

# PRACTICAL INFORMATION



HERMES COVER SPECIAL **MAY 2011**

Multi-sourcing projects

EXPORT CREDIT GUARANTEES OF THE  
FEDERAL REPUBLIC OF GERMANY

► **Hermes Cover**

## ► HERMES COVER SPECIAL

## Multi-sourcing projects

**REINSURANCE:  
ONE-STOP SHOPPING FOR TAILOR-MADE  
COVER OF MULTI-SOURCING PROJECTS**

Against the background of a changing global business environment, international working arrangements and the division of production across borders have meanwhile become essential factors for the competitiveness of both manufacture and exports. And especially capital goods transactions are increasingly being undertaken with the involvement of exporters from different countries. As a result of this distribution of production, goods or services from other countries or deliveries from abroad (foreign content)<sup>1</sup> are often indispensable for the completion of the deal. Such multi-sourcing projects demand individually tailored financing and insurance models. The cover available from the Government of the Federal Republic of Germany for export receivables offers a number of options in this context, depending on the contractual conditions of the export contract and adapted to its specific details.

The inclusion of foreign content in Federal export credit guarantee cover poses no problems as long as it remains within certain limits. Deliveries of goods from foreign subcontractors are then included and the overall project is insured by the national export credit agency of the main supplier.

In principle, foreign content can be included in cover up to a proportion of 30% of the total of goods and services involved in the export deal. In the case of deliveries from EU countries, this percentage can rise to as much as 40%. If there is an accumulation of deliveries from EU

member states or from Switzerland, Japan and Norway, with which bilateral agreements on the inclusion of supplies exist, and supplies from other countries, the foreign content which can be included in cover may amount to up to 49% of the contract value. The same applies if the supplies come from foreign subsidiaries of the exporter. In exceptional, well-founded cases it is possible to exceed even this upper limit of 49% for the inclusion of foreign content.

If the foreign goods delivered exceed the maximum permitted percentages for Federal Government cover, it may nevertheless be possible to insure the entire transaction. The prerequisite for this is that the national export credit agency (ECA) of the country from which the goods originate gives a reinsurance commitment towards the Federal Government on the basis of an existing reinsurance agreement.

**I. REINSURANCE**

The reinsurance model is meanwhile used in many projects involving exporters from different countries. In it, the principal insurer (the ECA of the main supplier) provides insurance cover with its own national underwriting instruments for the entire transaction, including the foreign portions. The principal credit insurer receives a reinsurance commitment from the ECA of the foreign subcontractor for the portion of the order value accounted for by the foreign deliveries which he has covered. This type of risk-sharing frequently also involves more than one reinsurer.

The crucial advantage in this construction for the exporter, the banks and the buyer is that financing and insurance remain in one hand, while the division of the risk is arranged behind the scenes between the export credit agencies involved.

<sup>1</sup> In this context any goods and services which are not eligible for a German certificate of origin or for which such a certificate has not been issued are defined as foreign content.

#### **WHEN IS REINSURANCE A VIABLE OPTION FOR THE INCLUSION OF FOREIGN DELIVERIES IN COVER?**

Cover can be granted on the basis of reinsurance if

- ▶ the main supplier has a 100 % contractual claim for payment towards the foreign buyer which also applies to the part of goods and services supplied by the subcontractor(s). There is no direct contractual relationship between the subcontractors and the foreign buyer;
- ▶ the subcontractor gets paid by the main supplier even if the foreign buyer has not paid the main supplier (no “if and when” clause);
- ▶ there is a reinsurance agreement in place between the export credit agencies involved.

#### **WHAT DOES REINSURANCE MEAN FOR THE INSURED?**

The German exporter or the financing bank receives an export credit guarantee covering the entire volume of the deal from the Federal Government on the normal General Conditions of Cover. This defines among other things the scope of cover, the insured percentage, waiting periods etc., as well as regulating the application procedure and the process of obtaining a decision on cover. The exporter’s contact and contractual partner in all this is exclusively Euler Hermes Kreditversicherungs-AG, which is mandated by the Federal Government as part of a consortium together with PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft to handle the administration of the entire export credit insurance scheme.

Exceptions from the normally applicable conditions of cover may be possible as regards the premium rate. If the premium charged by the reinsurer for his part of cover differs from the corresponding portion of the premium for Hermes Cover, this is factored into the overall premium calculation. This means that the premium rates normally charged by the Federal Government for the overall transaction do not necessarily apply.

There is no special application procedure. In the event that the Federal Government cannot agree to the inclusion of foreign content, e.g. because it exceeds the

maximum permissible percentage or due to other considerations of cover policy, an examination will be made to decide whether the transaction can be insured on the basis of reinsurance and if the criteria mentioned above pertain, without the exporter and/or the bank having to make an explicit application for it.

#### **WHAT OTHER EXPORT CREDIT AGENCIES ARE THERE REINSURANCE AGREEMENTS WITH?**

Euler Hermes, acting on behalf of the Federal Government, has to date concluded reinsurance agreements with the state export credit agencies of the following countries: Australia, Austria, Belgium, Canada, the Czech Republic, Denmark, Finland, France, Israel, Italy, Japan, Luxembourg, the Netherlands, Norway, Poland, Portugal, the Slovak Republic, Slovenia, Spain, Sweden, Switzerland, the United Kingdom and the United States of America.

#### **ARE THERE ANY SPECIAL POINTS TO OBSERVE IN THE PROCESS OF GETTING OR HANDLING COVER?**

As we mentioned above, there is no need for the exporter or the bank to make a special application.

When it is a condition of cover that foreign content can only be included if a reinsurance commitment is obtained from the other national ECA or ECAs involved, consultations will be held with the potential reinsurance partners to initiate the procedure for obtaining reinsurance.

A binding reinsurance commitment from the ECA of the subcontractor can only be sought following a positive decision in principle from the Federal Government on the application for cover. For this reason, an offer of cover is issued with a caveat that the foreign portion in question can only be included if and when the entire financing arrangement is finalized and the respective reinsurer grants cover. The policy (Export Credit Guarantee Declaration) itself does not then contain any special provision with regard to reinsurance.



Any transaction limits or minimum percentages of delivery volume from companies in the new federal states stipulated by the Federal Government's cover policy only apply, in a transaction involving reinsurance, to the German share of deliveries.

If deliveries from subcontractors abroad are covered by reinsurance, these foreign deliveries will not be set off against the permissible proportion of foreign content to be included under cover.

#### **WHAT EXPERIENCE HAS BEEN MADE IN PRACTICE WITH REINSURANCE?**

Experience up to date shows that the reinsurance model has extended the options for financing and insurance of export transactions involving exporters from different countries. Since its introduction, it has become possible to give offers of cover or to issue an Export Credit Guarantee Declaration for the entire transaction – including the foreign portions – on the basis of a reinsurance commitment in many cases where the payment risk could not be passed on to the subcontractor(s) and the Federal Government would otherwise have been unable to agree to cover because the permissible percentages for foreign content were exceeded. Conversely, the Federal Government has in many cases itself given reinsurance commitments to foreign export credit agencies to cover German deliveries within the framework of multi-sourcing projects. The sharing of the risk here often involved a number of reinsurers.

In some cases transactions only became eligible for cover due to reinsurance, since the foreign portion would otherwise have been too high to be included in cover, or the volume of the transaction would have exceeded the transaction limit. In addition, German exporters involved as subcontractors in projects have profited.

The option of reinsurance cover has also brought practical advantages for exporting industry, since companies only need to deal with one export credit agency, who takes care of the entire administration and insurance.

## **II. OTHER OPTIONS FOR COVERING MULTI-SOURCING PROJECTS**

Besides reinsurance, there are – depending on the contractual design of the export transaction – the following options for insuring multi-sourcing projects.

#### **PARALLEL INSURANCE**

When the various suppliers in a multi-sourcing project each have their own payment claims against a foreign buyer, each supplier insures his receivables against loss with his own national export credit agency (parallel insurance). This variant is typically used in project financed deals.

#### **COINSURANCE**

The need for cooperation in a joint insurance only arises in cases where it is solely the main contractor who has a payment claim against the foreign buyer. When the main contractor passes on his foreign risks to the subcontractor, e.g. when the latter only gets paid when the foreign buyer has paid the main contractor (a so-called “if and when clause”), the subcontractor(s) can likewise insure their portion of deliveries with their own national ECA. Since the subcontractor has no payment claim of his own, his ECA has no way of asserting any creditor's rights against the debtor in the event of a claim. The official export credit agencies have provided for this case by concluding coinsurance agreements which allow the insurer of the main contractor to represent the interests of the subcontractor's ECA.

Among EU member states, coinsurance is regulated by a Council Directive.

There are also bilateral agreements with Japan, Switzerland and Turkey. Besides this, there is the option of concluding a coinsurance agreement on an ad-hoc basis with other state export credit agencies covering just a single transaction.

*Susanne Kuhn*



## COOPERATION AGREEMENTS

Australia			R
Austria	S	J	R
Belgium	S	J	R
Brazil			C
Bulgaria	S	J	
Canada			R
Cyprus	S	J	
Czech Republic	S	J	R
Denmark	S	J	R
Estonia	S	J	
Finland	S	J	R
France	S	J	R
Greece	S	J	
Hungary	S	J	
Israel			R
Italy	S	J	R
Japan	S*		R C
Latvia	S	J	
Lithuania	S	J	
Luxembourg	S	J	R
Malta	S	J	
Netherlands	S	J	R
Norway	S*	J*	R
Poland	S	J	R
Portugal	S	J	R
Romania	S	J	C
Russia			C
Slovak Republic	S	J	R
Slovenia	S	J	R
South Korea			C
Spain	S	J	R
Sweden	S	J	R
Switzerland	S*	J*	R
Turkey			J*
United Kingdom	S	J	R
United States			R

- S deliveries from subcontractors accounting for 30-40 % can be included pursuant to decision of the Council of the EU (up to 40 % in the case of order values up to a maximum of 7m EUR)
- S\* deliveries from subcontractors up to 30 % can be included according to bilateral agreement
- J joint insurance agreement under EU regulations
- J\* joint insurance under bilateral agreement
- R reinsurance agreement on a bilateral basis
- C cooperation agreement

## Cover from the Federal Republic of Germany for business transactions abroad

The German Government supports German business ventures abroad with its Export Credit and Investment Guarantee Schemes as well as the Untied Loan Guarantee Scheme, thus securing economic growth and safeguarding jobs. To this end, the Federal Republic of Germany provides guarantees against commercial and political risks in connection with export transactions as well as against the political risks of foreign direct investments. In addition to this framework, it is also possible to cover the commercial and the political risks of untied loans relating to projects which are in the overriding national interests of Germany.

The German Government has mandated a consortium formed by Euler Hermes Kreditversicherungs-AG and PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft to manage these promotion schemes.



Federal Ministry  
of Economics  
and Technology

### OUR PARTNERS



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