



EXPORT SAFELY WITH EXPORT CREDIT INSURANCE

INTRODUCTION

The Central Bank of Barbados established the Export Credit Insurance Scheme in 1978 to promote and facilitate the growth of Barbados' manufactured exports. The Scheme provides insurance cover against losses arising out of non-payment by overseas buyers for Barbadian manufactured goods.

Under the Export Credit Insurance Scheme three types of policies are available : the Global Shipments' Policy, the Specific Shipments' Policy, and the Contracts' Policy. Recently a fourth policy was introduced – the Services Policy.

GLOBAL SHIPMENTS POLICY

The Global Shipments Policy protects the exporter from the date of shipment and in most cases covers comprehensive risks. (i.e. commercial and political risks). However, where exports are to government departments or to associate firms or where exports are to be effected against a confirmed irrevocable letter-of-credit, the policy may be endorsed to cover political risks only.

The Central Bank, in the event of a default, will cover losses to the extent of 90% in case of political risks and 80% in case of commercial risks. In other words, the exporter will be required to participate in the losses to the extent of 10% in case of political risks and 20% in case of commercial risks.

The policy will be issued for a period of one year and will apply to all shipments of goods from Barbados (except those shipments specifically excluded in Schedule A to the policy) made by the exporter during that period. Shipments to buyers in any country (except those countries specifically excluded in the Country Limitation Schedule attached to the policy) will be covered.

OTHER POLICIES

The Credit Insurance Scheme also offers other policies. The Specific Shipments Policy protects an exporter who may not have regular exports of a repetitive nature but may wish to cover single transactions. The Contracts Policy protects the exporter from the date of contract until the date of payment. It covers goods which are made specifically for the original buyer. These policies are available on request.

The new **Services Policy** covers such services as technical and professional contract services, royalty payments, patent fees, aircraft and drydock repairs.

HOW TO OBTAIN A POLICY

To obtain an Export Credit Insurance Policy the exporter is required to submit a proposal on the prescribed form to the Central Bank. The proposal requires the exporter to describe the goods to be

Without the protection of export credit insurance export losses could have serious consequences for the exporter.

LIMITS OF LIABILITY

The total liability of the Central Bank in respect of shipments covered under the policy will be limited to the amount of the maximum liability stated in Schedule A attached to the policy.

The amount of the credit limit for any particular buyer will be the amount specified by the Central Bank in the Approved Credit Limit Notification to the exporter.

CREDIT LIMITS ON OVERSEAS BUYERS

The exporter will be required to apply to the Central Bank on the prescribed application form for a credit limit on each buyer to be covered under the policy. The amount of the credit limit for any particular buyer will be the amount specified by the Central Bank in the Approved Credit Limit Notification. The Central Bank will not be liable for any amounts in excess of the credit limit.

There is an annual non-refundable fee of \$10.00 in respect of the credit limit granted on each overseas buyer.

CREDIT INFORMATION

The exporter will be required to obtain as much information as possible on the overseas buyers when seeking new business. This information should be included in the application for a credit limit on the buyer.

The Central Bank may use various sources to obtain credit information on the buyer and to prepare a credit profile for purposes of determining credit limits. Ordinarily, shipments to new buyers should be either on Letter-of-Credit or Sight Draft. Terms may be subsequently extended gradually in accordance with the buyer's performance.

SPREAD OF RISKS

Exporters often enquire whether they can insure only those transactions which are likely to experience payment difficulties. In response to this query it should be noted that the 'spread of risk' concept which is applicable in all other fields of insurance is also applicable to export credit insurance. This concept requires the exporter to offer for insurance cover a mix of transactions which affords the insurer an adequate spread of risks (i.e. both low and high risk transactions must be offered for insurance cover). In practice the Central Bank's Export Credit Insurance and Guarantees Department makes an assessment of the risks associated with the transactions to be offered for insurance cover and by mutual consent with the exporter agrees on the transactions that will form the basis of the insurance contract. Thus, except for those transactions to be excluded by mutual consent, the exporter is required to insure all other transactions.

DUTIES OF EXPORTER

The exporter will be required to deliver to the Central Bank on or before the 15th day of each calendar month a declaration on the prescribed form of the Central Bank stating:

- (i) all eligible shipments made by him during the previous month, and

Ordinarily the Central Bank will pay claims after a 'waiting period' of four (4) months from the due date of payment. However, in some cases (e.g. insolvency, diversion of voyage, transfer delays) the Central Bank will pay claims one month after the ascertainment of loss. Claims must be supported by satisfactory evidence of loss. This merely requires the exporter to show that the goods were shipped and that no payment was received.

The Central Bank will not be liable for the payment of a claim unless such claim has been received in writing on the prescribed form within twelve (12) months of the date on which the loss was sustained.

The Central Bank will not be liable for loss which arises due to any dispute between the exporter and the buyer and/or due to the claim of the buyer that he is justified in withholding payment of the contract price of the gross invoice value of the goods or any part thereof.

RECOVERIES

Any sums recovered from the buyer or any other source by the exporter or the Central Bank will be divided between the Central Bank and the exporter in the same ratio in which the loss was shared. All recoveries shall first be deposited with the Central Bank.

Any expenses incurred by the exporter with the consent of the Central Bank or by the Central Bank for the purpose of effecting recoveries from the buyer

or any other source shall be a first charge on any amounts recovered.

ASSIGNMENT OF POLICIES

The policy provides for assignment of the benefits of the entire policy or the assignment of the benefits of individual shipments made under the policy. If the exporter is dealing with only one bank, it would be advisable to assign the benefits of the entire policy in favour of that bank. If the exporter deals with more than one bank, he could assign the benefits of individual shipments, under the policy, to a particular bank. To assign a policy, the exporter will be required to complete the prescribed assignment letter in triplicate and after having it signed by the commercial bank, submit it to the Central Bank.

The assignment of the Policy may not be necessary where the exporter has Post-Shipment coverage under an Export Guarantee.

One of the principal benefits to an exporter of assigning his insurance policy or having post-shipment cover under an export finance guarantee is to be able to discount export bills receivable and obtain immediate cash. Commercial banks which provide this facility to exporters can in turn make use of the Central Bank's Export Rediscount Facility which allows exporters to obtain export finance at minimum cost.

BACK TO BACK INSURANCE AND GUARANTEE COVERAGE

It is prudent for exporters to have both insurance and guarantee cover. Where an exporter obtains a loan from a commercial bank to finance the production of goods for export or to finance export receivables, and where such a loan is guaranteed by the Central Bank, the guarantee will protect the commercial bank for as much as 90% of any loss incurred. However, the commercial bank and/or the Central Bank would still have recourse to the exporter for the amount of the indebtedness outstanding. It is therefore very important that the exporter be covered by export credit insurance in order to ensure that he can meet fully any obligation to the commercial bank in the event that the overseas buyer should default or become insolvent.