EXPORT
CREDITS
GUARANTEE
DEPARTMENT

BUSINESS PLAN

2011-15

Mission and Principles

Who ECGD is

The Export Credits Guarantee Department is the export credit agency of the United Kingdom and is a Government Department that operates under an Act of Parliament.

What ECGD does

ECGD complements the private market by providing assistance to exporters and investors, principally in the form of insurance and guarantees to banks.

How ECGD operates

ECGD is governed by its statute pursuant to which certain financial objectives are set by HM Treasury. It is ECGD's policy to comply with all International Agreements which apply to the operations of Export Credit Agencies.

The principles ECGD applies

On individual cases, ECGD aims to:

- provide a quality of service that is proactive, flexible and efficient, with a focus on solution and innovation;
- take account of factors beyond the purely financial, and of relevant government policies, in respect of environmental, social and humans rights impacts; debt sustainability and bribery and corruption; and
- publish, for the benefit of applicants, guidance on processes and factors taken into account by it in considering applications.

Generally, ECGD aims to:

- disseminate information about its products and services;
- achieve fairer competition by seeking to establish a level playing field internationally, through obtaining multilateral improvements in export credit policies and practices;
- recover the maximum amount of debt in respect of claims paid taking account of the Government's policy on debt forgiveness;
- abide by such codes of practice and guidelines on consultation as may be published by the Government from time to time; and
- employ good management practice to recruit, develop and retain the people needed to achieve ECGD's business goals and objectives.

I. INTRODUCTION

1. This Business Plan (the “Plan”) sets out ECGD’s expectations of the support it will provide for UK exporters and receipts of premium income from 1 April 2011 to 31 March 2015 (the “Plan period”) and the resulting internal resource requirements.

2. ECGD provides frontline services to UK businesses. Its operating costs of about £24 million per annum are fully covered by the premium income it generates from the provision of financial guarantees and insurance policies to support UK exports and overseas investments. ECGD is required by Ministers to manage itself so as to break-even over time with a high degree of confidence, taking account of its exposure to the risk of loss on its portfolio of medium and long-term contingent liabilities. This portfolio is characterised by a tendency for concentrations of risk and for risks to be correlated.

3. This Plan assumes that there will be no material change in government policy on ECGD’s role or financial and policy objectives or products, and that it will continue to be able to support exporters in all industry sectors and based in all regions of the UK. It assumes that ECGD will retain its status as a Department of State.

4. Since the economic downturn in 2008 and 2009, there has been a material increase in demand from exporters for ECGD support. This demand is assumed to remain at higher levels over the Plan period than was the case immediately before the downturn.

5. This Plan assumes that ECGD will continue to operate under its existing financial framework and that it will meet the financial objectives[1] set for it, including those in relation to its cost/income balance. ECGD’s commitment to reduce and contain its costs and hence avoid related increases in premium levels for exporters, requires it to continue to improve efficiency and effectiveness and, wherever possible, seek to reduce the fixed component of its costs. This is made challenging by uncertainty over a number of such key factors as: future business levels and therefore the resources required to respond to demand for support; the possible introduction of new products; and the requirements to manage claims and recovery activity as a result of global credit market conditions over the Plan period.

[1] Available in Annex 1.

II. SUPPORT FOR EXPORTERS

Context

6. ECGD's estimates of future business levels reflect the renewed interest in export credit agencies (ECAs) as a source for financing capital investment and insuring credit risks arising in overseas trade. Many ECAs have experienced significantly higher levels of business since 2008 because of constraints on the availability of commercial bank finance and private sources of trade credit insurance and because of changes in the global credit risk environment. This has come against a backdrop where, before the economic downturn, many ECAs had experienced reduced demand as a result of benign credit risk conditions and the willingness of international financial markets to provide large volumes of finance without risk mitigation in the form of ECA support.

7. In 2009-10, ECGD supported a 50 per cent increase in its volumes of new business over the previous year, largely in the civil aerospace sector. For 2010-11, ECGD expects to support approximately £3.4 billion of new business and generate premium income of about £100 million. Thereafter, it is not possible to estimate business levels with any degree of certainty. These will depend upon such matters as: global economic and investment activity; the funding capacity and risk appetite of international financial markets; the impact of impending regulatory changes for banks and insurance companies internationally; and the success of UK exporters in winning business overseas that requires ECGD support.

Civil Aerospace

ECGD will continue to respond to the high levels of demand for support for aerospace business.

8. ECGD's support for the civil aerospace sector is dominated by the UK content on exports of Airbus aircraft. It also includes the supply by Rolls-Royce of engines to both Airbus and Boeing aircraft.

9. ECGD can estimate Airbus exports for 2011-12 with some confidence, given the existence of signed purchase contracts and its understanding of the likely areas of demand and the factors which can influence the appetite of buyers for ECA support. After 1 April 2012, its estimates are less reliable. ECGD assumes that in

2013-14 and 2014-15 there will be a reduction in demand for ECA support with private markets providing more support, and hence a return towards the historic level of about 20 per cent for volumes of ECA support for Airbus deliveries from the level of about 35 per cent that has been experienced since early-2009.

10. Other factors which could cause assumptions on future business levels to be incorrect include changes in: the production rates of the manufacturers; the value of certain aircraft types; possible changes in the Aircraft Sector Understanding (the OECD agreement which governs the terms on which ECAs can provide support for civil aircraft); and the environmental regulations which affect airlines.

Non-aerospace (civil and defence) exports

ECGD will continue to respond to the increasing levels of demand for civil business, and to increasing enquiries from potential customers.

11. Demand for ECGD support in respect of civil and defence exports is characterised by:

(i) uneven and lumpy business volumes; historically there has been a low number of cases but often with high values;

(ii) long lead-times; development periods can be many months, and sometimes years; and

(iii) uncertainty on whether prospective business will meet ECGD's minimum risk standards and comply with international standards on environmental, social and human rights impacts.

12. The economic downturn of 2008 and 2009 caused an immediate reduction in transactions receiving ECGD support, especially large projects financed on the basis of limited recourse to shareholders.

13. At the same time ECGD saw a material increase in enquiries from exporters across a wide range of sectors and markets. This included approaches from large overseas companies (both private and public sector) which would not have turned to the ECA market before the downturn, but which now wished to fill gaps in the availability of funding from market sources. ECGD has also received a higher volume

of enquiries from small and mid-sized enterprises (SMEs) seeking access to trade finance, credit insurance and related facilities.

14. In addition to projects in the hydrocarbon sector, in which the UK has strong capabilities internationally (particularly in front-end engineering and design, procurement, project management and commissioning), this Plan assumes that ECGD will give support to a broad range of sectors and markets, including construction, health, education, metals recycling, satellites, waste management and water treatment.

Low Carbon Exports

ECGD will continue its work to raise awareness of the support that it can offer to exporters in the low carbon technologies and renewable energies sectors.

15. ECGD maintains close contact with BIS, DECC, UKTI and industry representative bodies in order to play its part in promoting UK exports in the low carbon technologies and renewable energy sector. UK supply capabilities are developing and ECGD is aware business activity is largely focussed within the UK and OECD markets where its support is not normally needed. This Plan assumes that it will still take some years before low carbon exports account for a material proportion of ECGD's support.

Overseas Investment Insurance

ECGD will continue to make available insurance in respect of political risks.

16. It is expected that demand from UK companies investing overseas for insurance from ECGD in respect of political risks will remain very low, given that cover against such risks is readily available from private insurance markets.

Estimates of Business Volumes

17. As noted above, ECGD expects to support approximately £3.4 billion of new business and generate premium income of about £100 million in 2010-11. Thereafter, ECGD expects business volumes will broadly maintain this level through to the end of 2012-13, after peaking in 2011-12. From 2013-14 onwards, ECGD expects its business volumes will decline, as private markets provide more support.

18. These estimates are dependent on the supporting assumptions. There is no assurance that they will prove to be accurate; they depend upon the interaction of a number of independent variables over which ECGD has no influence.

Exchange Rate Movements

19. The majority of the export contracts which ECGD supports are denominated in US dollars. Movements in the value of the dollar against sterling have a significant impact on ECGD's business volumes and premium income. ECGD's premium income and business volume estimates assume an exchange rate of US$1.5 : £1.

20. The value of sterling will also have an impact upon the competitiveness of UK exporters and their related demand for ECGD support.

21. Foreign exchange rate movements will therefore have a significant direct and indirect impact on ECGD's new business volumes and the premium income which they generate.

International Standards

ECGD will continue to pursue a more level playing field for UK exporters and to seek improvements to international standards on a multilateral basis where appropriate.

22. Negotiations are underway in the OECD on a number of export credit issues, including:

(i) the Aircraft Sector Understanding (which sets common rules for export credit support for civil aircraft, as noted earlier);

(ii) a new benchmark pricing and corporate buyer risk pricing regime;

(iii) the Common Approaches on Export Credits and the Environment (which includes social and human rights impacts within its scope); and

(iv) renewable energy projects and climate change mitigation.

23. In these negotiations, ECGD seeks to pursue a level playing field for UK exporters. ECGD also looks to ensure that official export credit support is offered on such terms that exporters in the UK and other countries are able to compete based

on the quality and price of their products and not on the provision by governments of officially supported finance.

24. ECGD will also support the OECD outreach programme, under which a number of key new manufacturing countries (Brazil, Russia, India and China) are encouraged to observe the OECD Export Credit meetings, with the objective of promoting awareness and discussion, and alignment with OECD disciplines.

Products

ECGD will continue to consider the scope of its range of products, taking into account such matters as: the needs of exporters; achieving value for money; the risks borne by the taxpayer; and the impact on private providers.

25. For the purposes of this plan, ECGD's estimates of premium income and business volumes assume that there will be no material changes to ECGD's existing product range.

Fixed Rate Export Finance

26. Following a public consultation, the Government announced that ECGD's fixed rate export finance scheme will close on 31 March 2011, unless its budget is used up before that date.

Letter of Credit Guarantee Scheme

27. The availability of cover for new business under ECGD's Letter of Credit Guarantee Scheme is due to end on 31 March 2011, unless Ministers decide to extend it.

Contract Bond Support

28. In line with the Government's response to its consultation *Financing a private sector recovery,* ECGD is considering whether it should introduce a contract bond support scheme.

Other possible products

29. ECGD holds itself available to introduce such new products as the Government may decide are necessary in support of an export-led recovery.

III. INCOME AND OPERATING COSTS

Premium Income

30. ECGD's estimate of business volumes in the Plan period is expected to generate premium income as shown in the table below, based on an exchange rate assumption of US$1.5 : £1 and prevailing OECD minimum premium rate rules.

Estimated Premium Income

2010-11	2011-12	2012-13	2013-14	2014-15
£100m	£117m	£100m	£90m	£78m

Operating Costs

31. Under its Spending Review 2010 (SR10) settlement ECGD is to deliver a 23 per cent (adjusted) real reduction in its operating costs over the Plan period on the basis of the assumptions in this Plan relating to business volumes, premium income and ECGD's products.

32. As the provider of a government service, ECGD must make available resources to consider all the applications which it receives, regardless of their size and related level of premium income, their inherent complexity, or the degree of credit risk or impact assessment required. ECGD also incurs costs by undertaking a number of functions which necessarily have to be undertaken but are independent of new business volumes.

33. ECGD's resource requirements will also be affected by the levels and types of claims or by changes to the range or terms of its products.

34. Given the need to protect the front line services that enable ECGD to deliver the required support to exporters and support the Government's growth agenda, the focus of ECGD's cost reduction will be towards its operating costs, its support services and whether functions can be delivered differently.

35. ECGD's four main cost areas where reductions can be made are:

(i) Staff-related costs;

(ii) accommodation;

(iii) IT services; and

(iv) other administrative costs.

Staff-related costs

36. ECGD's new business volumes were in decline from 2004-05 as a result of the then prevailing benign market conditions. ECGD accordingly embarked on an efficiency program to reduce its costs. Since 1 April 2004, ECGD's headcount has been reduced by 35 per cent from 327 to 214 and its Senior Civil Service members by 38 per cent from 21 to 13.

37. On the basis of the assumptions set out in this Plan and the assumed cost reductions that can be achieved on IT services and accommodation, it is expected that the balance of ECGD's proposed SR10 settlement savings will come from a reduction in headcount to 160-170. Increase in demand for ECGD's services or the introduction of new products that could affect the ability of ECGD to deliver this target would mean that these assumptions would have to be revisited.

Accommodation

38. ECGD is the leaseholder of six and a half floors of a centrally managed sixteen-floor building at Harbour Exchange Square in London, and a file and archive repository facility in Lambourne Crescent, Cardiff. Given the reduction in headcount since 2004, ECGD now occupies three and a half floors of its London office space while sub-letting some of the remainder of the space. Given the further headcount reductions assumed in this Plan, ECGD will continue to review its use of accommodation space to achieve further cost savings. This will be dependent upon its ability to attract sub-tenants for the space vacated. In current market conditions this is proving difficult.

IT services

39. As part of its efficiency programme ECGD has been working to simplify its technical infrastructure. ECGD will undertake a move from onsite IT support to an offsite IT service and will be in a position to re-tender its IT support contract in due course. This should give rise to material savings in operating costs.

Other administrative costs

40. ECGD will continue to review its other administrative cost areas to seek additional savings wherever possible.

ECGD's Forecast Operating Costs (£, million)

	Start of plan April 2011	**Completion of plan March 2015**
GDP deflator[2] adjusted costs	24.3	26.8
Operating costs	24.3	20.8

ECGD

November 2010

2 For information on the GDP Deflator see www.hm-treasury.gov.uk/data_gdp_guide.htm

Annex 1

FINANCIAL OBJECTIVES

1 On the basis of the estimated new business volumes, premium income and operating costs stated above, ECGD expects to meet all of its financial objectives in the years covered by this Plan.

2 ECGD's key financial performance measures are:

(i) **Maximum Commitment**: This measure places a cap of £25 billion (subject to adjustment for foreign-exchange movements) on the maximum amount of ECGD's nominal risk exposure (the total amount of taxpayers' money that may be put at risk by ECGD);

(ii) **Risk Appetite Limit**: This limit places a notional Risk Appetite Limit of £2.5 billion (subject to adjustment for foreign-exchange movements) on ECGD's appetite for risk at the 99.1 percentile of ECGD's estimated ten-year loss distribution;

(iii) **Reserve Index**: This index measures whether ECGD has accumulated, over time, sufficient revenue to cover possible losses, to a 77.5 per cent level of confidence;

(iv) **Pricing Adequacy Index**: This index tests whether, over time, ECGD earns enough premium income to cover all its risk and operating costs. It is measured over three different periods: past two years and present financial year; previous, present and next year; present year and next two years;

(v) **Premium to Risk Ratio**: This measure ensures that each year ECGD charges enough premium to cover the cost of risk, together with a sufficient margin to contribute a material amount to operating costs.

3 Any breach of ECGD's Financial Objectives could result in the withdrawal of HM Treasury's consent for ECGD to support new business.