Our ref. GB//NH

25 September 2020

To Whom It May Concern
International Trade Committee
Department for International Trade and UK Export Finance: Support for Exports

Dear Sir/Madam

RESPONSE OF THE CHARTERED INSTITUTE OF CREDIT MANAGEMENT (CICM) TO: INTERNATIONAL TRADE COMMITTEE: UK EXPORT FINANCE

The Chartered Institute of Credit Management (CICM) is the largest recognised professional body in the world for the credit management community. Formed over 80 years ago, the Institute was granted its Royal Charter in 2015. Representing all areas of the credit and collections lifecycle, it is the trusted leader and expert in its field providing its members with support, resources, advice, and career development as well as a networking and interactive community. In addition to its comprehensive suite of qualifications and learning opportunities, it offers events and magazine 'Credit Management'. Independently, and through collaboration with business organisations, it provides vital advice to businesses of all sizes on how best to manage cashflow and credit.

CICM members hold important, credit-related appointments throughout industry and commerce, and we feel it appropriate to comment on this consultation.

We referred the consultation to a CICM member who is also one of our trusted technical experts, and their comments are attached.

If we can help in any further way please do not hesitate to contact us.

Yours faithfully

Glen Bullivant FCICM
Chair of Technical Committee

International Trade Committee – Call for Evidence:
Department for International Trade and UK Export Finance: Support for Exports

1. My name is Glyn Powell and I have been involved in International Trade for over 40 years, both as a manager promoting export manufactures; and as a finance and risk manager in many markets across the world including those with the highest risk. I have experience accessing other Export Credit Agency schemes and was instrumental in arranging the private finance component of the ECGD project for the electrification of St Kitts Nevis. I am a Graduate and Fellow of the Chartered Institute

of Credit Management and former Trustee Director, and also a Fellow of the Institute of Export and International Trade also serving as a Trustee Director and Honorary Treasurer. I have many years' experience of the finance of international trade, having established sales finance operations and cross border leasing bodies for a number of major corporations such as Xerox, Phillips, GATX and others. Most recently, I was Risk Director for a two trade finance companies based in the UK.

2. I believe from that experience, I can comment effectively on the various offerings of UKEF and the issues facing it in the current market place and future challenges.

3. In addressing call for evidence, I believe it is firstly important to commend UKEF on the range of products it has available. However, one must appreciate UKEF's business has two aspects, its short term and medium/long term offerings. Moreover, it is vital to understand the longer term products are only accessible to an exporter if and only if there is a bank that will fund it. This inability to actually fund the transaction seriously prejudices any potential exporter from using either UKEF's product or moreover, manufacturing in the United Kingdom at all.

4. In the current market, it is a fact of life that financial institutions look to the best return on capital deployed, which dissuades them from financing smaller companies seeking to export, or smaller valued export contracts. Whilst UKEF insurance and guarantees, both short and medium term, carry the significant advantage of zero weighting for bank capital adequacy purposes, that does not obviate the requirement for the bank to carry out serious due diligence to approve a project, which if smaller in size or exporter, does not deliver the fee income the bank requires as its starting hurdle. In effect, SMEs are barred from using UKEF because they can't get a bank to back them.

5. Furthermore, this due diligence process requires all of the extensive compliance procedures which the UK properly follows under Anti-Money Laundering, Proceeds of Crime and Bribery Act considerations. These further dissuade banks desire to support this type of business. The fact of the platinum edged Anti-Bribery legislation in the UK is considerably more draconian than that experienced in other OECD countries, for example extending liability for acts by agents and distributors not under the exporter's control, makes it harder for UK exporters to consider using UKEF. I support the principle of these controls but find it difficult to see how UK exporters and manufacturers can win contracts against foreign competition without a level playing field.

6. An example of this, relates to a contract won by a UK manufacturer in Eastern Europe to supply equipment for a power station. The local entity had significant investment by that country's President, approved by UKEF, supported by then DTI, and by the local Embassy. No British bank would finance the contract despite the UKEF approval as they all required certified copies of the President's passport and two utility bills proving residence. Firstly, consider the embarrassment of asking for the passport, followed by the minor issue that the President lives in the Presidential Residence, and it is not his name on the electricity bill. The Ambassador offered to write a personal letter confirming the President was properly identified for AML purposes, but this was not acceptable to the UK banks. A French bank saw the situation as ludicrous and was willing to accept the President's bone fides. The UK did benefit from the export proceeds but lost the whole not inconsiderable financing profit to France. This does not seem helpful approach for UK plc, especially where we as a nation are trying to grow our exports and global market share.

7. Another consideration for accessing UKEF supported contracts related to the 15% down payment and non-UK content. In the case of the St Kitts Power and Water project referred to above, the total contract was about $13m, with approximately $6/7m financeable by UKEF. The 15% down payment and the non-UK content needed finance in addition, without which the Kittitian government could not proceed with the scheme. No UK bank was willing to consider financing these commercial elements, so a facility was arranged through Bank of Nova Scotia who a big player in the Caribbean region. The resultant win was one of the largest contracts UKEF has financed in the region and outside of the normal aerospace and major infrastructure projects highlighted by NAO.

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8. In the past, banks arranged 'general purpose lines of credit' with a foreign bank in an importing country. Typically these were in the region of £5-10m and could be accessed by any UK exporter and any local buyer. These were useful as the administration and approvals were already in place and smaller value contracts could be financed, as the 'pot' accommodates more than one transaction. Sadly these are no longer available.

9. A further consideration is the shedding of expertise by the main stream banks over the last few decades. Now many have little or no expertise relating to ECA supported contracts, so are forced to cherry pick high value fee income justifies their costs and required return.

10. UKEF itself has a not dissimilar experience, where much of its world class staff have retired or moved on, leaving a capacity shortfall in particular in the risk arena.

11. For many of the above reasons, the relative ease in which the private sector insurance products are accessible makes many exporters seek these as simply more practical.

12. However, UKEF's ability to underwrite contracts too big or too commercially difficult offers exporters a viable alternative. A good example of this is the LC confirmation guarantee which gives banks an ability to confirm volumes of letters of credit guarantees greater than their own internal capital adequacy rules would allow or their maximum risk concentration limits. This has allowed banks to continue supporting trade to more difficult markets such as Pakistan and Nigeria, both traditional UK partners where political and financial uncertainty limited the banks' appetite to risk. The same can be said of large contracts where the commercial market can accommodate a few tens of millions of pounds of capacity, but above that cover is not available, often due to lack of reinsurance.

13. Co-funded projects must also be noted. In case I was involved with in North Africa, the initial project was underwritten and funded by the African Development Bank, but a follow on contract was underwritten and funded through an ECA. This is an area of opportunity for UK exporters where their product is well understood and trusted by the buyer, but only if that exporter can access the bank funding needed to utilise the benefit of the UKEF guarantee.

14. It is a fact of life that expertise is concentrated in a number of major industries, and those industries (aerospace, defence, infrastructure, petrochemical) thus access the lion's share of UKEF's supported contracts. They have the requisite expert staff, the finance institution relationships and economies of scale, necessary to put this all in place. The SMEs quite bluntly don't.

15. This is not the case with our global competitors. Canada's EDF offers direct finance schemes enabling smaller exporters to win contracts requiring medium term support. Hermes Bund has a history of supporting SME exports and a high percentage of their business is done with smaller exporters, not least because an agreed framework exists with the commercial banks to support the export finance once the guarantee is in place. US EximBank has similar easier to access schemes for smaller entities.

16. The generous approach to non-UK content by UKEF is extremely good and reflects the UK's ability to put together a turnkey solution from throughout the world where the customer trusts the UK supplier to provide what's needed. Whilst some of the product may be made elsewhere, the whole profit and the financing income can come here.

17. Looking now at short term support, the EXIP guarantee is an excellent product but suffers from poor understanding by the insurance broker networks, who are further dissuaded from pursuing this due to brokerage considerations.

18. The lack of political risk insurance cover for EU contracts is also an unfortunate shortcoming. The argument that political risk insurance is not available as that might breach EU competition rules is not

justified on the grounds foreign governments, even in well developed countries, change the rules and exporters can be caught out. An example is some of the sanctions bought in by the French government and German provinces during the CJD crisis, political acts which UK exporters with sometimes long term contracts were hit by. The various tit for tat actions by USA in relation to the aerospace support dispute is a further example, and in this case Scotch whiskey can be an easy target. Whilst this may not be an insurmountable problem legally post-Brexit, the attitude of Brussels towards perceived 'unfair' support for UK businesses may become more pointed.

19. So in summary, from my experience, UKEF has some excellent products but the structure of the finance market and customer awareness of those products undermines what is otherwise a world class business. I believe UKEF is of the finest pedigree reflecting its heritage as the world's oldest export credit agency. Surviving over 100 years as a commercial entity is not an easy do, especially in world with risk. The commercial banks and insurers will willingly take the easy low risk business, UKEF allows us to win high profit business in difficult countries.

20. I trust the Committee funds my observation useful and I am willing to make any clarifications required to assist in your deliberations.

T Glyndwr Powell BA FCICM FIEx
24th September 2020