losses must be borne by the exporters. However, it does not cover the risks mentioned below:[27]

- ***Loss due to exchange rate fluctuations***
- ***Failure or negligence on the part of the exporter to fulfil the terms of the export contract***
- ***Causes inherent in the nature of the goods***
- ***Failure or inability of the buyer or the LC opening bank to obtain necessary import or exchange authorisation***
- ***Failure, including commissions and omissions, default or insolvency, on the part of any agent of the exporter or collecting bank***
- ***Commercial disputes such as quality disputes, delivery schedule, counter-claim, set-off, etc., raised by the buyer***
- ***Loss or damage to goods that can be covered by general insurers***

[27]https://cleartax.in/s/ecgc

Figure 2.4 The ECGC LIMITED Branch Map



Note: Map is not to scale and shows approximate locations only
Source: Information provided by ECGC Limited

Recent Financial Performance of the ECGC Limited

Table 2.6 Performance of ECGC In Terms of Different Indicators (Value in Rs. Crore)

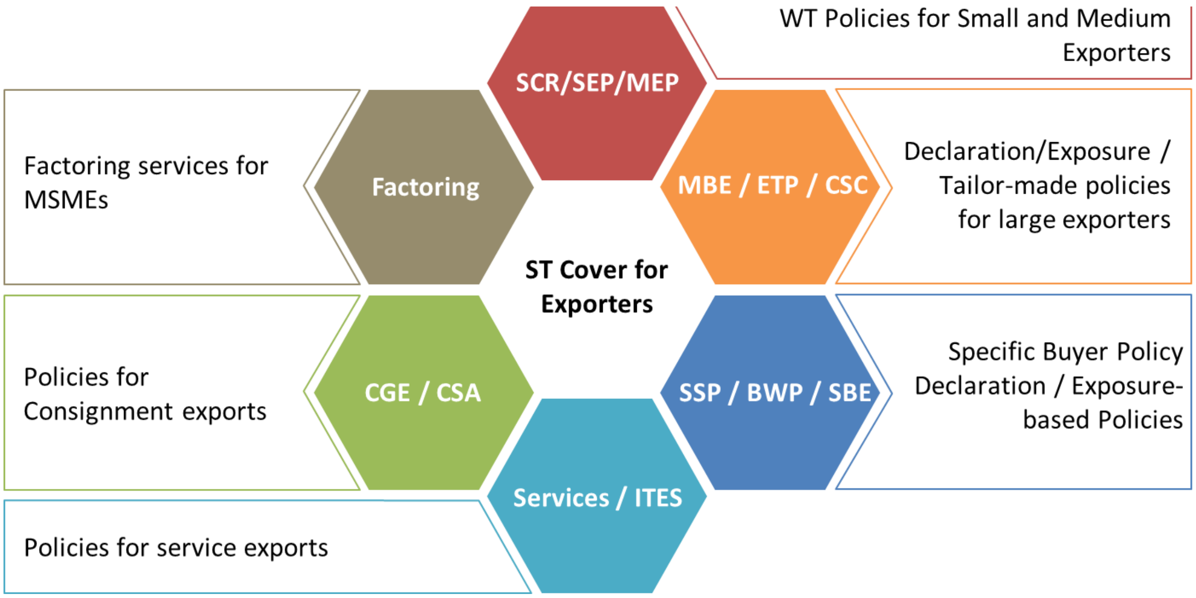
YEAR	2019-2020	2018-19	2017-18	2016-17	2015-16	2014-15	2013-14	2012-13	2011-12	2010-11	2009-10
	VALUE OF BUSINESS COVERED										
Short Term Policies	2,15,021.77	1,98,872.00	1,77,349.00	1,72,788.00	1,35,871.97	1,33,983.00	1,31,343.62	1,26,100.41	1,19,621.00	93,127.40	**85,686.90**
Short Term ECIB	3,41,826.72	4,55,267.00	4,56,684.00	4,48,604.00	1,27,534.80	1,38,555.00	1,38,149.89	1,33,250.78	1,20,118.65	3,31,758.29	**2,71,273.95**
Medium- & Long-term Cover	4,757.37	5,787.00	7,415.57	6,027.26	5,979.06	7,652.00	9,76,2.82	10,160.31	6,886.48	7,002.65	**6,767.51**
Total	**5,61,605.86**	**6,59,926.00**	**6,41,448.57**	**6,27,419.26**	**2,69,385.83**	**2,80,190.00**	**2,79,256.33**	**2,69,511.50**	**2,46,626.13**	**4,31,888.34**	**3,63,728.31**
	PREMIUM INCOME										
Short Term Policies	405.17	412.26	367.95	359.99	382.99	383.87	388.57	360.68	355.89	333.66	**289.43**
Short Term ECIB	644.78	806.83	843.22	881.07	910.64	942.29	869.68	751.72	601.82	510.57	**486.78**
Medium- & Long-term Cover	25.52	28.45	29.25	26.56	27.10	36.24	45.48	44.85	47.12	41.23	**36.79**
Total	**1,075.47**	**1,247.54**	**1,240.42**	**1,267.62**	**1,320.73**	**1,362.40**	**1,303.73**	**1,157.25**	**1,004.83**	**885.46**	**813.00**
	CLAIMS PAID										
Short Term Policies	146.77	168.13	136.70	206.85	127.32	126.98	109.29	113.69	87.03	160.90	**270.02**
Short Term ECIB	261.64	813.39	1131.48	655.50	995.52	462.85	639.55	396.61	626.00	459.63	**371.70**
Medium- & Long-term Cover	0.00	31.79	14.99	22.99	-	-	148.65	38.20	-	-	-
Total	**408.41**	**1,013.31**	**1,283.17**	**885.34**	**1,122.84**	**589.83**	**897.49**	**548.50**	**713.03**	**620.53**	**641.72**
	RECOVERIES MADE										
Short Term Policies	10.21	21.47	18.55	9.77	7.80	9.61	5.76	7.40	6.31	9.27	**16.33**
Short Term ECIB	156.17	129.36	166.39	109.76	106.06	142.52	144.53	104.71	152.59	110.65	**110.87**
Medium- & Long-term Cover	0.06	-	0.67	19.14	0.18	8.02	8.02	8.42	9.74	16.14	**6.40**
Total	**166.44**	**150.83**	**185.61**	**138.67**	**114.04**	**160.15**	**158.31**	**120.53**	**168.64**	**136.06**	**133.60**

Source: Annual Report of ECGC Ltd, 2019-2020

2.2 ST Cover for Exporters

Short term covers are the ECGC's primary policy instrument contributing significantly to ECGC's business. Figure 2.5 depicts the various types of ST covers available to exporters.

Figure 2.4 Short-Term Cover for Exporters



Source: Information provided by ECGC

ST Cover for Exporters – Declaration Based

- **Shipments Comprehensive Risk Policy (SCR)**: This is a standard whole turnover policy issued to exporters with a turnover of more than Rs.500 crore.
- **Small Exporters Policy (SEP)**: This is the standard policy issued to exporters whose anticipated annual export turnover is less than or up to Rs.5 crore.
- **Specific Shipment Policy (SSP)**: Exporters opting for this policy can pick and choose the contract/shipment to be covered and indicate the type of risk cover required. The policy is issued until the validity of the contract covered.
- **Services Comprehensive Risk Policy (SRC)**: This policy is issued to cover a single specified contract. It is issued to provide cover for contracts, which are large in value and extend over a relatively long period.

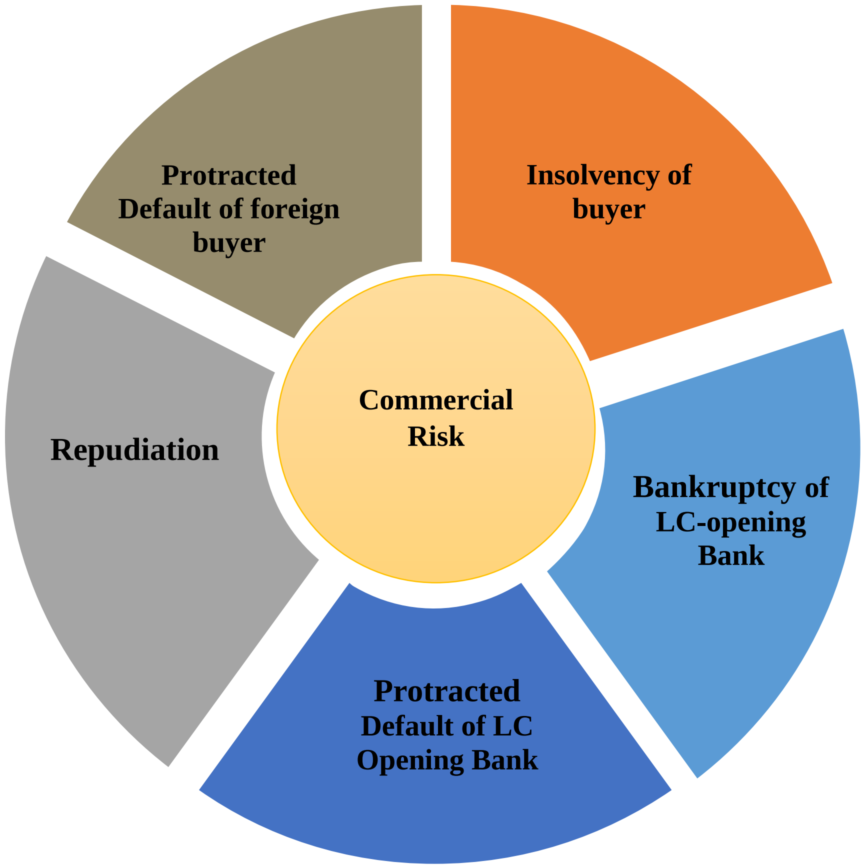
- **Exports Turnover Policy (ETP)**: Turnover policy is for the benefit of large exporters who contribute not less than Rs.20 lakh per annum towards premium, based on the projection of the export turnover of the policyholder for a year.
- **Specific Buyers Policy (BWP)**: The specific buyers' policy provides cover for shipments made to a particular buyer or for LC-opening bank for a set of buyers.
- **Consignment Exports Policy:** A policy introduced to cover exclusively shipments made by exporters on a consignment basis to their agent or branch offices in a foreign country.

ST Cover for Exporters – Exposure Based

- **Buyer Exposure Policy (SBE)**: The policy is issued to insure exporters, having a large number of shipments to a particular buyer, with simplified procedures and rationalised premium. An exporter can choose to obtain exposure-based cover on a selected buyer.
- **Multi-Buyer Exposure policy (MBE):** This is an exposure-based policy issued to exporters having a large number of shipments to multiple buyers.
- **IT-Enabled Services Specific Customer (SITES)**: This policy is given for contracts to render a service with billing on the basis of service rendered during a fixed period of say, a week, a month or a quarter.
- **IT-Enabled Services Multi-Customer (MITES)**: MITES is a whole turnover (WT) exposure-based policy covering all buyers, of IT enabled services exports.
- **Micro Exporter Policy (MEP)**: It is an exposure cover that provides up to 90 per cent protection for exporters with a turnover of less than Rs.100 lakh. **Software Project Policy (SPP)**: This policy provides protection to exporters of software and related services where the payments will be received in foreign exchange. Under SPP, supply of software products and packages, or staffing and programming services or both off-shore and on-site development is covered. It is meant for each contract for a particular job.

Commercial Risks Faced by Exporters

Figure 2.5 ST Covers for Exporters – Commercial Risks

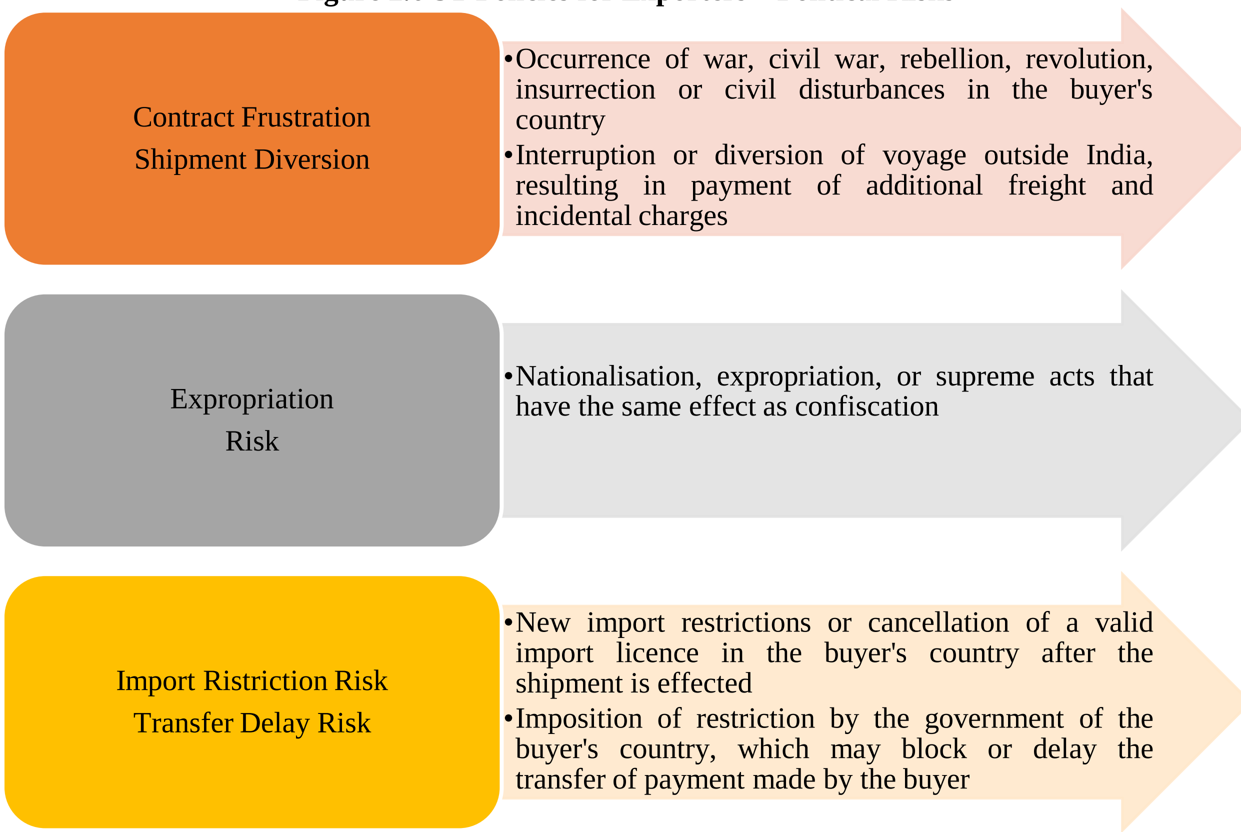


Source: Information provided by ECGC

- **Insolvency:** Insolvency of the buyer
- **Protracted Default of Foreign Buyer and other:** Failure of the buyer to make the payment due within the specified period/due date
- **Bankruptcy of the LC-opening Bank:** Incapability of the LC-opening bank to honour the letters of credit due to financial ruin
- **Protracted Default of LC-opening Bank:** Failure of the LC-opening bank to make the payment due within a specified period/due date, even after adherence with LC terms
- **Repudiation:** Failure or refusal on the part of the buyer to accept goods that have already been exported from India

Political Risks Faced by Exporters

Figure 2.6 ST Policies for Exporters – Political Risks

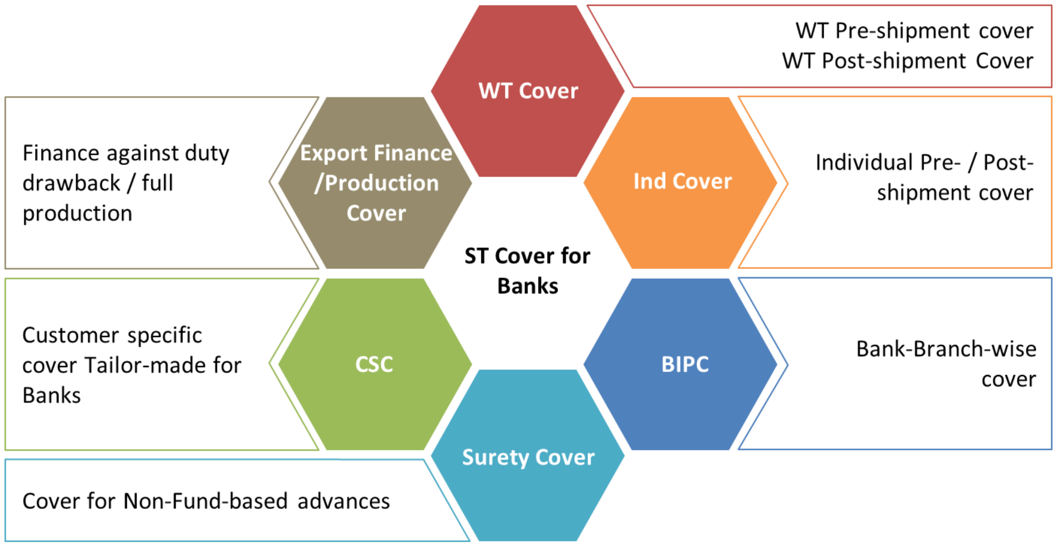


Source: Information provided by ECGC LIMITED

2.3 ST Covers for Banks

Figure 2.8 depicts the various types of ST-cover for banks provided by ECGC Limited.

Figure 2.7: ST Cover for Banks



Source: Information provided by ECGC Limited

- **Whole Turnover Cover:** A bank or a financial institution dealing in foreign exchange is eligible to obtain whole turnover packing credit/post-shipment cover for all its accounts.
- **Individual Cover:** A bank or a financial institution dealing in foreign exchange is eligible for individual packing credit/post shipment cover for each of its exporter clients who has been classified as a standard asset.
- **Bank Branch-wise Packing Credit (BIPC):** Bank Branch-wise cover for a bank or a financial institution dealing in foreign exchange
- **Export Finance /Production Cover:** Finance against duty drawback/full production
- **CSC:** Customer-specific cover tailor-made for banks.
- **Surety Cover:** Cover for non-fund-based advances.

Box 2.1 Benefits of Export Credit Insurance for Banks

Enhanced Risk Management for Banks

- Covers to back up the supply of sufficient finance to exporters
- Enhanced client classification via the ECGC Precise Authorization List Lower margins / collateral securities
- Lower risk weightings for export financing encased by ECGC Capital Adequacy.

Supports Banks in the event of non-payment

- Enhanced liquidity for banks as an outcome of ECGC claims
- Reduced provisioning in terms of the extent of ECGC covers

Source: Information provided by ECGC

2.4 Trends in ECGC Business Mix

In 2019, the global economy had to deal with regional, geopolitical and tariff disputes, all of which jointly contributed to the widespread uncertainty in trade and investment. To cover risks arising from such uncertainties ECGC provides export credit insurance for short, medium and long term. At the end of 2019-20, the ECGC had approximately 28095 covers in force, with a maximum liability of approximately Rs 98608 crores. In the short-term policy business, the risk value insured during the period was Rs 2,15,022 crores, representing an increase of 8 per cent over 2018-19, while in the short-term ECIB business, the risk value was Rs.3,41,827 crore, representing a decrease of 25 per cent over the previous year. The business risk value for medium and long term/project exports, the total value of exports supported was Rs 561,606 crore, representing a -15 per cent increase over the previous year.[28]

The SCR Policies, ETP, services policies, SEP, buyer wise policies, consignment policies, etc., continued to maintain the larger share at 54.79 per cent of the policies in force as of the end of FY 2019-20.[29] Exposure-based policies like multi-buyer exposure policy, single buyer exposure policy, IT-enabled services policy (multi-customer), IT-enabled services policy (specific customer), etc. had a share of 45.21 per cent of the policies in force as at the end of FY 2019-20. As of March 31, 2020,

[28]Annual Report of ECGC Ltd, 2019-2020
[29]Annual Report of ECGC Ltd, 2019-2020

the total number of exposure-based shipment policies in force, viz., MBEP, SBEP, MITES, SITES, etc., was 5244 as against 5333 as of March 31, 2019, indicating a decrease of 89 in number. Small exporters received around Rs.80 crore in export credit or Rs.40 crore in credit insurance, accounting for nearly 90 per cent of the 18464 distinct exporter beneficiaries.[30] The decline in risk value and premium income is due to a continuing trend of lower export credit disbursement in recent years. It is the direct result of rising NPAs and the lockdown measures imposed as a result of the Covid-19 pandemic.

ECGC made a profit before tax of Rs 400.02 crore in 2019-20, up from Rs 314.39 crore the previous year. The net profit for this year is Rs.323.84 crore, a 33 per cent increase over the previous year's level of Rs.244.38 crore. The total value of the investment portfolio was Rs 12,241.59 crore. The ECGC's net worth (NW) as on March 31, 2020, was Rs 5,214.92 crore, up from Rs.4,463.41 crore as on March 31, 2019. The extensive ECGC network, which is present in almost all states, ensures the necessary support for the success of export initiatives in the respective states.[31]

2.4.1 The Pivotal Role of ECGC in Promoting Indian Exports

In facilitating exports through export credit support, ECGC continues to be a trusted and crucial partner for exporters and banks. The total claims paid by the ECGC during the fiscal year 2019-20 amounted to Rs 408.41 crore compared to Rs 1013.31 crore in the previous fiscal year. Available data shows that, after adjusting for a few variables, the incurred claim for FY 2019-20 was reduced to Rs 958.62 crore from Rs 1141.16 crore in 2018-19.[32] Investment and other income of ECGC increased by 0.76 per cent from Rs.876.47 crore in 2018-19 to Rs.883.16 crore in FY 2019-20. The gross premium earned in 2019-20 was Rs 1075.47 crore against Rs.1247.54 crore in 2018-19, representing a 13.79 per cent decrease. Premium earned net of adjustments for reinsurance and reserves kept for unexpired risk covers for FY 2019-20 decreased to Rs 831.16 crore from Rs 854.42 crore in the previous FY, registering a negative growth of 2.72 per cent.[33] Ninety per cent of ECGC's portfolio accounted for by micro, small and medium exporters.[34]

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[30]Annual Report of ECGC Ltd, 2019-2020
[31]Annual Report of ECGC Ltd, 2019-2020
[32]Annual Report of ECGC Ltd, 2019-2020
[33]Annual Report of ECGC Ltd, 2019-20120
[34]Annual Report of ECGC Ltd, 2019-2020

Table 2.2 below shows the recent performance of ECGC in the last three financial years.

Table 2.7 Performance ECGC in last three Financial Year
(Amount in Rupees Crore)

Financial Year	Amount of claims paid	Premium received amount
2017-18	1238.17	1240.42
2018-19	1013.31	1247.54
2019-2020	408.41*	1075.41
April-June 2020	202.41	170.39

*As the documentation for the year 2019-20 was not available by March 31, 2020, claims paid are lower.
Source: ECGC Data

The number of exporters in ECGC's fold was 8449 as of March 31, 2019, as against 8398 as of 31st March 2018. The total number of fresh policies issued during the year was 5386, of which 1428 were WT policies. These figures suggest that the ECGC may take some viable initiatives to expand its outreach further. Recently, ECGC Limited signed 48 MOUs with similar overseas institutions for regular exchange of information on best practices, discussions/exchange of ideas on export credit insurance issues, and identification of areas and projects of mutual interest. Over the three years from FY 2017-2018 to FY 2019-20, the Government of India has infused equity capital to the tune of Rs.1,410 core in ECGC to support higher volumes of export credit insurance, including exports to emerging and challenging markets. ECGC's performance is monitored through the various MoU indicators signed between the ECGC and the Department of Commerce.[35]

2.4.2 Contribution of ST-Product in ECGC Business

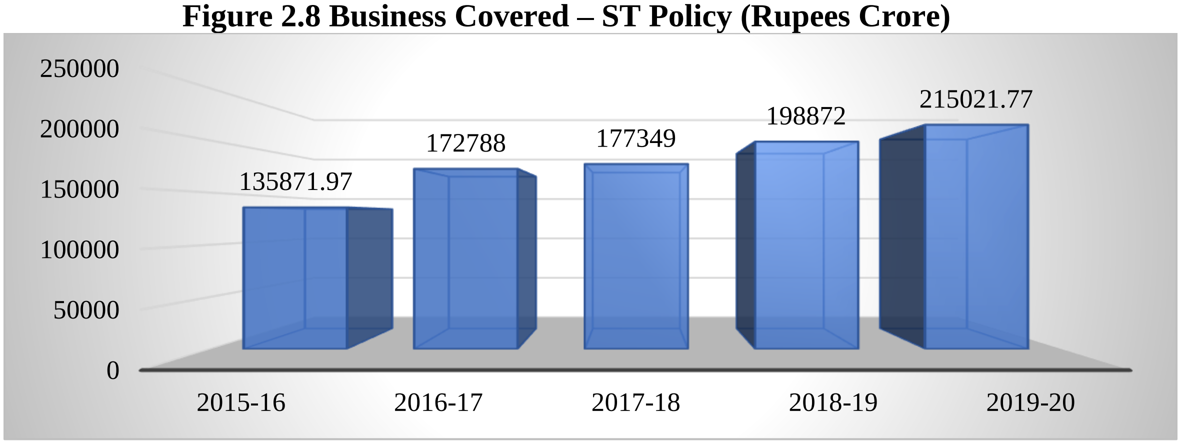
The number of short-term export credit insurance policies were 7843 as of March 31, 2020, as against 8449 as of March 31, 2019. During the FY 2019-20, the total number of short-term (ST) export credit insurance policies issued and renewed were 12673 as against 13487 issued during FY 2018-19. The number of ST policies in force as of March 31, 2020, was 11598 with a total maximum liability (ML) of Rs 43,432.40 crore as compared to 12325 policies in force with total ML of Rs 44,077.51 crore as of March 31, 2019, showing a decrease of 5.89 per cent in the number of policies in force and a negative growth of 1.46 per cent in the total ML in force.[36]

[35]https://pib.gov.in/PressReleaseIframePage.aspx?PRID=1655063
[36]Annual Report of ECGC Ltd, 2019-2020

The total number of fresh policies issued during the year was 4956, of which 1231 were WT policies. The share of exporter clients from micro, small and medium enterprises (MSME), holding ECGC's policy products in the total number of exporter clients was 98.20 per cent as of March 31, 2020 as against 98.11 per cent as of March 31, 2019.[37] During the month of March 2022, the number of ST Policies in force were 10292 with a total maximum liability (ML) of Rs 47,465.60 crores as against 11280 policies in force with a total ML of Rs 46,073.08 crores as on 31st March 2021. It shows a decrease of 8.76 per cent in the number of ST policies in force and growth of 3.02 per cent in the total ML.

Figure 2.9 presents the value of business covered by ST policies. The statistics show that during the last five years, the value of business in 2019-20 was roughly one and a half times the business in 2015-16. However, the data also presents the ECGC's underlying potential to achieve more efficient and productive results by employing a series of policy measures. This potential of ECGC can be observed from Figures 2.9 to 2.14.

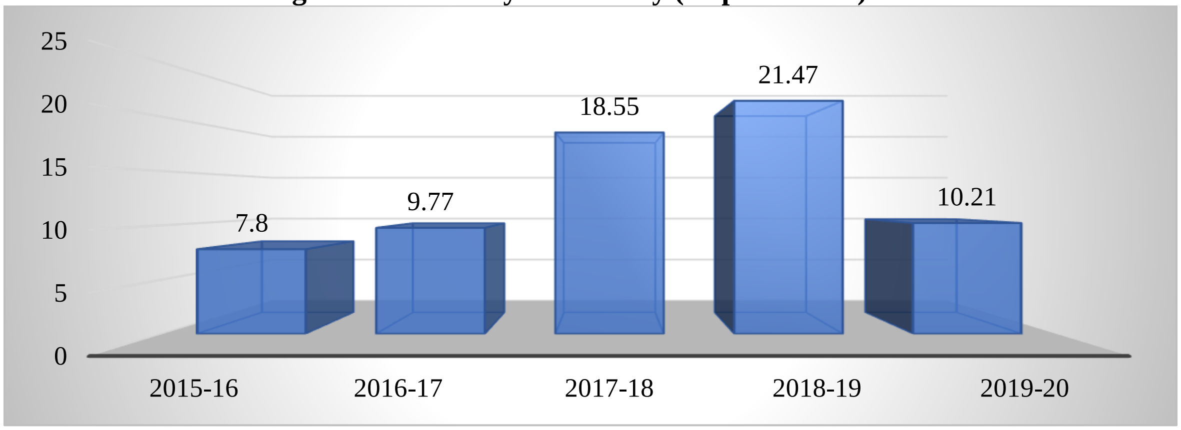
Figure 2.8 Business Covered – ST Policy (Rupees Crore)



Source: ECGC Data

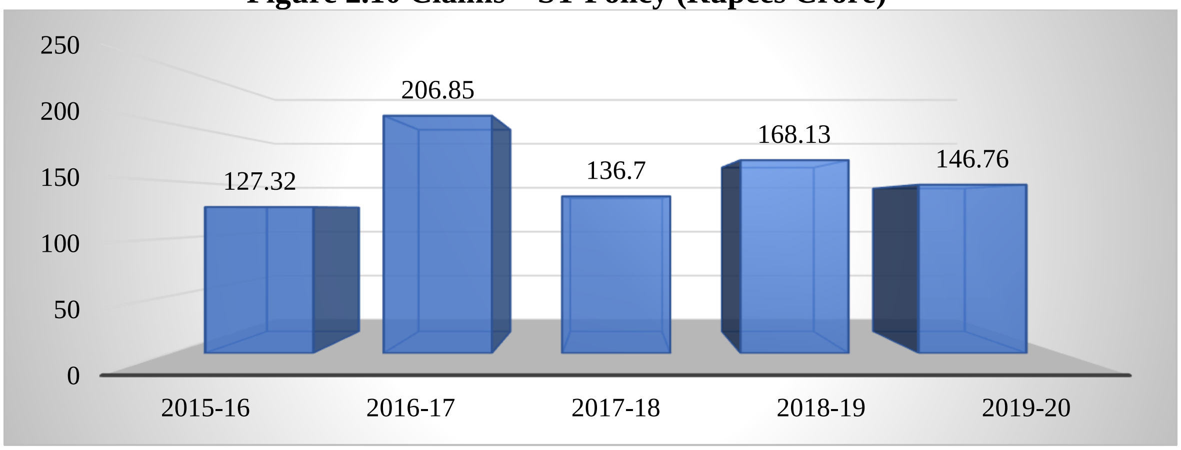
[37] Annual Report of ECGC Ltd, 2019-2020

Figure 2.9 Recovery – ST Policy (Rupees Crore)



Source: ECGC Data

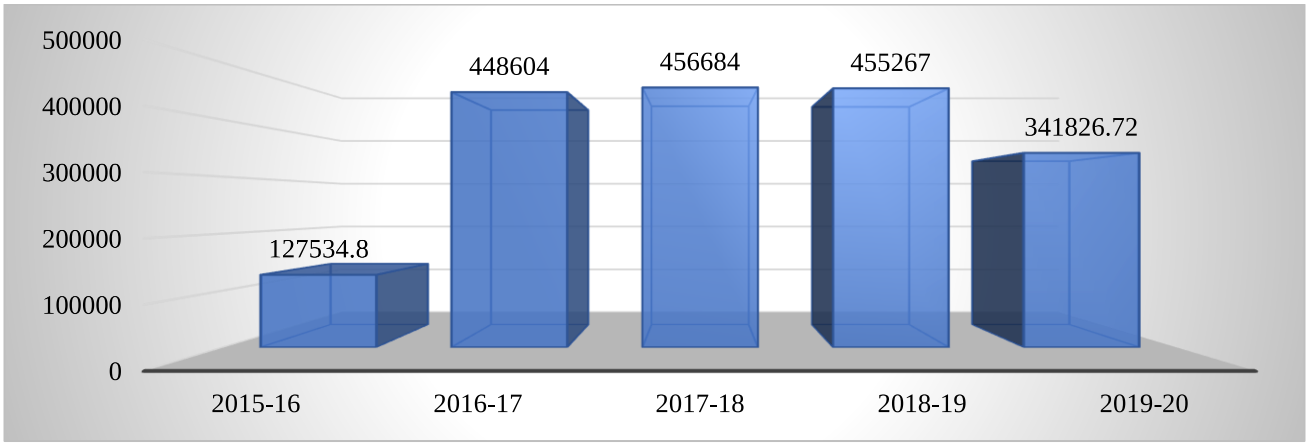
Figure 2.10 Claims – ST Policy (Rupees Crore)



Source: ECGC Data

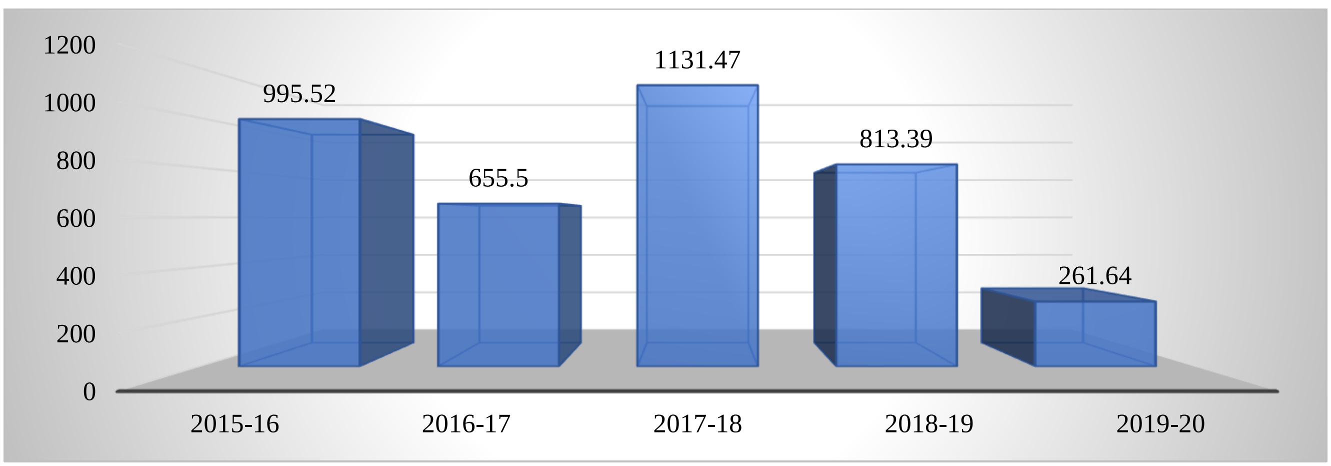
The premium earned under ST ECIB for the FY 2019- 20 was Rs 644.79 crore (Rs 806.83 crore in FY 2018-19), registering a decline of 20.08 per cent over the previous year. ECIB premium accounted for 59.95 per cent of the aggregate premium for FY 2019-20 from all sectors. The number of claims paid declined to 91 in FY 2019-20 from 184 in the previous FY; the value of claims paid during FY 2019-20 also decreased significantly to Rs.261.65 crore as against Rs 813.39 crore in the previous year. The recovery made in the current year was at Rs.156.17 crore as against Rs 129.36 crore during the same period. The average number of days taken for claim payment improved to 58.62 days in FY 2019-20 from 60.10 days in the previous FY.

Figure 2.11 Business Covered – ST ECIB (Rupees Crore)



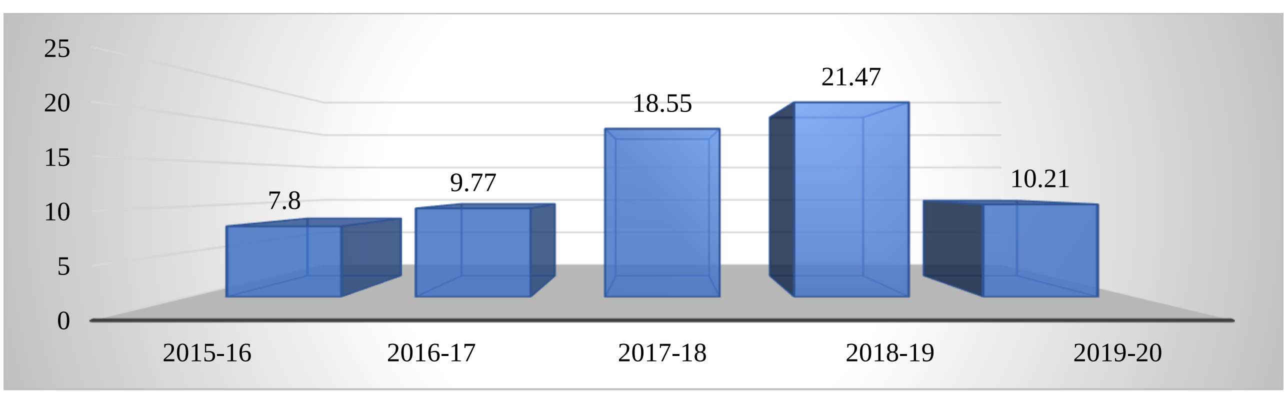
Source: ECGC Data

Figure 2.12 Claims – ST ECIB (Rupees Crore)



Source: ECGC Data

Figure 2.13 Recovery – ST ECIB (Rupees Crore)

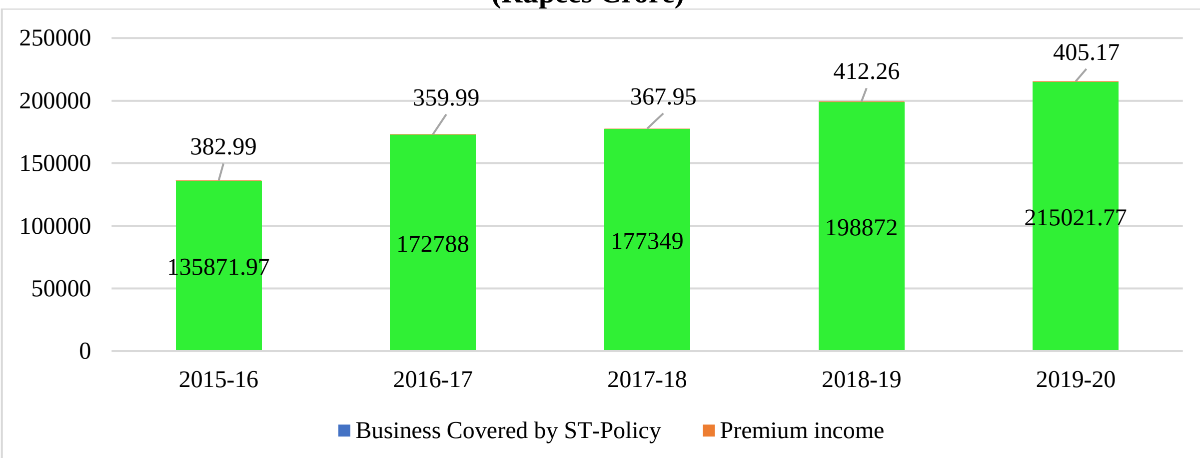


Source: ECGC Data

2.4.3 A Comparison of Trends in ECGC's Business

The total business covered under ST policies during the FY 2019-20 was Rs 2,15,021.77 crore as against Rs.1,98,872 crore in the previous year, registering a growth of 8.15 per cent. The premium income under ST policies was Rs.405.17 crore as against Rs.412.26 crore in the previous FY, registering a negative growth of 2.19 per cent (see Figure 2.15). The data points to the immediate need for policy tools to correct the negative growth of premium income.

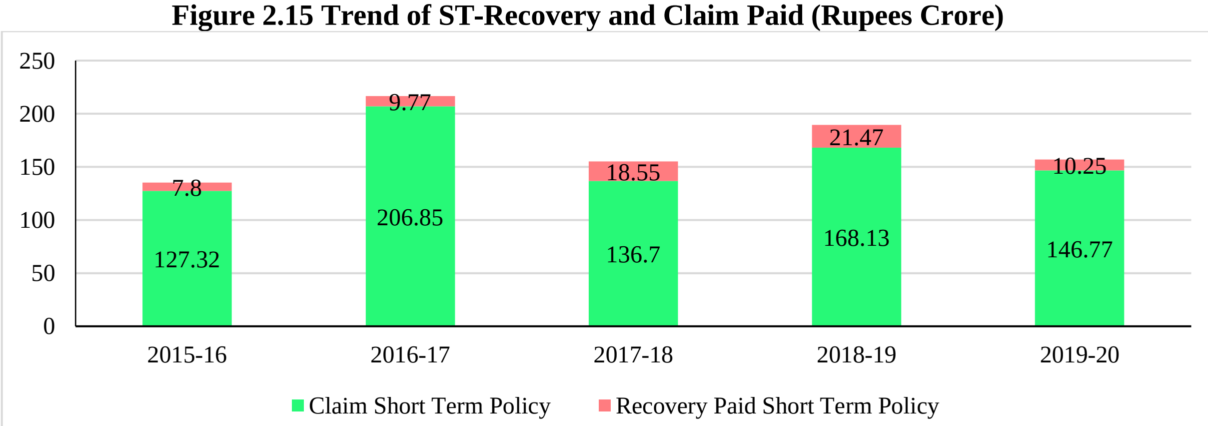
Figure 2.14 Contribution of ST-Product Premium Income in Total ST- Business (Rupees Crore)



Source: ECGC Data

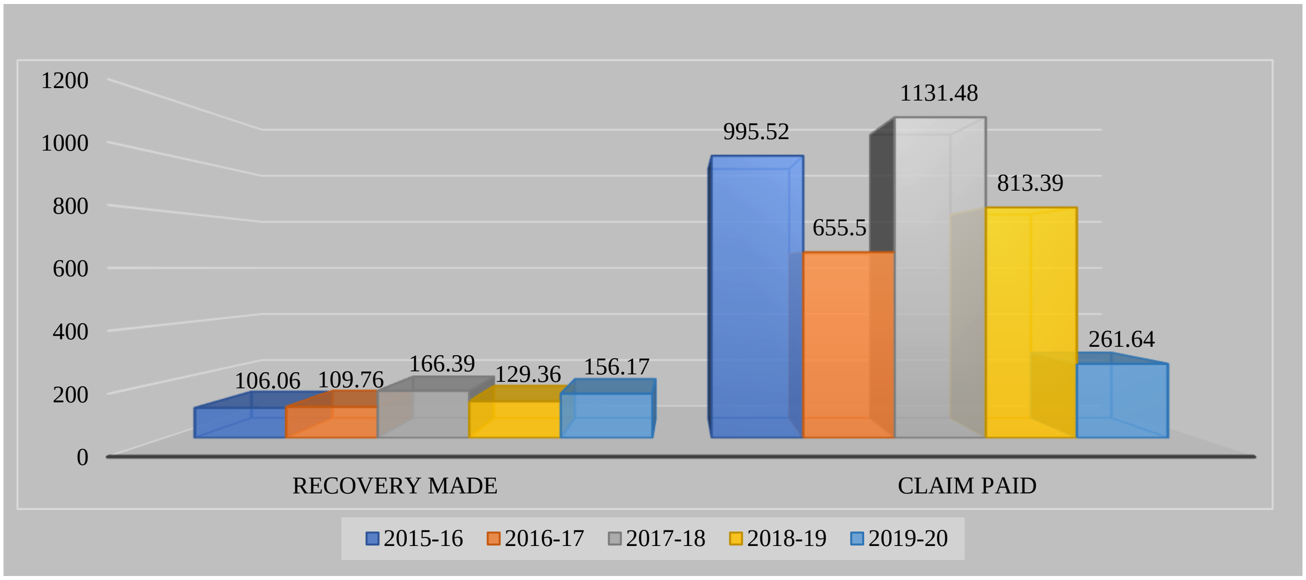
The total number of claims paid under ST policies during FY 2019-20 was 463, amounting to Rs.146.77 crore as against 541 claims amounting to Rs.168.13 crore in FY 2018-19. Recoveries under ST policy were Rs.10.25 crore as against Rs.21.47 crore during the previous year, showing negative growth of 52.25 per cent (Figure 2.16).

Figure 2.15 Trend of ST-Recovery and Claim Paid (Rupees Crore)



Source: ECGC Data

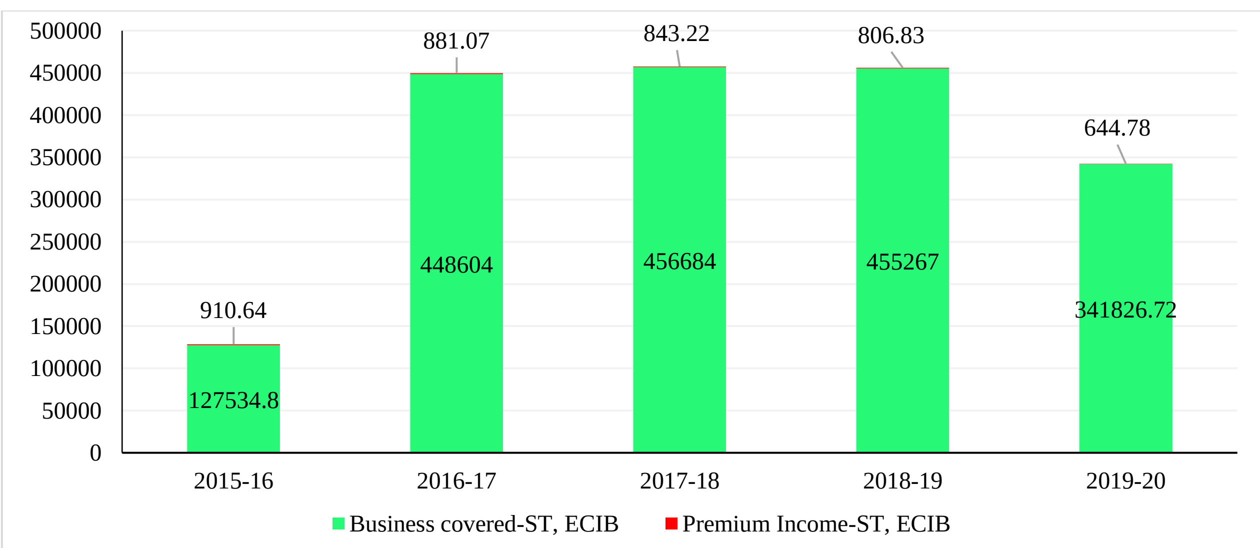
Figure 2.16 Trend in ST-ECIB Recovery and ECIB Claims Paid (Rupees Crore)



Source: ECGC Data

ST ECIB: In FY 2019-20, a sum of Rs.156.17 crore was recovered against claims paid and pending for recovery compared to Rs.129.36 crore, for the same period in the previous FY.[38]

Figure 2.17 Trend in ST-ECIB Business Covered and Premium Income (Rupees Crore)



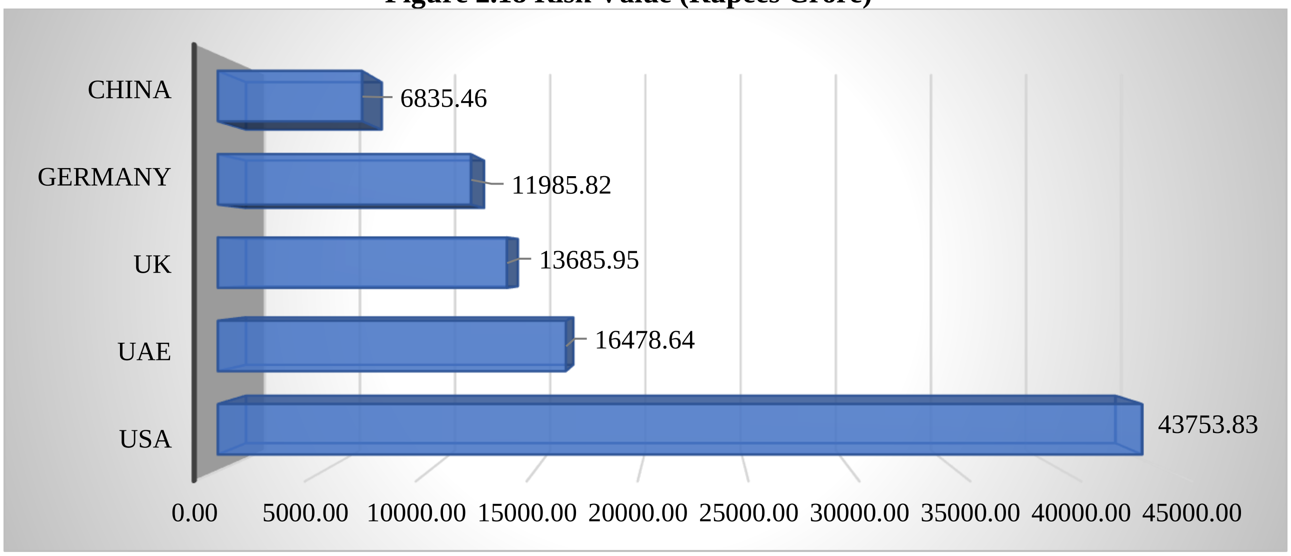
Source: ECGC Data

[38]Source: Annual Report of ECGC Ltd, 2019-2020

A total of 10,621 (PY-11,925) distinct exporters, of which more than 93.17 per cent are MSMEs, have been supported through insurance cover. Export credit advances worth Rs.3,41,827 crore have been supported in 2019-20 compared to Rs.4,31,988 crore in the previous year.

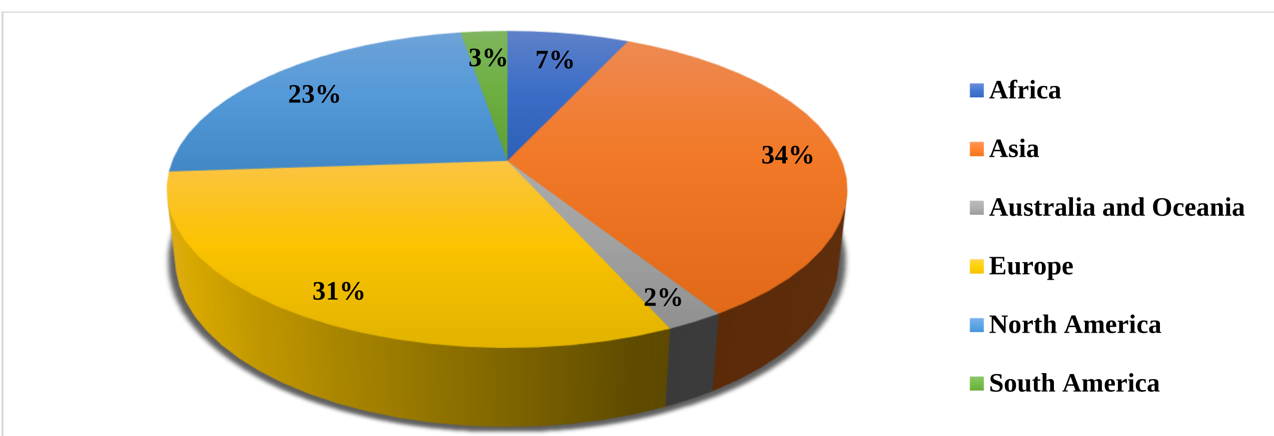
ST covers also play a major role in attracting business from other countries also. Figure 2.19 shows the risk value covered by the ECGC. It shows that the US is the largest country with the highest risk value covered by ECGC.

Figure 2.18 Risk Value (Rupees Crore)



Source: ECGC Data

Figure 2.19 Region-wise Distribution (Rupees Crore)

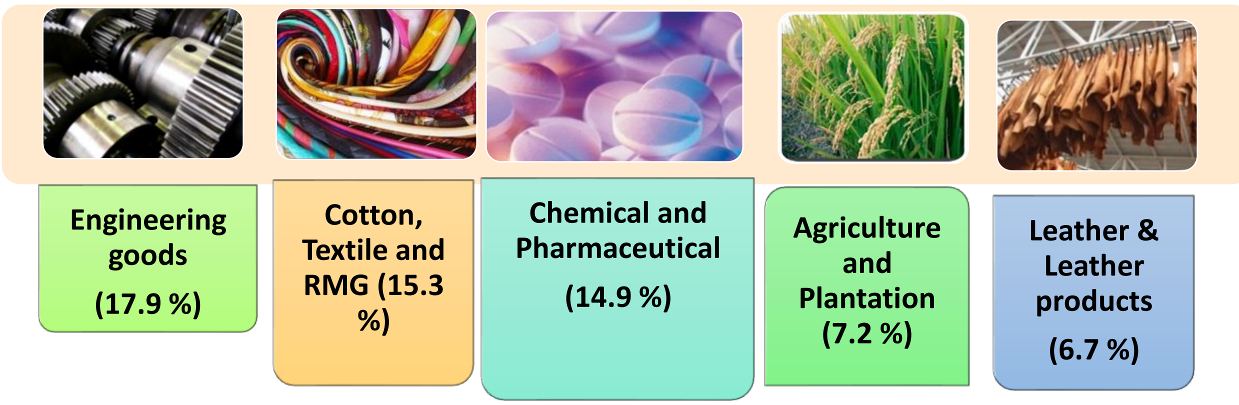


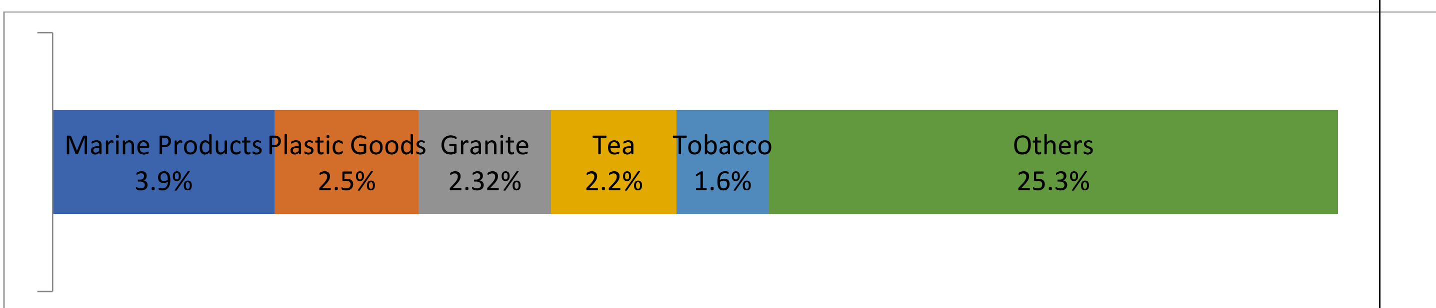
Source: ECGC Data

2.4.4 Major Industries Supported

Figure 2.21 presents the major industries supported by the ECGC.

Figure 2.20 Major Industries Supported





Source: ECGC Data

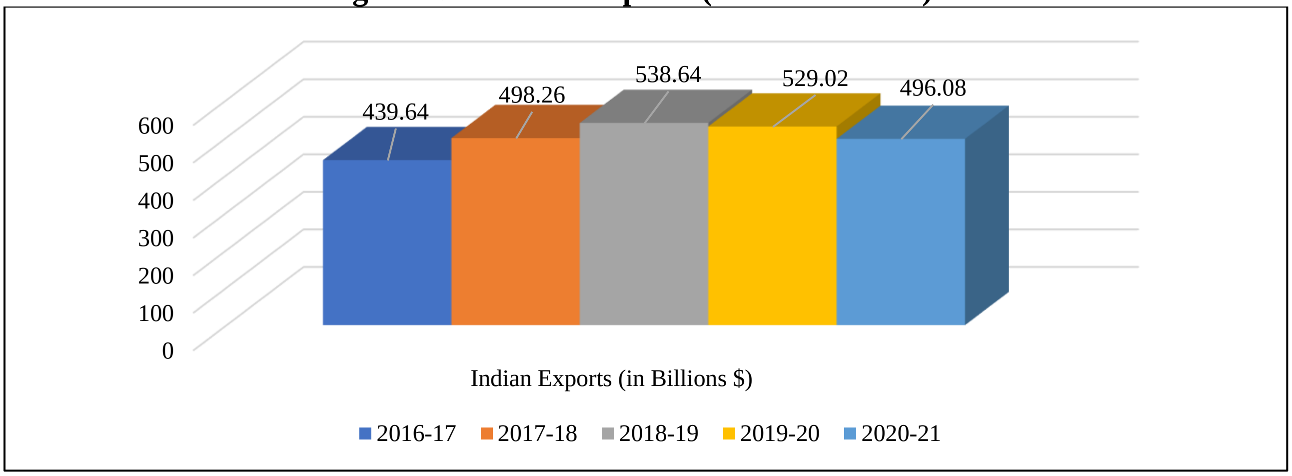
2.4.5 Indian Exports and ECGC Business

In fiscal year 2019-20, India's merchandise and services exports totalled USD 527.84 billion (Rs 37, 40,881 crore), a 1.9 per cent decrease from the previous fiscal year's total exports of USD 538.07 billion (Rs.37,63,940 crore). Overall imports in April-March 2019-20 totalled the USD 605.55 billion (Rs.42, 88,706 crore), representing a (-) 5.4 per cent decrease from the same period last year. India's merchandise exports in FY 2019-20 was USD313.23 billion (Rs.22, 18,942 crore), compared to the USD330.07 billion (Rs.23,07,663 crore) in the same period last year, representing a negative growth of (-) 5.1 per cent in dollar terms and (-) 3.9 per cent in rupee terms.

The total value of merchandise imports for the period April-March 2019-20 was USD 473.99 billion (Rs.33,55,725 crore), compared to USD 514.03 billion (Rs.35,94,373 crore) during the same period in 2018-19, representing a negative growth of (-) 7.8 per cent in dollar terms and (-) 6.6 per cent in rupee terms. The drop in exports is primarily due to the global economic slowdown, which has been exacerbated by the Covid-19 health crisis. This has caused widespread disruptions in supply chains and demand, resulting in order cancellations. While the service trade balance (exports minus imports) showed a surplus of USD 83.05 billion (Rs 5,88,958 crore) in the fiscal year 2019-20, the merchandise trade balance showed a deficit of USD 160.75 billion (Rs.11,36,783 crore). The overall trade deficit for the fiscal year 2019-20 is USD 77.70 billion (Rs.5,47,825 crore).

Figure 2.22 represents the trend of total Indian exports.

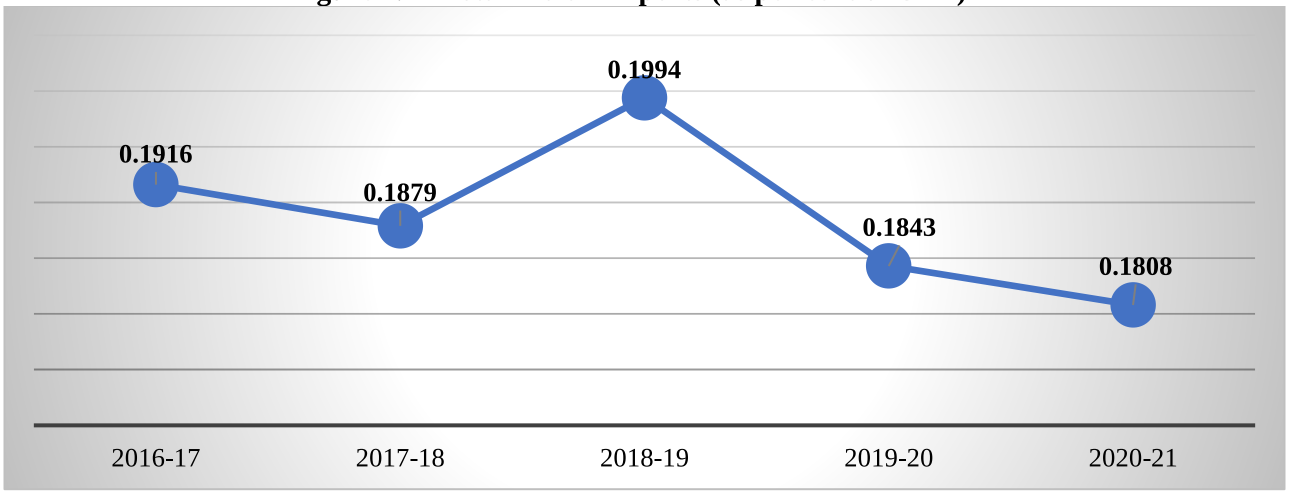
Figure 2.21 Indian Exports (in Billions USD)



Source: Ministry of Commerce and Industry

Figure 2.23 shows that from 2016-17 to 2020-21, total exports as a percentage of India's GDP has declined significantly.

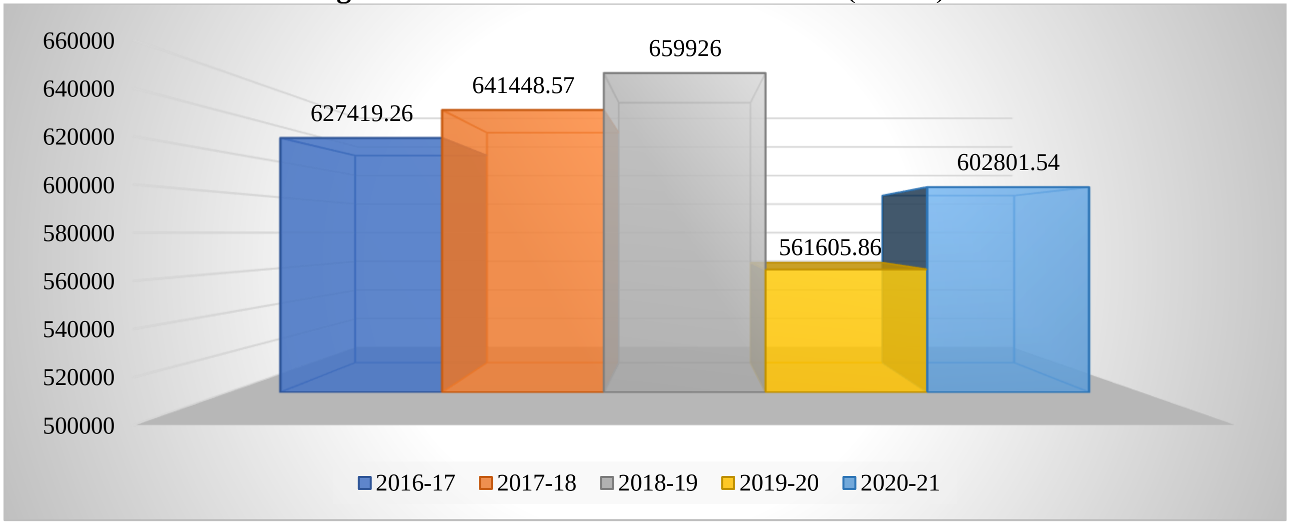
Figure 2.22 Total Indian Exports (as per cent of GDP)



Source: Ministry of Commerce and Industry

The trend of total business of ECGC can be more clearly observed from Figure 2.24.

Figure 2.24 Total ECGC Business covered (₹crore)



Source: ECGC Data

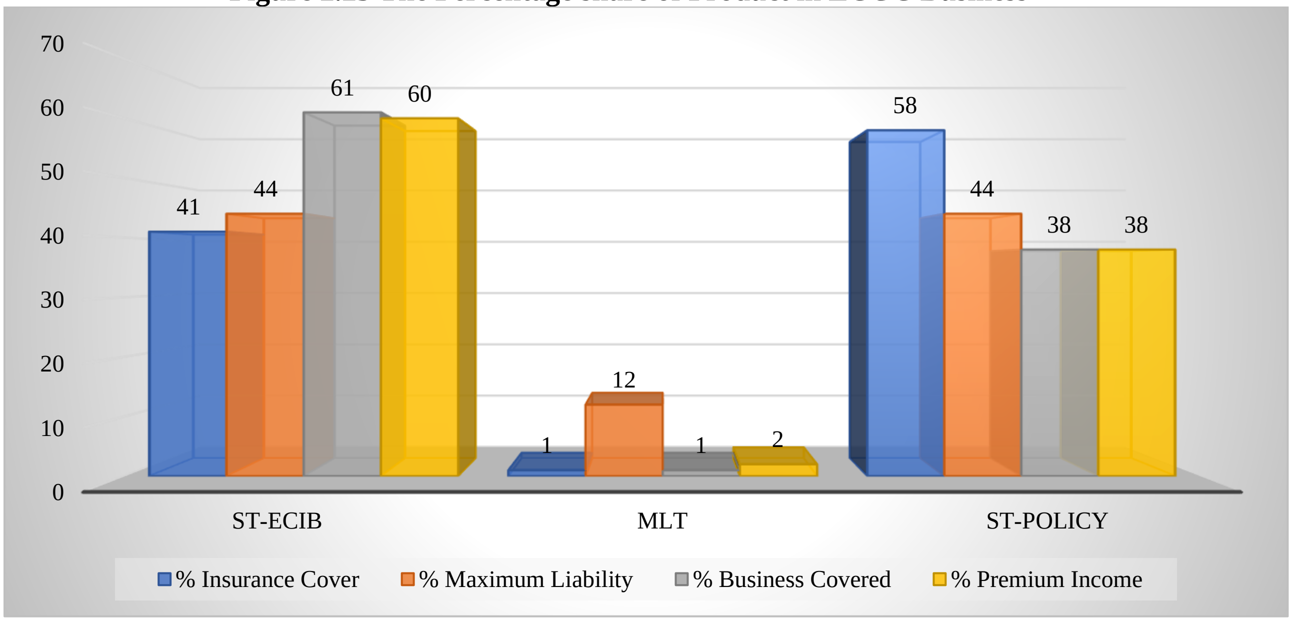
Table 2.3 depicts the various products' contributions to the business of ECGC. It can be observed that ST-ECIB and ST policies are a significant part ECGC's total business. This can also be observed from Figure 2.25.

Table 2.8 Product Contribution to ECGC Business (as of 31.03.2020)

Indicators / Percentage of Product Contribution	% Insurance Cover	% Maximum Liability	% Business Covered	% Premium Income
ST-ECIB	41	44	61	60
MLT	1	12	1	2
ST Policies	58	44	38	38
Total (Rs. Crore)	27986	98608	561605.86	1075.47

Source: ECGC Data

Figure 2.23 The Percentage share of Product in ECGC Business



Source: ECGC Data

2.5 Global Shocks and Current Scenario

The ECI industry is currently facing a period of high uncertainty, driven by a global economic and geopolitical environment that has been further aggravated by the inherent risks of emerging market developing economies (EMDEs). Global growth in 2019 is decline to 2.5 per cent, from 3 per cent in 2018. Advanced economies (AEs) experienced a decline in growth to 1.7 per cent from 2.2 per cent in 2018. GDP growth of EMDEs has also slowed significantly from 4.3 per cent in 2018 to 3.7 per cent in 2019, owing to significant weakness in industrial production, trade flows, and investment deceleration. Overall, growth in roughly 60 per cent of EMDEs is estimated to have slowed last year.

The volume of global trade (goods and services) increased by 0.3 per cent in 2019, down from 3.9 per cent the previous year. In terms of value, merchandise exports fell by 3 per cent in 2019 to USD18.89 trillion. Merchandise imports too declined by (-) 2.9 percent to USD19.23 trillion in 2019. Overall, AEs outperformed the EMDEs in terms of trade performance in 2019. Exports from EMDEs fell by 3.3 per cent year-on-year to 0.8 per cent, while exports from AEs fell by 2.1 per cent year-on-year to 1.2 per cent. The volume of imports in EMDEs and AEs fell to -0.8 per cent (from 5.1 per cent) and 1.5 per cent (from 3.3 per cent), respectively.

Most countries are experiencing severe economic contraction as a result of the pandemic. Limited business operations as a result of extended temporary closures and restrictions on the free movement of people and goods have severely hampered the ability of companies to meet trade commitments. According to the IMF, this contraction is 4.9 per cent, with advanced economies contracting at (-) 8 per cent and emerging markets contracting at (-) 3 per cent. The World Trade Organization predicts a drop in international trade of between 13 per cent and 32 per cent in 2020. Trade finance and credit insurance will need to play a significant role. Credit insurers covered USD 2.5 trillion in global exports in 2018. A larger support package of nearly USD5 trillion is estimated to be required to ensure a V-shaped recovery. As the pandemic tests the resilience of economies, a wide range of measures will be required to boost future growth. MSME industries and their liquidity arrangements would be a major focus, as this is the hardest hit sector. The central banks of countries will play an important role in the revival of economies by creating the fiscal space needed to ensure liquidity and financial market stability, support restructuring, and manage already burgeoning debt levels. The economic climate for 2020 was substantially different from that for 2019. According to the report, of Orbis Research,[39] the global demand for credit insurance is projected to expand by 2.15 per cent from USD11 billion in 2017 to USD12.5 billion by 2023 due to market fluctuations, shifting trade, and the growth of small businesses in world trade.[40]

2.6 A Comparative Analysis of Major ECAs of the World

Given the current economic and political environment, major ECAs around the world have supplemented flexible financing with matchmaking events and networking assistance for small businesses. All ECAs have gone above and beyond the traditional ECA role, particularly to assist their countries' SMEs. In doing so, US exporters and lenders reported that they had become acquainted with the networking opportunities provided by ECAs and had been invited to join them. According to an EXIM (2020) survey, matchmaking efforts and events have made it very easy for exporters to meet foreign suppliers and obtain financing. The major ECAs of the world placed a high priority on the following:

- A "boutique" approach has replaced the "standard financing package," with financing packages tailored to market, sector, borrower type, or project-specific considerations.

[39] https://www.globenewswire.com/news-release/2019/06/11/1866711/0/en/Credit-Insurance-Market-to-grow-at-2-15-CAGR-to-hit-12-5-Bn-by-2025-Analysis-by-Trends-Size-Share-Growth-and-Investment-Opportunities-Economic-Fluctuations-and-Risk-Factors-Orbis-R.html
[40] https://exportsnews.com/post/trade-credit-insurance-market-s-growing-popularity-and-emerging-trends

- Flexible policies enable ECAs to develop innovative financing solutions and expand their capabilities.
- The flexibility in providing innovative and tailor-made financing solutions for exporters has become the basis of competition among ECAs across the world. ECGC is offering various ECIB polices to have this attribute of flexibility, it may introduce few more covers which may help banks to survive in this competition.
- Some ECAs' roles are evolving from a competitive tool for exports to a general economic tool for providing emergency domestic relief to industries and businesses that do not have an export footprint and demonstrating their government's willingness to leverage the capacity and expertise of ECAs.
- Some exporters reported that without ECA support, they would have struggled to survive the COVID-19 pandemic. Governments sought to provide these ECAs with the means to maintain each country's future competitiveness.
- Domestic firms that have interacted with ECAs through these schemes are now exposed to export tools and future export support opportunities provided by their respective ECAs.

Table 2.4 A Comparative Analysis of Major ECAs of the World

S. No.	Official Name of ECA	Policy Provisions for Exporters	Initiative to Train Exporter	Special Support for Exporters
1	EDC (Canada)	• EDC's independently conducted 2018 Legislative Review found that this programme seemed to be working, stating that "foreign 'pull' clients confirm that they value EDC's active efforts to identify high-quality Canadian suppliers and facilitate buyer-exporter relationships • Pull strategy is creating export opportunities and bringing overall economic benefits to Canada	• New approach is very different from those taken by demand-driven ECAs, which wait for exporters and buyers to connect before coming to the ECA for financing	• Pull Loan Programme • EDC pairs financing with matchmaking between Canadian suppliers and foreign buyers. • EDC continues to place strong emphasis on supporting SMEs in developed and emerging markets
2	SACE (Italy)	• Push strategy has been a major focus for SACE • SACE has complemented this programme with focused efforts on embedding SME suppliers into global supply chains • Creating new Italian exporters • Push Strategy is very aggressively marketed and can be an attractive product for exporters	• In 2019, SACE established a team of "coaches" in its "export and internationalisation hub, centred on listening and coaching to help smaller businesses that want to start expanding abroad	• Push Strategy • Pairing financing incentives and proactive outreach makes SACE one of the most forward-leaning ECAs • Exporters and lenders alike noted this approach was being pursued aggressively
3	UKEF (United Kingdom Export Finance	• In 2019, UKEF changed its content policy which "enables UKEF to assist and support firms carrying on business in the United Kingdom	• UKEF strongly promotes its products and services	• UKEF created a "general export facility", which is flexible enough to accommodate the needs of small exporters of UK. • UKEF has taken an approach similar to that of SACE and EDC, matching UK suppliers with major multinational companies to integrate them into supply chains
4	ECGC Ltd. (India)	ECGC provides • A range of insurance cover to exporters against the risk of non – realisation of export proceeds • Different types of credit insurance cover to banks and other financial institutions to enable them to extend credit facilities to exporters • Export factoring facility for MSME sector, which is a package of financial products consisting of working capital financing, credit risk protection and maintenance of sales ledger	• Several initiatives to educate exporters through seminars, meeting with exporters, etc.	• It has introduced various export credit insurance schemes to meet the requirements of commercial banks extending export credit. • Enables banks to extend timely and adequate export credit facilities to exporters • Improves the competitiveness of the Indian exports

5	The two official export credit agencies of China are • the Export-Import Bank of China • China Export and Credit Insurance Corporation	• Preferential export buyer's credit programme	• Investment activity provided by China EXIM, CDB, and Sinosure: roughly USD22.8 billion	• Beyond its two official ECAs, China uses several other official government entities to finance exports • CDB plays a multifaceted role and is a key tool of the Chinese government • Most of its activities are within China and involves support for domestic economic development, infrastructure, and select industries

Source: US-EXIM Bank Competitiveness Report, 2020

Table 2.9 Challenges faced by Indian and International ECAs

ECGC's Current and Future Vision	Challenges Faced by ECGC	Challenges imposed by the Pandemic on ECGC	Challenges imposed by the Pandemic on International ECAs	Expectations
"To Excel in Providing Export Credit Insurance and Trade-Related Services." And "To Support the Indian Export Industry By Providing Cost-Effective Insurance And Trade-Related Services To Meet The Growing Needs Of Indian Export Market By Optimal Utilization Of Available Resources".	The slowdown in global trade	Bankruptcy filings have grown quickly since the pandemic began.	The disruption of ST trade finance is different from those of past crises; however, the result is the same: exporters are facing barriers in accessing ST financing. Exporters are facing difficulties in accessing ST financing	GoI targets USD One trillion exports by 2025
	Reduced credit disbursal by banks/Increase in NPAs	It has to deal with the enhanced claims of Indian exporters that may arise from the bankruptcy filings of their overseas buyers.	A 60 per cent increase in rejected applications for trade credit insurance.	Share of insurable export credit in Indian exports rises from 25-28 per cent to 40-45 per cent
	Expansion of MLT Business – Number of exporters availing facility; long repayment terms with political risks.	During the Covid-19 pandemic, ECGC has to make rapid assessments of country risk, based on the evolving situation	The International Chamber of Commerce (ICC) reports) reports that to cut costs banks are shunning "high risk" exporting sectors. The resulting fall in supply of credit has ended up increasing the price of ST financing for SMEs.	Strengthen India's exports to emerging and challenging markets like Africa, CIS & Latin American countries
	Increase the digital presence of ECGC	This crisis is a wake-up call for ECGC to change their business model and make it far more digital-friendly, particularly in terms of service delivery, of which claim settlement is a key aspect.	–	Increase the ST policy business to meet the decline in ST-ECIB
	Reinsurance support	There is tremendous pressure both in terms of service delivery as well as ECGC's internal operations.	Availability of trade finance for exporters and a shift towards governments acting through their ECAs.	Sharing of information related to buyer/country with exporters, assist in recovery
	Regulatory and Tax obligations	Recognise that its customers are having a difficult time and hence strive to accommodate customers'	The International Chamber of Commerce (ICC) anticipates that USD1.9-5.0 trillion capacity in the trade credit market will be required	To tap the potential in project exports in focus markets (Africa, Bangladesh)

		requirements to the maximum extent possible	to enable rapid recovery from the impact of the pandemic.	
				Restructuring of service network in progress, a nimble business structure
				Customer reach-out more digital, IT module being revamped by CDAC

Sources: Annual Report of ECGC Ltd, 2019-2020, OECD, 2021

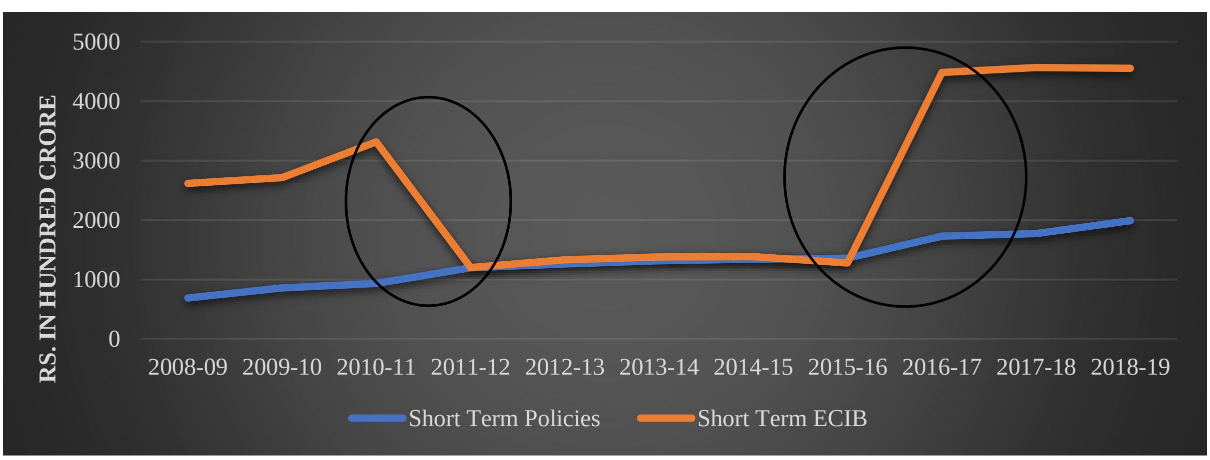
Chapter 3
Objectives of the Study and Research Methodology

3.1 Introduction

As global risks intensify, ECAs like ECGC have a major role to play in keeping trade going through commercial credit and political risk insurance. In pioneering export and risk coverage support, ECGC continues to be a trusted and crucial partner for exporters and banks. Prudent risk management policies and systems adopted by the company ensure a significant surplus while fulfilling India's export promotion mandate. This study will compare the responses of exporters (both PH and NPH) and banks to questions about the export market's barriers and challenges. Through this comparison, the study will attempt to identify the variables that may aid in increasing domestic exports and, as a result, the ECGC's business of export credit insurance to exporters and banks. In particular will look for variables that could benefit ECGC's short-term ECIBs business.

ECGC offers cover to both banks and exporters and charges a premium in return for ensuring their risks. Trends in the value of business covered by ECGC, the premium charged, and claims paid by it over a period of 10 years have been summarised in the form of various charts. In Figure 3.1, it is evident that short-term ECIB (Export Credit Insurance for Banks) seems to be a major component of the total value of business covered, but at the same time, appears to be more volatile in nature. Due to declining credit disbursal by banks (resulting from an increase in NPAs), ECGC's business in terms of sale of ECIBs to banks has been affected, leading to decline in ECGC's ECIB business. Hence, there is a need to look for the reasons for this sudden fall in the value of business covered by short-term ECIBs and the reasons for the gap between the value of business from exporters and banks covered by ECGC.

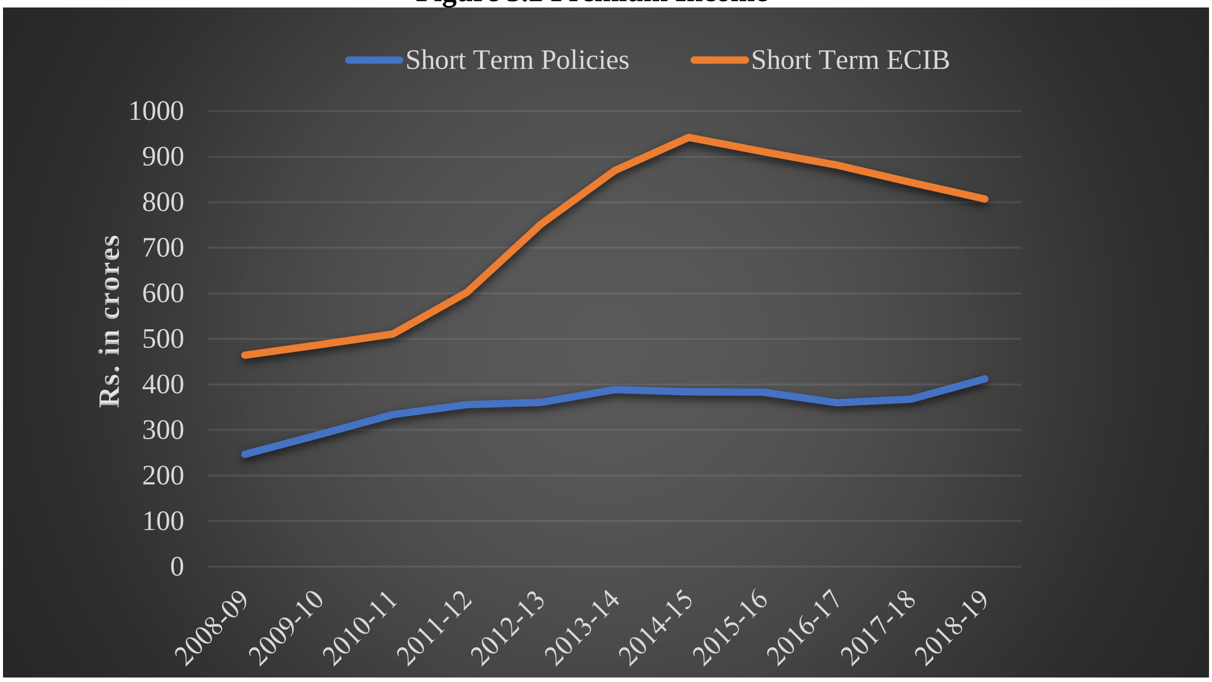
Figure 3.1 Value of Business Covered



Source: ECGC Data

It is evident from Figure 3.2 that a major part of the premium income of ECGC comes from short-term ECIB. However, the share of short-term policies in total premium income earned by ECGC has increased but at a slow pace.

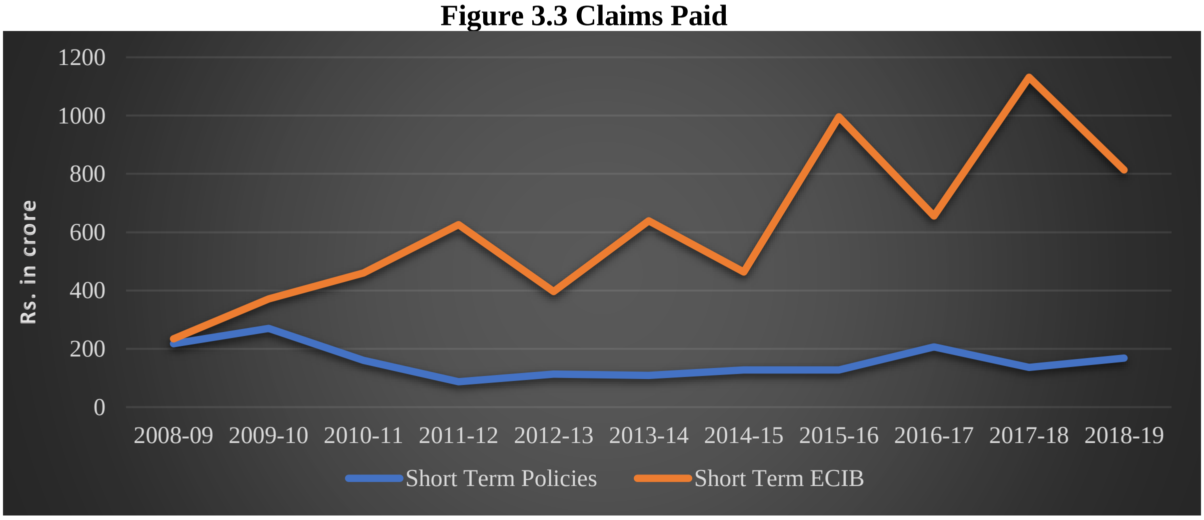
Figure 3.2 Premium Income



Source: ECGC LIMITED Data

Figure 3.3 clearly shows almost all claims are made by short-term ECIBs and there are many periodic variations in claims paid to short-term ECIBs, whereas claims paid to short-term policies are smaller in number and have declined sharply since 2009-10.

Figure 3.3 Claims Paid



Source: ECGC LIMITED Data

Thus, the three charts above clearly show that short-term ECIBs are the most prominent in terms of business for ECGC, and various business indicators of ECGC fluctuate as per the fluctuations in business indicators of short-term ECIB. To analyse the impact of ECGC cover on the export performance of the country, it is important to understand the reason why most insurance cover products taken by banks are falling. Since short-term ECIBs are the major contributors to ECGC’s business, it is important to find out the major reasons responsible for the sudden fall in export insurance cover taken by them and how the confidence of exporters can be boosted so that they can enhance their export performance and minimise their export credit risks. This study will recommend how ECGC's ST policy business (short-term policy sold directly to exporters) can be increased to meet the decline in ST-ECIB. This study is primarily survey-based. Focus group discussions with exporters, banks and other stakeholders have been conducted and market research has been undertaken to identify challenges and suggest an expansion in risks covered by various ST policies of ECGC to increase the value of the business.

3.2 Objectives

- To assess ECGC’s performance in providing insurance cover to banks and exporters and analyse the internal and external factors that contributed to the decline in ECGC’s ECIB business.
- To assess ECGC’s strengths and weaknesses, whether the guidelines and procedures for appraising and monitoring of the policy need to be reviewed to meet objectives, and to provide recommendations on how ECGC can improve its marketability in the future with a broader focus on export enhancement.
- It has been seen that a major chunk of ECGC’s business is from insurance provided to banks. Thus, the study aims to investigate the reasons for the variations in ECIB. Based on the assessment, recommendations will be provided to increase the ECIB business.
- The study proposes to examine the risks faced by banks and exporters and suggest an expansion in risks covered by ECGC’s ST policies to increase the value of the business.
- ECGC’s business may be higher in terms of ST policies but many exporters may not be aware of the different kinds of policies that ECGC offers. The study aims to suggest strategies to increase the share of ECGCs business in policies taken by banks and exporters.

Table 3.1 Methodological Approach to Objectives

Objectives	Methodology
***Objective 1*: To assess the performance of ECGC in providing insurance cover to banks and exporters and analyse the internal and external factors that contributed to the decline in the ECGC's ECIB business**	• Focus group discussions with the ECGC officials • Interviews and discussions with exporters, banks, and other stakeholders
***Objective 2*:** To assess ECGC's strengths and weaknesses, and whether there is need to review extant guidelines and procedures to appraise and monitor to meet its objectives, and to provide recommendations on how it can improve its marketability in the future, with a broader focus on export enhancement.	• Exploratory and descriptive Research conducted • Univariate and bivariate analysis done, based on selected indicators
Objective 3: The study aims to investigate the reason for the ECIB variations. Based on the assessment, recommendations will be provided to increase the ST policy business to meet the decline in ST-ECIB.	• Field visits/market research conducted to identify challenges and suggest recommendations on expansion in risk cover
Objective 4: The study proposes to examine the risks faced by banks and exporters and suggest an expansion in risks covered by various ST policies of ECGC to increase the value of business.	
***Objective 5*:** The study aims to suggest strategies to increase the share of ECGCs business in policies taken by banks and exporters. It also aims to devise stakeholder friendly policies to strengthen India's exports to emerging and challenging markets.	• Interviews and discussions with exporters and banks conducted to identify possible variables which may help to improve ECGCs business. • Reconcile the findings from the survey

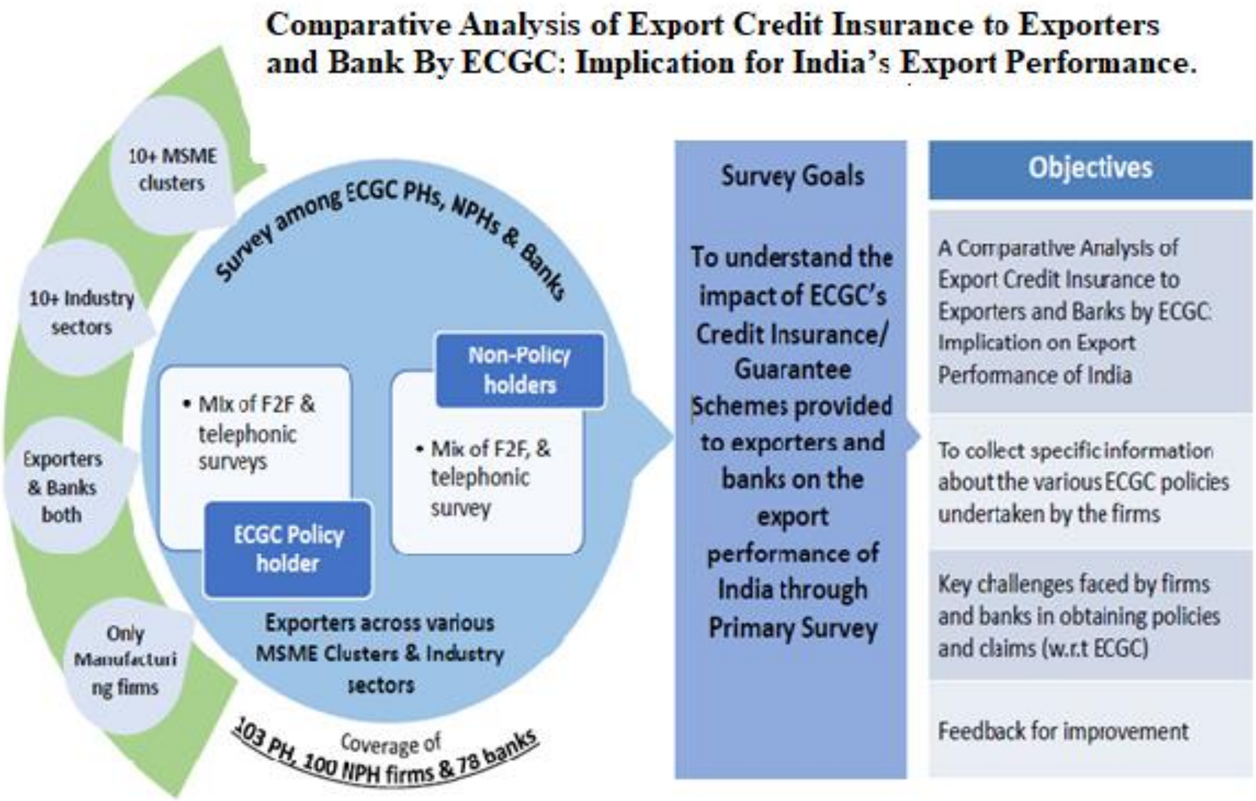
Source: Created by IIFT

3.3 Survey Design

As both exporters and banks are stakeholders in this study, the primary survey has been conducted for exporting firms across ten *plus* MSME clusters and ten *plus* industry sectors as well as for banks. There are a total of 203 exporting firms. Among them, 103 are ECGC policyholders and 100 are non-policyholders. The total number of banks covered in the primary survey is 78. The questionnaire in the primary survey is designed in such a way that the responses by the exporters and the banks provide useful insights about the role played by export credit insurance in facilitating exports, challenges faced in availing export credit insurance by the exporters and the banks, and other related aspects.

The analysis is divided into exploratory and descriptive research.

Figure 3.4 Summary of Survey Design

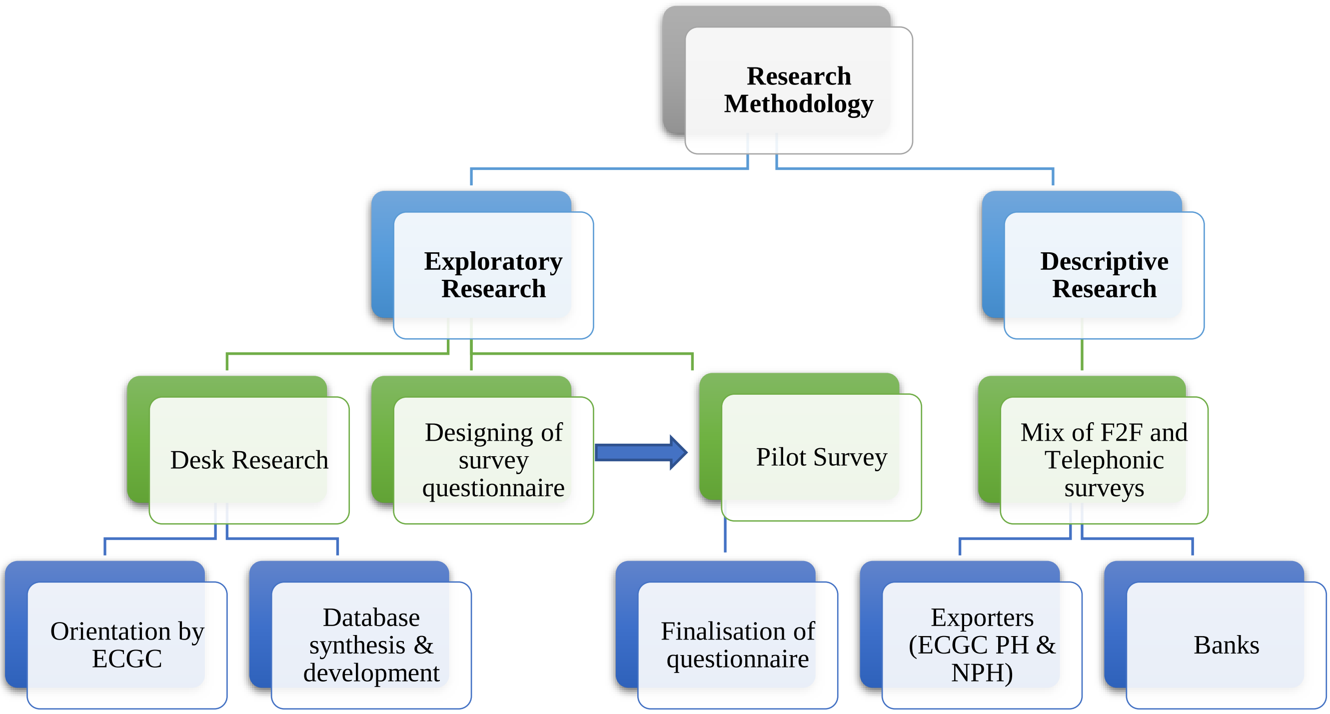


Source: Created by IIFT

3.3.1 Research Approach

In view of the objectives of the survey, the following research approach was followed to carry out the study:

Figure 3.5 Research Approach



Source: Created by IIFT

Phase-I: Exploratory Research

Exploratory research was carried out at the beginning of the survey to develop an understanding of the subject matter. This was a very important phase in the research as it led to the construction of the base for the entire survey. The following stages were covered in this phase.

Step I: Desk Research

Secondary research was conducted to get an understanding of the details of ECGC schemes, policy holders, beneficiaries, its guidelines, and other aspects. A review of relevant reports/documents/papers etc., was also done.

Step II: Orientation by ECGC

After the completion of desk research, a brief discussion with ECGC officials was conducted to develop a deeper understanding about the subject matter. Subsequent to the completion of the desk research a brief discussion with ECGC officials was held. This proved immensely helpful in drawing up the survey questionnaires.

Step III: Database Development

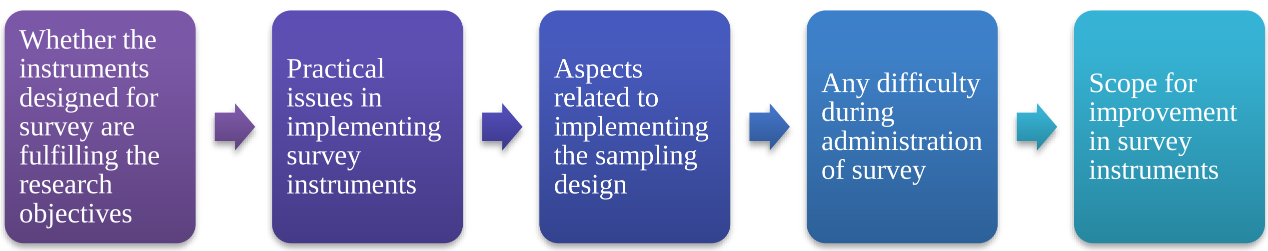
Database of policy holder firms and non-policy holder firms was provided by ECGC. Firm database spanning across selected industry sectors was provided before the launch of the survey. Based on the database provided, the target respondents were contacted to schedule appointments for conducting the main survey.

Step IV: Designing of Survey Instrument

IIFT prepared the survey questionnaires, based on survey objectives and perspective provided by ECGC. Draft questionnaires were shared with ECGC for their inputs and suggestions. Similarly, survey guidelines and other instruments were also prepared.

Step V: Pilot Testing

A small sample of target groups (6 stakeholders including exporters and banks) was selected to pilot and pre-test the survey mechanisms, sampling design and survey instruments before these were finalised and used in the main survey stage. The pilot survey was conducted with actual respondents at their offices. The key purposes of this pilot survey were to examine the following:



Three general types of pre-tests were done before commencement of the survey work.

- Whether it has adequately covered the survey objectives
- Ease of administering the questionnaire
- Whether the respondents were able to understand the questions

Phase-II: Descriptive Research

After a thorough understanding of the subject matter in the exploratory phase and finalising the survey instruments based on pre-testing, descriptive research was conducted to collect primary data related to various aspects of ECGC.

Step VI: Quantitative Survey

A mix of telephonic and face-to-face structured interviews were conducted among target respondents to collect relevant information. The target categories for the survey were ECGC beneficiaries, non-beneficiaries and banks (that have availed the services of ECGC).

Univariate Analysis and Bivariate Analysis

After Phase-II was completed, the data collected was analysed using univariate and bivariate analysis. Under univariate analysis, frequency and mean analysis were done while under bivariate analysis, cross tabulation as well as content analysis were conducted.

3.3.2 Sample Breakup

A multi-stage sampling procedure was adopted to select target respondents for the survey, consisting of senior decision makers and export managers.

As per the objectives, a mix of purposive and snowballing sampling techniques were adopted to select the respondents. Selection of firms was based on the database provided by ECGC with respect to industry clusters and sectors.

A total of 281 respondents (exporters and banks) were interviewed against a minimum sample target of 275 interviews. In all, 103 policy holders, 100 non-policy holders and 78 banks were interviewed.

Table 3.2 Sample Size Achieved: State-wise

State	Overall	Policy Holders	Non-Policy Holders	Banks
Maharashtra	**74**	16	43	15
Delhi	**43**	27	3	13
Uttar Pradesh	**37**	19	8	10
Tamil Nadu	**36**	7	27	2
Punjab	**20**	6	4	10
Karnataka	**15**	7	8	0
Rajasthan	**15**	7	0	8
Telangana	**12**	3	0	9
Gujarat	**10**	3	4	3
West Bengal	**10**	8	2	0
Kerala	**8**	0	0	8
Jharkhand	**1**	0	1	0
Grand Total	**281**	**103**	**100**	**78**

Source: Created by IIFT

The sector wise segregation is provided below:

Table 3.3 Sample Size Achieved: Sector wise

Sector-wise	Overall	Policy Holders	Non-Policy Holders
Textile and ready-made garments	**69**	38	31
Engineering goods	**37**	17	20
Chemical and pharmaceuticals	**31**	18	13
Leather and leather products	**20**	11	9
Gems and Jewellery	**12**	2	10
Spices	**5**	0	5
Tea and coffee	**5**	3	2
Agriculture and Plantation	**2**	1	1
Cotton	**1**	1	0
Other sectors	**21**	12	9
Grand Total	**203**	**103**	**100**

Source: Created by IIFT

The next two chapters segregate the survey findings in two parts: Chapter 4 deals with the perspective of exporters (policy holders and non-policy holders) while Chapter 5 spells out the perspective of banks.

Chapter 4
Performance of ECGC Policies: Evidence from Primary Survey of Exporters

4.1 Profile of Exporters

4.1.1 Geographical Coverage of Exporters

Overall, about 30 per cent of exporters were covered from Maharashtra, followed by Tamil Nadu and Delhi. The maximum number of policy holders were from Delhi, Uttar Pradesh and Maharashtra whereas the maximum number of non-policy holders were from Maharashtra and Tamil Nadu.

Table 4.1 Geography-wise Classification of Exporters

[All figures in percent]

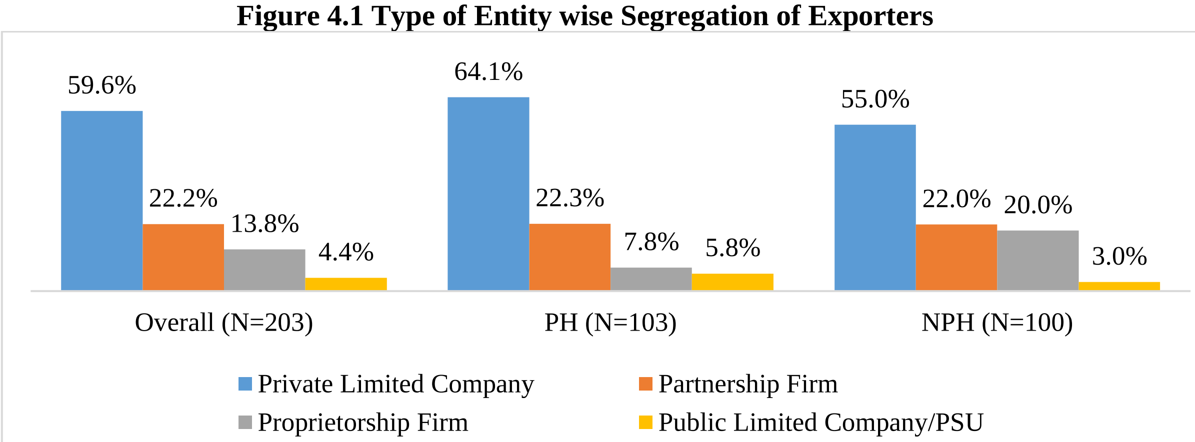
Geographical Coverage	Overall	PH	NPH
N	**203**	**103**	**100**
Maharashtra	**29.1**	15.5	43.0
Tamil Nadu	**16.7**	6.8	27.0
Delhi	**14.8**	26.3	3.0
Uttar Pradesh	**13.3**	18.4	8.0
Karnataka	**7.4**	6.8	8.0
West Bengal	**4.9**	7.8	2.0
Punjab	**4.9**	5.8	4.0
Rajasthan	**3.4**	6.8	0.0
Gujarat	**3.4**	2.9	4.0
Others	**2.1**	2.9	1.0

Source: Primary Survey

4.1.2 Type of Entity wise Classification of Exporters

Overall, about 60 per cent firms were private companies. The remaining were partnerships (22.2 per cent), proprietorships (13.8 per cent) and public companies (4.4 per cent).

Figure 4.1 Type of Entity wise Segregation of Exporters



Source: Primary Survey

4.1.3 Size-wise Classification of Exporters

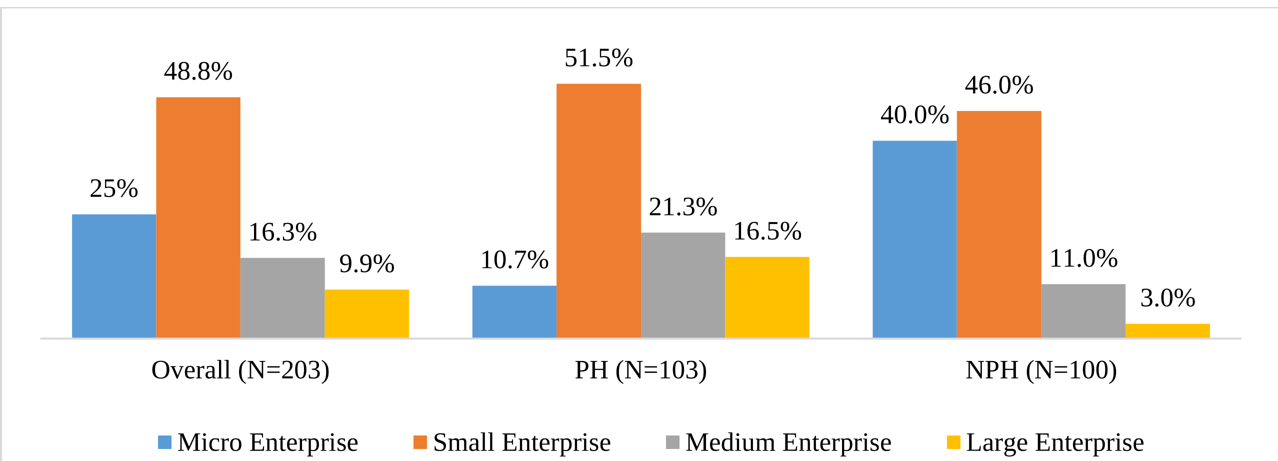
Based on investment in plant and machinery excluding land, exporters were segregated into micro, small, medium and large enterprises.

- Micro Enterprise – Investment in plant and machinery does not exceed Rs.1 crore and turnover does not exceed Rs.5 crore
- Small Enterprise – Investment in plant and machinery does not exceed Rs.10 crore and turnover does not exceed Rs.50 crore
- Medium Enterprise – Investment in plant and machinery does not exceed Rs.50 crore and turnover does not exceed Rs.250 crore
- Large Enterprise – Investment in plant and machinery exceeding Rs.50 crore and turnover exceeding Rs.250 crore

Overall, 50 per cent were small-sized enterprises followed by micro (25.1 per cent), medium-sized (16.3 per cent) and large-sized (9.9 per cent).

Among policy holding exporters, slightly more than 50 per cent of the firms were small-sized; in the case of non-policy holding exporters, 46 per cent of firms were small-sized.

Figures 4.2 Size-wise Segregation of Exporters



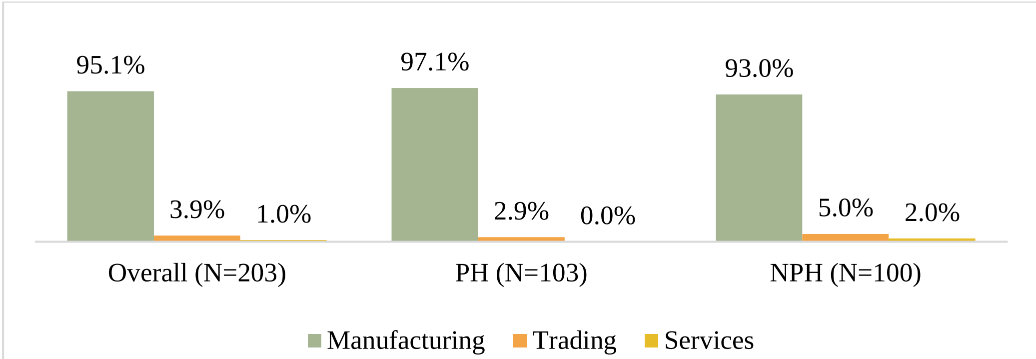
Source: Primary Survey

4.1.4 Industrial Activity-wise and Sector-wise Classification of Exporters

In terms of activities involved, about 95 per cent exporters were from manufacturing sector while remaining were from the trading sector (3.9 per cent) and services sector (1 per cent).

Among policy holding and non-policy holders, nearly 97 per cent and 93 per cent of the exporters were from manufacturing sector respectively.

Figure 4.3 Activity-wise Segregation of Exporters



Source: Primary Survey

Around 33 per cent of the exporters were from the textile and ready-made garments sectors, 18 per cent from the engineering goods sector, 15 per cent from the chemical and pharmaceuticals sector and 10 per cent from the leather and leather products sector.

Table 4.2 Industrial Sector-wise Segregation of Exporters

[All figures in percent]

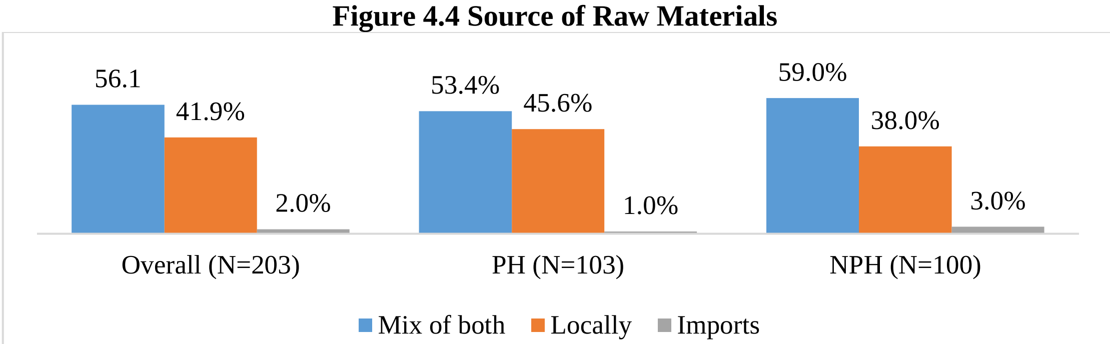
Sector wise	Overall	PH	NPH
N	**203**	**103**	**100**
Textile and ready-made garments	**34.0**	36.9	31.0
Engineering goods	**18.1**	16.5	20.0
Chemical and pharmaceuticals	**15.3**	17.5	13.0
Leather and leather products	**9.9**	10.7	9.0
Gems and Jewellery	**5.9**	1.9	10.0
Spices	**2.5**	0.0	5.0
Tea and Coffee	**2.5**	2.9	2.0
Agriculture and Plantation	**1.0**	1.0	1.0
Cotton	**0.5**	1.0	0.0
Other Sectors	**10.3**	11.6	9.0

Source: Primary Survey

4.1.5 Source of Raw Materials

Over 56 per cent of the firms sourced raw materials both locally and via imports while nearly 42 per cent sourced raw material locally.

Figure 4.4 Source of Raw Materials

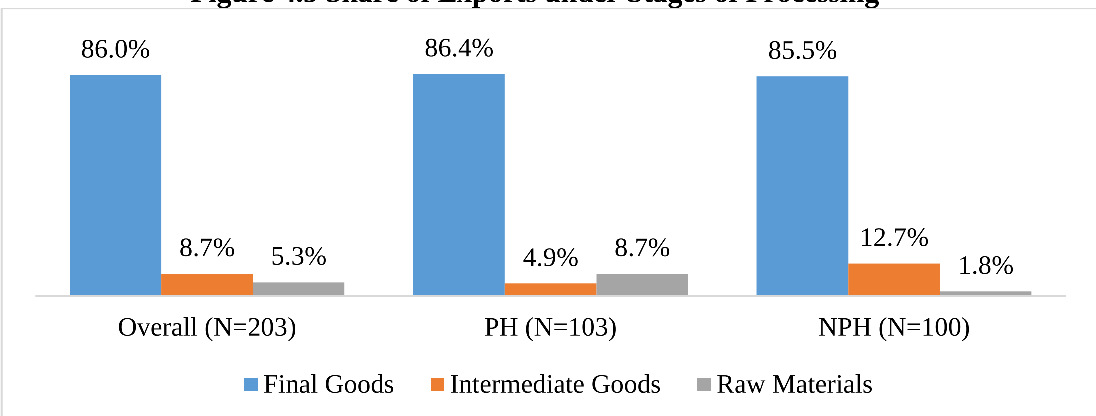


Source: Primary Survey

4.1.6 Share of the Exports under Stages of Processing

In terms of share of exports under different stages, overall, 86 per cent exporters export finished goods, and 9 per cent export intermediate goods. Exporters of final goods were the dominant category among both policy holders and non-policy holders.

Figure 4.5 Share of Exports under Stages of Processing



Source: Primary Survey

4.1.7 Riskier Transportation Mode

Close to nine out of ten exporters considered sea transportation as the riskiest transportation mode, followed by road transport and air transport.

Table 4.3 Risk Ranking of Transportation Modes

[All figures in percent]

Type of firm	Overall	PH	NPH
No of sample exporters	**203**	**103**	**100**
Sea Transport	**88.2**	88.3	88.0
Road Transport	**7.4**	10.7	4.0
Air Transport	**3.9**	1.0	7.0
Rail Transport	**0.5**	-	1.0

Source: Primary Survey

4.1.8 Major Export Destinations/Countries

Exporters were also asked about their key export destinations/countries. The top three destinations/countries were the US, the United Kingdom and the UAE across policy holder and non-policy holder exporters.

Table 4.4 Major Export Destinations/Countries

[All figures are in percent, Multiple responses]

Major Export Destination	Overall	PH	NPH
N	**203**	**103**	**100**
America	45.8	55.3	36.0
United Kingdom	33.5	41.7	25.0
United Arab Emirates	28.6	21.4	36.0
Australia	15.8	17.5	14.0
China	15.3	15.5	15.0
France	12.8	21.4	4.0
Sri Lanka	11.3	7.8	15.0
Germany	13.8	16.5	11.0
Canada	13.3	14.6	12.0
South Africa	9.9	11.7	8.0

[Column wise top 5 values are highlighted]

Source: Primary Survey

4.1.9 Year-wise Average Domestic and Export Sales of Firms

Based on reported financial information by exporters, the domestic and export sales of firms were calculated. On an average, the domestic sale of the policy holder exporters was Rs.897.55 crores in FY 2018-19; this declined to Rs.706.69 crores in FY 2019-20 and further to Rs.308.23 crores in FY 2020-21. Similarly, the average export sales of firms in FYs 2018-19, 2019-20 and 2020-21 were Rs.70.59 corers, Rs.62.99 corers and Rs.51.47 corers respectively.

Among non-policy holders, average domestic sale was Rs.337.49 corers in FY 2018-19, Rs.310.02 corers in FY 2019-20 and to Rs.253.92 corers in FY 2020-21 while their average exports for the three years were Rs.21.47 corers, Rs.20.60 corers and Rs.17.15 corers respectively.

Exporters were asked about the share of online sales. This was 8.1 per cent overall with the share being 4.3 per cent among policy holder exporters and about 12.1 per cent among non-policy holder exporters.

Table 4.5 Domestic and Export Sales of Exporters

Particular	FY 2018-19 (Avg.)	FY 2019-20 (Avg.)	FY 2020-21 (Avg.)
Policy Holder Exporters			
Domestic sales (Rs. corers)	897.55	706.69	308.23
Export sales (Rs. corers)	70.59	62.99	51.47
Non-Policy Holder Exporters			
Domestic sales (Rs. corers)	337.49	310.02	253.92
Export sales (Rs. corers)	21.47	20.60	17.15

Source: Primary Survey

4.1.10 Segregation of Manpower and Proportion of Female Workers

The total average number of workers among policy holder exporters was in the range of 306-315 during last three financial years of which female workers accounted for 10-12 per cent. The corresponding figures for non-policy holder exporters were 106-114 and 10-11 per cent respectively.

Table 4.6 Average Number of Workers and Proportion of Females

Particular	FY 2018-19	FY 2019-20	FY 2020-21
Policy Holder Exporters			
Total Manpower (Avg Nos.)	306	318	315
Proportion of female to male workers (per cent)	10.7	11.4	12.3
Non-Policy Holder Exporters			
Total Manpower (Avg Nos.)	107	114	106
Proportion of female to male workers (per cent)	9.7	10.7	11.0

Source: Primary Survey

4.2 ECI Requirement, Challenges and Risk Management Practices

This section provides insights regarding export credit insurance requirements, factors influencing export performance, challenges in obtaining policies from ECGC and the credit risk insurance management practices followed by exporters.

4.2.1 Importance Level of Factors for Requirement of ECI Policies

During the survey, respondents were asked rank the factors that determine their requirement for export credit insurance policies on a 5-point scale where 1 was not important and 5 was extremely important. To interpret the results, the sum of “extremely important” and “very important” was termed “important” while the sum of “slightly important” and “not important” was termed as “unimportant”.

The three main factors that determine a firm's requirement for an ECI policy among policy holders were the following:

- Geographical differences[41] while exporting (97.1 per cent)
- Pressure from international competitors (95.2 per cent)
- Characteristics of the products (95.1 per cent)

Among non-policy holders, the three main factors were:

- Regulatory requirement in foreign market (93per cent)
- Country of export (89per cent)
- Geographical differences while exporting and free trade agreements (88per cent each)

Table 4.7 Importance Level of Factors for Requirement of ECI Policies

[Figures in percent]

Factors driving Requirement of export credit insurance (ECI) policies	Policy holders (N=103)			Non-Policy holders (N=100)		
	Important	Moderately Important	Un-important	Important	Moderately Important	Un-important
Geographical differences while exporting	97.1	1.9	1.0	88.0	9.0	3.0
Pressure from international competitors	95.2	1.9	2.9	80.0	9.0	11.0
Characteristics of the products	95.1	3.9	1.0	86.0	10.0	4.0
Regulatory requirement in foreign market	94.2	4.9	1.0	93.0	4.0	3.0
Country of Export	94.1	3.9	2.0	89.0	8.0	3.0
Requirement of user industry	92.3	5.8	1.9	82.0	9.0	9.0
Being part of international value chain	92.2	3.9	3.9	80.0	9.0	11.0
Overcome tariff barriers	92.2	3.9	3.9	85.0	13.0	2.0
Free Trade Agreements	90.3	7.8	2.0	88.0	11.0	1.0
Pressure from domestic competition	88.4	5.8	5.9	78.0	11.0	11.0

[Note: "Important" means sum of "Extremely important" and "Very important" while "Unimportant" means sum of "Slightly important" and "Not important"]

Source: Primary Survey

4.2.2 Importance Level of Factors that Influence Export Performance

The exporters were also asked about the importance of factors that affected their export performance. Among policy holder exporters, the most important factors that affected export performance were free trade agreements (90.3 per cent), regulatory requirement in foreign market (89.3 per cent) and

[41] Market sizes, cultural similarities and distance have historically been the major determinants of trade between countries.

geographical differences while exporting (84.5 per cent). Pressure from domestic competition (70.8 per cent) and being part of international value chains (78.7 per cent) were the least important factors.

For non-policy holder exporters, regulatory requirement in foreign market (92 per cent), free trade agreements and characteristics of the products (89 per cent each) topped the list while being part of international value chain (76 per cent) was at the bottom.

Table 4.8 Importance Level of Factors that Influence Export Performance

[Figures in percent]

Factors driving Export Performance	Policy holders (N=103)			Non-Policy holders (N=100)		
	Important	Moderately Important	Un-important	Important	Moderately Important	Un-important
Free Trade Agreements	90.3	4.9	4.9	89.0	9.0	2.0
Regulatory requirement in foreign market	89.3	8.7	2.0	92.0	7.0	1.0
Geographical differences while exporting	84.5	12.6	2.9	88.0	11.0	1.0
Overcome tariff barriers	83.5	12.6	3.9	88.0	11.0	1.0
Characteristics of the products	83.5	12.6	3.9	89.0	7.0	4.0
Pressure from international competitors	82.6	12.6	4.9	86.0	11.0	3.0
Country of Export	82.5	15.5	2.0	86.0	11.0	3.0
Requirement of user industry	81.6	16.5	2.0	88.0	7.0	5.0
Being part of international value chain	78.7	16.5	4.8	76.0	14.0	10.0
Pressure from domestic competition	70.8	19.4	9.7	86.0	10.0	4.0

[Note: "Important" means sum of "Extremely important" and "Very important" while "Unimportant" means sum of "Slightly important" and "Not important"]

Source: Primary Survey

4.2.3 Importance of Various Factors in Obtaining Policies from ECGC (PH)

Policy holder exporters were asked to rank the importance of various factors in obtaining policies from ECGC on a similar 5-point scale.

The factors were cost, time-related issues, and market-related aspects. Within each sub-section, the following factors were considered most important:

- Cost factors: Availability of finance within enterprise (100 per cent)
- Time-related issues: Time for ascertainment of loss (98 per cent)
- Market-related factors: Dominance of established players and transportation time and cost (95.2 per cent each)

Table 4.9 Factors in Obtaining Policies from ECGC

[N=103, All figures in percent]

Obtaining policies from ECGC by Policy Holders	Important	Moderately Important	Un-important
Cost factors			
Availability of finance within your enterprise	100.0	0.0	0.0
Innovation cost	95.2	4.9	0.0
Premium charged	91.2	7.8	1.0
Availability of finance from outside sources	90.3	8.7	1.0
Blocked funds other than ECGC policies (LCs, Loans etc.)	90.3	8.7	1.0
Time related issues			
Time for ascertainment of loss	98.1	1.9	0.0
Time taken to obtain ECGC policy/Credit Limit	96.1	3.9	0.0
Issues with closure of policy	95.1	4.9	0.0
Time taken to obtain claims	92.2	5.8	1.9
Issues with time for filing claim	91.3	8.7	0.0
Market factors			
Market dominated by established players	95.2	2.9	1.9
Transportation time and cost	95.2	2.9	2.0
Problems entering new market	95.1	3.9	1.0
Currency risk	94.2	3.9	2.0
Government policy constraints	88.3	9.7	2.0

[Cell highlighted in green colour represents row-wise highest value]

Source: Primary Survey

4.2.4 Importance Level of Risks while Opting for ECGC Policy (PH)

Further, policy holder exporters were asked about the importance accorded to various risks while opting for ECGC policies. 98.1 per cent of exporters mentioned that the risk of buyer default ranked the highest while opting for ECGC policies, followed by insolvency of LC-opening bank (97.1 per cent) and insolvency of the buyer (97.1per cent).

Table 4.10 Risks while Opting for ECGC Policy

[N=103, All figures in percent]

Key risks while opting for ECGC policies	Important	Moderately Important	Un-important
Protracted default by the buyer	98.1	1.0	1.0
Insolvency of LC (Letter of Credit) opening bank	97.1	1.9	1.0
Insolvency of the Buyer	97.1	2.9	0.0
Inconvertibility	96.1	3.9	0.0
Repudiation risk	94.2	5.8	0.0
Transfer Delay Risk	94.2	5.8	0.0
Expropriation Risk	94.1	5.8	0.0
Diversion of shipment	91.3	6.8	1.9
Non-payment by LC (Letter of Credit) opening bank	91.3	8.7	0.0
Contract frustration due to war, civil war, etc.	88.3	9.7	1.9
Import restrictions	86.4	12.6	1.0

[Note: "Important" means sum of "Extremely important" and "Very important" while "Unimportant" means sum of "Slightly important" and "Not important"]

Source: Primary Survey

4.2.5 Risk Level Association even after Obtaining ECGC policy (PH)

Policy holder exporters were also asked about the level of risk associated with several aspects even after obtaining an ECGC policy. The risk level was measured on a 5-points scale where "High Risk" (means sum of "extremely high risk" and "very high risk"), "moderate risk" and "no risk" (means sum of "slight risk" and "no risk").

Factors identified as having the highest risk were issues with letter of credits given by importers (96.2 per cent) followed by risky destination market (restricted cover countries) (94.2 per cent) and exchange rate fluctuations (93.2 per cent).

A few other risks such as sample approval, single-window approval and banking information were also mentioned by respondents.

Table 4.11 Risk Level after Obtaining ECGC Policy

[N=103, All figures in percent]

Key risks associated even after taking ECGC policy	High Risk	Moderate Risk	No Risk
Issues with letters of credit given by importer	96.2	2.9	1.0
Risky destination market (restricted cover countries)	94.2	3.9	1.9
Exchange rate fluctuation	93.2	5.8	1.0
Commercial disputes including quality disputes raised by the buyer	92.2	5.8	1.9
Causes inherent in the nature of goods	90.3	8.7	1.0
Blocked funds other than ECGC policies (LCs, Loans etc.)	89.3	7.8	2.9
Failure on the part of the foreign buyer to obtain import or exchange authorisation	88.3	10.7	1.0

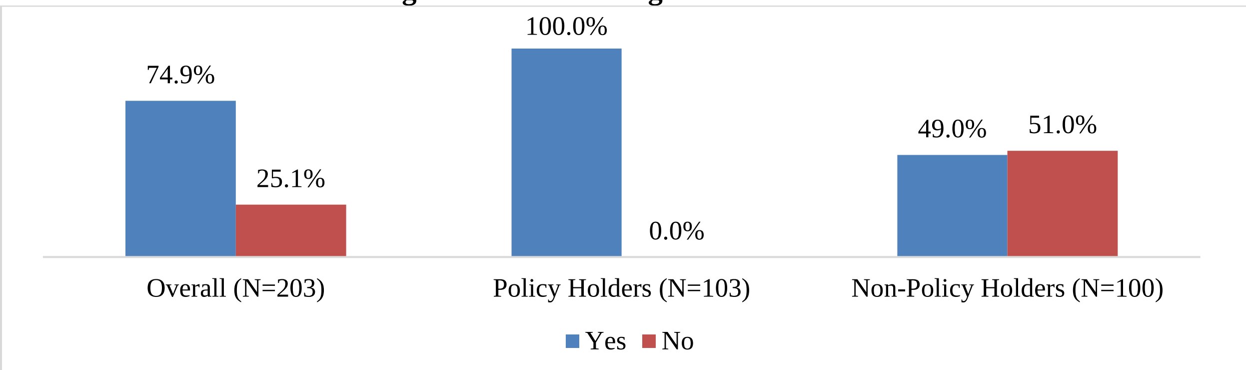
[Note: "High Risk" means sum of "extremely high risk" and "very high risk" while "no risk" means sum of "slight risk" and "no risk"]

Source: Primary Survey

4.2.6 Risk Management Practices

During the survey, respondents were asked whether their firm has any risk management mechanism in place. Three-fourths of the firms practice risk management – all firms among policyholders; in the case of non-policy holders, roughly half (49 per cent) had adopted risk management practices while the remaining did not (51per cent).

Figure 4.6 Risk Management Practices

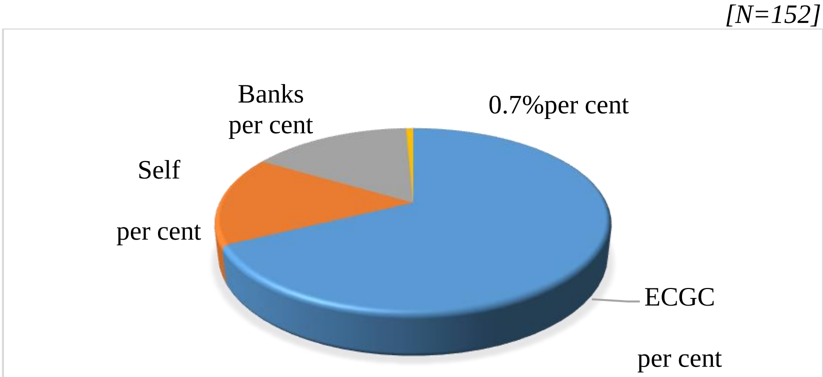


Source: Primary Survey

Respondents who said that their firms manage risk involved in export (N=152) were further asked about the mechanism chosen to minimise risk. About 68 per cent firms use ECGC insurance policies to cover their non-payment risks. For covering their finance-related risks[42], 15.8% exporters resorted to banks and 15.8% did it through self-management mechanism.

Figure 4.7 Mechanism Preferred for Risk Management

[N=152]



Source: Primary Survey

Exporters that were using ECGC policy covers were asked about the type of risk management they practiced before they adopted ECGC policy (N=103). Among such exporters, 81 per cent were not using any risk management practice, while 12 per cent were managing it through banks and remaining 8 per cent by arrangements on their own.

[42] ECGC covers the risk of non-payment to exporters directly through its insurance policies. On the other hand, banks provide finance to exporters for which ECGC provides cover to the former.

4.2.7 Reasons for not Practicing Risk Management and/or not Obtaining ECI (NPH)

Respondents were asked the reasons for not practicing risk management and/or not obtaining export credit insurance policies (fully or partially) by the firm.

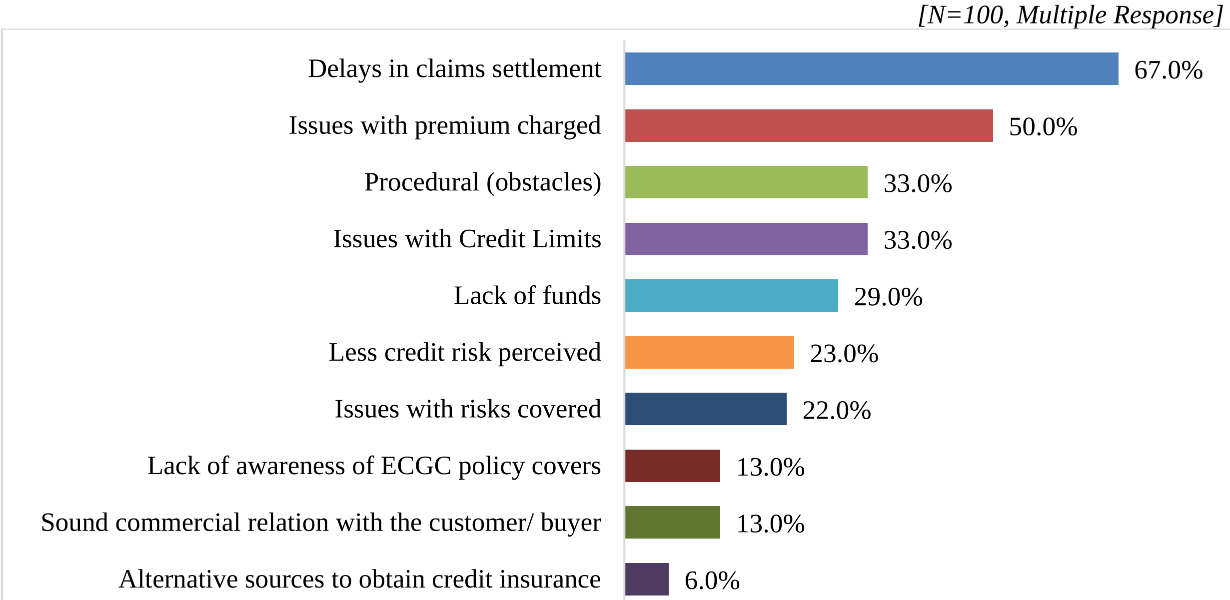
The top three reasons for not practicing risk management and/or not obtaining export credit insurance policies (fully or partially) were the following:

- Delays in claims settlement (67 per cent)
- Issues with premium charged (50 per cent)
- Procedural obstacles and issues with credit limits (33 per cent)

Other reasons given were lack of funds, perceived lower risk, issues with risk covered, etc.

Figure 4.8 Reasons for not Practicing Risk Management

[N=100, Multiple Response]



Source: Primary Survey

4.3 ECGC Policies, Claims, Sources of Information and Export Performance

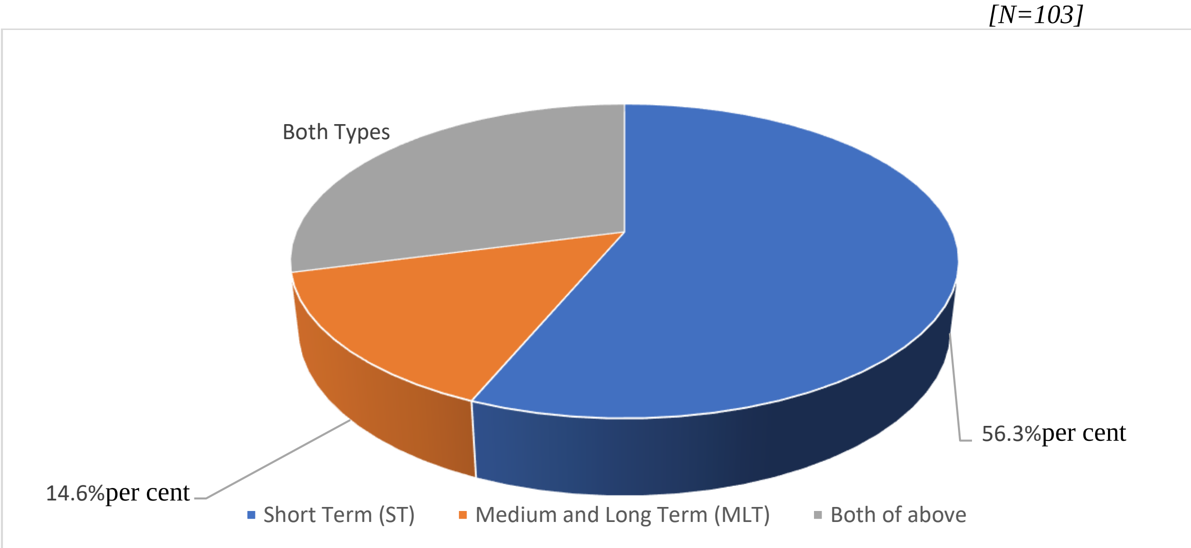
This section includes details about the type of ECGC policies taken, claims taken, actual versus expected improvement due to ECGC cover, sources of information of ECGC policies and factors and measures to improve the use and reach of ECGC policies.

4.3.1 ECGC Policies Status and Type of Policies Undertaken (PH)

Among policy holders, it was found that each exporter continued/renewed policies for 3 to 4 years in the observed period of 5 years. Over half the policy holders (56 per cent) have taken short-term policies while 30 per cent have taken both types of policies.

Figure 4.9 Type of Insurance Cover Taken

[N=103]



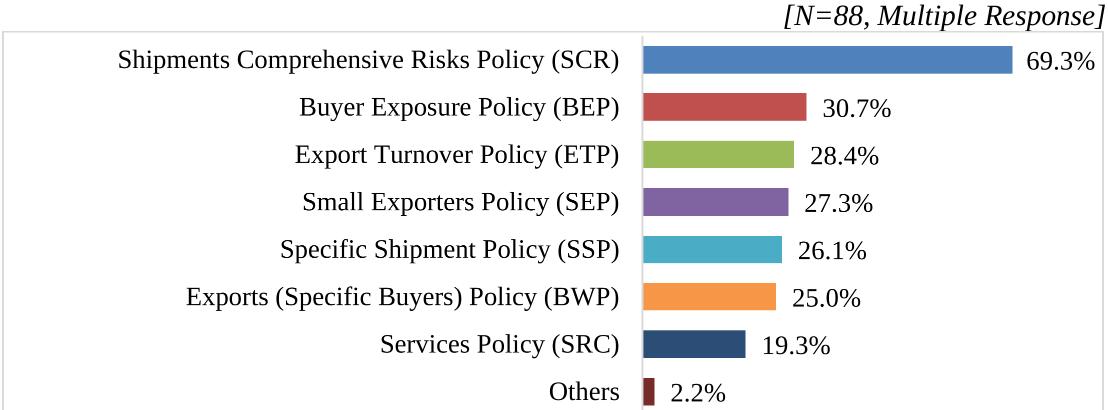
Source: Primary Survey

Further, exporters that have taken short-term or both types of policies (N=88) were asked about the type of short-term insurance cover they had taken from ECGC in the last five years.

Seventy per cent of exporters had taken shipment comprehensive risk policy followed by buyer exposure policy (31 per cent), export turnover policy (28 per cent), small exporter's policy (27 per cent), etc.

Figure 4.10 Type of Short-term Insurance Cover

[N=88, Multiple Response]



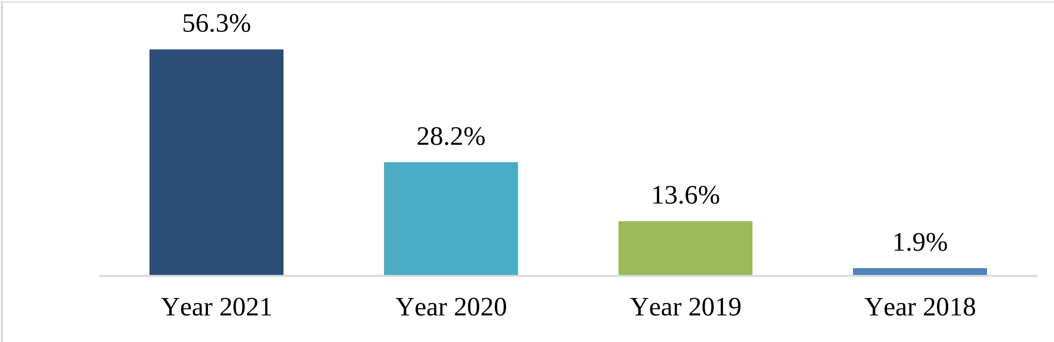
Source: Primary Survey

4.3.2 Year of Undertaking Latest ECGC Policy, Premium and Claims (PH)

Exporters were also asked about the year in which latest policy was taken, average premium charged, and amount claimed. Over half the exporters had taken their latest ECGC policy in the year 2021 (56.3 per cent), followed by the years 2020 (28 per cent) and 2019 (14 per cent). This demonstrates the ECGC's endurance or a favourable relationship between time and policy taken by the exporter. It demonstrates a rising trend over 2018-2021.

Figure 4.11 Year of Undertaking Latest ECGC Policy

[N=103]



Source: Primary Survey

On an average, the premium charged for latest policy was Rs.6,61,079 and the claimed amount was Rs.1,88,14,235. Year-wise details are provided below.

Table 4.12 Year-wise Premium Charged and Claimed Amount

Year of undertaking latest ECGC Policy	Premium Charged (in Rs.)		Claimed Amount (in Rs.)	
N	92	6,61,079	17	1,88,14,235
2021	49	7,88,260	11	1,86,81,091
2020	28	5,51,946	5	2,27,10,000
2019	13	5,06,154	0	--
2018	2	80,000	1	8,00,000

[The remaining exporters did not disclose the premium and claimed amount]
Source: Primary Survey

4.3.3 Expected versus Actual Improvement through ECGC Policy Cover (PH)

Exporters were asked about the expected and actual improvement through ECGC policy cover. Along with improvement at the individual level, the gap in expected versus actual improvement due to an ECGC policy cover was also measured.

The lowest gap between expected and actual improvement was recorded in developing existing markets (24.2 per cent), improvement in global market share (26.3 per cent) and exploring new markets (26.2 per cent). The highest gap was recorded with respect to increase in employment (41.7 per cent) followed by improvement in business turnover (40.9 per cent) and product diversification (36.9 per cent).

The main new markets (N=20) mentioned by exporters were South Africa (25 per cent), Canada (20 per cent), Australia and New Zealand (15 per cent each), and America, France, Spain and Sri Lanka (10 per cent each).

Table 4.13 Expected versus Actual Improvement through ECGC Policy Cover

[N=103, All figures in percent]

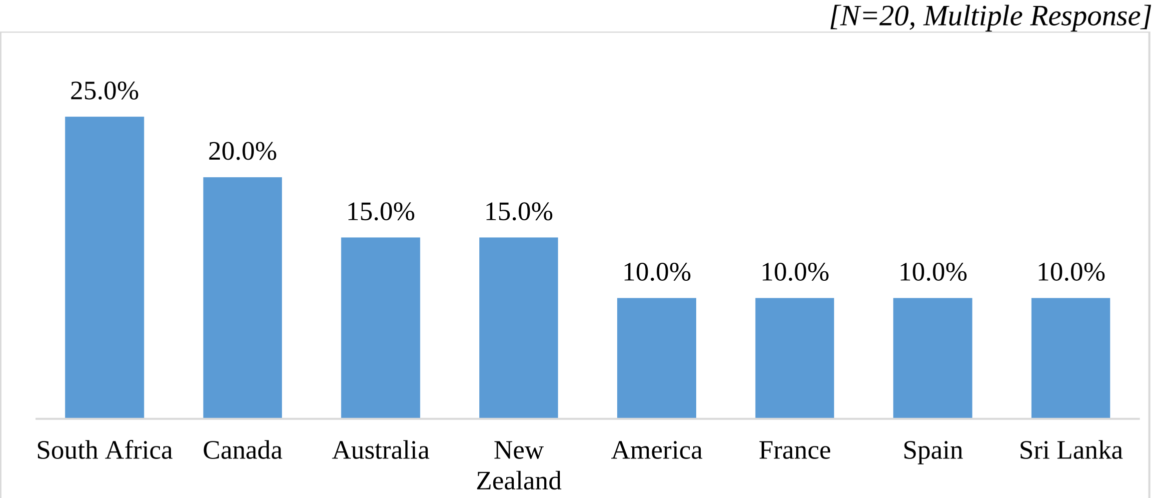
Expected vs. actual improvement through ECGC Policy Cover	Expected Improvement			Actual Improvement			GAP (Expected – Actual)
	High	Moderate	No	High	Moderate	No	
Increase in Employment	95.1	2.9	2.0	53.4	35.0	10.7	41.7
Improvement in Business Turnover	95.2	2.9	1.9	54.3	33.0	11.6	40.9
Product Diversification	94.1	2.9	2.9	57.2	32.0	9.7	36.9
Increasing Production	97.1	1.9	1.0	59.3	30.1	9.7	37.8
Maintaining Relationships with Existing Buyers	96.1	1.0	2.9	61.1	29.1	8.8	35.0
Improvement in Profitability	94.2	3.9	2.0	59.2	29.1	10.7	35.0
Improvement in Productivity	92.2	5.8	2.0	58.2	29.1	11.7	34.0
Minimising cost	93.2	2.9	3.9	59.2	28.2	11.6	34.0
Increasing exports	95.1	2.9	2.0	62.1	25.2	11.7	33.0
Improving quality of exports	97.1	1.0	1.9	65.0	24.3	9.7	32.1
Minimising risks	95.2	1.9	2.9	62.1	21.4	15.5	33.1
Exploring New Markets	94.2	4.9	1.0	68.0	20.4	10.7	26.2
Improvement in Global Market Share	94.2	3.9	2.0	67.9	19.4	11.7	26.3
Developing existing markets	96.1	2.9	1.0	71.9	18.4	8.7	24.2

[Note: "High Improvement" means sum of "Extreme improvement" and "High improvement" while "No important" means sum of "Slightly improvement" and "No improvement" Expected Improvement= Expected High-Actual High]

Source: Primary Survey

Figure 4.12 New Markets Explored

[N=20, Multiple Response]

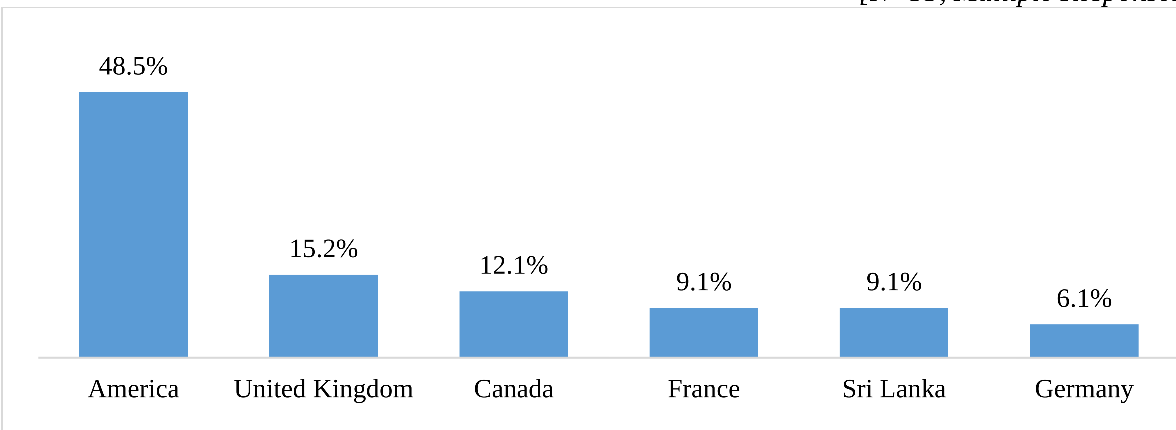


Source: Primary Survey

About 32 per cent of the respondents identified existing markets they sought to develop. These were the America (48.5 per cent), the United Kingdom (15 per cent), Canada (12 per cent), France and Sri Lanka (9 per cent each) and Germany (6 per cent).

Figure 4.13 Developing Existing Markets

[N=33, Multiple Responses]



Source: Primary Survey

4.3.4 Sources of Information on ECGC Policies (PH)

Respondents were asked to specify the information sources that played a vital role in their decision to take ECGC policies. The key sources of information, category wise, were the following:

- Marketing efforts by ECGC: Visits by ECGC officials
- Internal sources within firm or business group: procurement and marketing staff
- External sources: competitors, clients or customers
- Generally available information: professional conferences, meetings, and publications

Table 4.14 Sources of Information on ECGC Policies

[N=103, All figures in percent]

Sources of information	Important	Moderately Important	Unimportant
Marketing efforts by ECGC LIMITED			
Visits by ECGC officials	95.1	1.9	2.9
Conferences and Seminars organised by ECGC	93.2	5.8	1.0
ECGC Stalls in Fairs and Exhibitions	93.2	3.9	2.9
Advertisements in Newspapers and Magazines	93.2	4.9	1.9
Conferences & Seminars organised in association with ECGC	90.3	7.8	2.0
Internal sources within the firm or business group			
Procurement staff	95.2	3.9	1.0
Marketing staff	95.2	3.9	1.0
Production staff	94.2	4.9	1.0
Management staff	94.1	4.9	1.0
External Sources			
Competitors	98.1	1.0	1.0
Clients or customers	98.0	1.9	0.0
Banks	96.2	3.9	0.0
Suppliers of equipment, materials, and components	96.2	3.9	0.0
Consultancy firms	86.4	12.6	1.0
Higher education institutions/Research institutions	85.4	12.6	2.0
Generally available information			
Professional conferences, meetings, and publications	94.2	4.9	1.0
Internet or computer-based information networks	93.2	5.8	1.0
Fairs and exhibitions	90.3	7.8	2.0

[Note: "Important" means sum of "extremely important" and "very important" while "unimportant" means sum of "slightly important" and "not important" Moderately important: Moderately important: is considered as not extreme or excessive; within due or reasonable limits]

Source: Primary Survey

4.3.5 Issues that need to be addressed to Improve ECGC policies

Both policy holder and non-policy holder exporters were asked about the issues that need to be addressed to improve ECGC policies.

Among policy holders, ensuring timely availability of insurance cover (100 per cent) was considered most important, followed by coverage of risk according to the nature of goods exported (99 per cent) and cost differences in terms of premiums charged with respect to other insurance providers (98.1 per cent).

Among non-policy holders, the extent of risks covered (100 per cent) was found extremely important, followed by timely availability of insurance cover, and coverage of risk according to nature of goods exported and ease in obtaining claims (99 per cent each) etc.

Table 4.15 Issues that need to be addressed to improve ECGC policies

[All figures in percent]

Importance of factors to improve ECGC policies	Policy holders (N=103)			Non-Policy holders (N=100)		
	Important	Moderately Important	Un-important	Important	Moderately Important	Un-important
Timely availability of insurance cover	100.0	0.0	0.0	99.0	1.0	0.0
Coverage of risk according to nature of goods exported	99.0	1.0	0.0	99.0	1.0	0.0
Cost differences in terms of premiums charged w.r.t other insurance providers	98.1	1.9	0.0	87.0	10.0	3.0
Ease in obtaining claims	97.1	2.9	0.0	99.0	1.0	0.0
Availability of timely information about import entities/export destinations	97.1	2.9	0.0	98.0	2.0	0.0
Extent of risks covered	97.1	2.9	0.0	100.0	0.0	0.0

[Note: "Important" means sum of "Extremely important" and "Very important" while "Unimportant" means sum of "Slightly important" and "Not important" Moderately important: is considered as not extreme or excessive; within due or reasonable limits]

Source: Primary Survey

4.3.6 Suggested Measures to Improve the Reach and Use of ECGC's Policies

Exporters were asked an open-ended, unaided question to suggest measures that ECGC could take to improve the reach and use of its policies to benefit firms and increase exports. Faster approval and a smoother claim settlement process emerged as the top suggestions (49 per cent) followed by better pricing, discounts and risk cover for exporters (41 per cent), and flexible premium rates and policy terms (14.3 per cent) etc.

Table 4.16 Suggestions for ECGC

[All figures in percent]

Suggestions for improvements	Overall	PH	NPH
N	**203**	**103**	**100**
Faster approval & smoother process of claim settlement	**49.3**	53.4	45.0
Offer better pricing, discounts & risk covers	**41.4**	34.0	49.0
Flexible premium rates & policy terms	**14.3**	12.6	16.0
ECGC should improve customer service	**7.9**	7.8	8.0
Raise awareness about ECGC policies	**7.9**	5.8	10.0
Notify poor performance of importers/exporters	**1.0**	1.0	1.0
Others	**14.8**	14.6	15.0
No suggestion	**22.7**	17.5	28.0

Source: Primary Survey

In the case of policy holders, Faster approval and a smoother claim settlement process emerged as the top suggestions followed by better pricing, discounts and risk cover for exporters, and flexible premium rates and policy terms etc. however, 17.5 per cent gives no suggestion.

For non-policy holders also, Faster approval and a smoother claim settlement process emerged as the top suggestions followed by better pricing, discounts and risk cover for exporters, and flexible premium rates and policy terms etc. however, 28 percent gives no suggestion.

4.4 Summary of the Findings

To sum up, the survey reveals that average domestic and exports sales of both policy holder and non-policy holder exporters have declined continuously over the past three years. Among the factors that have dampened the business outlook and hindered growth is the coronavirus pandemic that disrupted global supply chains and dampened global demand. The few important findings of the study are given below:

Benefits of Policy Adoption

- Policy holders appear to have performed better relative to non-policy holders in terms of average domestic as well as export sales.
- Moreover, they have also been able to employ about thrice the people employed by non-policy holders on average (Table 4.6), even though in our sample, the percentage of small-sized firms was higher among policy holders, i.e., 51.5 per cent compared to 46 per cent among non-policy holders (Figure 4.2).
- This could be because the higher sales of policy holders necessitated more workers to operate machines as well as conduct other business operations.
- The survey also looks at areas whether the actual improvement in the performance with respect to various parameters of policy holders met their expectations from taking an ECGC policy cover.
- The lowest gap between expected and actual improvement was recorded in developing existing markets, increasing their share in the global market share and exploring new markets. The highest gap between expected and actual improvement was recorded with respect to increase in employment followed by improvement in business turnover and product diversification (Table 4.13).

- It, therefore, may be concluded that the export credit insurance services offered by ECGC did provide enough protection against the various commercial and political risks of an integrated world market, enabling them to both improve their export performance and increase their global market share.

Outreach of ECGC

- Given the role played by visits of ECGC officials, procurement staff and marketing staff of firms or business groups, participation in professional conferences, meetings and publications and word of mouth publicity through clients and customers in increasing the off take of policies, ECGC needs to use these to increase its reach (Table 4.14).

Few Important Factor to Increase Policy Adoption

- The areas that ECGC needs to address to attract exporters not opting for its products include the restricted coverage of risky destination markets, delays in claims settlements, issues with premium charged, procedural obstacles and issues related to credit limits.
- Additionally, policy holders have mentioned that geographical differences among the countries while exporting is one of the top factors that influence export performance. Same factor has headed the list for requirement of ECI policies. However, for non-policy holders, regulatory requirements in foreign market as well as the free trade agreements are among the leading factors (Table 4.7 and Table 4.8).
- In case of ECGC also, time and cost of transportation is the most important aspect under the market-related factors in obtaining policies from it (Table 4.9). However, the risky destination market where coverage is restricted remains one of the major fears of policy holders even after obtaining the ECGC policy (Table 4.11).
- Delays in claims settlement, issues with premium charged, procedural obstacles as well as issues with credit limits remain the major aspects that need to be dealt with, to attract more exporters who are currently not opting for the ECGC export credit insurance policies (Figure 4.8).
- There is a need for timely availability of insurance cover to exporters as well as faster approval and smoother claim settlement process.

- ECGC may offer better pricing; discounts; and flexible premium rates and policy terms to attract more exporters to expand its business and, consequently, India’s export performance.
- Coverage of risks needs to be extended especially for causes inherent in the nature of the goods and risky destination markets by framing policies that help exporters enter such markets with ease. Credit limits may be increased to facilitate a larger number of exporters to help improve India’s export performance.

Chapter 5
Profiling of Banks

5.1 Introduction

A major contributor to ECGC's business is ECIB, which has in the recent past shown a steady decline. To understand the reasons for the decline in ECIB, a primary survey was conducted through face-to-face and telephonic structured interviews of officials of selected bank branches that avail ECGC cover. Both public and private sector banks have been included in the survey. A separate set of questionnaires was used for bank respondents. A pilot survey was conducted before the survey to validate survey instruments and methodology, before the field survey was launched. The field survey was conducted through prior appointments with target respondents between August 6 and September 10, 2021.

Seventy-eight banks participated in the survey. The primary survey was designed to collect detailed data on the following variables (mentioned below).

- Geographical coverage of banks
- Segregation of banks according to type i.e., public sector banks and private sector banks.
- International exposure of the bank
- Modes of providing services
- Export credit services provided by banks
- Unique features of a bank as a provider of export credit
- The number of years banks have been availing credit insurance cover from ECGC Limited
- Classification of enterprises to which banks provide export credit
- Sectors to which bank provides export credit
- Key Sectors to which Bank provides export credit
- Share of exports credit provided by banks at different stages of the manufacturing process.
- The volume of loans to exporters and rise in the number of NPAs
- Approach to address the decline in the total volume of loans to exporters

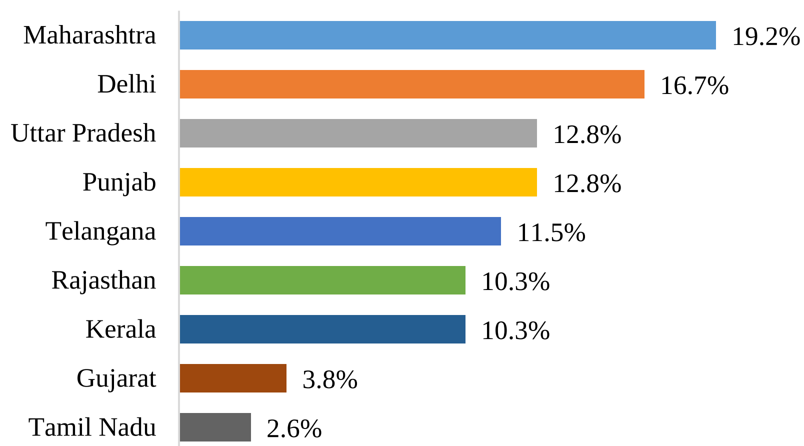
5.2 Overview of the Banks' Survey

5.2.1 Geographical Coverage of Banks

Of the selected banks, about 19 per cent of banks/branches were in Maharashtra, 17 per cent in Delhi and 13 per cent each in Uttar Pradesh, and Punjab.

Figure 5.1 Geography-wise Coverage of Banks

[N=78]



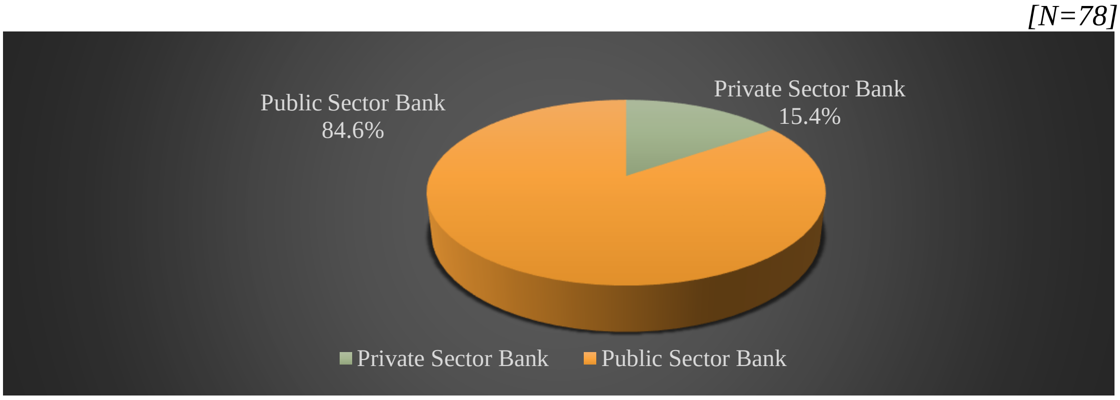
Source: Primary Survey

5.2.2 Type of Bank-wise Segregation

Of the total banks surveyed, about 84.6 per cent were public sector banks while the remaining 15.4 per cent were private sector banks.

Figure 5.2 Type of Bank

[N=78]



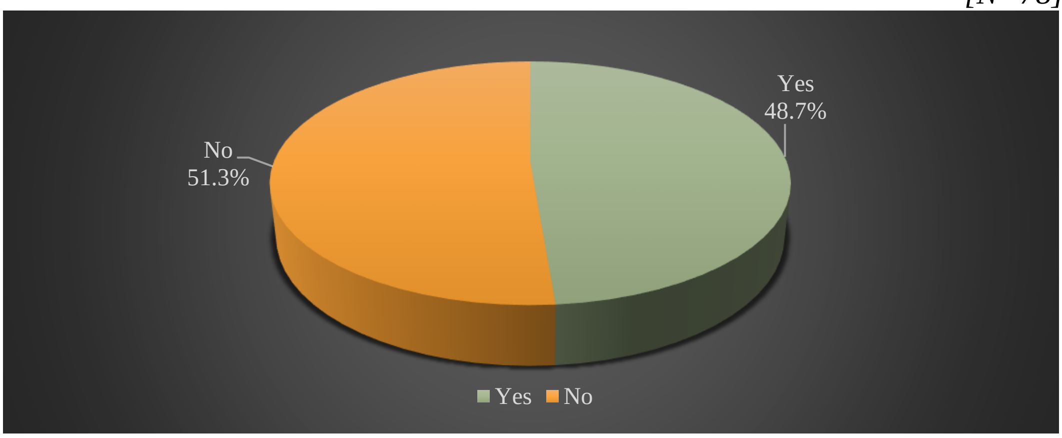
Source: Primary Survey

5.2.3 International Exposure of the Bank

In terms of international work experience, about half the banks (49 per cent) had international work experience. In addition, on average each bank has about nearly 27 years of international work experience.

Figure 5.3 International Work Experience of Bank

[N=78]



Source: Primary Survey

Table 5.1 List of Banks that provide MLT Services

Name Of Bank	Location	State	Private/ Public
Bank Of Baroda	Ghaziabad	Uttar Pradesh	Public Sector Bank
Canara Bank	Sector-18 Noida	Uttar Pradesh	Public Sector Bank
Punjab & Sind Bank	Saban Bazar Ludhiana	Punjab	Public Sector Bank
Karnataka Bank	Main Branch Millar Ganj Ludhiana	Punjab	Private Sector Bank
Punjab National Bank	Millar Ganj Ludhiana	Punjab	Public Sector Bank
Punjab National Bank	Pnb House Industrial Area Ludhiana	Punjab	Public Sector Bank
Bank Of India	Clock Tower Ludhiana	Punjab	Public Sector Bank
Union Bank of India	Ghaziabad	Uttar Pradesh	Public Sector Bank
State Bank of India	Bahkapeta Branch Hyderabad	Telangana	Public Sector Bank
State Bank of India	Overseas Branch Hyderabad	Telangana	Public Sector Bank
Karur Vysya Bank	Sanath Nagar Branch Hyderabad	Telangana	Private Sector Bank
Union Bank of India	Vlp Hyderabad Madhopur	Telangana	Public Sector Bank
Union Bank of India	R P Road Branch Hyderabad	Telangana	Public Sector Bank
Uco Bank	Jubilee Hills Hyderabad	Telangana	Public Sector Bank
State Bank of India	Sp Road Branch, Hyderabad	Telangana	Public Sector Bank

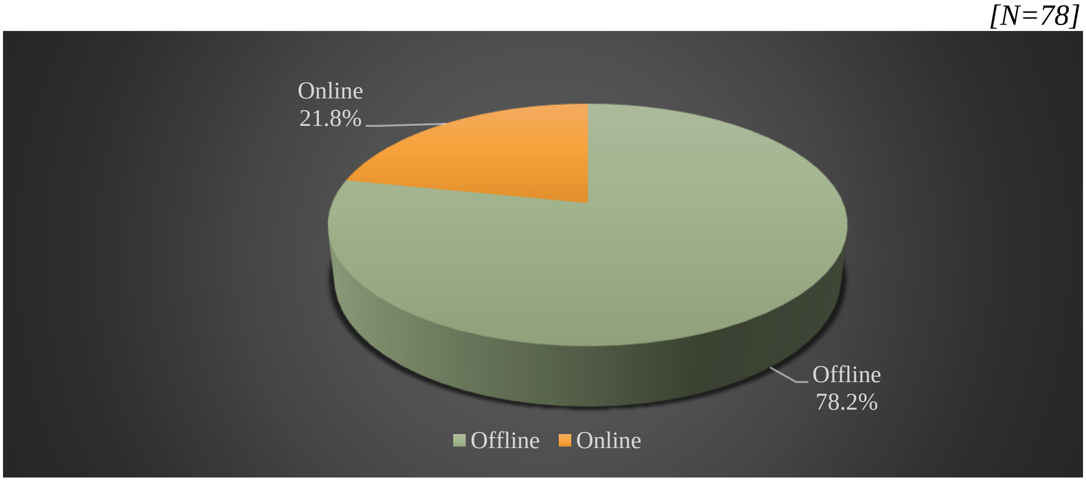
Source: Primary Survey

5.2.4 Modes of Providing Services

Slightly more than 75 per cent of the banks/branches deal in offline mode while around 22 per cent deal in online mode (mostly through bank websites). Further, in terms of online sales share, about 4.5 per cent proportion of total bank sales are done through the online mode.

Figure 5.4 Mode of Bank Services

[N=78]



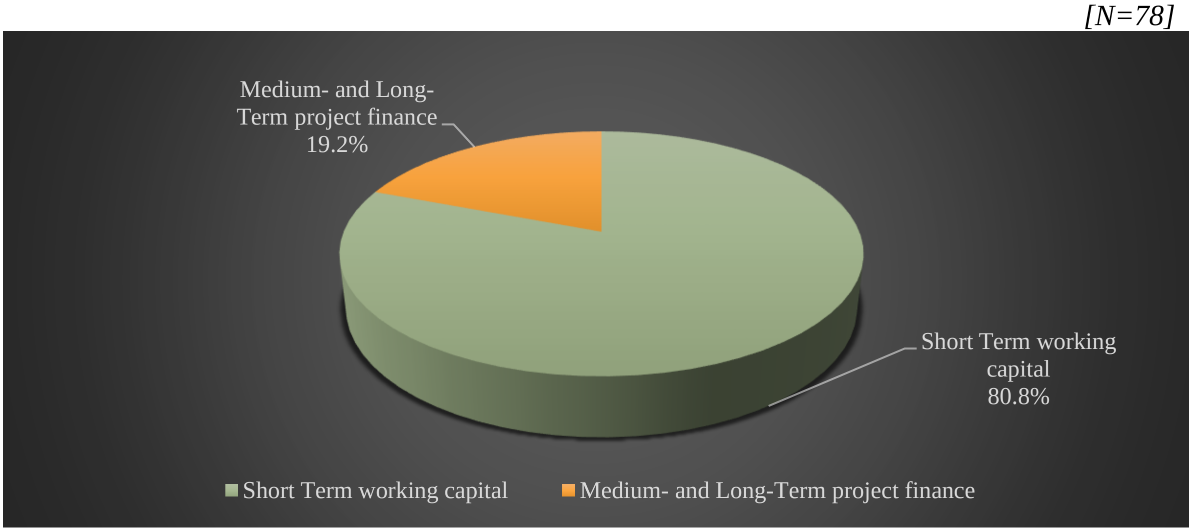
Source: Primary Survey

5.2.5 Export Credit Services Provided by Banks

About 80.8 per cent banks provide short-term working capital services while the remaining provide medium- and long-term project finance to its customers.

Figure 5.5 Export Credit Services by Banks

[N=78]



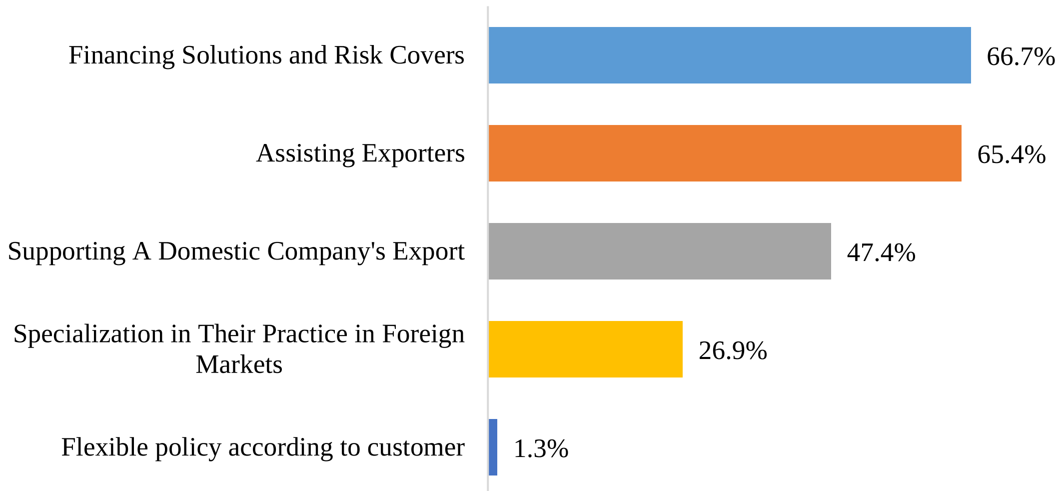
Source: Primary Survey

5.2.6 Features of Bank as a Provider of Export Credit

In response to a question on the features of export credit offered by each bank branch selected for the study, two-thirds of the respondents said that financing solutions and risk cover[43], followed by assisting exporters and supporting a domestic company's export were their unique features.

Figure 5.6 Features of Bank as a Provider of Export Credit

[N=78, Multiple Response]



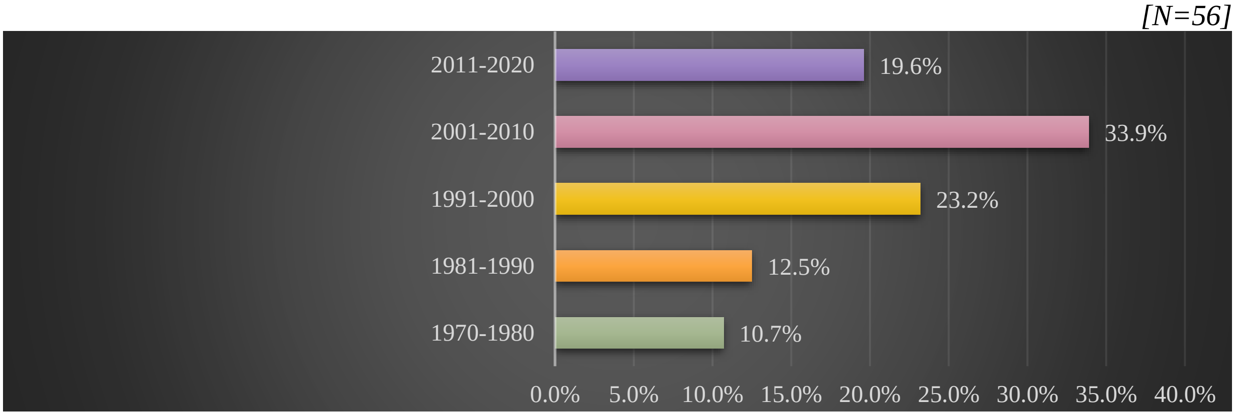
Source: Primary Survey

5.2.7 Number of Years Banks have been Availing ECIB Cover from ECGC

The average number of years banks have been availing ECIB cover from ECGC Limited is 22 years. The figure below presents the portion of banks that started availing ECIB cover in last few decades. Since 2001-2010, approximately 34% of banks have obtained ECIB coverage from ECGC, followed by 1991-2000 (23.2%), 2011-2020 (19.6%), and so on

Figure 5.7 Years from which banks availing ECIB cover from ECGC

[N=56]



Source: Primary Survey

[43] ECGC covers the risk of non-payment to exporters/banks. On the other hand, banks are not direct sources of risk coverage chosen by firms. Banks provide indirect coverage as they cover financial risks.

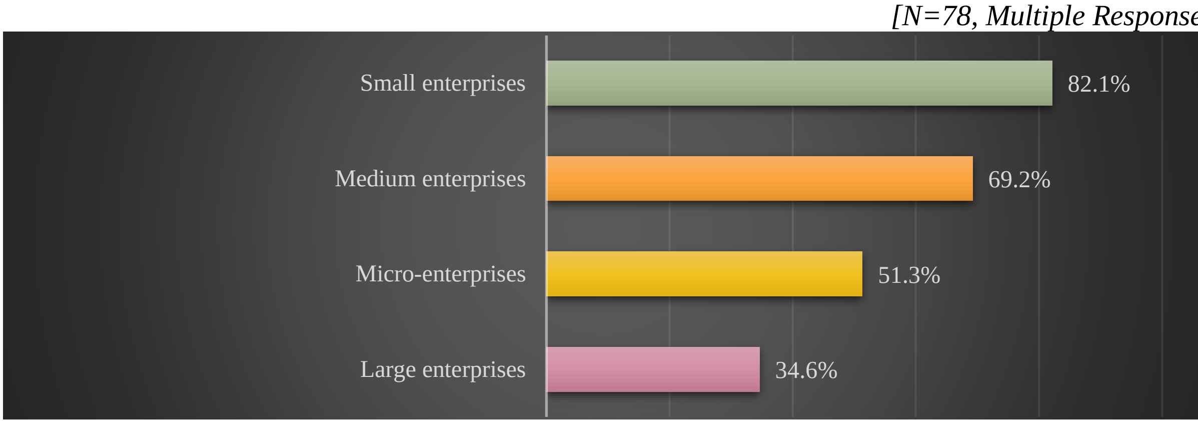
5.3 Support of Banks to Export Businesses

5.3.1 Classification of Enterprises to which Banks Provide Export Credit

Slightly over 82 per cent of the banks provide services to small-sized enterprises, 69.2 per cent to sized enterprises, 51.3 per cent to micro enterprises, and 34.6 per cent to large-sized enterprises.

Figure 5.8 Size of enterprise wise segregation

[N=78, Multiple Response]



Source: Primary Survey

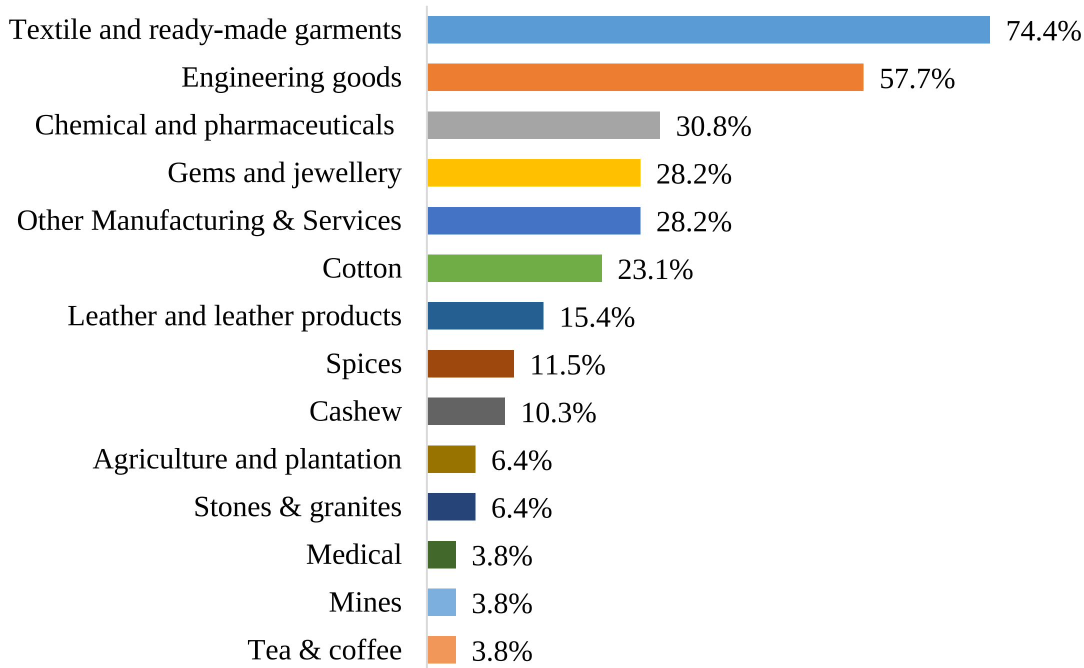
About 28 per cent of banks' exporter clients did not avail the export credit insurance services of ECGC, and 16 per cent of banks' exporter clients availed export credit insurance services from an insurer other than ECGC. It demonstrates the potential buyer for ECGC to expand its ECI business by focusing on bank clients who do not opt ECI.

5.3.2 Key Sectors to which Banks Provide Export Credit

Respondents were asked to name the top 5 sectors to which their bank provides export credit. The top sectors that emerged were textile and ready-made garments (74.4 per cent), engineering goods (57.7 per cent), chemical and pharmaceuticals (30.8 per cent), gems and jewellery (28.2%), and other manufacturing and services (28.2%).

Figure 5.9 Key Sectors to which Bank Provides Export Credit Services

[N=78, Multiple Response]



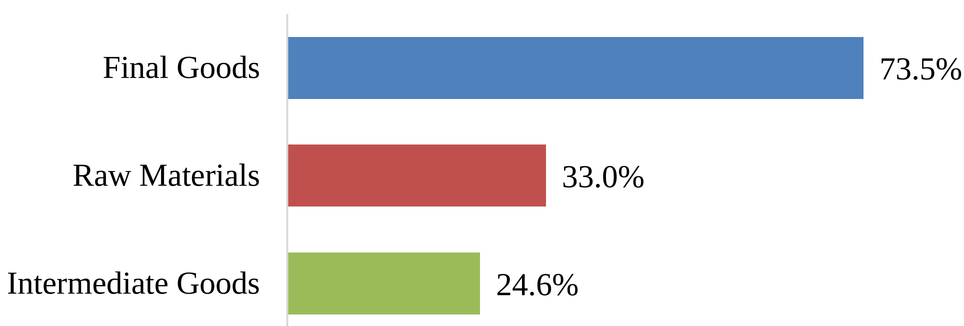
Source: Primary Survey

5.3.3 Share of Export Credit Provided by Banks for Different stages of manufacturing process

Banks provided the maximum credit for final goods exports (74 per cent) followed by raw materials (33 per cent) and intermediate goods (24.6 per cent).

Figure 5.10 Share of exports credit under stages of processing

[N=78, Multiple Response]



Source: Primary Survey

5.3.4 Volume of Loans to Exporters and NPAs

Respondents were asked about the volume of loans provided to exporters by their branch as well as the volume of NPAs. The average volume of bank loans to exporters in FY 2018-19 was Rs.439.45 corers, which declined to Rs.284.58 corers in FY 2019-20 and further to Rs.202.93 corers in FY 2020-21.

Similarly, the average volume of NPAs of banks in FY 2018-19 was Rs.15.19 corers, which increased to Rs.15.50 corers in FY 2019-20 and further to Rs.16.04 corers in FY 2020-21.

Table 5.2 Average Volume of NPAs of the bank

Year	N	FY 2018-19	FY 2019-20	FY 2020-21
Average Volume of Loan provided to Exporters by the banks (Rs. in corers)	38	439.45	284.58	202.93
Average Volume of NPAs of the bank (Rs. in corers)	63	15.19	15.50	16.04

[Remaining respondents did not give any response]

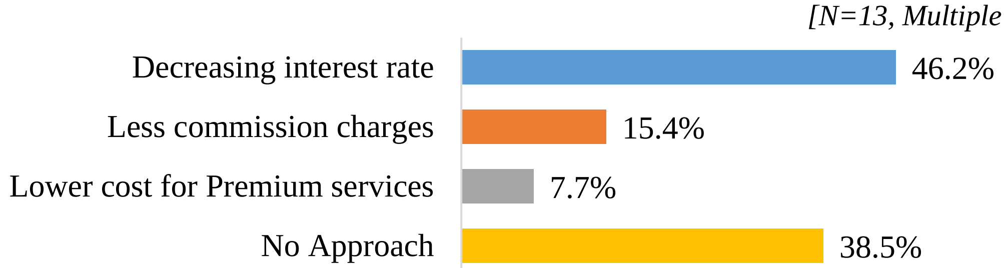
Source: Primary Survey

5.3.5 Approach to Address the Decline in the Total Volume of Loans to Exporters

Respondents were asked an open-ended direct question on the approaches they adopted to address the decline in the total volume of loans to exporters. The most common approach taken by banks was to decrease the rate of interest (46.2 per cent) followed by charging lower commission charges (15.4 per cent) and lower cost for premium services (7.7 per cent) while the remaining about 39 per cent banks did not follow any approach.

Figure 5.11 Approach to Address Decline in the Volume of Loans

[N=13, Multiple Response]



Source: Primary Survey

5.4 Factors and Risks While Obtaining Cover from ECGC Limited

This section details the importance of various factors associated with obtaining ECGC cover by banks as well as a review of key risks and reasons for not opting for ECGC cover in recent times.

5.4.1 Importance Level of Factors in Obtaining ECGC policies

- Respondents were asked about the importance of various factors in obtaining ECGC policies on a 5-point scale where 1 was not important and 5 was extremely important. Further to depict result comprehensively sum of "extremely important" and "very important" were terms as "important" while the sum of "slightly important" and "not important" termed as "unimportant".
- about 97 percent of respondents mentioned that indirect risk protection to banks due to ECGC cover availed by the exporter client on their overseas buyers was the most important factor, followed by relief to banks in capital provisioning due to ECGC cover (94.9 per cent) and indemnification through ECGC claim (93.6 per cent).
- , about 95 per cent mentioned eliminating capital loss in case of default as the most important factor followed by the time taken to obtain ECGC cover (93.6 per cent), delay in approval (93.6 per cent), and selective approval (91 per cent), etc.
- At least 85 per cent of banks had accorded high importance to all the listed factors in obtaining ECGC policies.

Table 5.3 Importance attached to factors in obtaining ECGC Limited policies by Banks

[N=78, All figures in percent]

Parameter	Important	Moderately Important	Un-important
Risk related issues			
Indirect risk protection to the bank due to ECGC cover availed by the exporter client on his overseas buyers	97.4	1.3	1.3
Relief to the bank in capital provisioning due to ECGC cover	94.9	5.1	0.0
Indemnification through ECGC claim	93.6	6.4	0.0
Time-related issues			
To eliminate capital loss in case of default	94.8	3.8	0.0
Time taken to obtain ECGC cover	93.6	5.1	0.0
Issues of limit approval	93.6	3.8	1.3
Specific approval	91.0	7.7	0.0
Time for ascertainment of loss	89.8	7.7	0.0
Issues related to limit acknowledgment	89.7	9.0	0.0
Time taken to obtain claims	87.2	9.0	0.0
Issues with Time for filing claim	85.9	10.3	1.3

[Note: "Important" means the sum of "Extremely important" and "Very important" while "Unimportant" means the sum of "Slightly important" and "Not important"]

Source: Primary Survey

5.4.2 Importance Level of the Risks while Obtaining ECGC Cover by Banks

During the survey, respondents asked about the level of importance of different risks while obtaining ECGC cover. About 97 per cent said that protracted default of the exporter was the most important factor followed by the insolvency of exporters (94 per cent).

Table 5.4 Importance of risks while obtaining ECGC LIMITED cover by Banks

[N=78, All figures in percent]

Parameter	Important	Moderately Important	Un-important
Protracted default of the exporter	97.4	2.6	0.0
Insolvency of exporters	93.6	6.4	0.0

[Note: "Important" means the sum of "Extremely important" and "Very important" while "Unimportant" means the sum of "Slightly important" and "Not important"]

Source: Primary Survey

5.4.3 Reasons for opting against availing ECGC's ECIB cover in Recent Times

- Respondents were asked about the various reason for not opting for ECIB cover in the recent past and asked to rate reasons for their not doing so.
- The highest proportion of respondents said that they opted against availing ECIB (fully or partially) due to lack of funds (96 per cent), followed by procedural obstacles (95 per cent), and unavailability of the features of the cover (94 per cent),
- Among other significant reasons were issues with the premium charged (92 per cent), reluctance of borrowers to bear the cost of the premium (92 per cent), and delays in claim settlement (92 per cent).

Table 5.5 Reasons for not opting for ECI Cover

[N=78, All figures in percent]

Parameter	Important	Moderately Important	Un-important
Lack of funds	96.1	1.3	2.6
Procedural obstacles	94.9	2.6	2.6
Features of cover not available	93.6	6.4	0.0
Issues with the premium charged	92.3	6.4	1.3
The reluctance of borrowers to bear the cost of the premium	92.3	6.4	1.3
Delays in claims settlement	92.3	7.7	0.0
Issues with approvals	91.0	7.7	1.3
Alternative sources to obtain credit insurance	88.5	7.7	3.9
Less credit risk perceived	88.5	9.0	2.6
Issues with risks covered	84.6	15.4	0.0
Bank mergers	66.6	6.4	27.0

[Note: "Important" means the sum of "Extremely important" and "Very important" while "Unimportant" means the sum of "Slightly important" and "Not important"]

Source: Primary Survey

5.4.4 Expected and actual improvement in performance of banks after availing ECGC cover

- The respondents were asked about the gap in the expected vs. actual improvement in the performance of banks after obtaining ECGC cover.
- The highest gap between expected and actual improvement in the performance of banks after obtaining ECGC cover was observed was in the effective risk management (37per cent), followed by increase in the number of bank customers (36 per cent) and increase in the value of export credit going to existing customers (31 per cent).

- The one with the least gap is the one which has the most lived up to expectations. Kindly mention that

Table 5.6 Expected and Actual Improvement in Performance after ECGC Cover

[N=78, All figures in percent]

Expected vs. Actual improvement	Expected Improvement			Actual Improvement			GAP (Expected – Actual)
	High	Moderate	None	High	Moderate	None	
It is an effective risk management tool	94.8	3.8	1.3	57.7	32.1	10.3	37.1
Increase in the number of bank customers	91.0	2.6	6.4	55.2	34.6	10.3	35.8
Increase in the value of export credit going to existing customers	88.4	5.1	6.4	57.7	25.6	16.7	30.7

[Note: "High Improvement" means the sum of "Extreme improvement" and "High improvement" while "No important" means sum of "Slightly improvement" and "No improvement"]

Source: Primary Survey

5.5 Impact of Mergers or Acquisitions on ECI Business

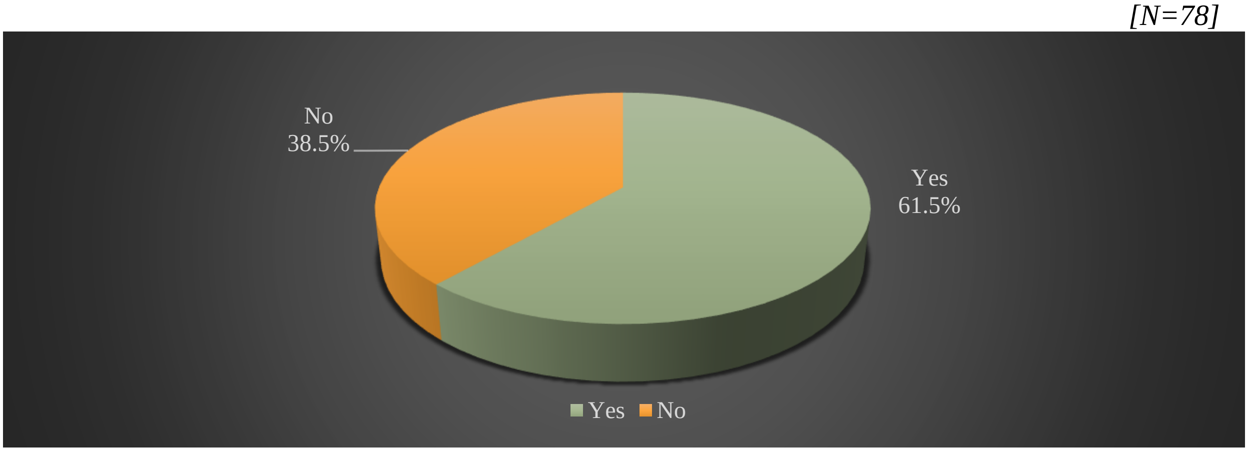
This section looks at the impact of mergers or acquisitions on the banking sector and the export credit insurance business.

5.5.1 Segregation based on mergers or acquisition

About 61 per cent branches of the different banks that participated in the survey had undergone mergers or acquisitions.

Figure 5.12 Segregation of banks based on mergers or acquisition

[N=78]



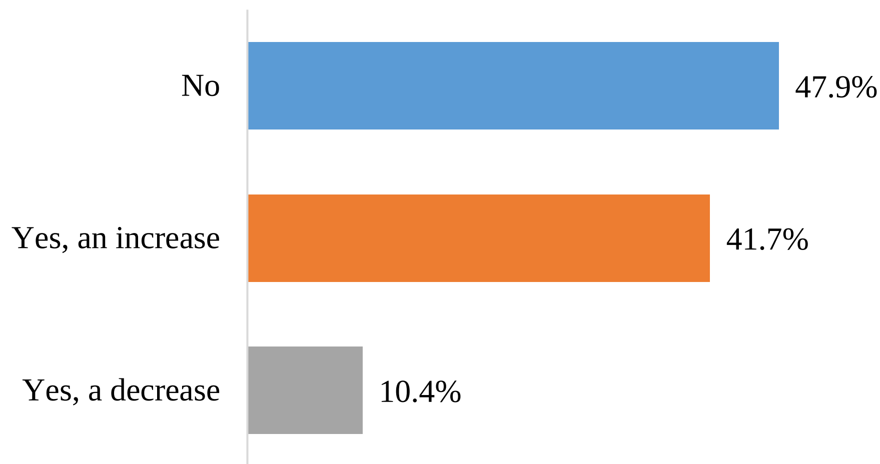
Source: Primary Survey

5.5.2 Change in the Number of Customers Seeking Export Credit due to Merger

Respondents that said that their banks had undergone mergers or acquisitions (N=48) were further asked that if they had observed a change in the number of customers seeking export credit. Close to half of respondents (48 per cent) said that there was no change in the number of customers seeking export credit, whereas 42 per cent of respondents said there was an increase and 10 per cent said there was a decline.

Figure 5.13 Change in the number of customers seeking export credit

[N=48]



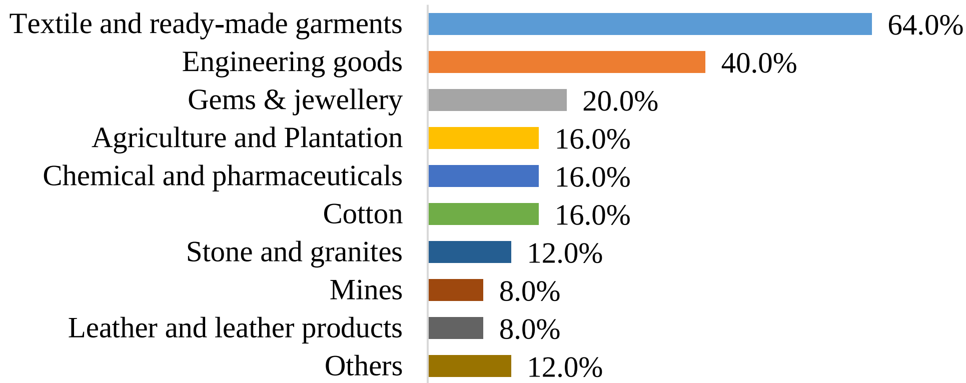
Source: Primary Survey

5.5.3 Export Sectors that have Sought Loan Modifications after Mergers or Acquisitions

- Respondents that have said that there was a change in the number of customers seeking export credit after mergers or acquisitions (N=25) were further asked to name the top three sectors that sought loan modifications after the merger or acquisitions. The top three sectors were textile and ready-made garments (64 per cent), engineering goods (40 per cent), and gems and jewellery (20 per cent).

Figure 5.14 Sectors that have sought loan modifications

[N=25, Multiple Response]



Source: Primary Survey

5.5.4 Change in Banks' Experience after Mergers or Acquisitions

Respondents were asked to rate their banks' experience on various aspects after mergers or acquisitions. A major share of respondents said that there were positive effects, especially in terms of operating efficiency (92 per cent), productivity (81 per cent), and profitability (81 per cent) due to mergers or acquisitions.

On the other hand, there was a mixed response about the rise in export credit NPAs as 40 per cent of respondents said NPAs would increase, 31 per cent said it would decrease while 29 per cent said it would remain the same.

Table 5.7 Change in bank experience

[N=78, All figures in percent]

Change in bank experience w.r.t	Increased	Decreased	No Change
Operating efficiency	91.7	2.1	6.3
Productivity	81.3	10.4	8.3
Profitability	81.3	10.4	8.3
Exposure amount of significant accounts	64.6	8.3	27.1
The rise in export credit NPAs	39.6	31.3	29.2

Source: Primary Survey

More than half banks (54 per cent) said that choices available to customers increased as a result of merger while 38 per cent felt that mergers had no impact and 8 per cent felt available choices had decreased. As far as the impact of mergers on profitability is concerned, 42 per cent bank branches expected lower profitability in the next six months while 28 per cent were not sure about the impact of the merger on profitability.

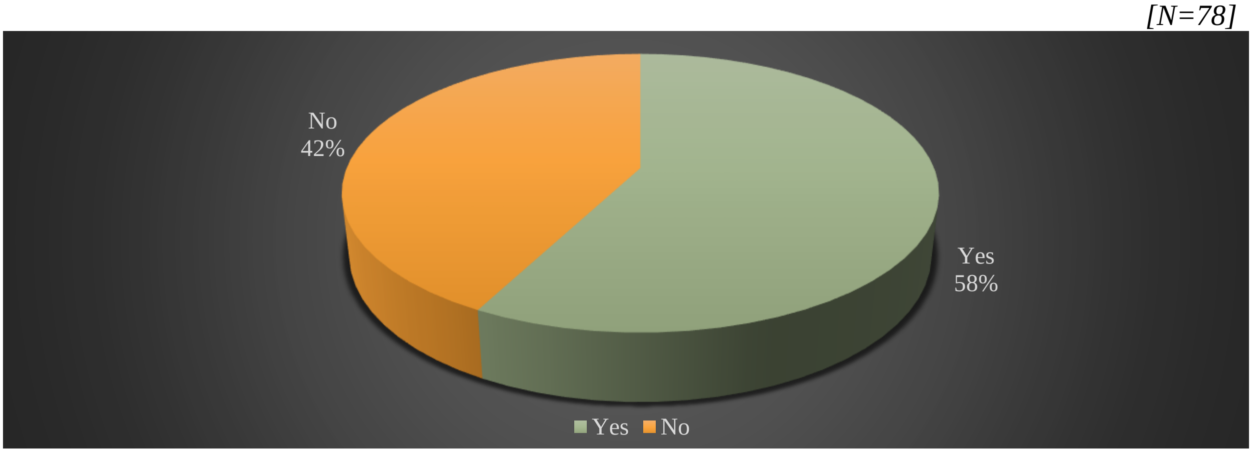
In addition, 48 per cent of respondents said that the merger had influenced market share, 40 per cent said it had affected competition, 19 per cent felt that it increased the communication gap, and 33 per cent said that there were none of these changes were due to mergers.

5.6 Impact of Pandemic on ECI Business

About 58 per cent of respondents confirmed that the pandemic has impacted their banks and ECI's business.

Figure 5.15 Pandemic impacted the bank

[N=78]



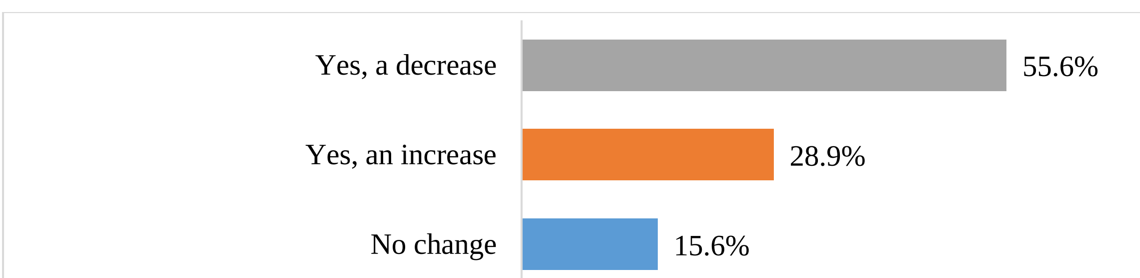
Source: Primary Survey

5.6.1 Change in Number of Customers Seeking Export Credit after the Pandemic

Over half the respondents (56 per cent) who said their banks had been affected by the pandemic (N=45) said that the number of their customers seeking credit had decreased, 29 per cent there was an increase and 16 per cent said there had been no change.

Figure 5.16 Seen change in the no. of customers seeking Export credit

[N=45]



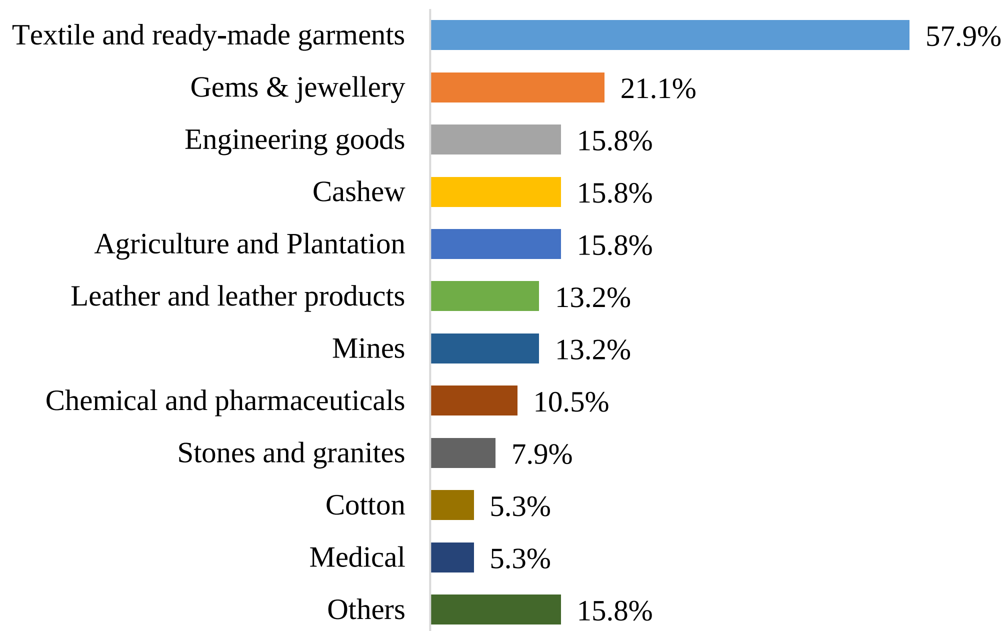
Source: Primary Survey

5.6.2 Sectors that have Sought Loan Modifications after the Pandemic

Respondents who said that there was a change in the number of customers seeking export credit after the pandemic (N=38) were further asked to name the three sectors that sought the maximum number of loan modifications. These were textiles and ready-made garments (58 per cent), gems and jewellery (21 per cent) and engineering goods, cashew, agriculture, and plantation (16 per cent each).

Figure 5.17 Sectors that have sought loan modifications

[N=38, Multiple Response]



Source: Primary Survey

The survey also revealed that about 18 per cent of exporters shut down their businesses due to COVID-19 either temporarily or permanently.

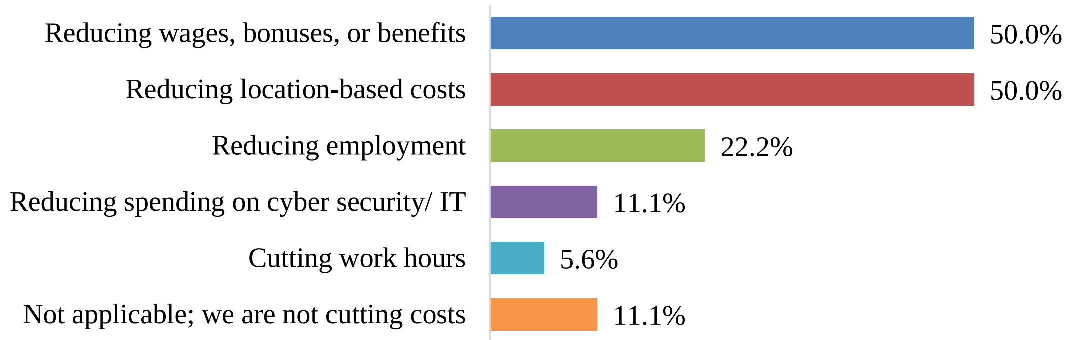
5.7 Approach to Cost-cutting in Response to Expected Lower Profits by Banks

Forty per cent of respondents expected lower profitability while 27 percent were unsure in the next six months as a result of the pandemic. Respondents who expected the profitability of their bank to decrease (N=18) over the next six months were asked about the approach taken by banks to cut costs in response. The main approaches were the following:

- ✓ Reducing wages, bonuses, or benefits and reducing location-based costs (50 per cent each)
- ✓ Reducing employment (22 per cent)
- ✓ Reducing spending on cyber security/IT (11 per cent)

Figure 5.18 Approach to Cost-Cutting in Response to Expected Lower Profits by Banks

[N=18, Multiple Response]



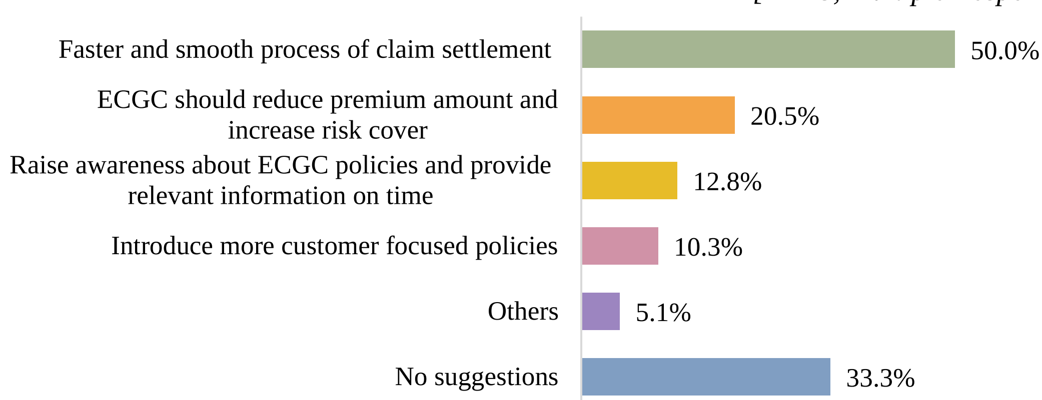
Source: Primary Survey

5.8 Suggestions from Bank to ECGC to Increase their ECIBs

Respondents were asked an open-ended unaided question to suggest measures to ECGC to improve the reach and use of its policies. Faster approval and a smoother claim settlement process emerged as the top suggestion for ECGC (50 per cent) followed by a reduction in premium and increase risk cover by ECGC (21 per cent), increasing awareness of ECGC policies and providing relevant information through online and offline channels on time (13 per cent), and the introduction of more customer-focused policies (10 per cent). About 33 percent of the respondents did not offer any suggestion.

Figure 5.19 Suggestions to ECGC to improve reach and use of its policies

[N=78, Multiple Response]



Source: Primary Survey

5.9 Summary of Findings

- **Types of Banks**: To sum up, 78 banks participated in the survey, of which an overwhelming proportion (86 per cent) were public sector bank. Of the banks surveyed, roughly half had international work experience.
- **Low Policy Adoption:** The survey also reveals that only a very small proportion of a bank's exporter clients used ECGC policies. Roughly 28 per cent of bank clients did not use ECGC's export credit insurance services and 16 per cent used an insurer other than the ECGC. This partly explains the decline in ST products.
- **Scope of Business:** The key sectors to which banks provided export services include textiles and ready-made garments, engineering goods, chemical and pharmaceuticals, and gems and jewellery. Clearly, there is scope to expand coverage to other sectors.

The key reasons for not opting for ECGC cover include the following:

- Time-related issues in obtaining ECGC policies by banks
- Lack of funds with banks
- Procedural obstacles
- Unavailability of cover features
- Issues with premium charged and the reluctance of borrowers to bear the cost of the premium
- Delays in claim settlement

- **Mergers & Acquisitions and Covid-19:** Two major factors that affected banks during the period were mergers and acquisitions and the Covid-19 pandemic. While most respondents felt that mergers had resulted in improved operating efficiency, productivity and profitability, about 58 per cent of the respondents said that pandemic had had an adverse effect on both banks and the ECI business. There was a decrease in the number of customers seeking export credit. Roughly 18 per cent of exporters had shut down their business during the pandemic either temporarily or permanently**.**
- **Measures Adopted to Address the Decline:** According to the respondents, most banks resorted to lowering interest rates, lowering commission rates and reducing premium service fees to address the decline in the total volume of loans to exporters.
- **Suggestions:** The major suggestions made to improve the attractiveness of ECGC's policies were to put in place a faster approval and a smoother claims settlement process. Besides, lowering premiums, increasing risk coverage, and raising awareness of ECGC's products could help increase business.

Chapter 6
Conclusion and Recommendations

6.1 Introduction

ECGC Limited, the leading provider of export credit insurance to exporters and banks, has recently accomplished a number of remarkable goals in the promotion of export. Its ECI policies have aided a large number of exports from the country, as well as indirectly facilitating export financing by banks. This study was conducted for the ECGC by IIFT in order to improve the country's exports. This study will look for potential factors that may help ECGC's business. The study's main focus is on the short-term credit insurance policy requirements of Indian exporters and banks. The study involved both secondary data analysis as well as a primary survey through structured interviews, both face-to-face and telephonic, across ten *plus* MSME clusters across ten *plus* industry sectors to analyse the reasons behind the decline and its implications for India’s export performance.

6.2 Key Findings from Exporters’ Survey

- **Types of Exporters Firms:** About of half the survey participants among exporters were small-sized firms, the remaining consisting of a mix of micro, medium and large firms. Survey participants included exporters in the textiles and garments sector, engineering goods, chemicals and pharmaceuticals, leather and leather products, etc., with textiles and garments firms accounting for a third of the sample.
- **Major Export Destinations:** The three major export destinations for exporters were the United States, the United Kingdom and the United Arab Emirates. Roughly 90 per cent of exports rated sea transport as being the riskiest mode of transport, followed by road and air transport.
- **Key factors to Increase Policy Adoption:** Survey participants were asked to rank the factors they considered to be the most important in determining their decision to take an ECI policy. Among the policy holders, the top three reasons were geographical differences among places of origin of exports, pressure from international competitors and characteristics of the product.

  For non-policy holders, regulatory requirements in the foreign markets, the differences across destination countries, geographical differences while exporting and free trade agreements were the major determinants.

Factors that were the least important included pressure from domestic competition and being part of international value chain in the case of policy holders; for non-policy holders, being part of a global chain was the least important.

Policy holder exporters were also asked which aspects relating to cost, time and market were most important while deciding to opt for an ECGC policy. These were availability of finance within enterprises among cost factors and the time to assess loss among time related issues. The dominance of established players in the market and the time taken for and cost of transportation were the major market related factors.

- **Types of Risk:** The most important risks that exporters sought protection against through ECGC policies were the risk of buyer default, followed by insolvency of the LC-opening bank and insolvency of the buyer. Among the risks remaining even after obtaining an ECGC policy, the maximum risks were associated with letters of credit given by importers, risky destination market and exchange rate fluctuations. Other risks mentioned were those related to sample approvals, single-window approvals, and banking information.
- **Risk Management Practices:** 75% of the firms had adopted risk management practices – all firms among policyholders and half of the non-policy holders. Of firms that did adopt risk management practices, taking an ECGC policy was the mechanism used by seven out of 10 firms while the others depended on banks or self-management.

  The survey revealed that, among exporters using an ECGC policy cover, 81 per cent had not adopted any risk management practices before taking the policy, 12 per cent managed risk through banks and the remaining eight per cent by arrangements on their own.

  Among non-policy holder exporters, the top three reasons for not practising risk management and/or not obtaining export credit insurance policies (fully or partially) were delays in claim settlement, issues with premium charged, and procedural obstacles and issues with credit limits.
- **Types of Polices:** The renewal of policy or maintaining policy for a period over three in the past five years with over half the policy holders having taken only ST policies and 30 per cent taking a mix of ST and MLT policies. Of the various types of short-term insurance covers, seventy per cent policy holders had taken a shipment comprehensive risk policy. Other policies often taken by exporters are buyers' exposure policy, export turnover policy, small exporter's policy, etc.
- **Benefits of Policy Adoption:** PH exporters have performed relatively better than NPH exporters in terms of both average domestic and export sales. Moreover, they have, on average, been able to employ about three times the number of people employed by non-

policy holders, perhaps because higher sales necessitated more manpower to operate the machines as well as conduct other business operations.

The gap between expected versus actual improvement as a result of taking an ECGC policy cover was the lowest in developing new markets, improving global market share, and exploring new markets. The highest gap was with respect to increase in employment, improved business turnover and product diversification.

Measures Undertaken: Information sources that played a vital role in encouraging exporters to take ECGC policies included the following:

Marketing efforts by ECGC Limited including personal visits by ECGC officials, conferences and seminars organised by ECGC and stalls in fairs and exhibitions. Internal sources within the firm or the marketing staff of the business group to which the firm belongs.

- ✓ External sources such as competitors, clients or customers, banks, suppliers of equipment, materials, and components
- ✓ Generally available information gathered through professional conferences and meetings, and from publications, the internet or computer-based information networks.
- ✓ Faster approvals and a smoother claims settlement process emerged as the top suggestions to increase to improve ECGC's reach and the off take of its policies followed by better pricing, discounts and increased risk cover for exporters, flexible premium rates and policy terms, etc.
- ✓ Both policy holder and non-policy holder exporters also underlined the need for timely availability of insurance cover and for coverage of risk according to the nature of goods exported to improve ECGC's policies.

Additionally, non-policy holder exporters mentioned coverage of risks to a greater extent than what exists currently as an expected improvement in ECGC policies.

6.3 Key Findings from Banks' Survey

- **Digital Presence of Banks:** In terms of providing services, slightly more than 75% of banks deal in the offline mode[44] while 22 percent use the online mode (mostly through bank websites). Further, in terms of online sales share, about 4.50 per cent of total bank sales are done online. Overall, about 80 per cent provide short-term export credit services while the remaining provide medium-and long-term project finance to their customers.

[44] Offline mode means that their website provides only information on various export ecredit-related services. However, the entire procedure is carried out in offline mode

- **Stages of Production:** Most banks provide export credit mainly to finance final goods followed by raw materials, and intermediate goods.
- **Types of Firms:** They provide export credit services to small-sized, medium-sized, micro-sized, and large-sized enterprises.
- **Features of Banks:** The features of the banks with respect to export credit were providing financing solutions and risk covers to assist exporters.
- **Major Sector:** The key sectors to which banks provide export credit services are textiles and ready-made garments, engineering goods, chemical and pharmaceuticals, and gems and jewellery.
- **Key Factors in Obtaining ECGC Policies:** In terms of importance attached to the factors in obtaining ECGC policies by banks, about 97 percent of respondents mentioned that indirect risk protection to the banks due to ECGC cover availed by the exporter client was the most important factor in obtaining ECGC policies, followed by relief to banks in capital provisioning due to ECGC cover and indemnification through ECGC claim under risk-related issues.

  About 95 percent mentioned that ECGC polices help in eliminating capital loss in case of default as the most important factor followed by the time taken to obtain ECGC cover, issues of limit approval and specific approval, etc. under time-related issues.

  The most important risk factors which motivate Bank to take an ECGC policy were protracted default of the exporter followed by insolvency of exporters.

- **Reasons for Low Adoption of ECGC Policy:** The key reasons for banks for not opting for ECI (fully or partially) were lack of funds followed by procedural obstacles and unavailability of the features of the cover, etc.
- **Impact of Bank Merger:** more than half of selected branches that participated in the survey had undergone mergers or acquisitions. few them said that there was no change in the number of customers seeking export credit, whereas of the remaining respondents some observed an increase while others reported a decline.

  In addition, 48 per cent of respondents said that the bank mergers had influenced market share, 40 per cent felt that it had an effect on competition, and 19 per cent said that it had affected the communication gap; 33 per cent said that there were none of these due to the mergers.

A major share of respondents said that there were positive effects in terms of improving operating efficiency (92 per cent), productivity (81 per cent), and profitability (81 per cent). In response to a question about a possible rise in export credit NPAs, 40 per cent of respondents said it would increase, 31 per cent said it would decrease and 29 per cent said it would remain the same.

More than 50% of the banks included in the survey felt that that customers' choice for export credit services had increased (54 per cent), 38 per cent said they remained the same and by 8 per cent said that the choices available decreased. Forty-two per cent of respondents expected profitability to fall in the next six months, while 28 per cent were unsure.

The top three sectors that sought loan modifications following a merger or an acquisition were textiles and ready-made garments (64 per cent), engineering goods (40 per cent) and, gems and jewellery (20 per cent).

- **Impact of Pandemic:** About 58 per cent of respondents confirmed that the pandemic had influenced their bank and Export Credit finance business. Fifty-six per cent of the respondents said that the number of customers seeking export credit had decreased while the remaining respondents said that there was either an increase (29 per cent) or no change (16 per cent).

  Respondents that have said that there was a change in the number of customers seeking export credit after the pandemic (N=38) mentioned that textile and ready-made garments, gems and jewellery and engineering goods, cashew, agriculture and plantation have sought loan modifications after the pandemic. Further, it was found that about 18 per cent of exporters have shut down their businesses due to the COVID-19 either temporarily or permanently.

  Forty percent of respondents who said their bank had been affected by the pandemic expected lower profitability in the next six months, while 27 per cent are unsure. Respondents expecting lower profitability (N=18) were also asked about the various approaches taken by banks to cut costs in response.

  The top approaches rated by respondents were reducing wages, bonuses, or benefits and reducing location-based costs (50 per cent each), reducing employment (22 per cent), and reducing spending on cyber security/IT (11 per cent).

6.4 Recommendations

1. **Extending Support across Various Sectors:** Most of ECGC's export credit support is focused on sectors like textiles and ready-made garments, engineering goods, chemicals and pharmaceuticals, and leather and leather products. ECGC should encourage and diversify support to other sectors such as marine products, plastic goods, granite, tea, etc. by understanding the concerns and needs of exporters in these sectors and framing policies to address the common and specific risks faced by them.

2. **Provision of a Digitalised Framework:** It has been found from the survey that a very small proportion of sales is done through an online mode by both exporters as well as banks. As there has been an increasing trend towards a digitalised world, there is a need to build an online platform for all stakeholders. By providing a digitalised framework to its clients, ECGC Limited may enhance its business from all clients including banks and exporters.
3. **Policy and Procedure Related Suggestions:**
    - ✓ There is a need for timely availability of insurance cover to exporters.
    - ✓ ECGC also needs to ensure a faster approval and smoother claim settlements processes.
    - ✓ ECGC Limited may offer better pricing, discounts, and flexible premium rates and policy terms to attract more exporters to enhance its business and consequently, India's export performance.
    - ✓ The coverage of risks needs to be extended by framing policies that facilitate easy market entry by exporters, especially in the case of goods or markets that are risker than the ones already being supported.
    - ✓ Coverage of risks needs to be extended, especially for causes inherent in the nature of the goods and risky destination markets, by framing policies that help exporters enter such markets with ease.
    - ✓ Overall credit limits may be increased to facilitate a larger number of exporters and help improve India's export performance.

4. **Increasing Exporters Understanding of ECGC Policies:** ECGC can increase awareness about its policies among exporters through personal visits and by organising conferences and seminars, or arranging stalls in fairs and exhibitions, etc.

5. **ST and M&LT Credit Services by Banks:** The primary data shows that about 80 per cent provide short-term export credit services while the remaining provide medium-and long-term project finance to their customers. ECGC should also take initiatives to increase the share of its ST-policy products.
6. **Export Credit Services at Various Processing Stages:** Most banks provide export credit mainly to finance final goods exports, followed by raw materials, and intermediate goods. This finding underlines the need for a diversified policy framework for raw material and intermediate goods exporters. If ECGC provides a series of policies to cover risks associated with raw material and intermediate goods exports, it will encourage the banks also to provide export credit to these firms also.
7. **Factors Affecting Bank Policy Adoption:** In buying ECGC cover, the most important factors are the indirect risk protection to banks and elimination of capital loss in case of default. Given this finding, ECGC could increase its ST-policy business by focusing on factors such as capital provisioning through insurance cover and indemnifying through ECGC claims. Since the key reasons for banks not opting for the ECI (fully or partially) were lack of funds, procedural obstacles, unavailability of the features of the cover, etc., ECGC should take measures such as simplifying its procedures, providing doorstep services, and digitizing its services.
8. **Mergers and Acquisitions' Impact on Export Credit:** Half of the banks/branches that have undergone mergers or acquisitions said that there was no change in the number of customers seeking export credit, whereas of the remaining respondents some have seen an increase while others have observed a decline. A high share of respondents said that there were positive effects especially in operating efficiency, productivity, and profitability. However, a few (not insignificant in number) of them said that mergers or acquisitions influenced banks' market share adversely. This finding suggests that mergers or acquisitions may have had varied impacts across different sectors. Based on this finding, ECGC may expect a rise in business if the magnitude of the positive impact of mergers or acquisitions is more than its negative impact.

9. **Impact of NPAs on Export Credit:** On the other hand, there was a mixed response about the rise in export credit NPAs. A few of the respondents expected lower profitability in the next six months. Since lower profitability is likely to lower the volume of export financing by banks, ECGC will need to take steps to offset the negative impact that this is likely to have on its business.

10. The three sectors seeking maximum loan modifications after the merger or acquisition of a bank were the following:
    - Textile and ready-made garments (64 per cent)
    - Engineering goods (40 per cent)
    - Gems & jewellery (20 per cent)

    To facilitate this loan modification by the banks, ECGC may provide incentives by making appropriate adjustments in its own insurance policies.

11. **Covid-19 And Banks' Export Credit Business:** The primary survey shows that pandemic has influenced the banks' export credit business. Most of them said that the number of customers seeking export credit had decreased and about 18 per cent of exporters have shut down their businesses due to the COVID-19 either temporarily or permanently. As mentioned earlier, banks have taken several measures to address this decline Since the fall in the number of customers seeking export finance is likely to translate to a decline in ECGC's ECBI business, ECGC may need to roll out more attractive products to encourage banks to provide more export credit to more exporters.

6.5 Summary

Export credit insurance empowers exporters to better manage their business by reducing the burden of credit management. This helps them to increase their export volumes. In order to enhance its business and extend its support to exporters and banks, ECGC supports around 20% of the merchandise exports from the country through its various schemes/products. It covers export transactions destined for more than 200 countries of the world. In recent years, ECGC has introduced the following products/measures to increase customer satisfaction and awareness in order to increase its support to Indian exports: -

- ECGC had reduced its premium rates by an average 17% w.e.f. April 1, 2016, so as to reduce the transaction cost of exporters and increase their competitiveness in the global market.
- ECGC has opened its office at International Financial Service Centre, GIFT City, Gandhinagar so as to provide foreign currency covers to its customers. It has also introduced new products, like, Export Factoring and Cover to Factors in order to meet the growing demand of Indian exporters.
- More than 90% of ECGC customers belong to small exporters segment. In order to support this segment, direct insurance covers are extended liberally despite the sector posing a higher risk owing to lack of adequate exposure in handling of international trade transactions. Further, the covers issued to banks enable MSMEs to obtain bank finance even if they are unable to provide adequate collateral. Moreover, the Company provides a higher percentage

of cover and other operational relaxations for MSME accounts. It has also designed separate products to meet the requirements of Micro and Small exporters.

- ECGC has introduced a new scheme under its Whole Turnover Export Credit Insurance for Banks (WT-ECIB) to offer enhanced cover of 90% to small exporters having aggregate export credit working capital limit up to ₹20 crore. This is aimed at encouraging the banks to lend affordable and adequate export credit to small exporters enabling them to explore new markets/new buyers and diversify existing products portfolio competitively.
- ECGC has signed an MoU with the Ministry of MSME for implementing the 'Capacity Building of First Time MSE Exporters' (CBFTE) component of International Cooperation (IC) Scheme. The objective of the CBFTE scheme is to enable the Micro and Small Enterprises (MSE) to promote their products and services in the international markets through incentivization at various stages of the business cycle. Under the CBFTE scheme, refund of premium up to Rs 10,000/- in a financial year, is allowed to the exporters holding 'Small Exporter's Policy', subject to certain eligibility criteria.
- The Company has played a counter-cyclical role by providing extended discretionary powers and relaxed procedural compliances to the exporters and banks during the COVID lockdown period so as to sustain its customers, augment the flow of export credit, and stabilize the export credit market for supporting exports from India. Banks have been granting export credit for the capital needs of the export community. In the context of India, it is that banks which mostly cater to the needs of new and small exporters. The banks face several challenges that lead to a decline in the banks' lending to these exporters. This decline in banks' business in turn has an impact on the business of the ECGC. It is therefore in ECGC's interest to also respond to the challenges faced by the banks.

Banks play an essential part in establishing trust between buying and selling agents who are executing exchanges in the global market. This phenomenon is also visible from the data on the value of business covered by the ECG. ECIB is obvious the major contributor to the business of ECGC. Considering this and the present challenges of ECGC in terms of declining ECIB, this study tries to identify the key reasons for the decrease in ECGC's business. To serve the objectives of the study a primary survey was conducted in which total of 78 banks were surveyed from the different states of India. Out of the total banks surveyed, most of the banks were from the public sector. Most of these banks provide export credit services to MSMEs. A significant portion of these banks provide short-term working capital export credit services while remaining provide medium and long-term export credit services. The unique features of the banks with respect to export credit were providing financing solutions and risk covers to assist exporters. The key sectors to which banks were providing export credit services were textile and ready-made garments, engineering goods, chemical and pharmaceuticals, and gems and jewellery.

The major risks for which ECGC Limited covers are obtained by the banks are protracted default and insolvency of the exporters. On the other hand, two key reasons for banks for not observing the ECI Credit limits (fully or partially) were: lack of funds and procedural obstacles. More than half of the banks/branches that participated in the survey had undergone mergers or acquisitions. Further, of banks that have undergone mergers or acquisitions, close to half of them said that there was no change in the number of customers seeking export credit. A high share of respondents said that there were positive effects especially in operating efficiency, productivity, profitability. On the other hand, there were mixed responses (yes and no) on whether there was a the rise in export credit NPAs. Further, banks said that they were adversely impacted by the pandemic as the number of customers seeking export credit had decreased. To address this decline in business, various cost-cutting responses of banks included reducing wages, bonuses, or benefits and reducing location-based costs, and reducing employment.

The key suggestions for ECGC Limited to improve the reach and use of its policies to increase its ECIB business include faster approval and a smoother process of claim settlement. ECGC Limited must reduce the premium amount and increase the risk cover, raise awareness of its policies, provide relevant information through online and offline channels on time and introduce more customer-focused policies.

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ANNEXURE- I

SURVEY QUESTIONNAIRES

(Exporters & Banks)

Exporters

Serial No: | | | | |

PREAMBLE

We are currently conducting a study w.r.t. A Comparative Analysis of Export Credit Insurance to Exporters and Banks by ECGC Limited: Implication on India's export performance.

I want to ask for your permission to include you in our study. The interview will take about 20 minutes. You can decide not to answer any question and can stop the interview at any time. Everything that you report during the interview will be kept strictly confidential. Your responses would be combined with responses given by other respondents and would not be identified separately.

[Please note that no payment/ money/fee is to be paid to anyone in any manner for participating in survey]

SECTION A: GENERAL INFORMATION ABOUT THE ORGANISATION

S.N.	Particulars	
1	**COMPANY DETAILS**	
1.1	Name of the firm	
1.2	Corporate/Head office address	
1.3	City/Town	
1.4	State	
1.5	Type of firm	(1) Public Limited Company/ PSU (2) Private Limited Company (3) Partnership Firm (4) Proprietorship Firm (5) Any others, specify: ______________________
1.6	Is this a multinational firm?	(1) Yes (2) No
1.7	Is this firm affiliated to/associated with a Govt. department?	(1) Yes (2) No
1.8	Year of establishment of the unit [YYYY format]	
1.9	Size of enterprise/ unit	(1) Micro Enterprise *(Investment in plant and machinery does not exceed Rs.1 crore and turnover does not exceed Rs.5 crore)* (2) Small Enterprise *(investment in plant and machinery does not exceed Rs.10 crore and turnover does not exceed Rs.50 crore)* (3) Medium Enterprise *(investment in plant and machinery does not exceed Rs.50 crore and turnover does not exceed Rs.250 crore)* (4) Large Enterprise *(investment in plant and machinery exceeding Rs.50 crore and turnover exceeding Rs.250 crore)*
2	**RESPONDENT DETAILS**	

S.N.	Particulars				
2.1	Contact Person Name				
2.2	Designation				
2.3	Department				
2.4	Phone number (with STD code)				
2.5	Mobile number				
2.6	Email id				
3	**IDENTIFICATION PARTICULARS OF THE ORGANISATION**				
3.1	Activity involved	(1) Manufacturing (2) Services (3) Trading			
3.2	Sector Code ***[as per (2-digit level of NIC 2008)]***				
3.3	Out of total sales what is the current share of your establishment’s online sales?	___________________per cent Share			
3.4	Exporting since ***[year in YYYY]***				
3.5	Key sector(s) of export				
3.6	Top 5 export products ***[based on realisation of export proceeds with HS Codes]***	***S.N.***	***Product Name***	***HS Code***	
		1			
		2			
		3			
		4			
		5			
3.7	What is the share of the exports under these stages of processing?	(1) Raw Materials___________________per cent (2) Intermediate Goods___________________per cent (3) Final Goods___________________per cent			
3.8	Riskier transportation mode considered by your firm	(1) Road Transport (2) Sea Transport (3) Air Transport (4) Rail Transport (5) Any others, specify: _______________________			
3.9	How does your firm source raw materials	(1) Locally (2) Imports (3) Mix of both			
3.10	Five major export destinations/ countries	(1) ____ (2) ____ (3) ____ (4) ____ (5) ____			
	Particular	**FY 2018-19**	**FY 2019-20**	**FY 2020-21**	

S.N.	**Particulars**			
3.11	Total domestic sales (Rs. In lakhs)			
3.12	Total export sales (Rs. In lakhs)			
3.13	Total manpower (Nos.)			
3.14	Proportion of female to male workers (in per cent)			

4	**What is the importance level of the following factors which determine your firm's:** - **Requirement of EXPORT CREDIT INSURANCE (ECI) POLICIES** - **Impact on EXPORT PERFORMANCE** *[Rate on 5-point scale for importance level where not important=1, slightly important=2, moderately important=3, very important=4, and extremely important=5]*		
S.N.	**Factors**	**Requirement of ECI Policies**	**Imapct on Export Performance**
4.1	Pressure from domestic competition		
4.2	Pressure from international competitors		
4.3	Being part of international value chain		
4.4	Requirement of user industry		
4.5	Regulatory requirement in foreign market		
4.6	Overcome tariff barriers		
4.7	Free Trade Agreement		
4.8	Geographical differences while exporting		
4.9	Characteristics of the product		
4.10	Country of Export		
4.11	Any other factor *(please specify)* ____________________		
5	**CREDIT RISK INSURANCE MANAGEMENT PRACTICE**		
5.1	Is risk management practiced by the firm? ***[Please tick]***	(1) Yes (2) No ***[GO TO Q6]***	
5.2	***IF YES***, which mechanism is chosen by your firm? ***[Multiple options possible]***	(1) Self ***[GO TO Q6]*** (2) ECGC Limited (3) Banks ***[GO TO SECTION Q6]*** (4) Other agencies: *(Please specify: ________________)* ***[GO TO SECTION Q6]***	
5.3	***[IF RESPONSE TO 5.2 IS 2]*** Before ECGC Limited, what was the risk insurance mechanism chosen?		
	➔ ***[AFTER 5.3 GO TO SECTION B]***		
6	Mention top 3 reasons for not practicing risk management and/ or not obtaining export credit insurance policies (fully or partially) from ECGC Limited by your firm. ***[RECORD VERBATIM]***		

S.N.	Particulars
	Reason 1:
	Reason 2:
	Reason 3:
	[POST CODES] a. *Lack of funds* b. *Procedural (obstacles)* c. *Delays in claims settlement* d. *Issues with risks covered* e. *Issues with premium charged* f. *Issues with credit limits* g. *Alternative sources to obtain credit insurance* h. *Sound commercial relation with the customer/buyer* i. *Less credit risk perceived* j. *Lack of awareness of ECGC Limited policy cover* k. *Any other reason, specify: ____________________*
	➔ ***[GO TO Q13 IF POLICY COVER IS NOT TAKEN FROM ECGC Limited BY THIS FIRM]***

SECTION B: AWARENESS OF ECGC Limited POLICIES

S.N.	Particulars						
7	**Indicate importance to following sources of information that played vital role in undertaking of ECGC policies in the last 3 years.** *[Rate on a scale of 1-5 based on level of importance where "1" is not important and "5" is extremely important].*						
S.N.	**SOURCES OF INFORMATION**	**Extremely important**	**Very important**	**Moderately important**	**Slightly important**	**Not important**	**Don't Know/ Can't Say**
7.1	**Marketing efforts by ECGC Limited**						
i	Visits by ECGC Limited officials	5	4	3	2	1	9
ii	Conferences and seminars organised by ECGC	5	4	3	2	1	9
iii	Conferences and seminars organised by other agencies in association with ECGC Limited	5	4	3	2	1	9
iv	ECGC Limited stalls in fairs and exhibitions	5	4	3	2	1	9
v	Advertisements in newspapers and magazines	5	4	3	2	1	9
7.2	**Internal sources within the firm or business group**						
i	Procurement staff	5	4	3	2	1	9
ii	Marketing staff	5	4	3	2	1	9
iii	Production staff	5	4	3	2	1	9
iv	Management staff	5	4	3	2	1	9
7.3	**External Sources**						
i	Banks	5	4	3	2	1	9
ii	Competitors	5	4	3	2	1	9
iii	Suppliers of equipment, materials, and components	5	4	3	2	1	9

S.N.	Particulars						
iv	Clients or customers	5	4	3	2	1	9
v	Consultancy firms	5	4	3	2	1	9
vi	Higher education institutions/Research institutions	5	4	3	2	1	9
7.4	**Generally available information**						
i	Professional conferences, meetings, and publications	5	4	3	2	1	9
ii	Fairs and exhibitions	5	4	3	2	1	9
iii	Internet or computer-based information networks	5	4	3	2	1	9
7.5	**Other Sources** *(specify):* _____________	5	4	3	2	1	9

SECTION C: IMPORTANT FACTORS & CHALLENGES IN OBTAINING POLICIES FROM ECGC

S.N.	Particulars						
8	**Please indicate the importance attached to various factors by your firm in obtaining policies from ECGC.** *(Rate on a 5-point scale for importance level where; Not important=1; Slightly important=2; Moderately important=3; Very important=4; Extremely important=5)*						
S.N.	**Factors**	**Extremely important**	**Very important**	**Moderately important**	**Slightly important**	**Not important**	**Don't Know/ Can't Say**
8.1	**Cost factors**						
i	Availability of finance within your enterprise	5	4	3	2	1	9
ii	Availability of finance from outside sources	5	4	3	2	1	9
iii	Innovation cost	5	4	3	2	1	9
iv	Premium charged	5	4	3	2	1	9
v	Blocked funds other than ECGC policies (LCs, Loans etc.)	5	4	3	2	1	9
8.2	**Time related issues**						
i	Time taken to obtain claims	5	4	3	2	1	9
ii	Time taken to obtain ECGC policy/Credit Limit	5	4	3	2	1	9
iii	Time for ascertainment of loss	5	4	3	2	1	9
iv	Issues with time for filing claim	5	4	3	2	1	9
v	Issues with closure of policy	5	4	3	2	1	9
8.3	**Market factors**						
i	Market dominated by established players	5	4	3	2	1	9
ii	To overcome problems entering new market	5	4	3	2	1	9
iii	Government policy constraints	5	4	3	2	1	9
iv	Currency risk	5	4	3	2	1	9
v	Transportation time and cost	5	4	3	2	1	9
8.4	**Other factors** *(specify):* _____________	5	4	3	2	1	9
9	**What is the level of importance accorded to the risks identified below while opting for an ECGC policy?** *(Rate on 5 points scale for importance level where not important=1, slightly important=2, moderately important=3, very important=4 and extremely important=5)*						
S.N.	**List of Risks**	**Extremely important**	**Very important**	**Moderately important**	**Slightly important**	**Not important**	**Don't Know/ Can't Say**

S.N.	Particulars						
9.1	Protracted default of the buyer	5	4	3	2	1	9
9.2	Insolvency of buyer	5	4	3	2	1	9
9.3	Repudiation risk	5	4	3	2	1	9
9.4	Inconvertibility	5	4	3	2	1	9
9.5	Contract frustration due to war, civil war, etc.	5	4	3	2	1	9
9.6	Import restrictions	5	4	3	2	1	9
9.7	Diversion of shipment	5	4	3	2	1	9
9.8	Non-payment by LC (Letter of Credit) opening bank	5	4	3	2	1	9
9.9	Insolvency of LC (Letter of Credit) opening bank	5	4	3	2	1	9
9.10	Expropriation risk	5	4	3	2	1	9
9.11	Transfer delay risk	5	4	3	2	1	9
9.12	Any other *(Please Specify):* _______________	5	4	3	2	1	9
10	**Please indicate the risk level associated with the following threats/challenges that your firm faces even after obtaining ECGC policy.** *(Rate on 5-point scale for importance level where no risk =1 and extremely high risk=5)*						
S.N.	**Indicators**	**Extremely high risk**	**Very high risk**	**Moderate risk**	**Slight risk**	**No risk**	**DK/ CS**
10.1	Risky destination market (restricted cover countries)	5	4	3	2	1	9
10.2	Blocked funds other than ECGC policies (LCs, Loans etc.)	5	4	3	2	1	9
10.3	Issues with letter of credit given by importer	5	4	3	2	1	9
10.4	Commercial disputes including quality disputes raised by the buyer	5	4	3	2	1	9
10.5	Failure on the part of the foreign buyer to obtain import or exchange authorisation	5	4	3	2	1	9
10.6	Causes inherent in the nature of goods	5	4	3	2	1	9
10.7	Exchange rate fluctuation	5	4	3	2	1	9
10.8	Any other risk not mentioned above or not covered under ECGC, please specify below:						
A	*Specify:* ______________________________	5	4	3	2	1	9
B	*Specify:* ______________________________	5	4	3	2	1	9
C	*Specify:* ______________________________	5	4	3	2	1	9

SECTION D: SPECIFIC INFORMATION ABOUT ECGC POLICIES, CLAIMS AND EXPORT PERFORMANCE

S.N.	Particulars	
11	**Insurance covers taken by the exporters**	
11.1	No. of times ECGC policies were taken in last 5 years	

S.N.	Particulars		
11.2	Whether insurance cover(s) taken for short-term (ST) or medium and long-term (MLT) in last 5 years	(1) Short Term (ST) (2) Medium and Long Term (MLT) ***[GO TO 11.4]*** (3) Both of the above	
11.3	Type of short-term insurance cover(s) taken from ECGC Limited in last 5 years ***[multiple responses possible]***	(1) Shipment Comprehensive Risk Policy (SCR) (2) Small Exporters’ Policy (SEP) (3) Specific Shipment Policy (SSP) (4) Services Policy (SRC) (5) Export Turnover Policy (ETP) (6) Exports (Specific Buyers) Policy (BWP) (7) Buyer Exposure Policy (BEP) (8) IT-Enabled Services Policy – Single Customer (SITES) (9) Micro Exporter Policy (MEP) (10) Software Project Policy (SPP) (11) Others, specify: _______________________________	
11.4	Please mention the year of undertaking latest ECGC Policy ***[YYYY]***		
11.5	Premium Charged – ***Mention about latest policy***		
11.6	Claimed Amount (in Rs.) – ***Mention about latest policy***		
12	**Please indicate the expected and actual improvement after taking ECGC policy cover on the following factors** *[Rate on 5-point scale for improvement level where no improvement=1, slight improvement=2, moderate improvement=3, high improvement=4, extreme improvement=5 and don’t know/can’t say = 9]*.		
	Factors	**Expected Improvement**	**Actual Improvement**
12.1	Minimisation of cost		
12.2	Minimisation of risks		
12.3	Maintaining relationships with existing buyers		
12.4	Exploring new markets *(List top three markets/countries)*		
12.5	Developing existing markets *(List top three markets/countries)*		
12.6	Increasing exports		
12.7	Improving quality of exports		
12.8	Product Diversification		
12.9	Increasing production		
12.10	Increase in employment		
12.11	Improvement in global market share		
12.12	Improvement in profitability		
12.13	Improvement in business turnover		
12.14	Improvement in output per unit of labour (productivity level)		
12.15	Any other *(Specify)* _________________________________		

S.N.	Particulars
13	Suggest measures for ECGC Limited to improve the reach and use of its policies to further benefit your firm and increase exports? ***[RECORD VERBATIM]*** ____ ____ ____
14	**Please indicate the importance of the factors to improve ECGC policies.** *(Rate on a 5-point scale for importance level where not important=1, slightly important=2, moderately important=3, very important=4 and extremely important=5).*

S.N.	Indicators	Extremely important	Very important	Moderately important	Slightly important	Not important	DK/ CS
14.1	Timely availability of insurance cover						
14.2	Cost differences in terms of premiums charged w.r.t other insurance providers						
14.3	Ease in obtaining claims						
14.4	Availability of timely information about import entities/export destinations						
14.5	Extent of risks covered						
14.6	Coverage of risk according to nature of goods exported						
14.7	Any other (Specify____________________)						

FIELD CONTROL INFORMATION

INVESTIGATOR					
NAME		DATE		SIGNATURE	
SUPERVISOR					
NAME		DATE		SIGNATURE	
VERIFICATION BY: (NAMES & SIGNATURES)					
	TL	**FE**	**FM**	**RE**	
ACCOMPANIED					
SPOT/BACK CHECKED					
SCRUTINISED					
DATA CODING					
NAME		DATE		SIGNATURE	
DATA ENTRY					
NAME		DATE		SIGNATURE	

NOTE: NO QUESTIONNAIRE WILL BE ACCEPTED WITHOUT COMPLETE FIELD CONTROL INFORMATION AND/OR UNSIGNED AS AND WHERE APPLICABLE.

Banks

Serial No: | | | | |

PREAMBLE

We are currently conducting a study w.r.t. A Comparative Analysis of Export Credit Insurance to Exporters and Banks by ECGC Limited: Implication on India's export performance

I want to ask for your permission to include you in our study. The interview will take about 20 minutes. You can decide not to answer any question and can stop the interview at any time. Everything that you report during the interview will be kept strictly confidential. Your responses would be combined with responses given by other respondents and would not be identified separately.

[Please note that no payment/ money/ fee to be paid to anyone in any manner for participating in the survey]

SECTION A: GENERAL INFORMATION ABOUT THE ORGANISATION

S.N.	Particulars	
1	**BANK DETAILS**	
1.1	Name of the Bank	
1.2	Branch Name	
1.3	Branch Address	
1.4	IFSC Code of the Branch	
1.5	City/ Town	
1.6	State	
1.7	Pin code	
1.8	Type of Bank	(1) Private Sector Bank (2) Public Sector Bank (3) Co-operative Bank (4) Any others: ______________________
1.9	Is this bank affiliated to/ associated with Govt.?	(1) Yes (2) No
1.10	Year of establishment of branch	
1.11	Contact Person's Name	
1.12	Contact Person's Designation	
1.13	Name of the Branch Manager	
1.14	How many functional units are devoted to export credit insurance (ECI) in your branch	

SECTION B: PARTICULARS ABOUT THE EXPORT INSURANCE SERVICES PROVIDED BY THE BANK

<table>
<tr><th>S.N.</th><th colspan="4">Particular</th></tr>
<tr><td>2.1</td><td>What are the export credit services do you provide?</td><td colspan="3">(1) Short-term working capital
(2) Medium- and long-term project finance
(3) Others (overseas investment finance)</td></tr>
<tr><td>2.2</td><td>As a provider of Export Credit, what are the unique features of your Bank? [MULTIPLE RESPONSES POSSIBLE]</td><td colspan="3">(1) Financing solutions and risk covers
(2) Supporting a domestic company’s export
(3) Assisting exporter
(4) Specialisation in their practice in foreign markets
(5) Any other, specify: __________________________
____</td></tr>
<tr><td>2.3</td><td>The percentage of your exporter clients not availing export credit insurance services of ECGC Limited</td><td colspan="3">per cent Share___________________________</td></tr>
<tr><td>2.4</td><td>The percentage of your exporter clients availing export credit insurance services from an insurer other than ECGC Limited</td><td colspan="3">per cent Share__________________________</td></tr>
<tr><td>2.5</td><td>Since when has your bank been availing credit insurance cover from ECGC Limited (year)</td><td colspan="3"></td></tr>
<tr><td>2.6</td><td>International work experience of the bank if any, in years</td><td colspan="3">(1) Yes, No. of years _________________________
(2) No.</td></tr>
<tr><td>2.7</td><td>Does your bank provide services through offline mode only or any other website? If so, give details.</td><td colspan="3">(1) Offline Mode
(2) Website, specify: __________________________</td></tr>
<tr><td>2.8</td><td>Currently, what is the share of your establishment’s online sales of export credit?</td><td colspan="3">per cent Share____________</td></tr>
<tr><td>2.9</td><td>Sector(s) to which your organisation currently provides export credit services. [Multiple Responses Possible]</td><td colspan="3">(1) Engineering goods
(2) Cotton
(3) Textiles and ready-made garments
(4) Chemical and pharmaceuticals
(5) Agriculture and plantation
(6) Leather and leather products
(7) Gems and jewellery
(8) Tea and coffee
(9) Spices
(10) Others (please specify): ______________________
____</td></tr>
<tr><td>2.10</td><td>Would you please mention the name of the top 5 sectors to which your bank provides export credit?</td><td colspan="3">(1) ____
(2) ____
(3) ____
(4) ____
(5) ____</td></tr>
<tr><td>2.11</td><td>What share of export credit does your bank provides under these stages of g manufacturing process?</td><td colspan="3">(1) Raw Materials________________________per cent
(2) Intermediate Goods___________________per cent
(3) Final Goods__________________________per cent</td></tr>
<tr><td>2.12</td><td>Does your bank provide export credit to the mentioned enterprises? [Multiple Responses Possible]</td><td colspan="3">(1) Micro-enterprises
(2) Small enterprises
(3) Medium enterprises
(4) Large enterprises</td></tr>
<tr><th></th><th></th><th>FY 2018-19</th><th>FY 2019-20</th><th>FY 2020-21</th></tr>
</table>

S.N.	Particular						
2.13	Total volume of loan to exporters provided by this branch ***(Rs. in lakhs)***						
2.14	Total volume of NPAs of your branch ***(Rs. in lakhs)***						
2.15	If the total volume of loans to exporters is declining, what is the current approach of the Bank to address this decline?	(1) ____________ (2) ____________ (3) ____________					
3	**What is the level of importance accorded by your bank to the risks identified below while obtaining ECGC covers?** *(Rate on a 5-point scale for importance level where not important=1, slightly important=2, moderately important=3, very important=4 and extremely important=5)*						
	List of Risks (Pre-shipment/Post-shipment)	**Extremely important**	**Very important**	**Moderately important**	**Slightly important**	**Not important**	**Don't Know/ Can't Say**
I	Protracted default of the exporter	5	4	3	2	1	9
Ii	Insolvency of exporters	5	4	3	2	1	9
Iii	Any other *(Please Specify)*: ____________ ____________	5	4	3	2	1	9
4	**Please rate the importance attached to various factors by your Bank in obtaining ECGC policies.** *(Rate on a 5-point scale for importance level where not important=1, slightly important=2, moderately important=3, very important=4 and extremely important=5)*						
	Importance for obtaining ECGC policies	**Extremely important**	**Very important**	**Moderately important**	**Slightly important**	**Not important**	**Don't Know/ Can't Say**
4.1	**Risk related issues**						
i	Relief to bank in capital provisioning due to ECGC cover	5	4	3	2	1	9
ii	Indirect risk protection to the bank due to ECGC cover availed by the exporter client on his overseas buyers	5	4	3	2	1	9
iii	Indemnification through claim paid by ECGC limited	5	4	3	2	1	9
4.2	**Time-related issues**						
i	Time taken to obtain ECGC Limited cover	5	4	3	2	1	9
ii	Time taken to obtain claims	5	4	3	2	1	9
iii	Issues related to limit acknowledgment	5	4	3	2	1	9
iv	Issues of limit approval	5	4	3	2	1	9
v	Specific approval	5	4	3	2	1	9
vi	Time for ascertainment of loss	5	4	3	2	1	9
vii	Issues with time for filing claim	5	4	3	2	1	9
viii	To eliminate capital loss in case of default	5	4	3	2	1	9
5	**Rate important reasons for opting against availing "Export Credit Insurance covers" (Fully or partially) in recent times.** *(Rate on a 5-point scale for importance level where not important=1, slightly important=2, moderately important=3, very important=4 and extremely important=5)*						

S.N.	Particular					
S.N.	**List of reasons**	**Extremely important**	**Very important**	**Moderately important**	**Slightly important**	**Not important**
i	Lack of funds	5	4	3	2	1
ii	Procedural obstacles	5	4	3	2	1
iii	Delays in claims settlement	5	4	3	2	1
iv	Features of cover not available	5	4	3	2	1
v	Issues with risks covered	5	4	3	2	1
vi	Issues with the premium charged	5	4	3	2	1
vii	Issues with approvals	5	4	3	2	1
viii	Alternative sources to obtain credit insurance	5	4	3	2	1
ix	The reluctance of borrowers to bear the cost of the premium	5	4	3	2	1
x	Bank mergers	5	4	3	2	1
xi	Less credit risk perceived	5	4	3	2	1
xii	Any other (specify): ____________________	5	4	3	2	1

6	**Please indicate expected and actual improvement in Bank performance after obtaining ECGC covers.** *(Rate on a 5-point scale for importance level where not important=1, slightly important=2, moderately important=3, very important=4, extremely important=5 and don't know/ can't say = 9].*		
	Factors	**Expected Improvement**	**Actual Improvement**
i	Expansion in the number of bank customers		
ii	Increase in the value of export credit going to existing customers		
iii	It is an effective risk management tool.		
iv	Any other (specify): ____________________ ________________________________ ___		

SECTION C: THE IMPACT OF MERGERs & ACQUISITIONs IN THE BANKING SECTOR AND ITS EFFECT ON THE EXPORT CREDIT INSURANCE BUSINESS

S.N.	Particular	
7.1	Has your bank undergone any mergers or acquisitions?	(1) Yes (2) No ***[GO TO NEXT SECTION]***
7.2	Have you seen a change in the number of customers seeking export credit	(1) No ***[GO TO 7.4]*** (2) Yes, an increase (3) Yes, a decrease
7.3	What are the top three types of sectors that have sought loan modifications after the merger or acquisition	(1) ________________________________ (2) ________________________________ (3) ________________________________

S.N.	Particular			
7.4	Has your bank experienced any change in the following? ***(Please circle)***			
	Particular	**Increased**	**Decreased**	**No Change**
i	Operating efficiency	1	2	3
ii	Productivity	1	2	3
iii	Profitability	1	2	3
iv	Exposure amount of significant accounts	1	2	3
v	The rise in export credit NPAs	1	2	3
7.5	Has merger impacted the choices available to your consumers?	(1) No (2) Yes, an increase in the available choices (3) Yes, a decrease in the available choices		
7.6	Do you expect lower profitability over the next six months?	(1) No (2) Yes (3) Not Sure		
7.7	Has the merger impacted the mentioned aspects? ***[Multiple Responses Possible]***	(1) Competition (2) Market share (3) Creates gaps in communication (4) None of above		

SECTION D: THE IMPACT OF THE PANDEMIC ON THE BANKING SECTOR AND ITS RESULTANT EFFECT ON THE EXPORT CREDIT INSURANCE BUSINESS

S.N.	Particular	
8.1	Do you think that pandemic has impacted your bank?	(1) Yes (2) No ***[GO TO Q9]***
8.2	Have you seen a change in the number of customers seeking export credit after the pandemic?	(1) No change ***[GO TO 8.4]*** (2) Yes, an increase (3) Yes, a decrease
8.3	What are the top three sectors that have sought loan modifications after the pandemic?	(1) ______________________________ (2) ______________________________ (3) ______________________________
8.4	Approximately what share of your exporters have shut down their businesses due to the COVID-19 either temporarily or permanently?	____________________per cent
8.5	Do you expect lower profitability over the next six months due to the pandemic?	(1) Yes (2) No (3) Not Sure
8.6	***[If Yes]*** how are you approaching cost-cutting in response to expected lower profits? ***[Multiple Responses Possible]***	(1) Reducing wages, bonuses, or benefits (2) Reducing employment (3) Reducing location-based costs (4) Cutting work hours (5) Reducing spending on cyber security/ IT (6) Other, specify: ________________ (7) Not applicable; we are not cutting costs
9	Please suggest some measures to ECGC Limited to improve the reach and use of its policies to increase their ECIBs ***[RECORD VERBATIM] further***	

S.N.	Particular
	______________________________ ______________________________ ______________________________

FIELD CONTROL INFORMATION

INVESTIGATOR					
NAME		DATE		SIGNATURE	
SUPERVISOR					
NAME		DATE		SIGNATURE	

VERIFICATION BY: (NAMES & SIGNATURES)				
	TL	**FE**	**FM**	**RE**
ACCOMPANIED				
SPOT/ BACK CHECKED				
SCRUTINISED				

DATA CODING					
NAME		DATE		SIGNATURE	
DATA ENTRY					
NAME		DATE		SIGNATURE	

NOTE: NO QUESTIONNAIRE WILL BE ACCEPTED WITHOUT COMPLETE FIELD CONTROL INFORMATION AND/OR UNSIGNED AS AND WHERE APPLICABLE.