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## Export Credit Insurance in the Russian Federation

*The article is devoted to the study of the activity of the Export Insurance Agency of Russia (EXIAR). It describes the results of the Agency's activities, its key financial indicators, possible procedures in the process of EXIAR privatization, directions of engaging Russian exporters in the international market as well as measures to improve the assessment and financial sustainability of EXIAR. This article was prepared in conformity with the results of the research conducted by the Insurance Department of the Financial University under the Government of The Russian Federation in 2014 at the expense of budget funds and in accordance with the state assignment.*

**Keywords:** Export-import Insurance, Export Insurance Agency of Russia, key indicators of EXIAR, directions of development of EXIAR.

In 2014 the scientific research of export-import insurance was conducted by the Department of Insurance at the Financial University at the request of the Russian Government. The main tasks included:

- Identifying the factors that determine situation of risk in which a legal entity operates, based on the study of major trends in the development of integration and globalization;
- Identifying the main risks that could have an adverse impact on the activities of the entity involved in the establishing of international economic relations;
- Analyzing the risk interaction effects (their synergy, or accumulation) in the integrated risk formation process of the subject matter of international economic relations;
- Determining the need for financial guarantees, adequate to the risks which will be the most relevant for participants in international economic relations.

Conducting a reasearch on the activities of Export Insurance Agency has become one of the main goals. Its aim was to examine the factors determining the need for financial guarantee of foreign economic activity, export-import risks and the place of commercial insurance to protect the export credits, modern world trends of export insurance, the practice of international agencies on insurance of export-import loans as well as operations and financial state of EXIAR.

The foreign trade turnover in 2014 amounted to US\$784,578 mln.<sup>1</sup> The main factors determining the demand for financial guarantees of foreign economic activity – the subjects of the international economy – include: the external environment of foreign economic activity; increased uncertainty; soaring risk component; composition, structure and changes of foreign economic activity; access to the international market of middle and small businesses along with transnational corporations; a corresponding expansion of the risks with low resistance to them; changes in business strategy and technology of FEA participants; the emergence of new threats related to the risks incurred by the information technology; synergistic impact on changes in the risk exposure of business entities.

The main risks of entering a foreign market include: protectionism (the presence or introduction of tariff and non-tariff barriers), information risk, reputation risk of the country-producer, currency, after-sales service, loss of know-how, limited impact on industrial and economic strategy of partners, insufficient managerial control of the company's activities.

There is an objective basis for a two-level protection organization of export credits. Determination and optimization of the boundaries of export credit insurance protection include:

- Identification and predictability of non systemized risk;
  - Insurance capacity, risk portfolio, quality and maturity of insurance assets;
  - Importance of the project for the economy, reputation of the country;
- An entity that provides insurance defines:
- Countries in the contract prone to counterparty risk;
  - Competitive product or technology;
  - Solvency of the importer or borrower;
  - Compliance of the contract terms with the legislative and regulatory foundation of the importing country;
  - Duration of the project, and additional guarantees.

Political risks that accompany international project sectors have proven to be of strategic importance for the Russian economy. They can be guaranteed only by a specialized organization focused on achieving the objectives set by the State but not on commercial result.

There are common features of the national systems of export-import insurance. The state provides insurance protection when it is impossible or difficult to obtain it on the commercial market. The important role of political relations play the affiliation between the exporting and importing states as well as the presence and conditions of the international agreement between the countries called indemnity insurance. The purpose of insurance operations is providing support to the national business, increasing competitiveness, promoting the development of certain sectors of the economy, as well as promotion of national products in foreign markets. Insurance coverage is available to companies operating in the priority sectors of the state economy, while the maximum liability amount of the insurer is limited by the state in the context of export credit insurance in each country.

Transactions, which provide country' creditors with a government loan aiming to pay for goods and services granted by the lender, are the subjects of bilateral intergovernmental agreements, (creditor country pays the bills of national exporters to supply the debtor directly through public financial institutions) according to which such transactions are not liable to insurance. Implementing by governments of indirect subsidies to export operations (inadequate tariff rates, compensation

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1. [www.gks.ru](http://www.gks.ru) [Federal State Statistic Service. URL: 31.05.2015]

for damages from the budget] as well as providing credit insurance and insurance guarantees by the export credit agency improves its provision and reduces interest rates. The state, in a number of cases, gets involved into the private capital for the purpose of implementation of insurance operations [joint participation of public and private capital in export insurance agencies; transfer of functions, earlier performed by the state agencies, to the private sector; reinsurance of risks, etc.].

The volume of state support for foreign economic activities is presented below:

- China's total public financing of exports amounts to 88% of the total amount among the BRIC countries;
- Russia's share in the total amount of public resources allocated to support the BRIC countries export is less than 1%;
- Russia's share in the global amount of state support of foreign economic activities is 0.35%.

Export Insurance Agency of Russia (EXIAR) was created in 2011 by the decision of the Supervisory Board of Russian State Bank for Development (Vnesheconombank) in order to support the export of Russian goods and investments abroad. It covers:

- Insurance of export credits against commercial and political risks;
- Insurance of Russian investments abroad against political risks (effective from 2013).

The strategic goals of EXIAR include: insurance support for the export of Russian goods and services, the development of a modern system of export financing, and insurance coverage. The main customers of EXIAR are Russian enterprises exporting goods, including small and medium-sized businesses; Russian and foreign banks financing the exporters. The EXIAR's insurance capacity makes RUB 300 billion, for each insurance transaction it may cover up to 95% of losses in case of an occurrence of a political risk, or up to 90% in case of commercial risk. The Agency's activities are guaranteed by the state. The state granted the collateral guarantee to the Russian State Bank for Development in the amount of US\$ 10 billion which is valid till December 31, 2032.

The political risks that the investment insurance protects against include:

- Expropriation (including the actions of the local government to discriminate against the interests of an investor, or alienation of assets);
- Violation by local government or public authorities of contract terms and conditions signed with an investor or a company in which the investment is allocated, which may result in the revocation of license, violation of the concession agreement, or termination of the warranty, etc.;
- War and social unrest;
- Moratorium on payments;
- Ban on transfer of funds and the impossibility of conversion.

In 2013 Russian Agency for Export Credit and Investment Insurance (EXIAR) was characterized by the following key indicators<sup>2</sup>:

- Agreements on 58 unique projects;
- Analysis of the areas of development of small and medium businesses;
- Insurance of Russian exports to 28 countries, including Uzbekistan, Kazakhstan, Kyrgyzstan, Serbia, Cuba, China, or Indonesia;
- Operating mainly in regions such as Western Europe (RUB 35.1 billion), Eastern Europe (RUB 16.6 billion), Asia (RUB 11.9 billion) and the CIS (RUB 8.5 billion);

2. Official website of EXIAR <https://www.exiar.ru>

- Ownership of the largest shares of counterparties of exporters with regards to the industrial sector including metallurgy (RUB 44.2 bln) and power engineering (RUB 17.1 bln);
- Insurance premiums amounting to RUB 249 million (in 2012 RUB 13 million);
- Insurance reserves amounting to RUB 888,622K (in 2013 RUB 902,262K);
- The total sum insured in accordance with the insurance contracts of exporters and banks' credit risks amount to RUB 28,787 bilion, the periods of insurance vary from 5 to 120 months;
- Acquisition costs in the form of commissions with regards to reinsurance contracts amounting to RUB 27,034K (zero commissions paid between 13.10.2011 and 31.12.2012), as depicted in Table 1 and Table 2.

Long-term rouble-nominated corporate bonds of Russian State Bank for Development amounted to RUB 7,501,033K at initial cost being 0 on 31.12.2012 with the coupon rate of 8.35% per annum and the maturity date of 24.11.2020.

**Table 1: Key financial characteristics of EXIAR in 2013 year, in thousands of Roubles**

Indicator	2013	2012
Authorized capital	RUB 30,000	RUB 30,000
Insurance premiums	RUB 249,138	RUB 13,640
Insurance payments	–	–
Insurance reserves	RUB 902,262	RUB 13,640
Investments:	RUB 23,501,033	RUB 30,500,000
• deposits in Vnesheconombank, more than 90 days	RUB 160,00,000	RUB 30,500,000
• corporate bonds Vnesheconombank	RUB 7,501,033	
Cash	RUB 9,083,769	RUB 707,789
Management costs	RUB 934,206	RUB 884,854
Income from participation in other organizations	–	–
Profit before tax	RUB 1,000,542	RUB 1,569,967
Tax on profits	RUB 383,047	RUB 340,450
Net profit	RUB 798,704	RUB 1,246,856

Source: official site of EXIAR, <https://www.exiar.ru>.

**Table 2: Insurance reserves of EXIAR in 2013, in thousands of Roubles.**

Insurance reserves in 2013	At the beginning of the period	Changes during the period	At the end of the period
Reserves of unearned premiums	8,496	201,978	210,474
Reserve of realized insurance risks	–	691,788	691,788
Reserve for reported losses	–	–	–
Stabilization reserve	5,144	(5,144)	–
Insurance reserves – total	13,640	888.622	902,262

Source: official site of EXIAR, <https://www.exiar.ru>.

The proposition for further development of EXIAR is as follows:

- Defining the strategy of the national and international structures with the Agency's priority over the national and transnational projects and mechanisms of activities in the view of increasing the Agency's share in insurance companies and a diverse group of companies located within different jurisdictions.
- Synchronization of EXIAR development strategy with a policy of privatization of state and municipal enterprises in the Russian Federation.

Also, one of the possible propositions for development can include a privatization of the agency and the joint participation of state and private capital in the insurance of export-import transactions. In this case the following measures may be implemented:

- Application of the law "On the organization of insurance business in the Russian Federation" on the export-import type of insurance and licensing this type of insurance;
- Distinction of the activities of state agencies and commercial insurers in terms of exports and imports because of the importance of projects for the maturity of public insurance policy contracts and the type of market (taking into account the priority of the state presence in the developed markets, emerging markets or regions and countries);
- Determination of the possibility of state guarantees for individual projects and contracts, and provision of the guarantee of the Russian State Bank for Development as well as other banks, which are members of the pilot program of the Bank of Russia with regards to the refinancing of credit institutions;
- Stimulation of the participation of commercial insurance companies in the insurance of export-import transactions; stimulation of competitive environment by determining the minimum rates for typical EXIAR contracts and increasing coefficients for tariff rates on strategically important projects (subject to the provisions of SOEK OECD);
- Intensification of the international trade between domestic companies, including members of international groups, and provision of the necessary support to transferring business processes to market, as well as provision of insurance and export support, including detailed agreements with foreign export credit agencies;
- Creation of an integrated risk management system - EXIAR - and risk-based controls as stated in „Solvency II”, as well as and the recommendations of the Financial Stability Committee.
- Creation and development of a methodological framework for assessing the financial condition of the agency:
  - special methods of forming insurance reserves;
  - requirements to the placement of insurance reserves;
  - risk assessment methods (investment and political risk especially pointed out);
  - Determining the possibility of loss or achieving the break-even point (insurance covers losses due to the use of a bank guarantee and increases the authorized capital of public funds) and the definition of the scope of claims to be covered by insurance, for example, the range of the guarantee;
  - Development and improvement of the range of insurance products (development of export factoring, and combined standard products for SMEs, etc.);
- Definition and formalization of the participation of EXIAR insurance settlement procedures in the execution of export-import contracts;
- Assistance in the promotion of innovative Russian products, determination of the degree of EXIAR specialization and possible adaptation of the successful foreign experience in the institutional

design of the combined insurance, as well as lending institutional support to exporters; activation of reinsurance business agency;

- Development of the program of preferential lending and insurance of businesses which have begun their commercial operations in the Republic of Crimea and Sevastopol, which are subject to sanctions in connection with the reunification of the Crimea with Russia, and EU sanctions lists in the event of their inclusion into the USA;
- Development of reinsurance programs with Russian and foreign partners.

According to the results of the research, carried out in 2014 by the Insurance Department of the Financial University under the Government of The Russian Federation at the expense of budget funds and in accordance with the state assignment, the following has been proposed:

- Consider the possibility of strengthening private capital within Russian export-import insurance market;
- Consider the usage of the EXIAR insurance program with regards to the risks of companies operating in the Republic of Crimea and Sevastopol.

Bank of Russia, the Ministry of Finance of the Russian Federation, with possible participation of the Russian Union of Insurers and other regional and sectoral unions and associations of insurers. Rating agencies should consider the possibility of amending the insurance legislation with regards to distinguishing of export-import insurance as a separate type of insurance. EXIAR should form a comprehensive system of risk management and risk-based management systems rooted in the principles of „Solvency II” and create recommendations for the Financial Stability Committee. Russian insurance companies should intensify the development of commercially attractive insurance services aimed at meeting the insurance interests of Russian exporters and importers.

Implementation of these practical proposals would contribute to the development of the Russian Agency for Export Credit and Investment Insurance’s (EXIAR) activity in the scope of the export-import insurance operations.

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# Ubezpieczenia kredytów eksportowych w Federacji Rosyjskiej

*Ubezpieczenia kredytów eksportowych są jednym z instrumentów wspierania eksportu. Artykuł jest poświęcony Agencji Ubezpieczeń Kredytów Eksportowych Rosji (EXIAR). Zaprezentowano w nim wyniki działalności Agencji, w tym kluczowe wskaźniki finansowe, procedury możliwe do zastosowania w procesie prywatyzacji Agencji, a także działania na rzecz poprawy stabilności finansowej EXIAR. W artykule wskazano także kierunki zaangażowania rosyjskich eksporterów na rynku międzynarodowym. Artykuł jest wynikiem badań finansowanych ze środków budżetowych przeprowadzonych w roku 2014 przez Zakład Ubezpieczeń Uniwersytetu Finansowego przy Rządzie Federacji Rosyjskiej.*

**Słowa kluczowe:** ubezpieczenia kredytów eksportowych, Agencja Ubezpieczeń Kredytów Eksportowych Rosji, wskaźniki finansowe EXIAR, kierunki rozwoju EXIAR.

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