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INSURING YOUR EXPORT AGAINST RISK

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Abstract:

India's focus is justifiably placed in export promotion through various government agencies and commercial banks. ECGC is providing information to the exporters on commercial, political risk and credit risks. Such risks include probable credit as well export hazards in various forms. The objectives of the study is to understand the types of risks faced by knitted garment exporters in Tirupur and utilization of various schemes provided by the ECGC to the knitted garment exporters in Tirupur. Any exporter is facing any loss due to natural calamities, the ECGC compensates their loss if they have submitted export documents properly.

Key Words: Commercial Risks, Political Risks & Credit Risks

Introduction:

The developing countries need assistance for export promotion, financing and insurance to sustain and realize their export potential through their respective export credit agencies. Almost all countries spend considerable efforts in maintaining their competitive edge in the sectors that receive recognition abroad. Firms need assistance in export counseling, marketing and managing their international trade. Thus, India's focus is justifiably placed in export promotion through various government agencies and commercial banks. The Export Credit Guarantees Corporation of India (ECGC) and the Export Import Bank of India are two institutions established by the government with the specific objective of export promotion.

Export Credit Guarantee Corporation Limited:

In order to provide export credit and insurance support to Indian exporters, the GOI set up the Export Risks Insurance Corporation (ERIC) in July, 1957. It was transformed into Export Credit Guarantee Corporation Limited (ECGC) in 1964. Since 1983, it is now known as ECGC of India Ltd.

ECGC is a company wholly owned by the Government of India. It functions under the administrative control of the Ministry of Commerce and is managed by a Board of Directors representing government, Banking, Insurance, Trade and Industry etc.[2]

ECGC is providing information to the exporters on commercial, political risk and credit risks. Such risks include probable credit as well export hazards in various forms. The exporters receive export credit from commercial banks and also take policies from ECGC to cover export risks. ECGC provides guarantees to banks to give protection against losses due to non-payment by an importer arising from his insolvency or default. The corporation provides different types of policies to protect the banks against the loss of credit.

Review of Literature:

Daniels and Radebaugh (2004)[2] states that every country either reduces or increases the risk inherent in the transaction to the other party. The criteria for using any of the mechanisms are credit worthiness, payment experience of the buyer, reputation of the seller and economic conditions in both the countries of buyer and seller. The risk to the exporter is that the goods must be disposed of if the importer rejects the documents and refuses to pay.

Garcia et al. (2004)[3] states that the Coffa Group, an export credit insurance firm, points out that the low capital investment will lead to economic struggles and then to poor rating pointing to default risk. Increasing demand for Chinese equipment and service has paved the way for limited resource lending by banks in China whereby China Development Bank Corporation and China's EXIM Bank have a major role to play. Sino sure, China's export credit guarantee agency has offered a new export credit guarantee worth up to $50 billion as an encouragement to Chinese companies for their investment in infrastructure in Nigeria. The scope of the export credit guarantee will be limited by the inability of the exporter's country to verify the quality of the exports.

Hassan (2009)[4] finds that the three most important types of risk that the Islamic Banks in Brunei Darussalam face are foreign exchange risk followed by credit risk and then operating risk. He also mentions that the Islamic Banks are somewhat reasonably efficient in managing risk where risk identification, risk assessment and analysis are the most influencing variables in risk management practices.

Sen Gupta and Keshari (2013)[5] This paper spells out the role and share of commercial banks in export financing and issues in export financing such as aspirations and requirements of borrowers and discontentment of banks with the present regulation of export credit. The paper suggests for increasing the flow of bank credit to export sector, restructuring the interest rates. It also calls for a change in the attitudes of banks conservative and risk averse. The need for co-ordination between banks and financial institutions, role of ECGC in timely settlement of claims are impetus for a favorable export business. The stress is on introducing the new innovative services of counter trade, overseas borrowings, international factoring and banker's acceptance for accelerating promotion of exports.

Statement of the Problem:

Risk is a reality and part and parcel of business life and it is more in international business. International business is complex and involves a variety of risks due to increasing complexities. Export related risks are commercial risks, political risks and credit risks. These risks may arise because of lack of knowledge of importer, inability to adapt to the environment, change in price, buyer's financial insolvency where the buyer cannot pay, refusal to receive the exported goods and unfair termination of the contract, potential threat of losses due to political changes and economic events beyond the control of the exporter. These risks have to be considered by both the exporters as well as the credit agencies. The researcher has identified these risks by discussion with knitted garment exporter and credit agencies.

Area of the Study:

Knitted garment industry in Tirupur has been a prospective one for the past three decades and therefore Tirupur is called the dollar city of India. The Knitted garment industry is contributing much to the growth of the economy, since globalization, exports and imports have become free and liberalized with a very few restrictions and regulations.

Objectives of the Study:

The objectives of the study are

- ✓ To understand the types of risks faced by knitted garment exporters in Tirupur
- ✓ To know the utilization of various schemes provided by the ECGC to the knitted garment exporters in Tirupur

Research Methodology:

A separate questionnaire has been used for primary data collection from knitted garment exporters from TEA at Tirupur. Secondary data is collected from the records maintained by the AEPC Tirupur, the TEA, the South Indian Hosiery Exporters Association (SIMA), Coimbatore, Ministry of Textiles, New Delhi and from the leading journals and publication on hosiery exports like, the Apparel Views, the Textile Progress, the Knitting Views, the Knitting International, the Textile Asia and the South India Textiles Research Association (SITRA) library. Also websites and internet services have been used for the purpose of secondary data collection.

The data pertaining to a period of 10 years from 2006-2007 to 2015-2016 have been collected and analyzed.

Sampling Design:

The sample unit has been defined as knitted garment exporters in Tirupur. The population of registered direct knitted garment exporters in Tirupur Exporters Association is 700. Out of that 300 knitted garment exporters have been selected by convenient random sampling method.

Table 1: Types of Risk Faced By Exporters

S.No	Types of risk	Factor			Communality
		1	2	3	
1.	Defaults on payments	-0.074	**0.716**	-0.066	0.522
2.	Exchange transfer blockages	0.192	0.065	**0.766**	0.628
3.	Nationalization	0.270	-0.174	**0.763**	0.684
4.	Confiscation of property	0.356	-0.047	**0.727**	0.658
5.	Insolvency of buyers	-0.096	**0.819**	0.025	0.681
6.	Default by the buyers	-0.046	**0.887**	0.012	0.788
7.	Fraud committed by buyers	-0.038	**0.874**	-0.086	0.773
8.	Unwillingness to accept the goods by the buyers	-0.082	**0.874**	-0.099	0.780
9.	Variability in the Exchange rate	**0.545**	0.070	0.373	0.441
10.	Low reserves, BOP Problems in buyers country	0.521	-0.071	**0.536**	0.564
11.	Trade controls introduced	**0.691**	0.038	0.334	0.591
12.	Failure by buyers bank to pay outstanding	-0.226	**0.745**	0.097	0.616
13.	Import procedures	**0.724**	-0.075	0.327	0.636
14.	Taxation	**0.776**	-0.088	0.299	0.699
15.	Employment practices	**0.792**	-0.148	0.229	0.702
16.	Currency dealings	0.406	**0.485**	-0.179	0.433
17.	Property rights	**0.730**	-0.117	0.247	0.607
18.	Protection of intellectual property	**0.772**	-0.085	0.011	0.604
19.	Agency/ distributorship arrangements	**0.768**	-0.141	0.106	0.621
Eigen value		4.996	4.413	2.620	12.029
% of variance explained		26.294	23.228	13.791	**63.312**
Cum. % of variance explained		26.294	49.522	**63.312**	

Table 1 gives the rotated factor loadings, communalities, Eigen values and the percentage of variance explained by the factors. Out of the 19 types of risk in exporting, 3 factors have been extracted and these two factors put together explain the total variance of these statements to the extent of 63.312%. In order to reduce the number of factors and enhance the interpretability, the factors are rotated. The rotation increases the quality of interpretation of the factors. There are several methods of the initial factor matrix to attain simple structure of the data. The varimax rotation is one such method to obtain better result for interpretation is employed and the results are given in Table 2.

Table 2: Clustering of Risks Faced Into Factors

Factor	Type of Risk Faced in Exporting	Rotated Factor Loadings
I(26.294%)	Variability in the Exchange rate	0.545
	Trade controls introduced	0.691

Factor	Type of Risk Faced in Exporting	Rotated Factor Loadings
	Import procedures	0.724
	Taxation	0.776
	Employment practices	0.792
	Property rights	0.730
	Protection of intellectual property	0.772
	Agency/ distributorship arrangements	0.768
II (23.228%)	Defaults on payments	0.716
	Insolvency of buyers	0.819
	Default by the buyers	0.887
	Fraud committed by buyers	0.874
	Unwillingness to accept the goods by the buyers	0.874
	Failure by buyers bank to pay outstanding	0.745
	Currency dealings	0.485
III (13.791%)	Exchange transfer blockages	0.766
	Nationalization	0.763
	Confiscation of property	0.727
	Low reserves, BOP Problems in buyers country	0.536

The factor analysis condensed and simplified the nineteen types of risk faced in exporting and grouped into 3 factors explaining 68.239 % of the variability of all the nineteen types of risk faced in exporting.

Table 3: Type of Insurance Risk Policy Preferred

S.No	Types of schemes	Number of Exporters	Percentage
1.	Standard Policy	210	70
2.	Specific Shipment Policy	23	7.7
3.	Small Exporters Policy	165	55
4.	Exports Specific Buyers Policy	34	11.3
5.	Export Turnover Policy	80	26.7
6.	Buyer Exposure Policy	60	20
7.	Multi-Buyer Exposure Policy	14	4.6

It is seen from the above Table 3 that among the total exporters 70 % of them have utilized the Standard Policy. 55% of them have utilized the Small Exporter's Policy. 26.7% of them have utilized the Export Turnover Policy. 20% of them have utilized the Buyer Exposure Policy. 11.3% of them have utilized the Exports Specific Buyers Policy. 7.7% of them have utilized the Specific Shipment Policy. 4.6% of them have utilized the Multi-Buyer Exposure Policy. Majority (70%) of the exporters have utilized the Standard Policy.

Table 3: Level of Satisfaction of Exporters on ECGC

S.No	Views	Weighted Average Score	Rank
1.	Enquiring status of the importer	3.16	8
2.	Types of policies offered	3.19	7
3.	Premium amount is reasonable	3.21	6
4.	Processing time taken	3.71	1
5.	Terms and conditions	3.60	2
6.	Gives confidence to the exporters	3.39	4
7.	Helps to recover the debt quickly from importer	3.44	3
8.	Margin stipulated	3.26	5

Result:

The above Table 3 shows that among the satisfaction scores of the activities of ECGC enquiring the status of the importer to the margin stipulated mean score ranged from 3.16 to 3.71 and the processing time secured higher mean score and stood at top whereas the enquiring status of the importer secured least score and stood at the last.

Table 4: Level of Satisfaction of Exporters on ECGC - Anova

Source	DF	S S	M S	F
Between Groups	7	87.012	9.667	8.61*
Within Groups	2392	2684.428	1.122	

**- Significant at 5 % level

ANOVA has been applied to find whether or not there is any significant difference between the satisfaction towards ECGC activities and exporters. The ANOVA table shows that the calculated F- ratio value is 8.61 which are greater than the table value. It is inferred that there is significant difference between the satisfaction towards ECGC activities and exporters. Hence the hypothesis is rejected.

Findings:

- ✓ Majority (70%) of the exporters have utilized the Standard Policy.
- ✓ Most of the exporters do not face the risk of non-payment of bills by foreign buyers because of the best services rendered by the ECGC and banks.
- ✓ The ECGC compensates their loss if they have submitted export documents properly.
- ✓ If any buyer is unable to repay its credit for any reason, the ECGC assumes responsibility for the outstanding credit and the delinquent buyer joins its list of defaulters.
- ✓ **Suggestions:**
- ✓ The exporters should take ECGC policy to safeguard their products from natural calamities.
- ✓ Most of the enterprises pays more attention to the contract, price and production, but ignore the foreign exchange capital risk management. So the government should give training to tackle such risk.

Conclusion:

The Banks in Tirupur make credit for working capital against the L/C. The ECGC, a Government insurance agency underwrites these credits for the banks. If any buyer is unable to repay its credit for any reason, the ECGC assumes responsibility for the outstanding credit and the delinquent buyer joins its list of defaulters. Thus the ECGC issues suitable policies to exporter to cover the various risks involved in export trade and to provide guarantee to commercial banks for the risks inherent in the export finance advanced by them to exporters. Most of exporters prefer standard policy because it is a composite policy. It covers all the risk caused by perils, cyclone and earth quakes. Premium is high compared to other policies. Any exporter is facing any loss due to natural calamities, the ECGC compensates their loss if they have submitted export documents properly. The exporters are satisfied with the service provided by ECGC.

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