

Development of Export Risks Insurance in the Republic of Uzbekistan

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Abstract: *This article analyzes gradual measures taken by the state bodies of Uzbekistan to develop export insurance and make this insurance attractive at the legislative level. Insurance has become one of the ways the government stimulates export operations. The efficiency of the adopted legislative norms is shown on the example of Uzbekinvest EIIC JSC.*

Keywords: *export risks insurance, political and commercial risks, export promotion, waiting period, buyer's country.*

1. Introduction

Trade of goods and services with foreign countries plays an important role in the international cooperation of Uzbekistan. Research shows that 28-32 percent of the country's total exports can be carried out on the trade credit terms for the goods delivered and services rendered. Wider use of this export payment condition shall provide for additional competitive advantages to domestic producers in the international markets of goods and services.

In recent years, in Uzbekistan, in order to protect against non-payment risks under export contracts, the use of export risks insurance mechanism against political and commercial risks is expanding since export on trade credit terms for delivered goods or rendered services provides for additional opportunities for the exporter to win new markets of goods and services. Insurance against non-payment risk by the foreign buyers becomes important in conditions when Uzbekistan business enter foreign market for the first time (especially SME entities), establish direct commercial relations without sufficient knowledge on their partners and trade terms in the foreign countries at the same time concluding export contracts on trade credit terms.

Regulations for the implementation of export risks insurance mechanism first appeared in 1998 when the Government of Uzbekistan approved the Regulation for Providing Insurance Coverage to Exporters of Capital, Goods and Services.

According to this Regulation, insurance coverage was provided to exporters and commercial banks - residents of the Republic of Uzbekistan only for operations related to the export (including leasing) of products having Uzbekistan national content.

The insurance procedures were mainly based on the standards used in international practice and included insurance coverage for export contracts, as well as the insurance coverage for commercial banks' loans for export contracts. The issues of insurance premium payment and insurance indemnities payment were considered.

Insurance coverage for export contracts could be provided in the form of supplier's credit or buyer's credit insurance:

Supplier's credit - credit is provided by exporter to the buyer in the form of deferred payment for supplied goods and services.

The insured is the exporter, the beneficiary – either exporter and (or) commercial bank.

Buyer's credit - credit is provided by commercial bank in accordance with the laws currently in force to the foreign buyer's bank for refinancing the credit to the foreign buyer or directly to the foreign buyer to pay under the export contract.

The commercial bank acts as the insured and the beneficiary.

Export risks insurance agreements provided for coverage for the following risk groups:

Political risks - associated with adverse changes in the political and macroeconomic situation in the foreign partner's country, completely or partially preventing from fulfillment of contractual obligations assumed, including:

- declared or undeclared war, civil unrest, revolution, terrorism acts, sabotage, insurrection, armed power seizure, rebellion in the buyer's country resulting in the buyer's inability to fulfill the export contract payment terms.

- imposition by the buyer's country government of embargo on import or export, introduction of any law, decree, regulation that prevents, restricts and/or prohibits the import, export of goods and directly constrains payments under the export contract, or blocking trade by UN decision.

- government acts by the buyer's country blocking the fulfillment of terms of the concluded export contract between the insured and the buyer in whole or in part, including introduction of new legislative acts that are discriminatory in relation to Uzbekistan.

- transfer delays caused directly by the inability of relevant authorized body of the buyer's country to approve and transfer the export contract currency to the insured due to a shortage of freely convertible currency, the announcement of moratorium on servicing the buyer's country external debt, provided that the buyer has made deposit in local currency in authorized body necessary for the purchase and transfer of the export contract currency.

Commercial risks - directly related to financial and economic condition of the foreign partner and expressed in his proven insolvency or bankruptcy and impossibility to fulfill financial obligations assumed under the contract, including:

- bankruptcy or insolvency of the buyer, as a result of which the buyer has not paid or can no longer pay for the goods that are the object of the export contract. Herewith, buyer's bankruptcy or insolvency is recognized in accordance with the laws of the buyer's country.

- protracted default or inability of the buyer to fulfill the financial obligations assumed under the export contract to pay under trade credit provided by the insured to the buyer after the waiting period.

The terms for indemnity payment under insurance coverage provided were defined:

- in case of war, revolution, rebellion or civil unrest subject to the proof provision - 300 days;

- in case of intervention or imposition by the government of the buyer's country of restrictions impeding the fulfillment of the export contract terms, blocking trade or problems related to conversion, as well as protracted default by the foreign partner - 180 days;

- in case of bankruptcy of the foreign buyer and (or) bank of the foreign buyer - within 30 days after providing evidence of the latter's recognition as the bankrupt.

In the following years, in order to support SME's exporters and create additional benefits for them, it was allowed for:

- coverage of risks by insurance company both in the foreign and national currency without deductible.

- indemnity payment under insurance coverage provided within 60 days from the date of event occurrence, except for the case of bankruptcy of the foreign buyer and (or) bank of the foreign buyer. In this case, indemnity payment was to be made within 30 days after provision of evidence of declaring the latter bankrupt.

In general, insurance carried out in accordance with the Regulation, not being mandatory, played the role of one of the possible ways of exporting on trade credit terms for the goods exported. This insurance has become similar to imputed insurance used in some countries, i.e. guaranteed insurance protection for certain categories of legal entities or individuals in the state and society interests. It should be said that the exporter retained the right to choose a way to protect his interests from several possible options for exporting on a trade credit basis: asking for letter of credit, buyer's bank guarantee or export contract insurance policy against political and commercial risks. At the same time, there was a list of goods that could not be exported on trade credit basis.

In 2017, in order to increase exports volume and liberalize foreign trade, it was allowed to export without prepayment, letter of credit, guarantee or insurance policy.

This situation led to significant decrease in demand for export credit insurance services. However, substantial increase in payment delays from the foreign buyers makes it relevant to use export risks insurance mechanism by exporters on their own free will.

In order to considerably increase the volume of goods and services exports, expand the range of export-oriented products and increase foreign exchange earnings, in 2018 National Export Support System was created which is coordinated by the Ministry of Investments and Foreign Trade of the Republic of Uzbekistan

In order for this system to function, Export Promotion Agency was established under the Ministry of Investments and Foreign Trade of the Republic of Uzbekistan, along with this, Uzbekinvest Export-Import Insurance Company was entrusted with the function to insure export credits and operations.

One of the main tasks of the National Export Support System is "the introduction of mechanisms for pre-export and export financing, insurance of export credits and risks taking into account the foreign countries experience having successfully introduced modern mechanisms for financial support and insurance of domestic exports».

In order to fully protect exporters in the condition of expanding exports geography, Uzbekinvest has concluded insurance agreements for export to 29 countries of near and far abroad, including Russia, China, India, Turkey, Kazakhstan, Spain, Germany, Great Britain, Canada, Singapore and others.

The company has concluded more than 30 agreements and memorandums of cooperation to support export to the partner countries of Uzbekistan by insuring export-import operations, including EXIAR (Russia), NEXI (Japan), SINOSURE (China), KSure (Korea), UK Export Finance (UK), COFACE (France), SACE (Italy), ICIEC and Etihad Credit Insurance (UAE) and other world's leading state export credit agencies.

To further promote exports and implement the policy for providing national exporters with guarantees for their partners' - foreign importers- solvency, in 2019 measures have been taken in Uzbekistan to reform and accelerate the insurance market development, including:

- improvement of procedure for providing insurance coverage to exporters of capital, goods and services introducing the mechanism of parallel insurance of exported goods as cargo and ensuring guaranteed insurance protection for the national exporters;

- development of global insurance programs to cover the risks of exporters and investors, including comprehensive insurance: property and business interruption; logistics, commercial and export credit risks, D&O;

- improvement of export insurance mechanisms by further support and promotion of the national exporters, including agricultural products exporters, as well as development of offer to introduce procedure for compensating part of the exporters' costs for export insurance agreements conclusion.

In 2020, the Government of Uzbekistan approved the Regulation on the Order for Insuring the Export of Capital, Goods and Services (Works), as well as Activities Related to Export Support directed to increase the role of insurance in the system of national exporters' state support.

The Regulation sets the order for concluding insurance agreements, the insurance agreements currency, incurred losses claims regulation, grounds for refusal, determination of the amount and terms of insurance indemnity payment. Definitions of 25 terms, including 8 risks, are given to exclude different interpretation of the concluded insurance agreements conditions at the stage of claims consideration. In addition to this, insurance agreements are divided into two large groups depending on who the insured is - the exporter or the entity providing financial support to the exporter (national or foreign investor, commercial bank, leasing organization, microcredit organization, as well as other legal entities and individuals).

According to the Regulation, political, commercial, and logistics risks are accepted for insurance, and insureds-exporters can insure these risks under 5 insurance agreements types:

- insurance against the risk of non-fulfillment of obligations under the export contract - insurance protection against untimely fulfillment by the counterparty of its obligations to pay or barter under export contract as a result of political and commercial risks;

- goods and/or services supplier's credit insurance - insurance protection against untimely fulfillment by the counterparty (foreign buyer) of its payment obligations under the export contract on trade credit term as a result of political and commercial risks;

- insurance of short-term or long-term receivables of the exporter - insurance protection against non-payment by the counterparty (foreign buyer) under the export contract on trade credit term within a period of less than 1 year (short-term) and (or) more than 1 year (long-term) resulted from political and commercial risks;

- logistics risks insurance - insurance protection against logistics risks in the production and export activities of the exporter;

- investment insurance - insurance protection against full or partial loss of investments made by the exporter abroad, both in the form of material and (or) financial investments, and in the form of intangible assets due to the bankruptcy.

In case when the insured is the entity financing export operation, 6 types of insurance agreements can be concluded:

- buyer's credit insurance - insurance protection for financing entity against the risk of non-repayment of loan granted to the foreign borrower (the buyer or the buyer's bank) for the purchase of goods and (or) services produced in Uzbekistan as a result of political and commercial risks;

- export factoring insurance - insurance protection against the risk of non-payment by the foreign buyer under the export contract, for which the bank provided financing to the exporter on condition of assigning accounts receivables under the export contract;

- exporter's working capital insurance – insurance protection for financing entity against the risk of non-repayment of the loan provided to the exporter for the purpose of financing working capital to perform contract for supply of goods and/or services (works) to be exported from Uzbekistan resulted from political and commercial risks;

- confirmed letter of credit insurance - insurance protection for financing entity confirming the letter of credit issued for goods and/or services (works) exported from Uzbekistan against political and/or commercial risks;

- guarantees or warranties insurance - insurance protection for the fulfillment of obligations by financing organization under its guarantee and/or warranty in case if the exporter fails to fulfill its obligations to the counterparty under export contract resulted from political and commercial risks;

- leasing insurance - insurance protection for financing organization against non-delivery of the purchased goods as a result of political and commercial risks and non-return of funds transferred for this product, or undue payment of leasing payments by the lessee as a result of the commercial risks.

The Regulation sets limits on maximum deductible and waiting period, depending on the type of risk. When concluding insurance agreements, it is prohibited to establish:

- deductible for political risks;
- deductible for commercial risks in the amount of more than 50% of the sum insured;
- deductible for logistics risks in the amount of more than 5% of the sum insured;
- waiting period for political risks - more than 180 calendar days;
- waiting period for commercial risks - more than 90 calendar days;
- waiting period for logistics risks - more than 30 calendar days.

Along with complete examination of the requirements, conditions and parameters for implementation of export insurance, the Government of Uzbekistan approved another regulatory document in 2020 - Regulation on the Order for Compensating the Costs of Insurance Premiums when Exporters Use Insurance Services as Provision. The Regulation was another instrument aimed to increase the role of insurance in export activities.

The introduced Regulation stipulates for that compensation of expenses for the insurance premium when exporters use insurance services, is provided by the Export Promotion Agency under the Ministry of Investments and Foreign Trade at the expense of state budget subsidies in the amount of not more than 1%.

The efficiency of measures taken by the state to develop the country's exports, as well as the mechanism for insuring export operations can be seen in the table below (Table 1.).

Export Risks Insurance and Coverage Level

in 2018-2021 (in mln. US Dollars)

Table 1.

Years	The volume of the company's liabilities	Export Volume of RUz	% of National Export Supported by Uzbekinvest	% of National Export Supported by Uzbekinvest (excluding raw materials and export with 100% prepayment)
2018	30.3	13 990.7	0.2%	0.9%
2019	914.4	17 458.7	5.2%	22.8%
2020	1 536.2	15 127.7	10.2%	44.2%
2021	1 786.2	16 610.6	10.8%	32.7%

All of the above allows us to conclude that in the context of modernization of economy of the Republic of Uzbekistan based on the created efficient legislation system on regulating foreign economic activity including general legislation, special insurance legislation and a set of by-laws and institutional regulations, the national export support system functions quite efficiently. At the same time, it is evident that in order to ensure comprehensive regulation of foreign economic activity insurance in the republic, the current legislation system should be constantly improved based on the current practice of using the system, to effectively regulate various aspects of foreign economic activity insurance and create favorable conditions for exporters.

References

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