

60 second interview

Diana Smallridge talks to Katharine Morton about the progress of ECAs and how they can balance the three-legged stool of sustainably financing and supporting exporters, while not crowding out banks or the private insurance market



What do you see as being the biggest pain points for Export Credit Agencies (ECAs) and Exims?

It's not a new problem, but it continues to be balancing the mandate against financial sustainability. That means supporting national companies exporting and investing competitively so that they are able to compete with exporters from other nations – some of whom are not members of the OECD – and do so in a financially sustainable way.

The interface between private insurers, ECAs and banks: is crowding out happening and is it inevitable?

It's a topic that is always front and centre in peoples' minds. There are some ECAs who acknowledge that there's a third pillar in the pain points they are trying to balance. It's like balancing a three legged stool of financial sustainability, meeting the mandate of supporting their [exporting] companies, and making sure that they don't crowd out [other funding sources/risk capacity]. Some ECAs are less concerned about financial sustainability as it is all taken on the account of their government. Others are less concerned about crowding out the private sources of finance or risk capacity. It's the ones that are trying to balance all three legs of the stool that have a much tougher mandate.

Importantly, it suggests that if you [as an ECA] are not crowding the private market, you are taking risks that nobody else wants to take. And if nobody else wants to take those risks, it may imply that that the transactions

being support are not financially viable, or at least there is not a sufficient financial return to attract the private sector. So there must be a sweet spot between losing your shirt and making a not-too-great profit.

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Is there any one ECA that stands out in that respect: who do you think has got it right?

I happen to think Finnvera has a very balanced approach in terms of how they execute their mandate, define Finnish national interests, price according to their risks and be competitive at the same time. We've just completed [along with Professor Andreas Klasen, from Offenburg University with whom she often collaborates] a review for the Finnish Ministry of Employment and Economy (MEE) and they are an impressive organisation which balances the three legs well. They do direct lending too [which was introduced as a temporary scheme during the financial crisis – but as the head of Finnvera, Topi Vesteri [deputy CEO and group chief credit officer] said, there's nothing more permanent than a temporary scheme in government!].

EDC in Canada has always been very strong on legs one and two in which it achieves financial sustainability and profitability working with Canadian

exporters, but in recent years has placed greater emphasis on partnership with banks and, even private insurers. Having a direct lending arm has been important. You have this with UKEF in the UK too. Direct lending is critical, recognising that if the banks withdraw, as was the challenge after the global financial crisis, that having a liquidity facility could help [exporters] get quickly back into the market.

How optimistic are you about the future for ECAs, looking to 2020 and beyond?

If you define the perspective as: does the real economy get the financial support it needs to continue to export and invest? I'm optimistic. The global financial crisis was a time when it wasn't the real economy that was initially struck by the crisis, it was the financial sector.

The real economy was prepared to keep trading, but they couldn't get access to financial services. At the time, governments through their ECAs which had the capacity to lend direct were much more nimble and ready to jump into emerging gaps. Nowadays, more ECAs offer direct lending and so are ready to fill the gap – either a systemic gap or a crisis gap – so overall, I'm optimistic.

Diana Smallridge, president and CEO of International Financial Consulting is an expert in the area of ECAs, Exims (export import banks) and development banks and has chaired the Annual Global Convention on Insuring Export Credit and Political Risk since 2001