Chapter 1
Introduction

1.1 About ECGC

Export Risk Insurance Corporation which was set up in 1957 was renamed as Export Credit Guarantee Corporation of India Limited (ECGC) in the year 1983. ECGC (Company) is fully owned by the Government of India (GOI) and its functions are overseen by the Ministry of Commerce and Industry (Ministry). The Company was formed with the objective of catalyzing the promotion of exports from the country by covering the risks of exports on credit. It is registered with Insurance Regulatory and Development Authority (IRDA) as a general insurance company dealing in credit insurance policies/covers. As of March 2011, the Company had 51 branch offices and 5 regional offices with corporate office at Mumbai.

1.2 Objectives of the Company

The objective of the Company on a macro level was to encourage and facilitate globalisation of trade. It provided insurance in the form of policies to safeguard the exporters against unforeseen losses. It also offered insurance cover to Banks with the objective of expediting adequate Bank finance to Indian exporters. In addition, it assists Indian exporters in managing their credit risks by providing timely information on the credit worthiness of the buyers, bankers and various countries.

1.3 Financial and operational highlights

The financial highlights of the Company for the five years ending 31 March 2011 were as under:

(₹ in crore)

S. No.	Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
1	Authorised Capital	1000	1000	1000	1000	1000
2	Paid-up Capital	800	900	900	900	900
3	Reserves and surplus	629	913	986	1027	1082
4	Net worth	1429	1813	1886	1959	2062
5	Investments (excluding term deposits)	228	586	1062	2620	3164
6	Gross premium income	618	668	745	813	885
7	Net premium [Gross premium less reinsurance ceded]	614	477	573	579	771
8	Total Earned premium [net premium +/- adjustment for change in reserve for unexpired risk]	594	546	525	576	675
9	Investment and other income apportioned to revenue account (policyholders account)	116	131	157	120	146
10	Total incurred claims	187	-16	355	675	757
11	Net Commission [(-) indicates income and (+) indicates outgo]	0	-34	-25	-31	-9
12	Operating expenses	74	105	94	103	151
13	Premium deficiency[1]	0	0	0	48	-48
14	Operating Profit/(Loss) from Insurance Business [(8+9) - (10+11+12+13)]	449	622	258	-99	-30
15	Income from Investments & other income [share holders account]	103	150	185	173	151
16	Provision other than taxation and other expenditure	0	0	5	9	3
17	Profit/Loss before tax [14+15-16]	552	772	438	65	118
18	Provision for Taxation and prior period expenditure	182	293	155	11	32
19	Net Profit/Loss after tax [17-18]	370	479	283	54	86
20	Dividend paid [including dividend tax]	139	192	211	13	30

[1] *If the sum of expected claim costs, related expenses and maintenance costs exceeds related reserve for unexpired risks, premium deficiency needs to be recognized*

Analysis of the financial data for the period 2006-07 to 2010-11 indicated the following:

i) Share Capital

During 2006-07 to 2010-11, the Company's coverage of the country's exports stagnated between eight to ten *per cent*. The Company attributed this to the IRDA's requirement on exposure limit (as a multiple of net worth). Increasing the paid-up share capital was one of the ways of increasing the net worth. However, it was noticed that the paid up share capital of the Company also remained constant at ₹ 900 crore since 2007-08. The Company stated that the matter had been taken up with the Ministry for increasing the share capital.

ii) Investments

The long term investment corpus of the Company increased from ₹ 228 crore in 2006-07 to ₹ 3164 crore in 2010-11, which was mainly due to conversion of term deposits into long term investments to comply with the IRDA guidelines on investments. The gross yield[2] on such investments was 7.78 *per cent* (2010-11).

iii) Premium

The gross premium income increased from ₹ 618 crore in 2006-07 to ₹ 885 crore in 2010-11 as value of business covered increased from ₹ 428840 crore in 2006-07 to ₹ 431888 crore in 2010-11.

iv) Operating profit

The main reason for increase of operating profit from ₹ 449 crore in 2006-07 to ₹ 622 crore in 2007-08 was reduction in outstanding claims. The reduction for operating profit from ₹ 622 crore in 2007-08 to ₹ 258 crore in 2008-09 was on account of increase in claim provisioning. The operating loss reported in 2009-10 and 2010-11 was on account of increased default of buyers resulting in increased claims. Reasons for increased claims have been discussed in Chapters 2 and 3 of this Report.

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[2] *Gross yield refers to yield on investment before deduction of taxes and expenses*

1.4 Products / services of the Company

The Company issued 13 types of short term policies to exporters and 8 types of covers to the Banks. Product profile for each is given in **Annexure I**. Insurance policies issued to exporters covered the risk of non-payment of export proceeds by the buyers. Policies/covers issued by the Company mainly covered goods exported on short term credit i.e. credit not exceeding 180 days.

Insurance covers issued to Banks (known as Export Credit Insurance for Banks [ECIB]) were in the nature of guarantees to advances given to exporters by the Banks. The Company also covered the risk of default in payment in respect of exports of engineering goods, execution of turnkey projects and civil construction contracts abroad, which were collectively referred to as 'Project Exports'.

The table below indicates the number of policies / covers issued, value of business covered and premium for the five years from 2006-07 to 2010-11:

Product	Details	2006-07	2007-08	2008-09	2009-10	2010-11
Short term policies	No. of policies (Fresh + Renewal)	10822	10196	11541	10557	10117
	Value of business covered (₹ in crore)	50421	52767	68866	85643	92884
	Premium (₹ in crore)	191	205	247	288	333
	Percentage of Premium to total Premium	31	31	33	35	38
Short term ECIB	No. of covers (Fresh + Renewal)	2961	4223	4177	4082	3922
	Value of business covered (₹ in crore)	375260	182766	261732	271274	331758
	Premium (₹ in crore)	397	430	464	487	511
	Percentage of Premium to total Premium	64	64	62	60	58
Project & Term Exports	**Policies**					
	No. of covers (Fresh)	1	4	4	4	1
	Value of business covered (₹ in crore)	1229	1564	2443	3993	3781
	Premium (₹ in crore)	10	13	15	15	19
	ECIB					
	No. of covers (Fresh)	3	5	0	0	0

Product	Details	2006-07	2007-08	2008-09	2009-10	2010-11
	Value of business covered (₹ in crore)	1846	2780	2412[3]	2775[3]	3221[3]
	Premium (₹ in crore)	18	21	19	22	22
Domestic Insurance[4] and Factoring[5]	No. of covers (Fresh)	Not available				
	Value of business covered (₹ in crore)	84	0	5	43	243
	Premium (₹ in crore)	2	0	0.12	1	1
	Total Premium	**618**	**669**	**745**	**813**	**886**

From the above table, it was noticed that premium generated from short term policies and covers to Banks ranged from 95 to 96 *per cent* of total premium. This Performance Audit was therefore carried out on these two products only. As audit upto the year 2007-08 was covered during the previous Performance Audit (Report No. PA 27 of 2009-10 of the Comptroller and Auditor General of India), period from 2008-09 to 2010-11 was covered during this Performance Audit.

1.5 Memorandum of Understanding and Corporate Plans

The general superintendence, direction and management of the affairs and business of the Company were vested in its Board of Directors (BOD) and the same was presided over by the Chairman-cum-Managing Director (CMD). All the Directors on the Board other than the CMD were non-executive part-time Directors. Keeping in view the guidelines of Department of Public Enterprises, a Memorandum of Understanding (MOU) with the Ministry was signed each year. The MOU was a negotiated agreement between the GOI and the management of the Company intended to evaluate the performance of the Company at the end of the year vis-à-vis the targets fixed at the beginning of the year. The performance of the Company as against the MOU standards was rated as 'Very Good' in 2008-09, 'Good' in 2009-10 and 'Very Good' in 2010-11.

[3] *Only renewal premium*

[4] *The Company introduced Domestic Credit Insurance during February 2009. However, it promoted the product on a very low key.*

[5] *Factoring is a financial transaction whereby a business sells its accounts receivable (i.e., invoices) to a third party (called a factor) at a discount. The Company introduced factoring service in April 2007.*

A comparison of performance of the Company in respect of short term exports credit insurance policies with that of 45 Berne Union members[6] on parameters such as business covered, premium income and premium rate for the year 2010 (latest available) indicated that the Company was placed on 12th, 13th and 23rd rank respectively.

1.6 Scope of Audit

The scope of audit mainly included review of policies and ECIB covers issued and claims settled during the three year period ending 31 March 2011. Relevant rejected claims were also verified to assess the process. The commitments given by the Company in the form of acceptance for the recommendations made in the earlier Performance Audit Report were also revisited to assess compliance by the Company.

1.7 Audit objective

Our main audit objective in conducting this Performance Audit was to examine the operational performance of the Company during the years 2008-09 to 2010-11 with a view to assessing the effectiveness of system in place for underwriting risks and settling claims related to short term policies issued to exporters and covers issued to Banks. Adequacy of the risk mitigation measures in place for protection against large claims was also examined.

1.8 Audit criteria

The audit criteria primarily included IRDA Regulations, Annual Reports of Directorate General of Foreign Trade, RBI Circulars, Corporate Plans (CPs) of the Company, Memorandum of Understandings (MOUs) signed by the Company with the Ministry, Reports of Credit Information Agencies[7] (CIAs), circulars issued by the Company and decisions of the Board of Directors.

1.9 Audit methodology

An entry conference with the Management of the Company was held on 12 September 2011 wherein the audit objectives, audit criteria, methodology and audit

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[6] *A leading association for export credit and investment insurance which works for cooperation and stability in cross border trade and provides a forum for professional exchange among its members.*

[7] *Agencies which collects and sells information about the credit worthiness of an individual or a company.*

issues were discussed and the Company's suggestions were considered. Audit was conducted during September 2011 to January 2012. The audit methodology included scrutiny of documents, analysis of data, issue of requisitions to elucidate information, discussions with the management and review of replies given to preliminary observations issued during the course of audit. Records at the Ministry were also examined. Based on the examination, draft Performance Audit Report was issued to the Management on 23 February 2012 and an Exit meeting was held on 28 March 2012. The draft Report was also issued to the Ministry on 29 May 2012. Replies/views of the Company and Ministry were considered while drawing audit conclusions which are discussed in the subsequent chapters.

1.10 Audit Sampling

Audit sampling was done with thrust on selection of high value[8] claims paid both under policies and ECIB during the three year period from 2008-09 to 2010-11. The total value of claims paid during the year 2008-09 to 2010-11 under ECIB was ₹ 1065.52 crore, out of which audit selection of value of claims paid amounted to ₹ 455.33 crore (43 *per cent*) and total value of claims paid under policy was ₹ 646.46 crore, out of which audit selection of value of claims paid amounted to ₹ 301.18 crore (47 *per cent*).

1.11 Acknowledgement

Audit acknowledges the co-operation and assistance extended by the Ministry and the Management of the Company at various stages of the Performance Audit.

[8] *Short term policies above ₹ 5 crore and above ₹ 10 crore for ECIB*