



ISSN Print: 2394-7500  
ISSN Online: 2394-5869  
Impact Factor: 5.2  
IJAR 2016; 2(5): 368-371  
www.allresearchjournal.com  
Received: 13-03-2016  
Accepted: 14-04-2016

**Dr. G Chandrasekaran**  
Assistant Professor in  
International Business  
Department of Commerce  
Chikkanna Govt Arts College,  
Tirupur – 641602, Tamil Nadu,  
India.

**T Balamurugan**  
Ph.D Research Scholar  
Department of Commerce  
Chikkanna Govt Arts College,  
Tirupur – 641602, Tamil Nadu,  
India.

**Correspondence**  
**T Balamurugan**  
Ph.D Research Scholar  
Department of Commerce  
Chikkanna Govt Arts College,  
Tirupur – 641602, Tamil Nadu,  
India.

## **Exporters awareness towards export credit risk insurance policies offered by export credit insurance companies in Coimbatore and Tiruppur towns**

**Dr. G Chandrasekaran, T Balamurugan**

### **Abstract**

Export credit risk insurance is an insurance cover and a risk management product that is offered to the export firms which needs to protect their accounts receivable from loss due to credit risks by private insurance companies and governmental export credit agencies. It is a protection against unexpected huge losses which arise due to the unpaid accounts receivable against commercial and political risks beyond their control. Export credit insurance is easier to adopt and more secure and sometimes less expensive than Letter of Credit (L/C).

**Keywords:** Insurance, Export Credit Insurance, Risk Management

### **Introduction**

Credit risk cover will protect against the non-payment to the exporter, subject to the small print in the policy. The amount and timing of the claim paid to the supplier by the credit insurer depends on several factors. The main factor is the reason behind the non-payment. This is because the usual wording of a credit insurance policy lists the events which are covered, which event has occurred leads to a decision on the percentage of the loss which will be paid and how long the exporter will have to wait for the claim to be paid. Hundred percent of an exporter's loss is rarely paid because the credit insurer wants the insured exporter to have a financial interest in collecting the debt. The usual figures are 90% or 95% depending on the event giving rise to the claim and any policy excess. Similarly, the policy will have a waiting period which is intended to allow time for the event to correct itself, with the exporter's assistance if possible usually four or six months and it is longer in case of riskier countries. There is an exception in waiting period if the export credit risk arises due to the insolvency of the importer which cannot be corrected, so there is generally no waiting period.

These insurance are broadly classified into short-term export credit insurance (ST) where the insurance for trade transactions with repayment terms of one year or less and medium and long-term export credit insurance (MLT) covers trade transactions of more than one year normally three to five years and rarely up to fifteen years. Mostly exporters of capital goods prefer MLT with repayment terms of over several years.

### **Benefits of Credit Insurance**

- It helps to facilitate international trade flows and contributes to global economic growth.
- It encourages export on open account
- Offer more competitive credit terms to new customers in new markets.
- It helps protect against potential restatement of earnings.
- Optimize bank financing by insuring trade receivables.
- Supplement credit risk management.
- Possible access to information on credit rating of foreign buyer

- Access to trade finance
- Protection of profit margin
- Advice on customers and levels of credit.
- Disciplined credit management.
- Provides confidence to exporters, lenders and investors.
- Good corporate governance.
- The product also provides peace of mind to the supplier as well as market intelligence on the financial viability of the supplier’s customers.

Credit insurance sets individual credit limits for each customer. The customers can trade within the limit for a specified period without further reference to the insurer. They can request for an increase in the limit at any time. The export credit insurance can be paid in one payment but many insurers offer monthly payment some issues cover interest-free.

There are many types of credit insurance. Most commonly used covers are

- Whole turnover cover - This is a comprehensive credit insurance policy that covers the whole business and allows the business to offer credit up to a pre-set limit. The premium paid is based on the turnover of the business. This is common with ST transactions.
- Buyer cover - This allows a business to have insurance cover against a number of customers usually up to 10. The business will be fully responsible for the remaining customers not covered by the credit insurance.
- Specific risk cover - This allows a business to have insurance against a single customer or a large contract. Premium is based on the contract value or the turnover of the customer over the policy period.

**Objectives**

1. To know about various policies offered by ECGC India Ltd.
2. To find out the exporters awareness towards export credit insurance policies

**Methodology**

The present study is descriptive in nature. The present study is carried out with the exporters, whose firm sizes are Large,

Small and Medium industry, Business units in Coimbatore and Tirupur District which comprises of merchant exporter, manufacturer exporter and both. A sample of 197 respondents was selected by adopting convenience sampling method. The present study uses primary and secondary data.

**Findings**

• **Insurance Covers/ Policies offered by ECGC**

- ✓ Standard Policy
- ✓ Small Exporters policy
- ✓ Specific Shipment Policy (short term)
- ✓ Export Turnover policy
- ✓ Specific buyer wise policy
- ✓ Consignment export ( Stock holding agent)policy
- ✓ Consignment export (Global entity) policy
- ✓ Single buyer exposure policy
- ✓ Multi buyer exposure policy
- ✓ Software project exports policy
- ✓ IT enabled (single customer) policy
- ✓ IT enabled (multi customer) policy
- ✓ SME Policy
- ✓ Customer specific policy (Tailor made)

The covers by ECGC can be divided broadly into four groups.

1. Standard policies issued to exporters to protect them against payment risks involved in exports on short term credit.
2. Specific policies designed to protect Indian firms against payment risks involved in (a) exports on defined terms of payment, (b) services rendered to foreign parties and (c) construction work 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- shipment as well as post- shipment stages.
4. Special schemes transfer guarantee meant to protect banks which add confirmation to letters of credit opened by foreign bank, insurance cover for buyer’s credit, line of credit, overseas investment insurance and exchange fluctuation risk insurance.

**Table 1:** Level of Awareness about the Following Insurance Schemes

Schemes and Services	Very High Awareness	High Awareness	Moderately Awareness	Low Awareness	Very Low Awareness	Total
Standard policy	84	96	17	-	-	197
Small exporter’s policy	120	39	26	12	-	197
Specific Shipment Policies – Short Term (SSP-ST)	12	27	156	2	-	197
Exports (Specific Buyer’s) Policy	32	13	150	2	-	197
Exporter’s turnover policy	19	17	12	141	8	197
Buyer exposure policy	8	28	113	40	8	197
Services policy	4	9	30	146	8	197

From the above table it is inferred that Majority of the respondents have very high awareness on Small Exporter Policy followed by Standard Policy. They have high awareness on Standard policy followed by Small Exporter Policy. It is also clear that the majority of the respondents have low awareness about Service policy followed by Exporter Turnover Policy.

**Majority of the respondents have very high awareness on Small Exporter Policy**

In addition to the insurance covers, export credit insurance company offer service like credit rating of countries, provides financial guarantees, recovering of bad debts, credit worthiness of buyer, insurance for investments etc. Hence six services are considered by the researcher to find out the awareness about services offered by insurance companies. The following frequency table shows the precise frequencies and respective percentage for each category of respondent’s level of awareness.

**Table 2:** Level of Awareness about the Following Services Rendered By Insurance Company

Services	Very High Awareness	High Awareness	Moderately Awareness	Low Awareness	Very Low Awareness	Total
Factoring	3	66	116	12	-	197
Reinsurance facility from foreign insurance company	1	163	25	8	-	197
National Export Insurance Account (NEIA)	4	18	74	72	29	197
Financial Guarantee	50	126	17	4	-	197
Overseas investment insurance	5	24	152	16	-	197
Customer specific covers	1	84	105	7	-	197

The above table 5.38 brings to light that majority of the respondents have very high level of awareness about the Financial guarantee service offered by insurance company and high level of awareness about the Reinsurance facility offered by insurance company among the multiple services rendered by insurance schemes. Also majority of the respondents have very low level of awareness about the National Export Insurance Account (NEIA) offered by insurance company.

**Majority of the respondents have very high level of awareness about the financial guarantee service offered by insurance company.**

**Table 3:** Preference of Short Term Insurance Schemes

	Frequency	Percent
Yes	156	79.2
No	41	20.8
Total	197	100.0

From the above table 5.39 it is clear that 79.2 percent of the respondent’s prefer short term insurance schemes and remaining 20.8 per cent of them do not prefer short term insurance schemes.

**Majority of the respondents prefer short term insurance schemes**

**Table 4:** Short Term Insurance Schemes They Held

Schemes and Services	Yes		No		Total
	Frequency	Percent	Frequency	Percent	
Standard policy	145	73.6	11	5.6	156
Small exporter’s policy	137	69.5	19	9.6	156
Specific Shipment Policies – Short Term (SSP-ST)	118	59.9	38	19.3	156
Exports (Specific Buyer’s) Policy	45	22.8	111	56.3	156
Exporter’s turnover policy	7	3.6	149	75.6	156
Buyer exposure policy	6	3.0	150	76.1	156
Services policy	2	1.0	154	78.2	156
Consignment Exporter Policy	6	3.0	150	76.1	156
Small and Medium Enterprises policy	128	65.0	28	14.2	156
Shipment Comprehensive Risk Policy	6	3.0	150	76.1	156

Table exhibits that out of 197 respondents 145 held Standard policy, 137 held Small Exporter Policy, 128 respondents held Small and Medium Enterprises policy, 118 respondents held Specific Shipment Policies – Short Term (SSP-ST). Service policy is the lowest policy held by majority of the respondents.

**Majority of the respondents held Standard policy**

The following frequency table shows the precise frequencies and respective percentage for each category of respondent’s preference.

**Table 5:** Preference of Medium and Long Term Insurance Schemes

	Frequency	Percent
Yes	56	28.4
No	141	71.6
Total	197	100.0

From the above table 5.41 it is clear that 28.4 percent of the respondent’s prefer medium and long term insurance schemes and remaining 71.6 percent of them do not prefer medium and long term insurance schemes.

**Majority of the respondents does not prefer medium and long term insurance schemes**

**Table 6:** Medium and Long Term Insurance Schemes They Held

Schemes and Services	Yes		No		Total
	Frequency	Percent	Frequency	Percent	
Construction works policy	9	4.6	47	23.9	56
Specific policy for supply contract	5	2.5	51	25.9	56
Specific Shipment policy	52	26.4	4	2.0	56
Specific Service Policy	15	7.6	41	20.8	56
Specific Service contract policy	8	4.1	48	24.4	56
Letter of Credit confirmation cover	43	21.8	13	6.6	56

Above table 5.42 reports that out of 56 respondents held medium and long term insurance 52 held Specific Shipment policy, 15 held Specific Service Policy. Only 5 respondents held Specific policy for supply contract.

**Majority of the respondents prefer Specific Shipment policy.**

**Conclusion**

The study concludes that the exporters have high awareness about few policies offered by insurance company. Also they mostly prefer short and medium term policies. Hence it is the responsibility of insurance company to provide more information and advantages of all policies. They have to take extra pain to conduct awareness camps, exhibitions and participation in export related trade fairs to make the exporters about export credit insurance and its policies

**Reference**

1. <http://www.ecgcindia.in/en/pages/ecgcaphome.aspx#>
2. <https://www.ecgc.in/portal/productnservices/creditinsurance/scr/scr.asp>
3. <http://www.investopedia.com/ask/answers/06/internationalfinancerisks.asp>
4. <http://howtoexportimport.com/What-is-ECGC-and-how-does-ECGC-protect-exporters--39.aspx>
5. <http://www.indianindustry.com/trade-information/export-credits.html>