

**For the Students of B. Com. Sem IV**

**Subject: Foreign Trade of India (Unit III)**

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## **Export Credit Guarantee Corporation Ltd**

Export Credit Guarantee Corporation of India (ECGC) is an export promotion organisation which is administered by the Government of India through the Ministry of Commerce and Industry. It is wholly owned by the Indian Government and is managed by a Board of Directors representing Government, Banking, Insurance, Trade, Industry, etc. Its financial aspects are managed by an Asset Management Company comprising representatives of the Government, Reserve Bank of India, banking, insurance and exporting community.

It was set up in July 1957 with the intention to promote exports by offering credit risk insurance and related services to Indian exporters. Initially it was as Export Risks Insurance Corporation (ERIC) in July 1957 and then it was transformed into Export Credit and Guarantee Corporation Limited (ECGC) in 1964 and to Export Credit Guarantee Corporation of India in 1983. Its head office is situated in Mumbai, Maharashtra.

Name of this organization is again slightly changed from EXPORT CREDIT GUARANTEE CORPORATION OF INDIA LIMITED to Export Credit Guarantee Corporation Limited (ECGC Ltd.) with effect from 8 August 2014 as per certificate issued by Deputy Registrar of Companies, Registrar of Companies, Mumbai.

ECGC is committed to improve the competitive ability and strength of Indian exporters by offering them credit insurance covers facility. Over the years ECGC has considered various export credit risk insurance products suiting the needs of Indian exporters.

This corporation was set up for ensuring smooth functioning of Indian exporters by minimizing the risks associated with the payments emanating from other nations. This insurance cover which is provided by ECGC also assists the Indian exporters with better access to the credit facilities from banks and other financial institutions. ECGC is the 5th largest credit insurance company dealing with the exports of any country.

Export Credit Guarantee Corporation of India offers protection against the non-payment by an importer. Due to this insurance cover, the financial institutions are better placed for lending and providing larger credit to exporters. ECGC also offers credit ratings as well as shares the information on various countries and risks associated with doing business with/in those countries. ECGC is the seventh largest credit insurer of the world in terms of coverage of national exports. The present paid up capital of the company is Rs.1200 crores and the authorized capital is Rs. 5000 crores.

## **Significance and Objectives of the organization**

The economic environment in the nation and abroad as well is much volatile and subject to many risks which can arise in the economy. With respect to business transactions between the different nations traders are always prone to these risks. The risks have assumed large proportions today due to the far reaching political and economic changes that are sweeping the world. Economic difficulties or trade problems may lead a country to impose restrictions on either import of certain goods or transfer of payments for goods imported. In addition the exporters have to face commercial risks of insolvency or protracted default of buyers. Export Credit Guarantee Corporation of India Ltd. has proved its excellence in providing export credit insurance and trade related services to Indian exporters. This organization has significantly offered insurance protection to exporters against payment risks. It also helps export companies in obtaining export finance from banks/financial institutions. Moreover the corporation also facilitates by providing information on different countries with its own credit ratings as well as credit-worthiness of overseas buyers.

The main objectives of the corporation can be summarized under the following points:

1. To encourage and facilitate globalization of India's trade.
2. To assist Indian exporters in managing their credit risks by providing timely information on worthiness of the buyers, bankers and the countries.
3. To protect the Indian exporters against unforeseen losses, which may arise due to failure of the buyer, bank of problems faced by the country of the buyer by providing cost effective credit insurance covers in the form of Policy, Factoring and Investment Insurance Services comparable to similar covers available to exporters in other countries.
4. To facilitate availability of adequate bank finance to the Indian exporters by providing surety insurance covers for bankers at competitive rates.
5. To achieve improved performance in terms of profitability, financial and operational efficiency indicators and achieve optimum return on investment.

6. To develop world class expertise in credit insurance among employees and ensure continuous innovation and achieve the highest customer satisfaction by delivering top quality service.
7. To educate the customers by continuous publicity and effective marketing Functions.

## **Functions of ECGC**

ECGC offers a series of credit risk insurance schemes for the Indian exporters against the losses incurred in the export of their goods and services. It also provides Export Credit Insurance covers to the banks and other financial institutions for enabling exporters to find better services from them. It offers Overseas Investment Insurance to the Indian companies investing in Joint Ventures (JVs) abroad in the form of loan or equity.

This organisation performs the following functions:

1. Provides a range of credit risk insurance covers to exporters against loss in export of goods and services.
2. Offers Export Credit Insurance covers to banks and financial institutions to enable exporters to obtain better facilities from them.
3. Provides Overseas Investment Insurance to Indian companies investing in joint ventures abroad in the form of equity or loan
4. Provides guidance in export related activities
5. Provides information in different countries with its own credit ratings
6. Allocates the export finance from banks/financial institutions
7. Helps exporters to come out of their bad debts
8. Provides information on credit worthiness of overseas buyers
9. Provides overseas investment insurance

## **Insurance Covers provided by ECGC**

. ECGC offers several types of insurance covers and these could be classified into the following groups:

- a. Standard policies that protect Indian exporters against overseas credit risks
- b. Construction works and services policies
- c. Financial Guarantees
- d. Special policies

ECGC offers following types of guarantees to the exporters:

- i. Export finance guarantee
- ii. Packing credit guarantee
- iii. Post-shipment export credit guarantee
- iv. Export production finance guarantee
- v. Transfer guarantee
- vi. Export performance guarantee

Over the years the Export Credit Guarantee Corporation of India has proved to be useful to Indian exporters. It pays 80 to 90 per cent of loss incurred by Indian exporters. The remaining 10 to 20 per cent of the loss alone has to be borne by the exporters.

However, it doesn't cover the risks mentioned below:

- i. Exchange loss due to fluctuations in exchange rates
- ii. Failure on the part of the buyer abroad to obtain the import authorization or exchange
- iii. A default of the exporter or his agent
- iv. Any loss which arises due to dispute in quality
- v. Risk which is inherent in the nature of goods

### **Insurance Policies and Guarantees issued by ECGC**

The covers issued by ECGC can be divided broadly into four groups:

- (1) Standard policies issued to exporters to protect them against payment risk involved in exports on short term credit;
- (ii) Specific policies designed to protect Indian firms against payment risk involved in (a) exports deferred terms of payment, (b) services rendered to foreign parties; and (c) construction works and turnkey projects undertaken abroad;
- (iii) Financial guarantees issued to banks in India to protect them from risks of loss involved in the extending financial support to exporters at the pre-shipment as well as post shipment stages; and

(iv) Special schemes, viz.. Transfer Guarantee meant to protect banks which add confirmation to letters of credit opened by foreign banks. Insurance cover for Buyers credit, lines of credit. Overseas Investment Insurance and Exchange Fluctuation Risk Insurance.

### **Risks Covered**

Under its policies intended to protect the exporters against overseas credit risks. ECGC bears the main burden of the risk and pays the exporters 90 per cent of his loss on account of commercial and political risks.

### **Commercial Risks**

(i) The insolvency of the buyer.

(ii) The buyer's protracted default to pay (within 4 months of due date for goods accepted by him); and

(iii) In some special circumstances specified in the policy, buyer's failure to accept the goods, when such non acceptance is not due to the exporter's actions.

### **Political Risks**

(i) Restriction on remittances in the buyer's country or any government action which may block or delay payment to the exporter;

(ii) War, revolution or civil disturbances in the buyer's country

(ii) New import licensing restrictions or cancellation of a valid import licence in the buyer's country;

(iv) Cancellation of export licence or imposition of export licensing restrictions in India (under contracts policy);

(v) Additional handling, transport or insurance charge due to interruption or diversion of voyage which cannot be recovered from the buyer, and

(vi) Any other cause of loss occurring outside India, not normally insured by commercial insurers, and beyond the control of the exporter and the buyer.

## **Performance of ECGC**

Performance of ECGC can be assessed with respect to number of insurance covers, Maximum Liability of the corporation, Total business covered and Total income earned through premium. The performance can be examined with these parameters as under:

1. In the Financial Year 2017-18 total number of insurance covers were 34,740 which were decreased to 31,751 in the F.Y. 2018-19.
2. Total Maximum Liability of ECGC was recorded at Rs. 96,101 Crore in the F. Y. 2017-18 which slightly increased to Rs. 97,871 Crore in the financial year 2018-19.
3. Total Business Covered by ECGC was valued in terms of Risk Value which stood at Rs. 6,41,449 Crore in the F. Y. 2017-18. It is recorded at Rs. 6,57,549 Crore in the F. Y. 2018-19.
4. Total Premium Income received by ECGC was Rs. 1,240 Cr. in the Financial Year in the F. Y. 2017-18 which was slightly increased to Rs. 1,247 Crore in F. Y. 2018-19.