

The Management of International Trade Risks: the Role of the Berne Union

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The official name of the Union is the International Union of Credit and Investment Insurers and its members are the major institutions around the world engaged in export credit insurance and investment insurance. It has no executive authority and is not itself engaged in those activities: it is best thought of as a club where those who are so engaged can meet to exchange views on matters of common interest and gain confidence to cooperate with one another. 11 of its 40 members are from developing countries.

With very few exceptions, they are all backed by their governments in one way or another. Some are themselves government departments or official agencies. Others are private companies providing export credit insurance as agents of, or reinsured by, their governments, at least for political risks. The reason for this is that the political risks are considered to be too great and too unpredictable for private insurers to take on a national scale. Governments take them because they want to encourage national exports: if losses are made, the taxpayer has to make up any deficiency not covered by the premium income.

The Union has been based in London since 1975 and, before that, was in Paris. Its connection with Berne is that it was founded in Berne in 1934, with only four members, and met there until 1939: it is an association under the Swiss Civil Code and still keeps its money in Berne. It has a total staff of four people.

The Statutes of the Union say that its purposes shall be to work for:

- (i) the international acceptance of sound principles of export credit insurance and the establishment and maintenance of discipline in the terms of credit for international trade; and
- (ii) international cooperation in fostering a favourable investment climate and in developing and maintaining sound principles of foreign investment insurance.

To achieve these aims, members have agreed that they will

- (i) exchange information and furnish the Union with the information necessary for the accomplishment of its tasks;
- (ii) consult together on a continuing basis, carry out studies and participate in agreed projects;

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- (iii) cooperate closely and where appropriate take coordinated action; and
- (iv) cooperate with other international institutions concerned with these matters.

The role of the Union in country risk assessment is not itself to make assessments or to coordinate members' assessments, but to provide a forum in which and a mechanism by which they can help one another. Much of this is done by discussions during meetings, both inside and outside the meeting rooms, but much more is done by telex and telephone exchanges between meetings.

The benefits which members derive from these discussions and exchanges can be considered under four main headings: general underwriting practice, commercial risks, political risks and specific cases.

General underwriting practice

By exchanging experience e.g. in relation to particular types of transaction, such as construction work contracts, or particular types of security, such as bonds or letters of credit, members can come to a better understanding of the risks they are covering. The Union has a Technical Sub-Committee which studies such problems, usually on the basis of members' replies to a specific questionnaire.

Every year the Union organizes a Workshop at which those working in a particular field of export credit insurance (e.g. claims, country analysis) meet to exchange views and experience. These are of particular value to the newest members of the Union, who may not have been engaged in export credit insurance for very long.

Commercial risks

These are risks arising on the individual buyer. The export credit insurer is perpetually seeking better sources of information on the creditworthiness of buyers. The Union therefore compiles and circulates, on the basis of information supplied by members, lists of credit information agencies in all parts of the world. A similar list of debt collectors and details of all individual claims paid for amounts in excess of SF 35,000 (\$ 15,000) are also circulated.

Political risks

Every quarter the Union Secretariat circulates two tables, based on information supplied by members.

Country reporting

Members' commitments on, and terms of cover for, 40 countries. The countries are those of greatest interest to members and the list is rarely changed, which gives a good run of figures.

Transfer delays and delays in payment by public buyers

All delays longer than 3 months are reported and collated, for every country in which delays are experienced.

15 or 16 countries are discussed at every meeting and between meetings there are very many telex exchanges between members on policies towards problem countries.

Although it is customary to make this distinction between commercial and political risks, they can, in fact, arise from similar underlying causes. A country getting into serious economic difficulties may introduce deflationary measures resulting, in due course, in defaults and insolvencies. If, on the other hand, it does not take such measures, it may end up by having to cancel import licences and/or having insufficient foreign exchange, leading to political claims.

Improvement of country risk analysis

A special committee, mostly of economists working on these problems in member agencies is now being set up to see what advice can be given to members on how their methods of country risk analysis might be made more effective and on how discussions and exchanges of information in the Union might be improved.

Specific cases

Members frequently consult one another on various aspects of contracts in negotiation, particularly on the length of credit being asked for or on the security offered (or lack of it). In a competitive situation this helps to avoid the giving of longer credit than is necessary or the acceptance of contracts for which adequate security is not offered.