Topic: Credit Insurance Policies of ECGC Limited. How they are beneficial to SME Sector

Abstract of the presentation of Prof. P Subbarao

1. The finance is fulcrum of any business activity and the banks provide the life line. The SME sector cannot grow without the help of the banks and the economy cannot grow without the viable and profitable SME sector.

2. The socio-economic landscape of Europe has undergone a paradigm shift over the last ten to twelve years. With the collapse of Europe's social structure its demographic profile has witnessed a steep decline. Consequently the number of ageing population has been increasing over the years, while the number of working people has been declining rapidly. In view of the above changing socio-economic landscape, the European countries are spending 39 trillion Euros towards unemployment and pension support working out to more than 50% of the annual GDP of the world.

3. Added to that above position, Europe by and large has always been environmental friendly zone which has led it to shift most of its industries mainly pharmaceutical and chemical industries to developing countries like China and India. As a result the industrial production of the zone as well as, the contribution of industries in the GDP has been decreasing rapidly. The cumulative impact, led to the current financial crisis in Europe.

4. The SME sector, being the backbone of the Indian Economy has to adopt the risk management techniques to protect their capital and the profits as well.

5. The growth in the top line that is total revenue has to result in enhanced cash flows, lest the growth would result in financial losses.

6. In order to protect the financial position of the SME sector credit risk management is paramount.

7. The export oriented units would be benefited by obtaining credit insurance policies of ECGC Limited.
    a. ECGC introduced a policy exclusively for the SME sector units on 4th July, 2008. The above policy is meant for exporters engaged in manufacturing activities or engaged in export of services, qualified as per the "MSMED Act 2006".
    b. SCR Or Standard Policy – Shipments (Comprehensive Risks) policy, formally known as standard policy is the one ideally suited to cover risks in respect of goods exported on short

term credit, not exceeding 180 days. This policy covers both commercial and political risks from the date of shipment. The percentage of cover is 90%.

   c. Small Exporter's Policy - It is issued to exporters whose anticipated export turnover for the period of one year does not exceed 50 lakhs. For shipments covered under the policy are entitled coverage to the extent of 95% where the loss is due to commercial risks and 100% if the loss is caused by any of the political risks.
   d. Shipments (Comprehensive Risks) Policy – The maximum liability under the policy will cover the outstanding dues from all the buyers at any given point of time. The ECGC would consider claims in the event of loss on account of commercial risks but restricted to the extent of the credit limit sanctioned.

8. The following are other insurance policies designed by the ECGC –
   a. Export (Specific Buyers Policy)
   b. Export Turnover Policy
   c. Buyer Exposure Policy
   d. Consignment Export Policy (Global Entity)
   e. Services Policy
   f. Software Project Policy
   g. IT Enable Services (Specific Customer Policy)
   h. Construction Works Policy
   i. Specific Policy for Supply Contract
   j. Insurance Cover for Buyers Credit and Line of Credit
   k. Small and Medium Exporters Policy

9. The units in SME Sector are advised to obtain Credit Insurance Policies to protect against the possible credit default by the buyers.

10. Enhancing top line is one part and maintaining asset quality is another part to achieve the financial success.