Export credit insurance in India

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Exporters face a problem of not being paid by the overseas importer for various reasons. Hence exporters amount is blocked or delayed. The loss of amount brings a disaster for any exporter however he is financially sound, intelligent and competent. Financial institutions like commercial banks, Export-Import Bank of India do not provide financial assistance without insurance cover. Export credit insurance provided by ECGC helps in preventing the risks. With insurance cover, exporters can do business confidently and in the process can increase or expand and penetrate into overseas market significantly with out fear of loss. This paper examines export insurance system in the country and the role played by ECGC.

Exporters face a problem of not being paid by the overseas importer because of various reasons like out break of war or civil war, a coup or an insurrection, economic difficulties or balance of payment problems faced by importers country and commercial risks like insolvency or protracted default of buyer. All these reasons may block the amount or delay the amount. The loss of amount brings a disaster for any exporter however he is financially sound, intelligent and competent. Export credit insurance provided by ECGC helps in preventing the above risks. With insurance cover, exporters can do business confidently and in the process can increase or expand the business significantly with out fear of loss. This paper examines export insurance system in the country and the role played by ECGC.

In order to provide export credit insurance support to Indian exporters, the Government of India set up the Export Risks Insurance Corporation (ERIC) in 1957. The name of the Corporation was changed in 1964 as "Export Credit & Guarantee Corporation Limited" (ECGC) in 1964. To bring the Indian identity into the name, the Corporation's name was changed as the present Export Credit Guarantee Corporation of India limited in 1983. The Government of India owns ECGC. It works under the administrative control of the Ministry of Commerce and is managed by a Board of Directors representing Government, Banking, Insurance, Trade and Industry .

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ECGC Covers

1. Standard policy issued to exporters to protect them against payment risks involved in exports on short-term credit and small exporter policy issued for the same purpose to exporters with small exports.
2. Specific Policies designed to protect Indian firms against payment risks involved in a) export on deferred terms of payment, b) services rendered to foreign parties and c) construction works and turnkey projects undertaken abroad;
3. Financial guarantees issued to banks in India to protect them from risks of loss involved in their extending financial support to exporters at the pre-shipments well as post-shipment stages; and
4. Special schemes, viz., Transfer guarantee meant to protect banks which add confirmation to letters of credit opened by foreign banks, insurance cover for buyer's credit; Line of Credit, Overseas investment insurance and Exchange fluctuation risk insurance.

Marine Insurance

The British Marine Insurance Act, 1906, The Indian Contracts Act and certain provisions of the Insurance Act, 1938 used to govern the risks of sea. It was only in 1963; (August 1) Marine Insurance Act came into existence. This particular act codified the rules relating to marine insurance in India. Section 4 (1) lays down that "a contract of marine insurance may, by its express terms, by usage of trade, be extended so as to protect the assured against losses on inland waters or any land risk which may be incidental to a sea voyage. "

In 1973, the Government of India nationalized the general insurance companies and established the General Insurance Corporation (GIC). The following four subsidiaries of the GIC are authorized to carry on marine insurance business.

1. National Insurance Corporation, Calcutta
2. New India Assurance Corporation, Mumbai
3. Oriental Fire and General Insurance Company, New Delhi
4. United India Fire and General Insurance Company, Madras

Marine Adventure

A marine insurance policy covers the risks in building a ship, launching a ship or any adventure analogous to a marine adventure. Insurable property refers to ship, goods, and other movable items.

Marine Perils

Marine insurance policy covers only losses caused by marine perils. The losses or damage occasioned by these perils must be fortuitous or accidental; policy covers the accidents, which may happen, but not which must happen. The perils must happen during the insurance period.

Perils of Sea

1. Fire

Losses or damages caused by smoke, the heat of fire, damaged by water used to put out or prevent the spread of fire, lightening, explosion, negligence of the master or crew

2. Men of War Enemies

Losses or damages caused by hostile activities of enemy

3. Pirates, Rovers, Thieves

Losses or damages caused by passengers, rioters who attack the ship from the shore

4. Jettison

It refers to throwing the goods or cargo or a part of the ships equipment out of the ship in order to lighten the ship in an emergency and save it.

5. Letters of Mart & Counter Mart, Surprisals, Taking at Sea

Letters of Mart refers to state authorized commissions granted to individuals to give them authority to attack, an enemy's merchant shipping. Letters of Counter Mart are the counter blast to authorize reprisals for such attacks. Surprises refer to capture (take or obtain as a prize, by foresee, ticker, skill etc) Taking at sea refers to sopping and taking into port for examination on suspicion that it is caring contra band of war to the enemy.

6. Capture at Sea

It covers arrests, restraints, and detainment of kings, princes, and people.

7. Barratry

It includes wrongful or willfully

Trends of Performance by ECGC
Value of Business Covered during the period between 1991 and 2000-01

Rs. in Crores

Value of Business Covered	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-01
Standard picies and Transfer guarantees	9066	9948	11847	13997	17542	20345	20287	22972	23139	24633
Policies Pro-jects & term grarantees	742	651	1107	789	882	1014	1184	1551	1815	574
Guarantees Short term exports	44734	57120	72390	101653	111052	129860	144716	141365	148088	158962
Guarantees project & term exports	485	366	766	490	642	345	327	843	493	323
Total	55027	68085	86650	116929	130118	151564	166514	166731	173535	184482

Source : complied from Annual reports of ECGC committed by the master or crewmembers in contravention of their duties, thereby causing prejudice to the owner or character of the vessel. Examples may be setting fireto a vessel. or running an ashore, or smuggling are examples of barratry. The barratry must have been committed with the connivance of the owner.

All Others

Any other perils not covered by the above perils.

Conclusion

Export business is very risky and problem may fall from any side all of a sudden. Export Risk insurance enable exporters to avoid risks on payment of a very nominal fee. Export Credit Guarantee Corporation, the four subsidiaries of General Insurance Corporation, namely, National Insurance, Oriental insurance, New India assurance and United India are doing a predominant role. In order to increase foreign trade from country, the Government of India and the Private sector should work hand in hand. With Export risk insurance, exporters feel easy of doing business and feel pleasure of doing the business. Profits to exporters and risks to insurance companies. Looks nice for exporters always.

Premium Income

Standard policies & transfer guarantees	31	36.12	42.11	52.35	64.50	74.25	75.48	86.62	87.88	96.73
Policies projects Term exports	6.17	7.37	11.87	8.60	9.76	11.10	12.50	11.89	12.70	8.70
Guarantees Short term exports	47.09	58.79	76.38	97.56	128.02	146.00	171.69	192.18	200.78	218.66
Guarantees Project and terms exports	5.26	3.82	5.13	6.34	5.06	5.61	5.49	6.01	5.41	6.36
Total	89.51	105.10	136.49	164.84	207.34	236.96	266.16	296.70	306.77	330.45

Source : compiled from Annual Reports of ECGC

Claims Paid

Standard policies & transfer guarantees	26	22.52	45.44	11.10	21	21.87	21.5	22.87	28.71	30.5
Policies Project and term exports	27.49	41.13	66.79	148.76	106.97	75.14	30.39	17.49	0.71	5.62
Guarantees Short term exports	10.38	22.14	32.13	17.84	22.72	61.55	99.01	80.72	105.00	142.25
Guarantees Project and term exports	41.51	19.36	49.20	49.82	70.52	44.87	84.66	0.00	0.00	34.05
Tolal	105.35	105.14	193.56	227.52	220.87	203.33	235.76	121.08	134.42	212.49

Recoveries Made

Standard policies & transfer guarantees	26.57	1.16	0.85	4.18	0.72	2.15	3.88	1.07	7.02	6.47
Policies Project and term exports	6.97	15.55	9.96	16.52	5.80	0.16	1.12	0.54	0.00	2.78
Guarantees Short term exports	2.20	2.37	2.01	2.67	4.08–	4.98	4.31	5.81	16.18	12.20
Guarantees Project and term exports	0.01	0.00	24.95	29.25	36.77	22.36	11.14	0.00	0.08	0.00
Tolal	34.75	19.08	37.77	227.52	47.37	29.54	20.45	7.42	134.42	21.45

Commdity Wise Composition of ECGC Coverage 2000-01

Commodity	Per cent
Chemicals & Pharma	19.80
Engineering goods	16.06
Ready made goods	13.52
Leather	10.15
Cotton textiles	4.70
Marine products	2.81
Agriculture products	2.31
Woolen goods	2.06
Granite	1.66
others	26.88

Counary Wise Cover (Short term Exports)

Rs. in crores

Country-wise cover	Rs. in crores
USA	5945.8
UK	2581.9
Germany	2290.6
Italy	1157.3
Oman	1035.0
France	1001.68
Netherlands	777.20
Japan	715.44
Singapore	697.33
Hong kong	565.82
Others	7847.6

Commodity wise claims paid

In per cent

Commodity	Claim paid in per cent
Engineering goods	17.92
Cotton textiles	12.35
Marine products	11.92
Chemicals	9.63
Readymade garments	8.81
Leather products	5.63
Carpets coir rug	4.40
Granite	4.15
Spices	3.89
Tea and coffee	1.79
Gems and jewellery	0.89
Others	18.61

Country-wise cover (Project and term exports) 2000-01

(Rs. in crores)

Country	Rs. in crores
Saudi Arabia	103.34
Kuwait	66.36
Bangladesh	54.81
Zambia	61.22
Qatar	22.52
Ethiopia	17.48
Uganda	12.60
Abu dabi	12.40
Maldives island	10.62
Iran	10.08
Others	34.90

Country-wise claims (Short term exports 2000-01) in 2000-01

Country	Per cent
USA	19.19
Argentina	14.19
UK	11.64
Germany	11.02
UAE	6.90
South Africa	5.37
Ivory coast	3.59
France	2.13
Hong kong	2.10
Turkey	2.00
Sri Lanka	1.41
Others	20.46

Total income, Claims and recoveries during the period between 1957 and 2000-01

(Rs in crore)

Total premium income	Total claims	Total recoveries
2442.71	2266.4	370.25