

# **SINOSURE to Serve CAREC Transport & Trade Facilitation**

## **— Overview of Export Credit Insurance Service**

September 3<sup>rd</sup>, 2014



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**中国出口信用保险公司**  
CHINA EXPORT & CREDIT INSURANCE CORPORATION

# 1. Overview of SINOSURE

China Export & Credit Insurance Corporation, (or SINOSURE), is China's only policy insurance company specialized in credit insurance. The main objective of SINOSURE is to implement national diplomatic, foreign economics & trade, finance and industrial policies, and provide credit insurance services to support Chinese companies to expand their export and "go overseas". SINOSURE is also dedicated in the establishment of China's credit system, increasing commodity distribution efficiency, improving market environment, promoting credit sales, and business development.



# 1. Overview of SINOSURE

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## History of SINOSURE

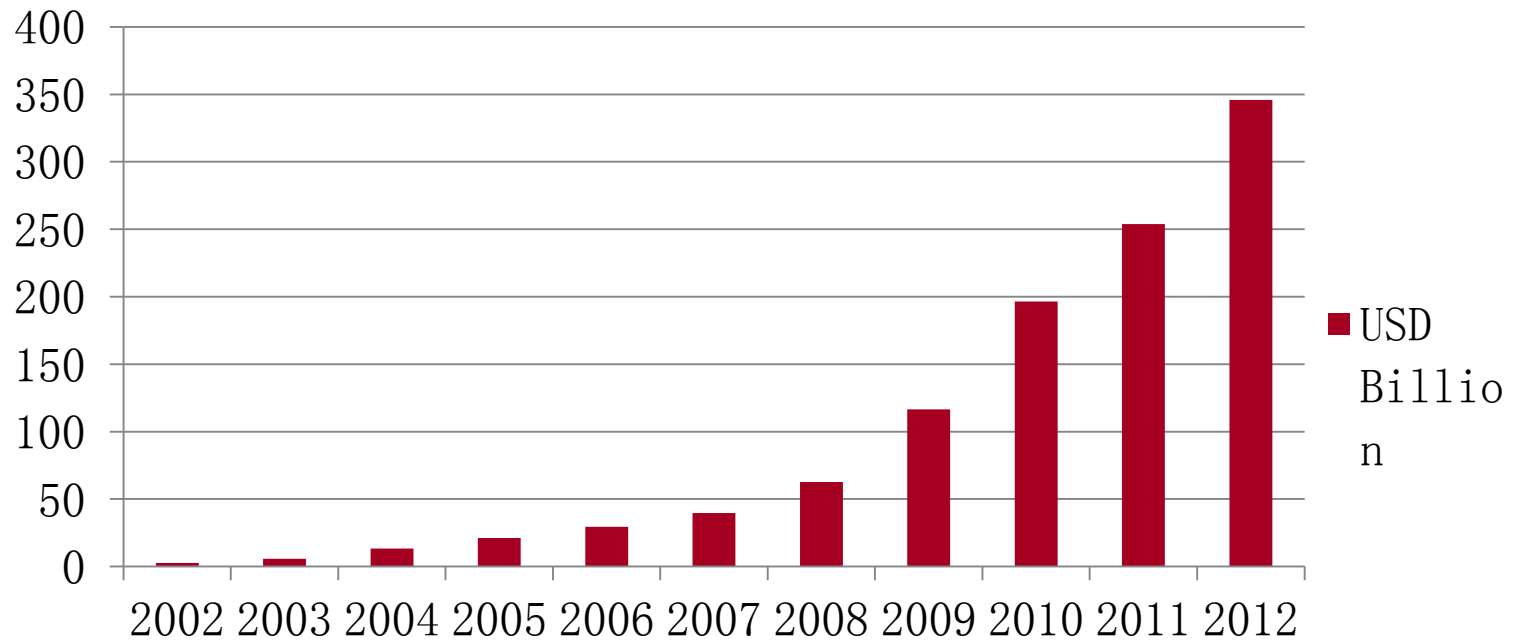
- 1、 In 1998, the Chinese government assigned China People' s Insurance Corporation to provide export credit insurance service.  
Highlight: mainly on short-term export credit insurance
- 2、 In 1994, China Import & Export Bank was established, and also provided export credit insurance services.  
Highlight: mainly on mid and long-term export credit insurance
- 3、 On 18<sup>th</sup> of December, 2001, **China Export & Credit Insurance Corporation was established.**  
Highlight: new services such as overseas investment insurance, guarantee services, domestic credit insurance, import advance payment insurance

Currently, SINOSURE is the world biggest government export credit agency. Total sum insured in 2012 was USD 345.8 billion.



# 1. Overview of SINOSURE

## Business Development



## 2. Short-term Export Credit Insurance

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- **Short-term export comprehensive cover insurance** - to cover general export trade foreign payment risks, i.e. risks involving collecting payment for exporting capital-light goods, such as consumer products, industrial raw material and components, single piece equipment, etc.
- **Short-term contract specific insurance** - to cover exchange collection risks in contracting engineering projects, export contract of complete set of equipment, and cost investment risk. It can be expanded to cover risk of construction equipment and tools breakage.



## 2. Short-term Export Credit Insurance

— Short-term export comprehensive cover insurance: coverage

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### Payment Terms

Documents against payment D/P  
Documents against acceptance D/A  
On account OA (T/T)  
Letter of credit L/C

### Credit

#### Limit

From the date of delivery  
till the due date of payment  
Not-exceed 360 days in general  
(can be extended to 720 days)



## 2. Short-term Export Credit Insurance

### — Short-term export comprehensive cover insurance: risks covered

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#### **Commercial risks (buyer credit risk)**

Buyer/Issuing bank bankruptcies or insolvencies

Buyer defaults/Issuing bank non-acceptance

Buyer payment default

Buyer rejected goods and refused payment

#### **Political risk**

Foreign exchanged restriction

Trade restriction

Legitimate import permit rescinded

New laws, acts or regulations promulgated, or property forfeited,  
or payment delayed

War, domestic conflict, revolution or riot that prohibits buyer from  
carrying out the contract





## 2. Short-term Export Credit Insurance

### — Short-term export comprehensive cover insurance: Underwriting

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Policy schedule - universal coverage, i.e. all eligible exports of a company within a year are all insured. The policy will set out the indemnity limit, which is the maximum obligation of the insurer. The insurance can be renewed when the one year term expires.

Buyer's cover - each export buyer applies for a credit limit. The insurer will cover obligations for this buyer's export within this limit.

Exporter's cover - exporter reports the previous month's eligible export, and pays the premium based on the insurance rate table.

Indemnity proportion - up to 90% in general, and up to 80% for buyer's rejection risk

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## 2. Short-term Export Credit Insurance

— Short-term contract specific insurance:  
contract insured

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Performance period - up to 2 years in general, and not exceed max. 3 years.

Contract value - above USD 1 million, with no less than 15% advance payment

Payment term - progress payment or deferred payment no longer than 2 years



## 2. Short-term Export Credit Insurance

— Short-term contract specific insurance:  
underwriting risks

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### Commercial risks (buyer or bank credit risks)

Buyer/bank bankruptcies or insolvencies

Buyer /bank payment default

Business contract terminated or unable to be implemented due to  
buyer' s breach

### Political Risks

Foreign exchanged restriction

Trade restriction

Legitimate import permit rescinded

New laws, acts or regulations promulgated, or property forfeited,  
or payment default

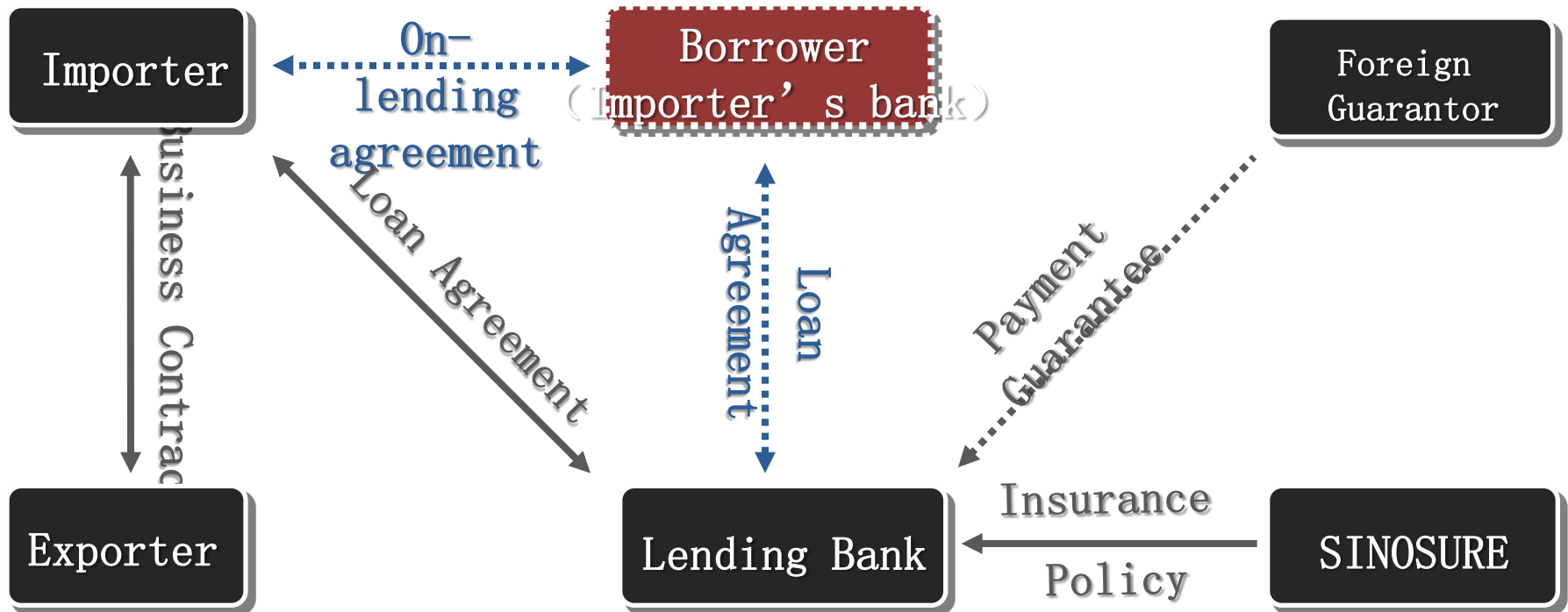
War, domestic conflict, revolution or riot that prohibits buyer  
from honoring the contract

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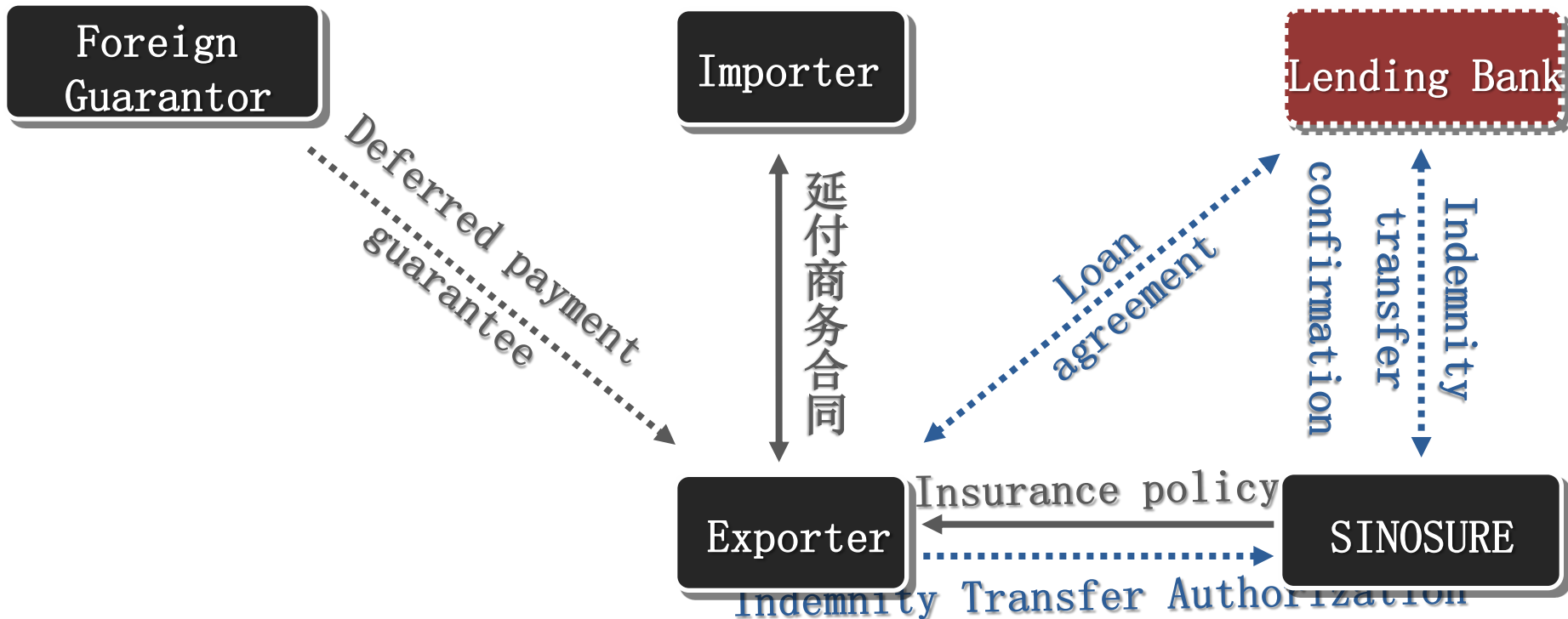
# 3. Mid & long-term export credit insurance – buyer's credit

## Export Buyer's Credit Insurance



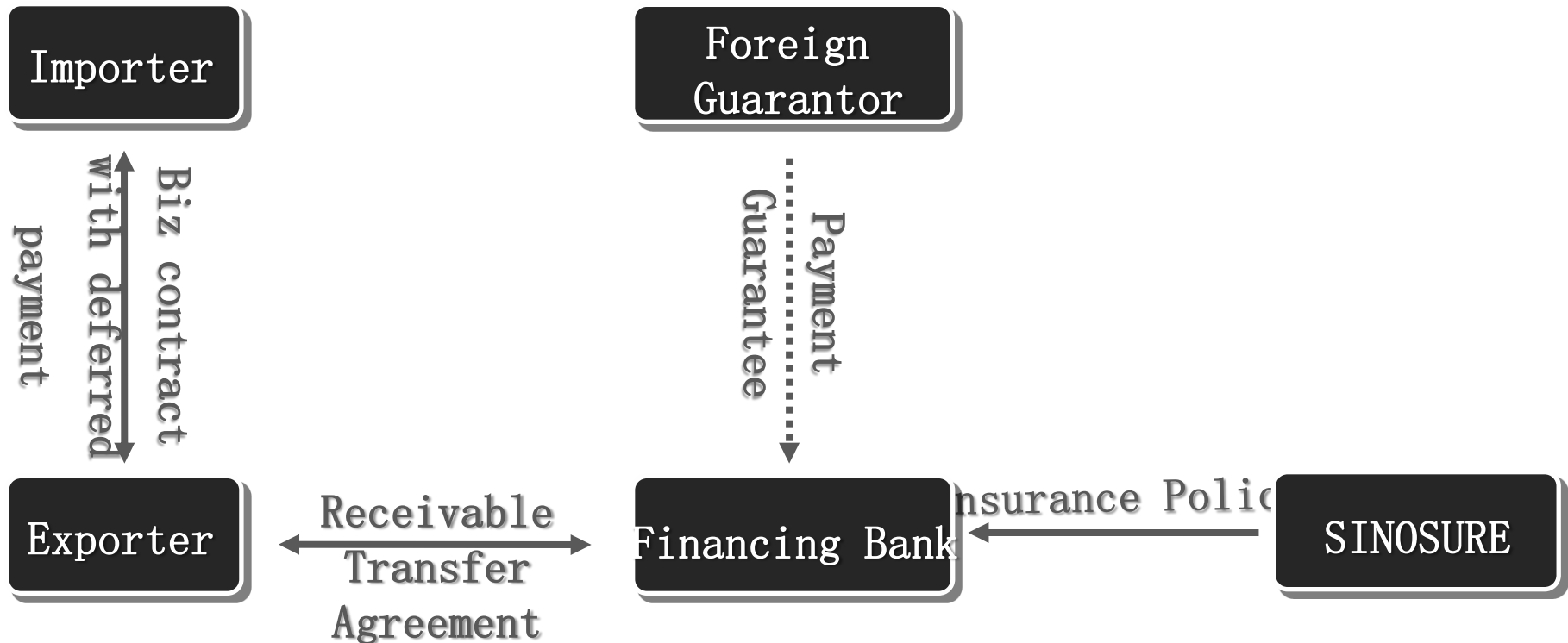
# 3. Mid & long-term export credit insurance – seller's credit

## Export Seller's Credit Insurance



# 3. Mid & long-term export credit insurance – refinance

## Refinance Insurance



# 3. Mid & long-term export credit insurance – comparison

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## Comparison of three mid & long-term export credit

	Export buyer' s credit insurance	Export seller' s credit insurance	Deferred payment contract refinance insurance
Insurant	Lending bank	Exporter	Refinance bank
Object of Insurance	Loan agreement	Business contract	Proof of receivable
Indemnity proportion	95%	90%	95%
Premium calculation basis	Loan principal + interest	Deferred payment + deferred interest	Buyout receivable principal and interest
Payment term of business contract	Payment on demand	Deferred payment	Deferred payment

## 4. Overseas investment insurance - products

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1. Equity investment insurance - to cover company's equity shares in its overseas investment project company
2. Creditor's right investment insurance
  1. Shareholder's loan insurance - to cover company's shareholder's loan in its overseas investment project company
  2. Bank loan insurance - to cover bank's loans invested in overseas projects
  3. Loan payment insurance - to cover borrowing company's payment of bank loans that are used in overseas investment or in overseas investment companies





# 4. Overseas investment insurance

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## Underwriting risk 1 – War and political riots

War, revolution, turmoil, coup, civil war, insurrection, terrorist act, or political riots deemed by the insurer in the host country that leads to

1. asset damage or diminish
2. unable to operate permanently

### Cases

- Civil war in Syria
- Civil war in Libya



# 4. Overseas investment insurance

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## Underwriting risk 3 – Foreign exchange restrictions

1、 Host country government bans or restricts investors to convert the local currency into freely convertible currencies or to remit out of the host country.

2、 Apply discriminate exchange rate

in case of liquidating withdrawal investment or collecting dividends, interest or paying debt.

For instance

- Brazilian Real crisis in 1999
- The Turkish financial crisis in 2001
- The Argentine currency crisis in early 2002



# 4. Overseas investment insurance

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## Underwriting risk 4 – Disruption of operations ( War and political riot supplementary insurance)

Damage or loss of investment project assets, or personnel evacuation caused by wars or political riots that leads to temporary disruption or full termination of construction/operation of the investment project.

Scope of compensation – Happened during disruption

1. operation revenue loss
2. reasonable regular maintenance cost
3. loss reduction cost (to restore operation or to move operation venue)

The sum insured and premium of this supplementary insurance is calculated separately.

Case – The investment company had to temporarily suspend a hydropower station project and withdrew from the area due to the conflict between the local government and the local ethnic minorities.



# 4. Overseas investment insurance

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## Underwriting risk 5 - Default (1)

Host country government or entities acknowledged by the insurer breaches or refuses the general indirect monetary payment obligations under the agreement on the investment project with the insurant or project company, and refuses to indemnify the insurant or project company in the amount according to the legal or arbitrary ruling made by relevant dispute settlement mechanism.

Case - During the 1997 Asian Financial Crisis, a certain Asian government terminated a dozen power station concession agreements, and caused huge losses of foreign investors in that country.



# 4. Overseas investment insurance

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Underwriting risk 5 - Default (1)

Example - Insurable BOT provisions

- 1. Buy-back provisions in force majeure
- 2. Host government's indemnity obligation in case of changes in laws
- 3. Water usage right
- 4. Land usage right
- 5. Commitment of non-discrimination
- 6. Concession term



# 4. Overseas investment insurance

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## Underwriting risk 5 - Default (2)

Default of which monetary payment or insured obligation can be identified unconditionally

For instance, the Take or Pay contract of the investment company, as there is definite sum in the contract, needs not to go through lawsuit or arbitrary. (In breach of specific contract provision of a contract that does not have definite monetary payment obligations, default indemnity sum can only be determined through legal procedures or arbitrary.)

For instance:

Take or Pay power purchase agreement under BOT power plant projector



## 4. Overseas investment insurance - overseas lease insurance

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Overseas leasing insurance - targeted at cross-border leasing conducted by qualified leasing companies or financial institutions, to cover the risk of lessor's rent loss in case of political risks in the country where the lease operation is conducted, or due to lessee's credit risk

Political risks - war, commandeering, foreign exchange restriction

Lessee default - lessee pay default or bankruptcy



Exports of locomotives, automobiles, engineering equipment, etc. are suitable for overseas lease insurance

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CHINA EXPORT & CREDIT INSURANCE CORPORATION

## 5. Other services – domestic credit insurance and import advance payment insurance

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### Domestic trade credit insurance

Insurance object - receivables or advance payment, payment terms generally within 180 days

Risks - buyer default, bankruptcy, no delivery of goods or money-back

### Import advance payment insurance

Insurance object - import advance payment, with in a term of 360 days

Risks - losses caused by the seller who doesn't deliver or refund due to the seller's commercial risk or political risk





## 5. Other services - guarantee

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**Financing guarantee** - provide guarantee to the company's borrowing from banks to carry out its export contract or investment, with the prerequisite that the company has export credit insurance.

**Non-finance guarantee** - provide the company with letter of guarantee for its bidding, advance payment, performance bond, etc., with the prerequisite that the company has export credit insurance.



# 5. Other services – Credit investigation and commercial debt collection

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Credit investigation – Country/Regional report

Sector report

Business and banking report

Commercial debt collection: insured creditor's right and uninsured creditor's right

No gain no pay

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~~Risk management and financial planning~~



## 6. Proposals and visions for future cooperation — Role of export credit insurance

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indemnify losses - a total of USD 4.344 billion  
insurance proceeds paid

- To provide financial indemnity to insurant on loss of creditor's rights and investment. Also to act as a policy financial institution to assist insurant resolving dispute with the host country through multiple channels, and to prevent political risks from happening.

Facilitating financing - facilitated 160+ companies  
to raise a total CNY 1.5 trillion finance from  
banks

- By providing insurance, SINOSURE increases significantly the financial safety of creditor's rights and investment, so that companies can access to more favorable credit support. SINOSURE actively participates in international capital market operations, and maintains close contacts with numerous reputable international financial institutions. SINOSURE can provide investors with multi-channel and diversified financing support.



# 6. Proposals and visions for future cooperation

## — Role of export credit insurance (cont'd)

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### Market development

- With the risk protection from export credit insurance and expert risk management service, companies can be more confident in developing new market and investing in new projects.

### Credit enhancement

- The export credit insurance provides coverage of specific risks, thus transfers risks borne by export companies and financing banks. It increases credit rating of the company, the bank and the insured creditor's right and investment, and makes the related bonds, stocks and trust products more attractive to investors. This shall make the companies and banks more competitive and increase their development potential.

### Risk management

- SINOSURE utilizes its work connections with government agencies and international associations to share information and cooperate on business. SINOSURE also assists companies and banks to improve their risk management using its rich insurance experience and advance risk management technologies.



# 6. Proposals to cooperate with CFCFA

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## Visions - SINOSURE

- to sign Agreement on Strategic Cooperation with CFCFA
- to closely cooperate with all CFCFA members on their businesses
- to cooperate on all aspect of operations
- to explore innovative and in-depth services to facilitate CAREC trade and transportation
- to promote and expand cooperation among all member courtiers to benefit all



# Thank you very much!

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