

Iranian insurer maintains rapid business acceleration

Iran's export credit agency, the Export Guarantee Fund of Iran (EGFI), has reported a massive acceleration in its pace of business, mirrored by a 12-fold increase in cover volumes during the first half of its current financial year to nearly \$1.25bn.

Having reached a level where it now covers 13.8 per cent of Iran's national non-oil exports, EGFI has won preliminary approval from the Iranian government to increase its capital in two phases, according to its chairman and chief executive Seyed Kamal Seyed Ali,

EGFI's current capital is \$140m, compared to an ongoing total commitment of \$1.7bn. In a late October statement from EGFI, Mr Seyed Ali said that approval has been given for a \$200m first stage increase, followed by a \$300m second stage rise, as a result of "capital adequacy and the increase of EGFI's portfolio, as well as the government's determination on supporting Iran's exports in the current global crisis."

EGFI was established in 1973 as Iran's official ECA, remitted to support, develop and promote Iran's non-oil exports. In 1994, after some years of inactivity, EGFI was reorganised as a legally and financially independent entity, 100 per cent state-owned, and affiliated to Iran's Ministry of Commerce.

Catalytic change came in 2006, when a new team of management, including Mr Seyed Ali, was appointed, leading to a redefinition of EGFI's key strategies, and a "noticeable improvement of EGFI's performance in underwriting, marketing, and risk management," the statement said. The changes embarked upon included utilising collective decision-making process in committees; new marketing strategies focusing on adding larger-sized customers to the exporting clientele; and a general pro-efficiency drive across all business areas.

The consequent boom in EGFI's business was shown by the Fund's 2007-08 financial year results, in which new business increased by a factor of 2.4 to \$436m, with business spread mainly across the Middle East, the CIS and Latin America (*ITF 543/3*).

The 2008-09 financial year maintained this growth speed, with cover for export transactions and export finance increasing by a further 140 per cent, year-on-year. In the first half of the current financial year (March to September 2009), EGFI's portfolio reached \$1,248m, a figure 12 times greater than the same period in the previous year. Moreover, in the January to September 2009 period, EGFI's new business hit a record height of more than \$2bn — leading to a forecast by Mr Seyed Ali that total new business will attain the \$2.5bn mark by the end of the calendar year, "which will cover 15 per cent of the country's non-oil exports."

In the statement, EGFI made the point that the average ECA percentage of export coverage globally is about 10 per cent, and that the target for EGFI was 5 per cent at the end of Iran's fourth Five-Year Development Plan

(FYDP), lasting from March 2005 to March 2010, and 10 per cent at the end of Iran's Fifth FYDP, from March 2010 to March 2015.

New regime working

Arash Shahraini, country risk and international co-operation manager, said that EGFI's surpassing of these targets is principally attributable to the current management regime. An analysis of EGFI's business from March 1994 to September 2009, the end of the first half of the current financial year, showed that 80 per cent of the cover extended belonged to the management in place since March 2006, while just 40 per cent of the claims paid were for the same period.

Mr Shahraini underlined that, in the light of its business growth, EGFI is seeking to make new reinsurance agreements to cede a part of its risk exposures. "Although EGFI is trying to keep its commitments to 10-15 times of its capital, we have no restriction by law on taking risks, because EGFI is fully supported by the state, and in case its claims exceeds its capacity, it will be supported by the state's treasury as much as needed," he pledged.

He told *ITF* that the shape of EGFI's portfolio is also changing, "from mostly medium- to long-term and investment insurance to mostly short-term". Also changing, he added, is the type of commodities and services covered, especially a move to cover petrochemical products over the past 24 months. "In the past, our portfolio was mostly in medium- to high-risk markets but now it is mostly in low risk markets," he stressed, noting that the portfolio is spread across Asia, Europe, Latin America and Africa.

Strategies in train now at EGFI to maintain its current growth trend include expanding its marketing activities through agencies in different provinces, enhancing relations with debt collection agencies in different regions, and introducing new products such as covering bid and performance bonds for export transactions. Additional measures such as improving EGFI's relations with foreign counterparts, especially following its membership application earlier in 2009 to the Berne Union, are expected to underpin this process, EGFI said.

Regarding the application to the Berne Union, "we have sent the first set of information and completed application forms for them, and we are waiting for their consideration," said Mr Shahraini. He noted that EGFI reached the threshold for membership in late 2008 & early 2009, the major condition being the receipt either of premium income of at least \$5m from export credit insurance or outward investment insurance business or covering export credit insurance or outward investment insurance business with a value of at least \$450m.

EGFI became an observer member of the Union's sister organisation, the Prague Club, in 1999, and received full membership status in 2001.