11

PRIVATE TRADE CREDIT INSURERS DURING THE CRISIS: THE INVISIBLE BANKS

Koen J. M. van der Veer

This chapter deals with an explicit financial insurance market vital for domestic and international trade involving nonpayment risk: the market for trade credit insurance. After the Lehman Brothers' collapse, private trade credit insurers, too, were confronted with mounting risks calling for a quick and comprehensive reaction. Inevitably, they reduced their exposure substantially. Because private trade credit insurers have the right to reduce or cancel "credit limits" on buyers at any given time, they were able to react quickly to the increase in uncertainty.

The question is to what extent this reduction in the availability of trade credit insurance affected trade. In general, when suppliers are confronted with a loss of insurance cover on their buyer(s), they can (a) try to seek alternative means to avoid credit risk (bank letters of credit or factoring), (b) decide to take on the payment risk themselves, or (c) demand advance payment. If other instruments are available, trade might be unaffected. If one of the latter two options is chosen, the trade transaction need not be canceled, either, but negative side effects related to

This chapter is a revised and much-abridged version of an article that first appeared as DNB Working Paper 264 (van der Veer 2010). The use of the term *invisible banks* to characterize private trade credit insurers was introduced by Paul Becue, general manager at Euler Hermes Services Belgium, in his handbook on credit insurance, *Handboek kredietverzekering. De onzichtbare bank* (Becue 2009). The author would like to thank Gabriele Galati for carefully reading the manuscript. The findings, interpretations, and conclusions expressed in this chapter are entirely those of the author; they do not necessarily reflect views of De Nederlandsche Bank.

the balance sheet of the supplier or buyer could reduce the incentives to trade indirectly. When neither of the options is feasible, trade breaks down.

Van der Veer (2010) provides empirical evidence for the link between the supply of private trade credit insurance and trade, focusing on exports. The study exploits a unique bilateral dataset on worldwide activities of a leading private trade credit insurer and finds an average short-run multiplier for private trade credit insurance of 2.3. This multiplier implies that, on average, every €1 of insured exports generates €2.3 of total exports. Thus, the impact on trade of a change in the supply of private trade credit insurance is bigger than the change in the value of insured trade. One important reason that could explain this trade multiplier is that trade credit insurance improves a buyer's access to supplier credit.

In addition, van der Veer (2010) estimates the insurance supply elasticity of world and European exports. Extrapolating these estimates to the 2008–09 crisis period, the decline in the supply of private credit insurance in the last quarter of 2008 and the first half of 2009 can explain 5–9 percent of the collapse of world trade and 10–20 percent of the drop in European exports. Thus, even though private credit insurers cover only 6 percent and 12 percent, respectively, of world and European exports, the impact of changes in the supply of private credit insurance is economically relevant.

Within the literature on the role of trade finance during financial crises, the focus on private trade credit insurance is novel. More generally, van der Veer (2010) is the first empirical study to provide direct evidence on the link between the supply of a trade finance instrument and trade. Due to the lack of detailed trade finance data—that is, statistics on trade-related loans, trade credit insurance, and letters of credit—the literature thus far had either examined the link between trade finance and trade indirectly or relied on various proxy measures to study the role of the trade finance channel. The limitation of these proxy measures is that they include credits extended by other firms in addition to institutional finance or include credit for purchases other than trade. As a result, it is not always clear that changes in the supply of trade finance drive the results in these studies.

Moreover, while the literature shows convincingly that financial shocks affect trade, it does not fully address the extent to which trade finance frictions played a role in the 2008–09 global financial crisis. The results in van der Veer (2010) focus on just one aspect of the trade finance market—private trade credit insurance—and do not tackle this question, either. The outcome is indicative of a role for private trade credit insurance and can be interpreted as a minimum for the role of trade finance in the 2008–09 world trade collapse. For example, the market for letters of credit and short-term export working capital might have been an additional source of trade finance frictions, as surveys during the crisis seem to suggest.

The next section describes the general features of the private trade credit insurance market and how it differs from the better-known public counterpart. Subsequent sections provide

- a more detailed explanation of how a trade credit insurance policy works and how it compares to alternative instruments to cover nonpayment risk;
- an examination of the link between trade credit insurance and the provision of supplier credit and how this relates to the trade multiplier of credit insurance;
- a discussion of the results obtained in van der Veer (2010); and
- a preliminary evaluation of the policy response in European Union (EU) countries to support the availability of short-term export credit insurance during the 2008–09 financial crisis.

Private versus Public Trade Credit Insurance

The private trade credit insurance market differs in important ways from the guarantees provided by public export credit agencies (ECAs). In general, private trade credit insurers (a) cover short-term trade credits; (b) have a much higher exposure than ECAs; (c) cover domestic trade; and (d) are concentrated, although decreasingly, on trade involving Organisation for Economic Co-operation and Development (OECD) countries (European countries in particular). Because of these differences, relative changes in the supply of private trade credit insurance are likely to have a bigger and much faster impact on trade than changes in the supply of public insurance.[1]

Private trade credit insurers usually cover short-term credits with a tenor of 60 to 120 days, while medium- or long-term covers play only a minor role (Swiss Re 2006). Public guarantees, however, generally cover export projects with a duration of between two and five years. This difference in maturities is especially clear in Europe, where ECAs have been restricted from providing OECD core members with guarantees covering export risks with a maturity of less than two years. During the 2008–09 financial crisis, the ECAs' inexperience in the short-term credit insurance market, combined with the need for European Commission approval, delayed the implementation of public schemes to support the short-term export credit insurance market in Europe (see the final section for a fuller discussion).

Since the early 1990s, private trade credit insurance has registered strong growth. Private credit insurers provide substantially greater short-term credit insurance than ECAs do in all OECD countries except for Japan and Canada (Chauffour and Farole 2009). In 2008, an estimated €5.3 billion of global credit insurance premiums covered about €2.6 trillion of sales (Jones 2010). Based on Berne Union figures, the world share of private short-term insured exports to total

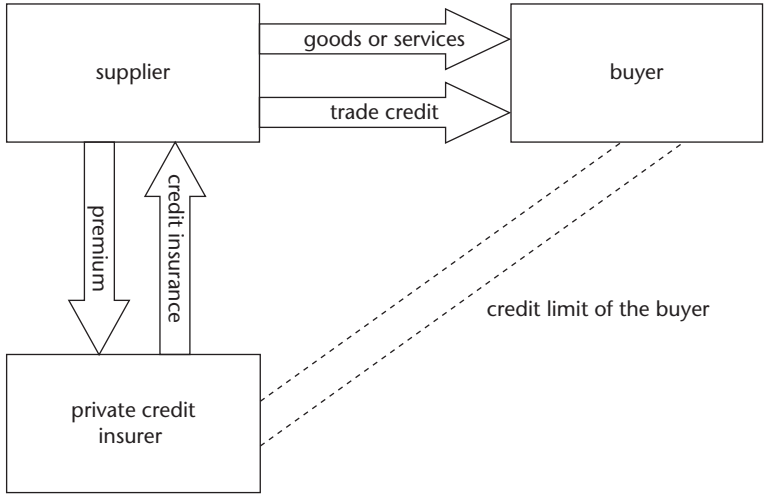
exports was an estimated 6.1 percent in 2007. Likewise, for Europe, private trade credit insurers cover an estimated 12 percent of overall exports.[2] Exports covered by public credit insurance can be roughly estimated at €325 billion in 2008.[3]

Three private credit insurers—the so-called Big Three—now dominate the world market, covering a combined 87 percent: Euler Hermes (36 percent), Atradius (31 percent), and Coface (20 percent). These players are traditionally focused on Western Europe but have also expanded to Eastern Europe and the American and Asian markets. Still, in 2008, 59 percent of short-term credit limits covered exports destined for Europe (Morel 2010).[4]

How Private Trade Credit Insurance Works

The basics of trade credit insurance are quite straightforward, as figure 11.1 illustrates. A supplier selling goods on credit to a buyer can insure against the risk of nonpayment. The credit insurer indemnifies the seller if the buyer fails to pay for the goods or services. In turn, the credit insurer charges the supplier a premium. Crucially, the private credit insurer must have a credit limit on a buyer to enable the supplier to insure against nonpayment by that particular buyer. The credit limit is the maximum exposure specifically approved or otherwise authorized by the insurer with respect to a buyer.

Figure 11.1 How Private Trade Credit Insurance Works



Source: Author.

A special feature of the credit insurance industry is that credit insurers have the right to reduce or cancel the credit limit on a buyer at any given time. Deliveries made after the date of the credit insurer's decision to cancel a credit limit are not covered by the insurance policy. This ability to dynamically manage credit limits allows credit insurers to react to a buyer's credit problems before they worsen. Thus, the mere expectation of rising claims can immediately affect exports through a reduction in the maximum exposure of credit insurers. Indeed, after the Lehman Brothers' collapse in September 2008, private credit insurers reduced their exposure substantially by reducing and canceling credit limits.

Credit insurers normally provide *whole turnover* policies that cover the insured suppliers' total trade receivables against the risk of nonpayment by their buyers. As a result, suppliers cannot select specific buyers for cover, even though the insurer can exclude or limit cover for buyers it considers not creditworthy. The whole turnover policies generally cover commercial and political risk—*commercial risk* referring to nonpayment due to default or insolvency and *political risk* relating to nonpayment as a result of action by the buyer's government (for example, intervention to prevent the transfer of payments, cancellation of a license, or acts of war or civil war).

Alternative Instruments: Letters of Credit and Factoring

Aside from trade credit insurance, suppliers can cover credit risk using letters of credit or factoring. Before the 2008–09 financial crisis, credit insurance also had some competition from capital market products such as credit default swaps and asset-backed commercial paper (Swiss Re 2006; Jones 2010). Nevertheless, these alternative bank services differ from trade credit insurance in important ways, making them imperfect substitutes.

Letters of Credit

A documentary letter of credit is a bank's agreement to guarantee payment by the buyer up to a stated amount for a specified period. They are most commonly used in international trade and cover about $700 billion to $1 trillion, or 10–15 percent, of global exports (Swiss Re 2006).

In general, letters of credit are more expensive than trade credit insurance for two reasons. First, unlike trade credit insurance, a letter of credit must be purchased by the buyer and reduces the buyer's available credit because it is charged against the overall credit limit set by the bank. Second, a letter of credit covers a single transaction for a single buyer, whereas trade credit insurance policies are usually whole turnover, that is, covering all sales.

Factoring

Factoring, another traditional instrument to deal with payment risk, allows a supplier that sells on credit to prefinance its receivables. Like trade credit insurance, factoring is used in domestic and international trade and had a transaction volume of $1.2 trillion in 2005 (Swiss Re 2006).

Factoring, too, is more expensive than trade credit insurance because the factor must also be compensated for prefinancing the receivables. Unlike letters of credit, factoring can be both a substitute and a complement to trade credit insurance. That is, factoring does not necessarily involve the transfer of credit risk to the factor (full-recourse factoring), in which case the factor has an interest in the client buying insurance to cover credit risk (Swiss Re 2006). Alternatively, under nonrecourse factoring, the factor does take on the risk of nonpayment by the buyer and may itself choose to purchase credit insurance cover.

Trade Credit Insurance, Supplier Credit, and the Trade Multiplier

Essentially, trade credit insurance stimulates trade with markets where a supplier would not sell otherwise. This follows immediately from the main reason for a supplier to buy trade credit insurance: the transfer of payment risk. Trade credit insurance also provides these benefits:

- Allowing suppliers to use the credit expertise of the credit insurer
- Facilitating access to receivables financing and improved credit terms from lending institutions
- Improving the buyer's access to supplier credit.

These benefits to both supplier and buyer provide the main rationale for the existence of a trade multiplier of credit insurance.

Supplier Credit

Even though buyers do not initiate trade credit insurance—often they do not even know that a private credit insurer has approved a credit limit until it is reduced or canceled—they are greatly affected by it. A trade credit insurance policy enables the supplier to extend credit to the buyer instead of requiring payment in advance. As a result, the buyer's working capital need is reduced, or the additional cash can be used for other purchases or investments.

Moreover, in practice, the news that a buyer's credit limit has been adjusted tends to travel fast among the buyer's suppliers, potentially influencing all of its trade transactions (Becue 2009); an upgrade generally improves the firm's access

to supplier credit and vice versa. Private trade credit insurers can thus be seen as *invisible banks*; while they do not provide funding, their actions influence buyers' access to supplier credit.

The Trade Multiplier

The benefits of trade credit insurance for the supplier might also add to the trade multiplier, although less so than the benefits for the buyer. This is because most of the private trade credit insurance policies cover all of a supplier's sales (whole turnover), and the trade multiplier relates to additional trade generated on top of the value of insured trade.

Either way, these benefits can increase the insured supplier's sales for several reasons. First, an insurance policy gives the supplier access to professional credit-risk expertise. To illustrate how this could stimulate the insured supplier's sales, Jones (2010) gives a telling example: "A wholesale company's credit department has granted a credit line of €100,000 to a customer. They then purchased a trade credit insurance policy and the insurer approved a limit of €150,000 for that same customer. With a 15 percent margin and average turnover of 45 days, the wholesaler was able to increase its sales to realize an incremental annual gross profit of €60,000 on that one account. [(150 − 100) × 0.15 × 360/45)]"

Second, trade credit insurance might facilitate the supplier's access to bank credit and improved credit terms from lending institutions, some of which will insist on trade credit insurance before providing financing (Becue 2009; Jones 2010). Basically, suppliers can increase their collateral value by insuring their accounts receivable. Especially in the case of international trade, banks might see a supplier's trade partners as an extraordinary risk that reduces the value of the supplier's assets used as collateral.[5]

Another argument used to explain the trade multiplier of credit insurance comes from the studies focusing on public trade credit insurance (Funatsu 1986; Egger and Url 2006; Moser, Nestmann, and Wedow 2008). These studies argue that trade credit insurance allows suppliers to learn about the creditworthiness of their trade partners. Subsequently, after repeated transactions, the supplier may decide to export without costly export credit insurance.

Finally, a trade multiplier of private credit insurance could also follow from the information on foreign markets and firms that private insurers provide to noninsured firms. For example, private credit insurers publish their country ratings, which, in principle, prevail over their sector- and firm-level ratings when determining premiums and credit limits (Becue 2009). Also, the Big Three insurers all offer some kind of information service, allowing firms to get access to the insurers' detailed firm-level information about key customers, prospects, or competitors, even without buying insurance cover.

The Private Credit Insurance Effect on Trade

Van der Veer (2010) examines empirically whether private trade credit insurance stimulates trade. A unique bilateral dataset is used that covers the value of insured exports, premium income, and claims paid by one of the world's leading private credit insurers from 1992 to 2006.[6] The data include annual observations on 25 exporting economies (OECD countries and Hong Kong SAR, China) and 183 destination countries.

Estimating a variety of specifications of the gravity model, the study consistently finds a positive and statistically significant effect of private trade credit insurance on exports. Moreover, it finds an average multiplier of private trade credit insurance of 2.3, implying that every euro of insured exports generates €2.3 of total exports.

The Identification Strategy

The estimation of the private credit insurance effect on exports relies on the standard *gravity* model of bilateral trade, which models trade between a pair of countries as a function of their distance and their economic *masses*. Possible concerns about endogeneity are addressed by applying the method of instrumental variables. Hereto, the insurer's claim ratio (claim paid divided by premium income)—a primary determinant of the supply of credit insurance—is used as an instrument for insured exports. This approach allows establishment of a causal link between the supply of private trade credit insurance and exports.

The claim ratio proves to be a valid instrument for the value of insured exports according to various statistical tests and, notably, a causal story motivates this choice of instrument. The rationale is that an increase (or the expectation thereof) in the claim ratio reduces insured exports in two ways: first, through an increase in premiums (by lowering demand); and second, through the reduction or cancellation of credit limits (by lowering supply). The second channel is more direct and changes the supply of private trade credit insurance immediately. The impact of the premium increase on the value of insured exports evolves more slowly because the private insurer can only raise premiums of new contracts. The bulk of the contracts are fixed for one year, and about 25 percent of all contracts have a duration of two or three years.

In case of a shock, such as a credit crisis or sovereign default, claims increase. The claim ratio also increases because the general premium level takes longer to adjust. For example, during the 2008–09 credit crisis, total claims paid to insured customers by all Berne Union members more than doubled from 2008 to 2009 and reached $2.4 billion. As the total premium stayed roughly the same at an estimated $2.8 billion, the claim ratio jumped from 40 percent to 87 percent (ICC 2010).

Private Trade Credit Insurance and the 2008–09 World Trade Collapse

The deteriorating economic environment and (expected) rise in claim ratios at the end of 2008 resulted in a decline in the supply of private trade credit insurance. Private trade credit insurers reduced credit limits and raised premiums. Annual reports of the leading insurers mention a "substantial" reduction of exposure, but unfortunately, exact figures on the supply decline are not available.

Some EU countries, however, did provide estimates of the withdrawal of private credit insurance coverage. For example, Austria estimated a private supply decline of 15–30 percent; Denmark, of 0–40 percent; Lithuania, of 20–40 percent; and Sweden, of 20–30 percent.[7] In addition, the publicly available Berne Union figures on the world total of private and public insurance exposure, combined with information on their evolving shares (ICC 2010), give an idea of the size of the reduction in private insurance cover. For example, in the last quarter of 2008 and the first half of 2009, private short-term export credit insurance exposure declined by 16 percentage points more than public exposure. Although demand and price factors are likely to have contributed to the reported declines, the much larger decline in private insurance exposure might be a rough indication of the private supply reduction.

Either way, the actual decline in the supply of private credit insurance during the 2008–09 world trade collapse is unknown. Therefore, van der Veer (2010) calculates the contribution to the world trade collapse of a 10 percent, 15 percent, and 20 percent decline in the supply of private credit insurance and extrapolates the estimates of the insurance supply elasticity of exports to the crisis period.

The calculations show that the reduction in private trade credit insurance exposure during the 2008–09 world trade collapse can explain about 5–9 percent of the drop in world exports and 10–20 percent of the drop in European exports. Thus, while macroeconomic factors played an important role in the world trade collapse, these calculations suggest that the effect of private credit insurance on exports can account for part of the world trade decline.

EU Countries' Support of Short-Term Export Credit Insurance

Over the course of 2009 and 2010, 14 EU governments implemented state aid schemes to support their markets for short-term export credit insurance, as the overview in table 11.1 shows. In particular, these measures were set up to provide credit insurance cover for exports to other EU member states and OECD core members.

Under normal circumstances, credit risks on these countries are considered marketable, and EU law forbids official ECAs from providing insurance cover. The European Commission and these 14 EU authorities adequately recognized the

Table 11.1 EU Countries' State Aid to the Short-Term Export Credit Insurance Market

	EC approval date	Maximum exposure (€ millions)	General eligibility restrictions			Premium (% of turnover)					
						Credit terms up to 6 months		Credit terms up to 12 months		Basic market rates	Private credit insurer fee (% of premium income)
			Top-up only[a]	Maximum top-up	Buyers excluded	minimum	maximum	minimum	maximum		
Luxembourg	April 20, 2009	25	no	old credit limit	risk assessment by ECA	1.50	4.00	1.50	4.00	± 0.50	none
Denmark	May 6, 2009	no budgetary limitations	no	no	very high probability of default	1.00	2.00	1.00	2.00	0.25–0.30	25–35
Denmark (modification)	October 29, 2009	no budgetary limitations	no	100% of current credit limit	very high probability of default	0.50	2.00	0.50	2.00	0.25–0.30	25–35
Finland	June 22, 2009	no budgetary limitations	no	no	risk assessment by ECA	0.30	0.95	0.60	1.65	—	none
Germany	August 5, 2009	no budgetary limitations	no	no	risk assessment by ECA	0.49	0.64	0.73	0.82	—	none
Netherlands	October 2, 2009	1,500	yes	100% of current credit limit	within certain rating categories	1.50	1.50	1.50	1.50	0.10–0.60	35
Netherlands (modification)	February 5, 2010	1,500	yes	100% of current credit limit	less rating categories	1.00	1.00	1.00	1.00	0.10–0.60	25; set-up costs maximum €50,000
France	October 5, 2009	1,000 (cumulative)	no	100% of current credit limit	within certain rating categories	0.50	3.00	1.50	6.00	0.24	15–17
Belgium	November 6, 2009	300 per quarter	yes	100% of current credit limit but not exceeding old limit	no	1.00	1.00	2.00	2.00	0.30–0.70	20

Sweden	November 25, 2009	no budgetary limitations	no	no	risk assessment by ECA	0.26	2.20	1.36	3.96	—	none
Austria	December 17, 2009	no budgetary limitations	no	70–80% of total credit limit	risk assessment by ECA	0.13	2.50	1.50	5.00	—	27
Lithuania	December 21, 2009	29 (cumulative)	yes	100% of current credit limit	no	0.30	0.95	0.60	1.65	0.40–0.80	based on state-insured amount
Slovenia	March 16, 2010	no budgetary limitations	yes	old credit limit	risk assessment by ECA	—	—	—	—	—	33
Latvia	June 10, 2010	14 (cumulative)	no	no	risk assessment by state-owned guarantee institution	0.39	2.60	0.39	2.60	0.20–0.50	none
Hungary	July 5, 2010	183	no	100% of current credit limit	risk assessment by ECA	0.47	2.77	0.95	3.32	0.25–0.35	15–25
Portugal[b]	—	—	—	—	—	—	—	—	—	—	—

Source: National reports in the State Aid Register (by member state) of the European Commission, available at http://ec.europa.eu/competition/state_aid/register/ii/index.html#by_ms.

Note: EC = European Commission. ECA = export credit agency. — = not available. The following EU countries lack a state aid scheme to support the market for short-term export credit insurance: Bulgaria, Cyprus, the Czech Republic, Estonia, Greece, Ireland, Italy, Malta, Poland, Romania, the Slovak Republic, Spain, and the United Kingdom.

a. Top-up only: yes = scheme requiring exporter to hold a private credit insurance policy with a nonzero credit limit on the buyer(s) in question; no = scheme also available for completely withdrawn or newly rejected credit limits.

b. Portugal State Aid scheme has gained approval, but a public version of the EC decision was not available as of March 2011.

need to support the short-term export credit insurance market and thus use the escape clause within the European Community Treaty.[8] However, 13 EU countries did not intervene. Arguably, the trade credit insurance market is underdeveloped in some of these countries, but this is surely not the case for all of them. For example, no state aid schemes were set up in Italy, Spain, or the United Kingdom, even though these countries were among the top six markets with the highest value of claims paid on short-term export credit insurance (see Morel 2010).

Still, it is questionable whether the countries that did implement state aid schemes were effective in providing cover for export credit risks when private insurance was temporarily unavailable. A few observations can be made.

Delay in State Aid under EU Rules

First, for a number of reasons, public insurance through most of the state aid schemes became available only after the private insurers had reduced their supply. Thus, the state interventions did not mitigate the initial shock to suppliers following the reduction in the supply of private insurance.

As table 11.1 shows, all of the state aid schemes were implemented after the first quarter of 2009 and most of them in the second half of 2009. Understandably, some delay was unavoidable, but EU legislation also delayed the reaction because all state aid schemes needed approval by the European Commission. Given that the European Commission needed about two months to approve a scheme and assuming it took governments an additional month to gather the required information, overall, implementation of the schemes was delayed by about one fiscal quarter because of EU rules. Moreover, most EU governments also needed time to acquire knowledge on how to provide public insurance cover in the short-term trade credit insurance market. The reason is that, since the late 1990s, EU governments no longer provided cover for these "marketable" risks.

Problematical Role for Private Insurers

Second, a number of these schemes, the top-up only variants in particular, depended on implementation by private insurers. For example, the Dutch state aid scheme notes, "The decision whether to provide exporters with top-up cover on an individual basis is left to the discretion of credit insurers."[9]

At the same time, private insurers have stated clearly their concerns with respect to state interventions. In particular, they noted their worries about "[what] the short-term trade credit insurance landscape would look like after a protracted active involvement by governments and that it will be hard to reverse the role of the state once the crisis is over" (ICISA 2009).

All top-up schemes do include a fee for private insurers to cover administration and acquisition costs, but it is questionable whether these fees trigger private

insurers to actively promote the availability of public insurance. For one thing, the fees do not compensate for the possible reputation costs to private insurers that might follow from state intervention. Moreover, some of the authorities noted their commitment to monitor the fees and costs incurred by the private insurers to ensure that the management fee does not provide revenues exceeding the costs incurred in running the scheme. In short, it seems somewhat problematic to build an effective state aid scheme that relies on the implementation by private insurers but does not allow them to make a profit.

Varied Effectiveness of State Aid Implementation

Last but not least, although little information is available at this moment, there are indications that the (initial) use of some of the state aid schemes was limited. For example, Denmark and the Netherlands modified their original schemes four months after implementation, arguing that the measure had proven insufficient to adequately provide exporters with the necessary coverage for their sound short-term export credit transactions. Both countries reduced the premium charge and eased other conditions to improve the functioning of the scheme (see table 11.1). The Dutch notification to the European Commission also stated that the total exposure of the scheme at the end of November 2009, two months after implementation, was (only) €5 million–€10 million.[10] In contrast, Germany experienced considerable demand from exporters for the coverage under the public scheme. On a cumulative basis, the total volume of approved limits under the measure amounted to €992 million (in the first seven months of the scheme), and the actual value of insured exports under these limits reached €465 million.

All in all, these preliminary observations call for a more comprehensive evaluation of the various state aid schemes to increase the effectiveness of such measures to support the short-term export credit insurance market in case of future crises. The evidence on the macroeconomic importance of trade credit insurance provided in van der Veer (2010) indicates that it will be worthwhile for governments and the European Commission to do so.

Notes

1. Egger and Url (2006) and Moser, Nestmann, and Wedow (2008) study the effect of public guarantees on Austrian and German exports, respectively, and find long-run multipliers of 2.8 and 1.7.

2. The world estimate is calculated using the 2007 world value of "short term new business insured" from the Berne Union *2010 Yearbook* (Berne Union 2010)—also available online at http://www.berneunion.org.uk/bu-total-data.html—and world exports from the world trade monitor of the CPB Netherlands Bureau for Economic Policy Analysis (http://www.cpb.nl/en/world-trade-monitor). Data from one of the Big Three private insurers reveals that 60 percent of the total value of its turnover on exports in 2007 related to exports from the Euro Area countries (excluding Cyprus, Malta, Portugal, and Slovenia). This share was used to calculate the value of private short-term insured exports from the Euro Area countries.

3. The Berne Union reports short-term export credit insurance new business covering $1.297 trillion in 2008. According to the International Chamber of Commerce, around 25 percent of this business ($324 billion) was covered by ECAs (ICC 2010). Medium- and long-term new business covered $154 billion of exports. Assuming that ECAs accounted for all medium- and long-term insurance (which is probably a slight overestimation), ECAs covered $478 (€325) billion of exports in 2008.

4. The Berne Union figures in Morel (2010) cover private and public short-term credit limits. A similar picture emerges from data from one of the Big Three private credit insurers.

5. Again, Jones (2010) gives a telling example of this link between trade credit insurance and access to bank credit.

6. This insurer is one of the Big Three private credit insurers. Company details are confidential.

7. This information was provided in the respective countries' State Aid Reports with respect to short-term export credit insurance, sent to the European Commission for approval. http://ec.europa.eu/competition/state_aid/register/ii/index.html#by_ms.

8. See point 4.4 of the "Communication of the Commission to the Member States pursuant to Article 93 (1) of the EC Treaty applying Articles 92 and 93 of the Treaty to short-term export-credit insurance." http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:31997Y0917(01):EN:HTML.

9. See State Aid N 409/2009, the Netherlands "export credit insurance—reinsurance scheme," at http://ec.europa.eu/competition/state_aid/register/ii/by_case_nr_n2009_0390.html#409.

10. See State Aid N14/2010, the Netherlands "amendment to short term export credit insurance," at http://ec.europa.eu/competition/state_aid/register/ii/by_case_nr_n2010_0000.html#14.

References

Becue, P. 2009. *Handboek Kredietverzekering. De Onzichtbare Bank.* Antwerp: Intersentia.

Berne Union. 2010. *2010 Yearbook.* London: Berne Union. http://www.berneunion.org.uk/pdf/Berne%20Union%20Yearbook%202010.pdf.

Chauffour, J., and T. Farole. 2009. "Trade Finance in Crisis: Market Adjustment or Market Failure?" Policy Research Paper 5003, World Bank, Washington, DC.

Egger, P., and T. Url. 2006. "Public Export Credit Guarantees and Foreign Trade Structure: Evidence from Austria." *The World Economy* 29 (4): 399–418.

Funatsu, H. 1986. "Export Credit Insurance." *Journal of Risk and Insurance* 53 (4): 680–92.

ICC (International Chamber of Commerce). 2010. "Rethinking Trade Finance 2010: An ICC Global Survey." Banking Commission Market Intelligence Report, ICC, Paris.

ICISA (International Credit Insurance and Surety Association). 2009. "State Support Schemes for Short-Term Credit Insurance Business." Speech presented at the Organisation for Economic Co-operation and Development Export Credit Committee meetings, November 18.

Jones, P. M. 2010. "Trade Credit Insurance." Primer Series on Insurance Issue 15, World Bank, Washington, DC. http://siteresources.worldbank.org/FINANCIALSECTOR/Resources/Primer15_TradeCreditInsurance_Final.pdf.

Morel, Fabrice. 2010. "Credit Insurance in Support of International Trade: Observations throughout the Crisis." Export credit insurance report, Berne Union, London. http://www.berneunion.org.uk/pdf/Credit%20insurance%20in%20support%20of%20international%20trade.pdf.

Moser, C., T. Nestmann, and M. Wedow. 2008. "Political Risk and Export Promotion: Evidence from Germany." *The World Economy* 31 (6): 781–803.

Swiss Re. 2006. "Credit Insurance and Surety: Solidifying Commitments." *sigma* No. 6/2006, Zurich. http://media.swissre.com/documents/sigma6_2006_en.pdf.

Van der Veer, K. J. M. 2010. "The Private Credit Insurance Effect on Trade." DNB Working Paper 264, Netherlands Central Bank, Amsterdam.