bpifrance ASSURANCE EXPORT

CREDIT INSURANCE

This English version is provided for convenience only – French version shall prevail in all respects

PREMIUM CALCULATION

MARCH 2018

I - GENERAL PRINCIPLES

Each risk covered gives rise to the payment of a premium, the rate of which, expressed as a percentage, varies depending on the classification of countries into seven categories, the nature of the risk covered and the debtor's quality.
It should be noted that:

- this rate may potentially be reduced if any risk mitigation technique is applied (cf. II-B);
- for risks of non-payment relating to high-income OECD countries and for Eurozone countries (countries that are subject to market benchmarks, so-called former category-0 countries) or for those operations covered only against commercial causes of loss, the premium will be determined on a case-by-case basis;
- any premium rate mentioned is for information purpose only and may, as determined by **Bpifrance Assurance Export**, be increased depending on the risk assessment;
- the premium calculations and rates set out below shall not apply to financing operations relating to aircraft or ships.

A - Debtor risk categorisation

- Sovereign debtors are assigned to the SOV/CCO category. The SOV+ category corresponds to *Better than Sovereign*.
- Public non-sovereign debtors and private debtors are assigned to a debtor category by correlating the country category and their **Bpifrance Assurance Export** score according to the following matrix:

Bpifrance Assurance Export Score	OECD Country Categories						
	1	2	3	4	5	6	7
Debtor Risk Categories	SOV+ SOV/CCO	SOV+ SOV/CCO	SOV+ SOV/CCO	SOV+ SOV/CCO	SOV+ SOV/CCO	SOV+ SOV/CCO	SOV+ SOV/CCO
	CC1 From AAA to AA-	CC1 From A+ to A-	CC1 From BBB + to BBB-	CC1 From BB+ to BB	CC1 BB-	CC1 B+	CC1 B
	CC2 From A+ to A-	CC2 From BBB+ to BBB-	CC2 From BB+ to BB	CC2 BB-	CC2 B+	CC2 B	CC2 B- or below
	CC3 From BBB+ to BBB-	CC3 From BB+ to BB	CC3 BB-	CC3 B+	CC3 B	CC3 B- or below	-
	CC4 From BB+ to BB	CC4 BB-	CC4 B+	CC4 B	CC4 B- or below	-	-
	CC5 BB- or below	CC5 B+ or below	CC5 B or below	CC5 B- or below	-	-	-

B - Risk during commercial contract execution period (construction, manufacturing period)

Since the exporter, when submitting its request for cover, may choose between covering the estimated loss during this period (contract interruption insurance) and covering an envelope of receivables payable during the execution of the commercial contract, the following formulas should be retained in accordance:

1. Commercial contract interruption cover (manufacturing risk)

1.1. Premium rate and calculation formula:

This premium is calculated using the following formula:

premium rate (%): T = ax + b

- where coefficients **a** and **b**, depending on the country category and the debtor category, are set up in the table below:

Table of simplified coefficients			Debtor Risk Categories						
			SOV+	**SOV/CCO**	**CC1**	**CC2**	**CC3**	**CC4**	**CC5**
OECD Country Categories	a	0/1	0.023	0.026	0.028	0.030	0.032	0.034	0.035
		2	0.054	0.060	0.064	0.068	0.072	0.076	0.085
		3	0.095	0.105	0.115	0.125	0.130	0.141	0.148
		4	0.140	0.155	0.179	0.185	0.195	0.203	0.214
		5	0.187	0.208	0.239	0.265	0.275	0.285	-
		6	0.228	0.253	0.314	0.318	0.335	-	-
		7	0.269	0.299	0.373	0.395	-	-	-
	b	0/1	0.252	0.280	0.308	0.308	0.308	0.336	0.378
		2	0.252	0.280	0.308	0.308	0.336	0.336	0.399
		3	0.288	0.320	0.352	0.384	0.384	0.432	0.456
		4	0.360	0.400	0.460	0.460	0.520	0.520	0.550
		5	0.576	0.640	0.736	0.832	0.832	0.880	-
		6	0.864	0.960	1.200	1.200	1.272	-	-
		7	1.296	1.440	1.800	1.908	-	-	-

Coefficients **a** and **b** in the table above correspond to the coverage of political or commercial causes of loss with a 95% percentage of cover.

- and where **x** = the execution period, calculated in years or as an unrounded fraction of a year.

For construction contracts or those with an important share of local content, the premium rate (T) thus obtained is multiplied by a coefficient of 1.3.

1.2. Premium basis

Amount of guaranteed compensable loss limit, excluding bonds apart from the advance payment bond undertaking.

1.3. Premium payable

On the date the insurance policy is signed.

2. Cover of an envelope of receivables payable during the execution period of the commercial contract (risk of non-payment)

2.1. Premium rate and calculation formula:

This premium is calculated with the following formula:

premium rate (%): T = ax + b

- where coefficients **a** and **b**, depending on the country category and the buyer category, are those applicable to the non-payment risk cover, as described in paragraph C-1 below:
- and where **x** =
  - 0.25: for terms due up to 3 months after invoicing
  - number of years or unrounded fraction of a year elapsing between the invoicing date and the due date: for terms payable beyond 3 months

2.2. Premium basis

Maximum amount covered as requested by the exporter and accepted by **Bpifrance Assurance Export.**

2.3. Premium payable

On the date the insurance policy is signed.

C - Risk of non-payment (supplier credit and buyer credit)

1. Premium rate and calculation formula

This premium is calculated using the following formula:

premium rate (%): T = ax + b

- where coefficients **a** and **b**, depending on the country category and debtor category, are set out in the table below:

Table of simplified coefficients			Debtor Risk Categories						
			SOV+	SOV/CC0	CC1	CC2	CC3	CC4	CC5
OECD Country Categories	a	0/1	0.081	0.090	0.199	0.289	0.359	0.493	0.717
		2	0.179	0.199	0.318	0.409	0.517	0.655	0.869
		3	0.310	0.345	0.453	0.564	0.660	0.832	1.054
		4	0.486	0.540	0.639	0.770	0.884	1.071	1.336
		5	0.654	0.727	0.825	0.969	1.100	1.337	-
		6	0.794	0.882	0.980	1.135	1.352	-	-
		7	0.970	1.078	1.201	1.344	-	-	-
	b	0/1	0.314	0.349	0.349	0.349	0.349	0.349	0.349
		2	0.313	0.348	0.348	0.348	0.348	0.348	0.348
		3	0.310	0.345	0.345	0.345	0.345	0.345	0.345
		4	0.309	0.344	0.344	0.344	0.344	0.344	0.344
		5	0.663	0.737	0.737	0.737	0.737	0.737	-
		6	1.058	1.176	1.176	1.176	1.176	-	-
		7	1.588	1.764	1.764	1.764	-	-	-

Coefficients **a** and **b** in the table above correspond to coverage of political and commercial causes of loss amounting to a 95% percentage of cover.

- and where **x** = the credit term, calculated in years or as an unrounded fraction of a year.

The credit term shall be understood as being a straight-line, half-yearly repayment schedule without deferral [1].

In case that there is differentiated coverage between the drawdown period and the repayment period: please get in touch with **Bpifrance Assurance Export**.

N.B.: **With regard to operations subject to market benchmarks (former category 0),** the OECD Arrangement requires that the pricing of the risk of non-payment not be less expensive than in the private market. Therefore, the Premium Arrangement proposes a list of market benchmarks whith, since the revised Premium Arrangement (1 February 2017) was implemented, an implicit price floor in the form of the TCMB, a floor which can be pierced under certain circumstances.

(1) In the case of non-standard depreciations: cf. specific cases in II-J, page 8.

2. Premium basis

The principal amount of the credit, including interim interest and the premium if the said interest or/and premium is/are capitalised.

3. Premium payable

For buyer credits or financial credits: on the first drawdown date of the credit. However, when the premium is paid on each drawdown, it shall be updated at the rate referred to in the cover offer, which shall also specify the period taken into consideration.

For supplier credits: on the date of the first delivery.

D - Risk of enforcement of guaranteed bonds

1. Premium rate and calculation formula:

The premium is calculated using the following formula:

premium rate (%): T = ax + b

- where coefficients **a** and **b,** depending on the country category and the debtor category, are those applicable to the **cover against an interruption of the commercial contract (manufacturing risk)** and set out in the table above in paragraph I-B-1.1 above;
- and where **x** = the validity period for the bond, expressed in years or as an unrounded fraction of a year from the date on which the bond was issued.

2. Premium basis

The amount of any guaranteed bond (excluding advance payment bond).

3. Premium payable

On the date the policy is signed.

Calculation rule:

Premium rates only go up to two decimal places. No intermediate rounding is applied. Rounding only takes place once the calculation is done and applied to the third decimal according to the following method:

Figure between 0 and 4: not taken into account.

XX.XXX

Figure between 5 and 9: previous decimal +1.

II - SPECIFIC CASES

A - Cover of political causes of loss only, on private debtor

Calculation of the premium rate in this case varies according to whether the risk covered is the risk of interruption of the commercial contract or the risk of non-payment (including a guarantee of an envelope of receivables payable during the execution period of the contract):

- **risk of interruption of the commercial contract:** the premium rate shall be equal to 90% of the sovereign premium rate (SOV/CCO category) for the corresponding country category.
- **risk of non-payment:** the premium rate shall be equal to the sovereign premium rate (SOV/CCO category) for the corresponding country category without any reduction.

B - Mitigation techniques applied to country and buyer risks wich may lead to a premium reduction for the non-payment risk coverage

The effective application and level of the premium reductions defined below shall be at the discretion of **Bpifrance Assurance Export**.

Since the premium rate calculated contains an element relating to the country risk and another element relating to the debtor risk, the premium reductions listed below shall apply to one or the other of these elements depending on whether it is a mitigation of the country risk and/or a mitigation of the debtor risk. By convention:

- country risk share = sovereign premium rate;
- debtor risk share = premium rate – sovereign premium rate.

Country risk mitigation:

- Escrow account blocked overseas: a risk of non-payment to an n-category country shall be priced as if it were an n-1 category country. The debtor risk category will therefore remain the same and the country category will go up by one rank (e.g.: CC2/Country 3 to CC2/Country 2). This technique cannot be applied to operations going to a category-1 country.
- Local currency financing: a maximum reduction of 20% of the share of the premium rate linked to the country risk shall apply.

Debtor risk mitigation:

- Assignment to the lender of the contract's income or receivables: maximum reduction of 10% of the share of the premium rate linked to the debtor risk.
- Security right/transfer of ownership over mobile asset: maximum reduction of 25% of the share of the premium rate linked to the debtor risk.
- Security right on fixed asset: maximum reduction of 15% of the share of the premium rate linked to the debtor risk.
- Local escrow account: maximum reduction of 10% of the share of the premium rate linked to the debtor risk, proportionate to the amount placed into the escrow account.

Limit and interaction rules:

- The debtor risk mitigation techniques may be used in concert up to the limit of a maximum reduction of 35% of the share of the premium rate linked to the debtor risk, except for the “Security right on mobile asset” and “Security right on fixed asset” techniques, which cannot be combined.
- The country risk mitigation technique “Escrow account overseas” is exclusive and therefore cannot be combined with the debtor risk reduction techniques or a reduction in the premium rate linked to the categorisation of a debtor as Better Than Sovereign (SOV+). The debtor risk reduction techniques can nevertheless be combined with a country mitigation risk linked to a “Local currency financing” (as well as with a third-country guarantee).

  In the case of transactions subject to market benchmarks (former category-0), the premium rate reduction rates are 15% on mobile assets, 10% on fixed assets and up to 10% on escrow accounts respectively.

C - Loans with a bank guarantee or concluded with a bank

The risk of non-payment pricing applicable to operations with a bank guarantee or were taken out by a bank is dependent on the capacity of the said institution. The **a** and **b** coefficients applicable to these operations shall be determined based on that capacity.

D - Letter of credit confirmation cover

- It shall give rise to the charging of a risk of non-payment premium, with the **a** and **b** coefficients being applied according to the capacity of the issuing bank. The amount of the letter of credit shall form the premium basis.
- For letters of credit payable at sight or with payments deferred up to 90 days, the **x** parameter shall be equal to 0.25.
- For letters of credit with payments deferred for more than 90 days, the **x** parameter shall be equal to the period expressed in years or in a fraction of a year, unrounded, elapsing between the moments the documents were handed over and the effective payment was made.

E - Contracts fully payable in cash – except for down payment – by irrevocable letter of credit confirmed by a French bank

A 20% lump-sum allowance is applied to the amount of the “Guarantee of Commercial Contract interruption” premium.

F - Amounts due at the end of contractual obligations (provisional acceptance or delivery) and beyond for contracts payable in cash

- These terms shall give rise to a premium calculated according to the rate and the **T = ax + b** in paragraph I-C-1 above;

  and where **x** =

  - 0.25: for terms due up to 3 months after invoicing
  - number of years or unrounded fraction of a year elapsing between the invoicing date and the due date: for terms payable beyond 3 months
- The premium is payable on the date the policy is signed.

G - Revisable-price contracts

- Cover of commercial contract interruption or cover of an envelope of receivables payable during the execution period of the commercial contract: no increase to the premium basis, price revisions are covered up to the eligible loss limit or up to the maximum covered amount.
- When the operation is subject to a supplier credit, the credit premium basis is increased by 5% per year of execution. The increase may be higher if the price revisions have a higher limit in the contract.

H - Premium payable on claims

- **Rate**

a) for claims of less than or equal to 10% of the amount of the insured commercial contract

Non-payment premium rate calculated using the formula found in paragraph I-C-1 above and where **x** =

- 0.25: if the amount of the claims is payable within 3 months after its invoicing
- number of years or unrounded fraction of a year elapsing between the invoicing date and the due date: for terms payable beyond 3 months

b) for claims between 10 and 20% of the amount of the guaranteed contract for this fraction,the rate referred to in a) is multiplied by 2.

- **Premium basis:** Guaranteed claim amount.

I - Percentage of cover less or greater than 95%

In accordance with the OECD rule, any change to the percentage of cover for political causes of loss of below or above 95% shall result in a reduction of or increase to the share of the premium rate linked to the country risk. However, if the percentages of cover for political and commercial causes of loss are reduced to below 95%, the highest percentage of cover shall be selected and charged against the share of the premium rate linked to the country risk.

Any change to the percentage of cover for political causes of loss of below or above 95% shall result in a reduction of or increase to the share of the premium rate linked to the buyer risk.

Reductions to the percentage of cover below 95% shall be made according to the following ratio: $\dfrac{\text{percentage of cover}}{95\%}$

Any increases above 95% shall be made according to the following ratio: $\dfrac{\text{percentage of cover}}{95\%} \times PC^{\text{coefficient}}$

where $PC^{\text{coefficient}}$ is an additional coefficient that is calculated as follows:

$$PC^{\text{coefficient}} = 1 + ((\max(\text{political PC; commercial PC}) - 0.95) / 0.05 \times k$$

and where k is determined according to the country category as follows:

	1	2	3	4	5	6	7
K	0	0.0037	0.00489	0.01639	0.03657	0.05878	0.08598

N.B. The rule described above shall apply systematically when the percentage of cover is brought up to 100%:

- for the non-payment riks of the fraction payable at a further date as a supplier credit and bank discounts and assignments, if the insured company's turnover is less than or equal to €150 M;
- to the guarantee letter of the credit confirmation, if the insured company's turnover is less than or equal to €75 M.

J - Buyer credit and supplier credit with progress payments

The credit term is increased by a so-called waiting period. This period is calculated by allocating the coefficient 0.5 to the period, calculated in years or as a fraction of a year unrounded, elapsing between the first drawdown of the credit and the starting point for the repayment of the credit. No rounding of the waiting period shall take place before the premium is calculated.

K - Non-standard amortization

In the case of payment schedules with a principal amortization that does not take place on a half-yearly and/or straight line basis, the concept is to determine the **x** in the premium calculation formula as being the credit term for a standard credit with an average life equivalent to that of the non-standard credit. Please get in touch with **Bpifrance Assurance Export**.

L - Project financing

During the execution period of the contract, since, for a private debtor, only political causes of loss are covered, the applicable premium rate is determined according to the rule described in paragraph II-A "Commercial contract interruption cover".

Bpifrance Assurance Export
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VAT No. FR 29 815 276 308 – ORIAS No. 17003600
Registered office: 27-31, avenue du Général Leclerc – 94710 Maisons-Alfort Cedex – Tel.: +33 1 41 79 80 00 – Fax: +33 1 41 79 80 01 – **bpifrance.fr**

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