

Chapter 3. Core Business Policies and Practices

Section C: Risk Premia

Introduction

ECAs charge risk premia, also known as exposure fees, for taking the risk of a borrower failing to repay on a transaction. Although many factors influence the all-in cost of an officially supported export transaction, risk premia can be a considerable share of the direct financing costs. In 1999, the OECD adopted the Knaepen Package, an exposure fee agreement that defined the elements for the determination of fees and set Minimum Premium Rates (MPR) for sovereign risk transactions. For non-sovereign transactions, the sovereign MPR serves as the floor in pricing the exposure fees for transactions. However, what an ECA charges for non-sovereign exposure risks above the MPR is not strictly governed by the OECD.

Ex-Im Bank's Policy and Practice

Ex-Im Bank charges the MPR for sovereign risk transactions. For non-sovereign transactions, Ex-Im Bank prices transactions individually and assesses transaction risk by comparing the non-sovereign borrower's risk to the sovereign's credit risk. If the non-sovereign borrower, whether it is a bank or public or private entity, has a similar or better repayment risk compared to the sovereign, the exposure fee charged would be the same as for the sovereign (i.e., the MPR). On the other hand, if the risk is deemed to be higher, then incremental surcharges are added to the MPR. Ex-Im Bank's non-sovereign fees are relatively less expensive than those charged by our major counterparts because risk is priced by the individual transaction rather than by class of borrower.

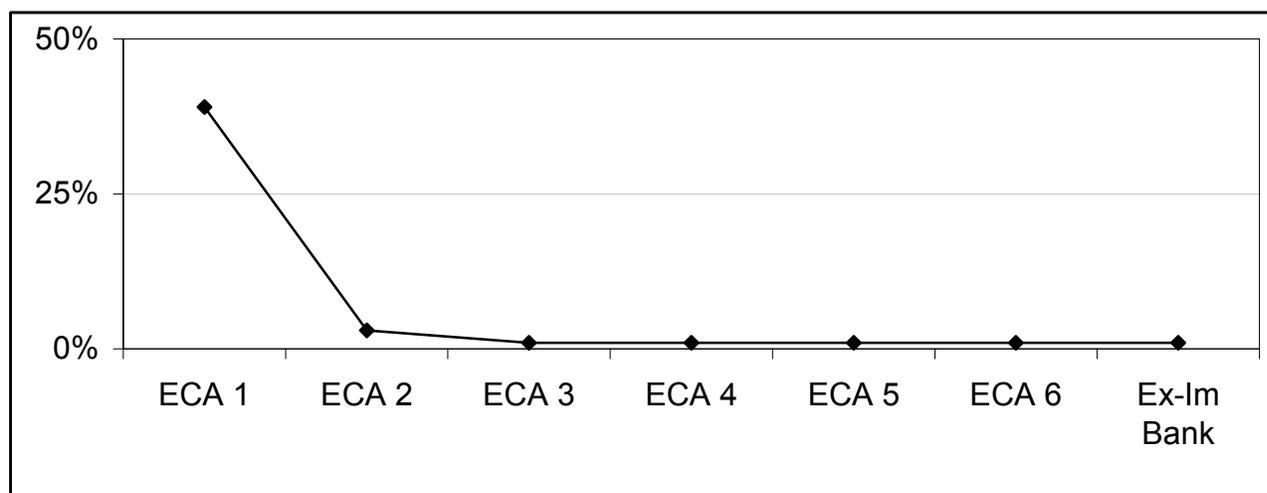
G-7 ECAs' Policies and Practices

For sovereign risk transactions, all G-7 ECAs generally charge the MPR. However, for non-sovereign risk transactions, pricing practices vary among ECAs. Generally, European insurer ECAs tend to add specific surcharges to the MPR for non-sovereign transactions depending on the type of the borrower. For example, a first-rate bank would be charged the MPR plus a surcharge based on its status as a commercial bank, while a private buyer would be charged the MPR plus a higher surcharge based on its status as a private non-financial entity. On the other hand, most non-European ECAs price on a transactional basis (an approach similar to Ex-Im Bank's), assessing a non-sovereign borrower's repayment risk case-by-case.

Summary Data

Figure 6 compares average exposure fee surcharges for the G-7 ECAs for sovereign transactions underwritten in 2003. As seen below, with the exception of one ECA, Ex-Im Bank and most other ECAs charge exposure fees at or slightly above the minimum premium rate allowable for sovereign risk transactions.

Figure 6: Average MPR Surcharges on Sovereign Risk Transactions*



*2003 preliminary data

Figure 7 shows that the ECAs' impose surcharges for non-sovereign risk transactions, although some ECAs price by borrower class while others use a transactional risk-assessment approach.

Figure 7: Sample MPR Surcharges on Non-Sovereign Risk Transactions*

Sample Market	ECA	Average Surcharge
Mexico	ECA 1	121%
	ECA 2	15%
	ECA 3	22%
	ECA 4	21%
	ECA 5	9%
	ECA 6	51%
	Ex-Im Bank	5%
Turkey	ECA 1	119%
	ECA 2	3%
	ECA 3	10%
	ECA 4	10%
	ECA 5	39%
	ECA 6	53%
	Ex-Im Bank	1%

Exporter and Lender Survey Results

The exporting community views Ex-Im Bank's exposure fees for sovereign and non-sovereign risks as generally competitive, with several respondents noting that Ex-Im's approach to accepting and pricing sub-sovereign risk could be more flexible.

Conclusion

The Knaepen Package placed a sovereign floor on exposure fees, thereby reducing competition between ECAs based on risk pricing. Ex-Im Bank typically charges the MPR for sovereign buyers, making the Bank competitive with other G-7 ECAs in sovereign exposure fees. Additionally, contrary to many European ECAs, the Bank does not rigidly apply surcharges for non-sovereign fees according to buyer type, generally resulting in competitive exposure fees for private and public non-sovereign buyers. Overall, Ex-Im Bank's exposure fee pricing practices are generally competitive with those of other G-7 ECAs.

