

2015 Exporter Review - Introduction

CLEVIS Research GmbH & TXF (Trade and Export Finance)

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Welcome to the 2015 Exporter Review - Introduction

This project saw the implementation of a rigorous campaign with interviews of over 80 capital equipment exporters and users of export finance throughout the world.

Asked for their specific views on the performance of their export credit agency (ECA), banking and insurance partners, the report has produced a treasure trove of insightful information on performance, challenges, opportunities and the general state of this crucial market.

In addition the survey has produced its own unique set of awards: the Exporters' Choice Awards. For these prestigious awards, we take the views directly from exporters that rely on ECA debt, and use them to rank the best performing ECAs and export finance banks.

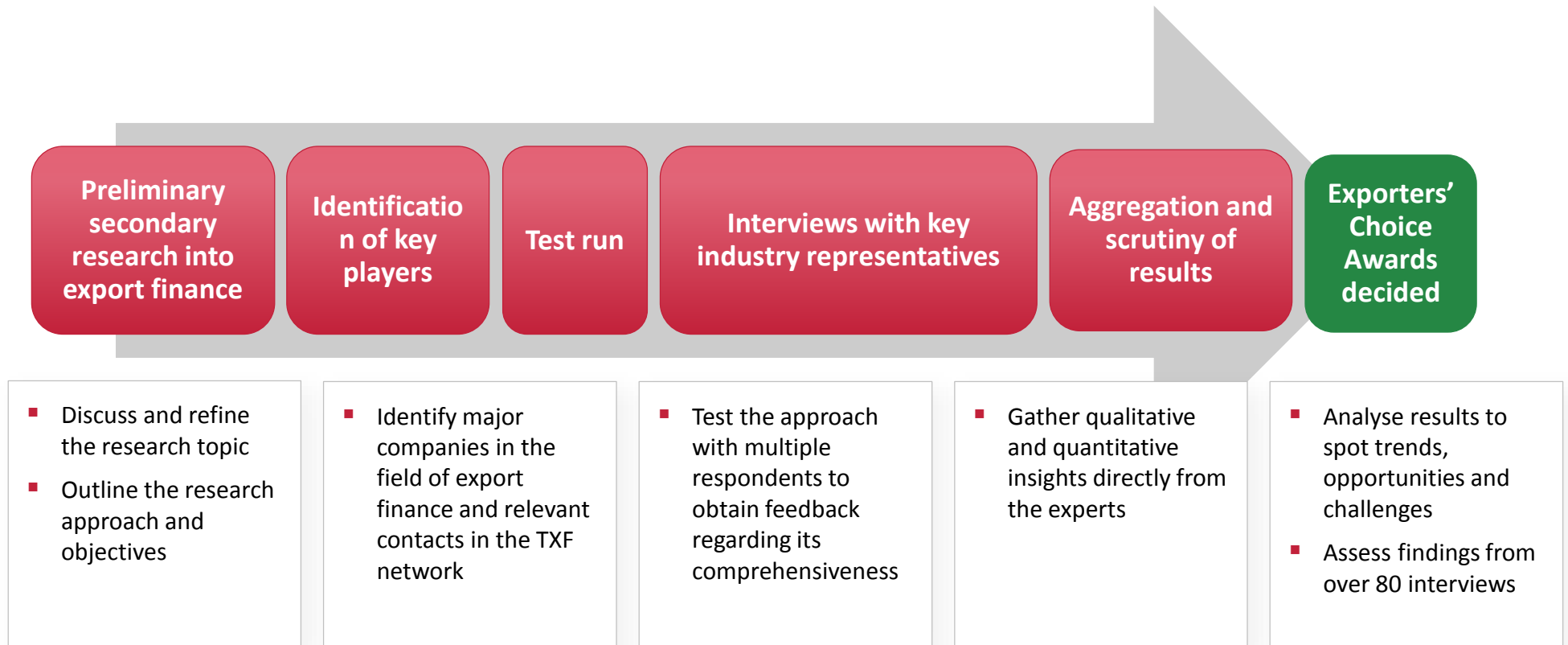
TXF and CLEVIS Research would like to take the opportunity to thank all those that gave their time and views - it is really appreciated. We are keen to develop this project over the coming years, and your feedback will be critical to ensuring we get this right.

Thank you for your cooperation, and enjoy...

Dan Sheriff
Managing Director
TXF

Ludwig Preller
Managing Director
CLEVIS Research GmbH

Five essential steps have been incorporated into the study in order to gather and process relevant information.



The study relies on ample qualitative, as well as quantitative, data to derive thorough insights into the trends, opportunities and challenges in the export finance industry, **and includes banks, ECAs and private insurance providers.**

The rise of African markets

North Africa and Sub-Saharan Africa are regions where economic growth will lead to enormous opportunities in the coming decades (Nigeria, Angola, Cameroon and Mozambique are the countries that particularly stand out).

Spotlight on the African continent



Factors to take into account

- The interest from European ECAs in emerging markets is increasing. However, there are enormous differences between countries.
- European ECAs also want to reach out to new markets in order to diversify their portfolios, thus increasing and adapting their services in the near future.
- Out of the experience of exporters, some North African countries are 'black boxes' in terms of the legal situation and regulations. This stimulates extremely high demand for private insurance providers specialising in these regions.
- Many private insurers and export finance banks already specialise in Africa and offer better deals than traditional ECAs.

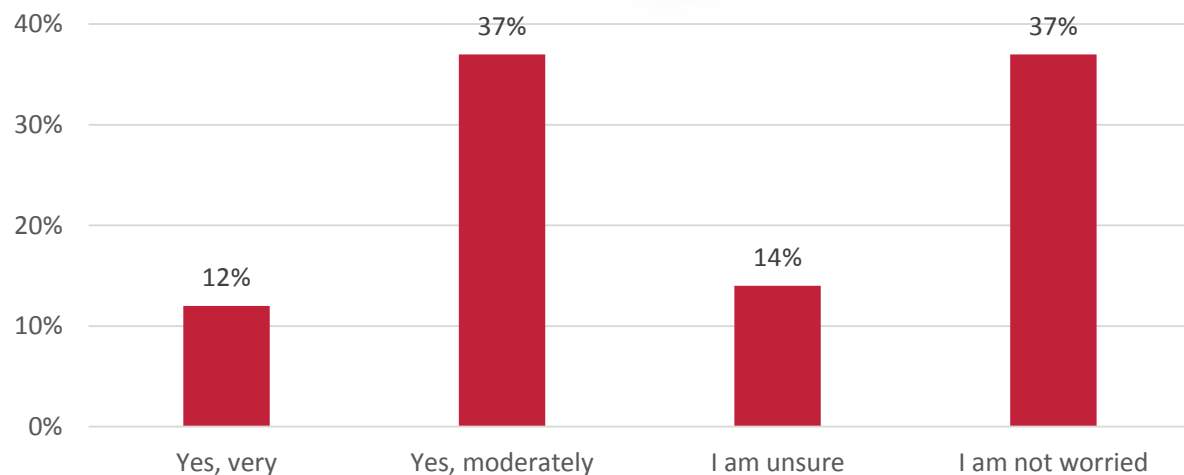
The impact of BASEL III

Exporters are split in their opinions as to whether Basel III is something to be worried about or not.

Impact of Basel III on export financing costs

“Basel III might have additional indirect influences on financing costs by increasing processing time and bureaucracy.”

– Project Finance VP



Comments

- Exporters believing Basel III will have a strong impact on export financing prices suppose this will increase their future demand for services from ECAs.
- Many exporters are only moderately worried about the impact of Basel III due to the fact that a significant number of banks outside Europe are not affected by Basel III regulations (Asia, Middle East), resulting in a weaker global effect by Basel III.
- Most exporting companies are not worried about the impact of Basel III on prices because they believe it will only decrease the banks' risk appetite. Additionally, several banks are able to avoid the full pressure of Basel III regulations.

▶ Altogether, 46% of exporting companies believe that Basel III will have a significant impact on export financing prices, while the rest (54%) shares the view that Basel III will not affect the cost of financing significantly.

The impact of BASEL III (continued)

Basel III might have a strong impact on the processing time of deals, indirectly increasing pricing in export finance.

Exporters who believe Basel III will have a strong impact on export financing prices speculate that this will increase their future demand for services from ECAs. Moreover, Basel III could also increase the processing time of deals, therefore indirectly increasing export finance costs for exporters. Furthermore, exporters believe there will be new constraints in some countries, so that guarantees will reduce while pricing will increase. It is important to note at this point that exporting companies with core sales in Asia, Middle East, North and South America are less concerned about Basel III and its impact due to the fact that many export finance banks they use are not affected by Basel III.

“Basel III might still affect export financing negatively once the interest rates rise and market liquidity dries up.”

– Senior VP Export Finance, Infrastructure firm

Even exporters that are unsure of the impact of Basel III still believe that it will have a negative impact, if any. Additionally, these exporters are unsure because Basel III was expected to have a stronger impact by now.

Some exporting companies are moderately worried about the impact of Basel III due to the fact that a significant number of banks

outside of Europe are not affected by Basel III regulations (Asia, Middle East), resulting in a weaker global effect of Basel III. However, for the same reason, Basel III will decrease the competitiveness of those institutions that fall under its legislative umbrella.

“In the end none of the fears materialized.”

– Head of Export Finance, Capital equipment manufacturer

A small number of exporting companies are not worried about Basel III because they believe that these new regulations will reduce the risk appetite of banks and not increase the price of export financing. Additionally, several banks are legally able to avoid Basel III regulations.

“Apart from the large amount of information required, resulting in longer processing times, I guess that banks’ need to strengthen their balance sheet might increase the pricing. Nevertheless, I am very sure that ECA financing will remain attractive.”

– Export Manager, Aerospace firm



Most exporters believe Basel III will only have a moderate impact on export financing prices or they are not worried at all about the implications of the policy.

Identified industry opportunities according to exporters

Current opportunities present themselves in the form of emerging markets' growth, industry-related prospects and ongoing expansion of certain economies.

	Comments	Impact
Emerging Markets	<ul style="list-style-type: none"> The majority of exporters share the view that Africa is the region to look forward to during the next decade. It is also important that Cuba redefined its export and foreign work regulations to facilitate imports. "In the long-term, Sub-Saharan Africa is the largest opportunity." – <i>Confirmed by multiple export finance directors.</i> 	
Industry sectors	<ul style="list-style-type: none"> A notable number of countries have to update their energy infrastructure. This is not caused by redefined regulations but rather produced by strong demand for improved access to energy in EMs. There is a big opportunity for ECAs to support more SMEs because it is becoming more difficult for them to get access to financing. ECAs can take advantage of this gap. 	
Economy	<ul style="list-style-type: none"> The weak euro in particular boosts exports to countries using US dollars (USD) - including USD-pegged countries. It is important to note that the long-term impact of these changes will probably not be as significant as the short- and mid-term impact because most of the long-term transactions are hedged with financial derivatives, as opposed to short- and mid-term deals. 	

 High impact
  Relevant impact
  Average impact
  Low impact
  No impact

Exporters' most promising opportunities are in several industries that are both long and short-term oriented (energy sector, steel industry, telecommunication industry).

Potential challenges for ECAs

ECAs in general receive rather positive reviews. Nevertheless, respondents identify three areas that reflect nascent challenges for the industry.

Pricing

- Apart from the large amount of information required because of Basel III, banks' need to strengthen their balance sheets may increase prices. Nevertheless, the export finance industry is not expected to be seriously affected by the regulation. There also is a notion that pricing will keep decreasing due to high liquidity.

Consolidation

- Consolidation of national operators into more established international institutions, as well as greater cooperation with other financing institutions, such as the World Bank and regional development banks, would make the overall export finance industry substantially more appealing.

Private Insurance

- Private insurance is becoming an attractive alternative to ECAs due to their flexibility, swiftness and willingness to take risks. The value for money is particularly good for exports into regions with higher volatility (Africa, Latin America) and smaller projects that many ECAs are not currently able to service adequately.

ECA ranking – table overview

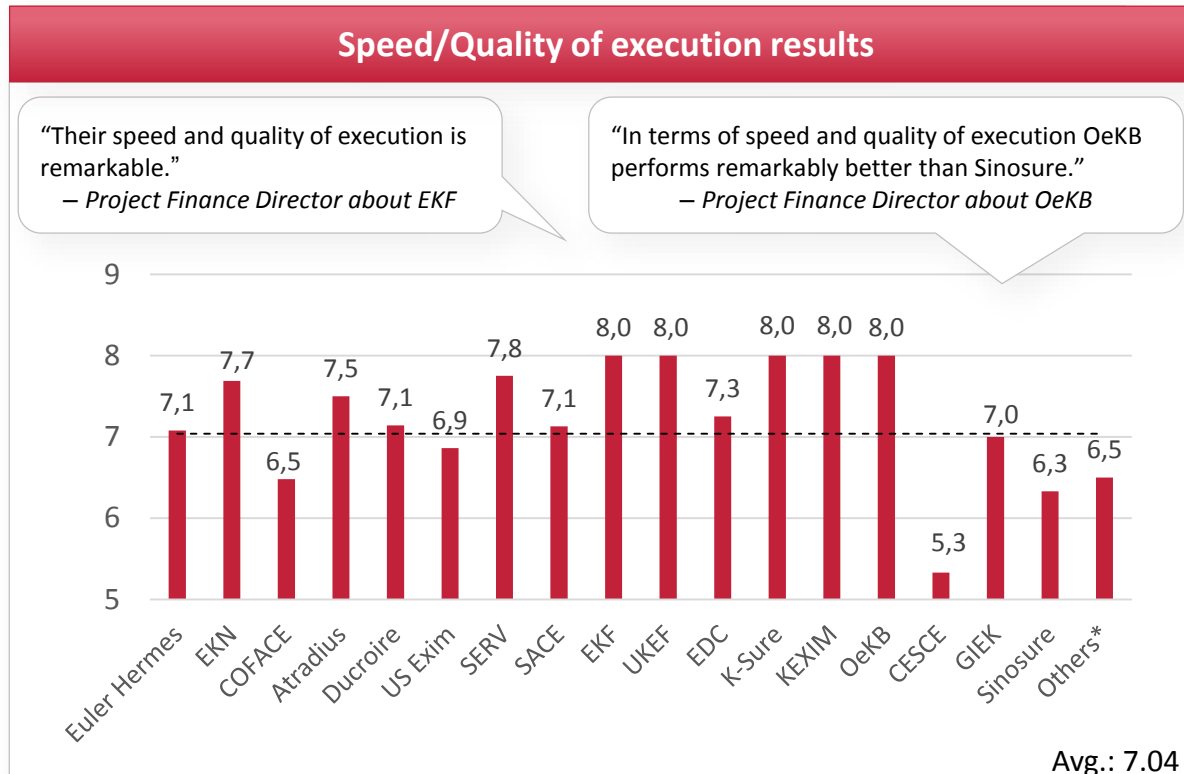
A review of ECAs in terms of their performance (from 0: underperforming to 10: excellent performance) for certain key parameters.

ECA results																			
Flexibility	6.8	8.3	5.6	7.4	8.0	6.6	7.0	7.6	8.8	7.6	8.0	7.0	7.0	7.9	6.7	6.5	7.0	7.0	7.2
Understanding of business	7.9	7.9	7.5	7.9	7.6	8.1	8.0	7.4	8.1	7.3	7.5	9.0	9.0	8.3	6.0	9.0	6.7	7.2	7.6
Risk appetite	7.6	7.8	6.7	6.8	7.6	7.6	7.8	6.7	6.8	8.8	7.0	5.5	6.3	6.6	6.3	7.5	8.1	6.8	7.0
Capacity	7.2	8.1	8.3	7.3	6.9	9.0	8.2	7.5	7.8	7.8	7.3	8.0	8.0	7.2	7.7	6.0	7.9	6.3	7.2
Breadth of prod. Offering	7.8	7.8	7.1	7.1	7.4	7.0	7.8	7.6	7.7	7.9	7.5	7.5	7.7	8.2	6.7	5.5	6.0	6.9	7.2
Speed/Quality of execution	7.1	7.7	6.5	7.5	7.1	6.9	7.8	7.1	8.0	8.0	7.3	8.0	8.0	8.0	5.3	7.0	6.3	6.5	7.0
Customer service	8.0	8.3	7.8	8.3	8.1	8.7	7.8	7.8	8.8	8.0	8.0	8.5	7.7	8.6	7.5	9.0	7.6	8.9	8.4
Average	7.5	8.0	7.1	7.5	7.5	7.7	7.8	7.4	8.0	7.9	7.5	7.6	7.7	7.8	6.6	7.2	7.1	7.1	

0 to 5: underperforming
 5 to 7: sufficient performance
 7 to 8: very good performance
 8 to 10: excellent performance

Exporters' opinions on ECAs' speed/quality of execution

Exporters are very satisfied with EKF's and OeKB's speed/quality of execution.



- ### Comments
- ECAs are generally moving towards greater standardisation. This will improve the speed and quality of execution significantly, resulting in higher export numbers.
 - On the operational side, there is an increase in terms of simplification/ automatization of export financing processes. Several exporters are working very closely with the technology divisions of the ECAs to speed up the process for financing transactions. This will, hopefully, result in less bureaucracy and better structured messages between parties in the near future.
 - US Exim is strongly regulated, which slows down the speed and increases the complexity of the entire transaction.

*Others include Bancomext, European Investment Bank, African Development Bank, EGAP, Finnvera, NEXI, ECIC, JBIC



OeKB and EKF are the ECAs that please their clients most in terms of speed and quality of execution. However, COFACE's and US Exim's capacity is negatively correlated with their speed of execution. "They move big, but too slow."

Export finance banks ranking - table overview

A review of Banks in terms of their performance (from 0: underperforming to 10: excellent performance) for certain key parameters.

Export finance banks																	
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
Flexibility	7.9	6.8	7.4	6.7	7.6	7.8	7.9	6.7	7.0	7.8	7.0	7.4	7.7	7.3	7.6	7.6	7.5
Understanding of business	8.2	8.5	7.8	8.1	7.8	8.2	8.5	7.3	7.7	7.5	7.5	8.0	8.0	8.0	8.0	8.2	8.2
Risk appetite	7.7	7.6	7.1	6.7	6.5	7.5	7.3	7.1	6.9	7.0	7.8	6.2	6.3	7.3	7.8	7.3	7.2
Capacity	8.3	7.6	8.4	8.2	8.9	8.6	8.5	7.3	7.9	7.5	7.5	7.8	7.0	7.0	8.0	8.1	7.9
Breadth of prod. Offering	7.8	7.7	7.6	7.6	7.8	8.0	7.5	7.0	7.7	7.5	7.0	7.8	7.5	6.7	7.6	7.8	7.7
Speed/Quality of execution	8.1	7.9	7.6	7.7	8.0	7.5	7.4	7.9	7.8	7.3	7.3	7.0	8.0	7.7	8.0	7.5	7.5
Customer service	8.3	8.3	8.7	8.4	8.7	8.8	8.4	8.5	8.5	8.3	7.8	8.7	8.7	8.0	8.8	8.8	8.7
Average	8.1	7.8	7.8	7.6	7.9	8.1	7.9	7.4	7.6	7.5	7.4	7.5	7.6	7.4	8.0	7.9	

0 to 5: underperforming
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Positive/Negative aspects of private insurance market

On average the private insurance market ranks above ECAs and export finance banks. Nevertheless there are positive as well as negative experiences with the private market.

Positive experiences

- 9 out of 10 times there is no need for minimum national content with private insurances and less concern about the environmental regulations.
- Euler Hermes offers limited coverage for the chemical industry. This makes private insurance a much better option.
- Private insurance is a good option to hedge against foreign regulation requirements and political risks. For instance, this applies to projects in the volatile parts of the world, such as India and the Middle East, and for long-term projects in general because the uncertainty level is significantly higher.
- “In certain places, such as Africa, the private market is simply better than any ECA.” –Export Finance Director.
- Similarly, ECAs are not allowed to insure deals related to certain countries, such as Ukraine, for risk that extends beyond two years. Private insurance is the only option in this case.
- The offered capacity depends a lot on the specific project and on the country that exporters are working with. The higher the risk, the lower the offered capacity, usually.

Negative experiences

- Often private insurances do not have large enough balance sheets to cope with the size of a potential project, even though they might be interested in the deal. Due to the size and the duration of deals in the energy and industrial manufacturing sectors it is challenging to complement all the deals with private insurance. Hence, for longer projects private insurance tends to remain the last resort.
- After the financial crisis, private insurances stopped offering insurances for the steel market and they have still to install them again.
- Private insurances do not adapt to new situations quickly enough: they are reaching out to more countries but their products remain very similar.
- Bureaucracy of private insurances tends to be very complicated. It is never easy to understand who is taking care of which case and identify the relevant responsible individuals.
- Private insurances lack standardization. For every new deal there are a lot of changes that have to be taken into account. This results in high price fluctuation.
- Regarding “value for money”: at some risk levels it is worth raising the question whether it is worth spending money into risk-covering.



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