01435-RL

Basel Committee on Banking Supervision
At the Bank for International Settlements
4002 Basel
SWITZERLAND

23 May 2001

Dear Sirs

We address you on behalf of all Members of our two organisations, the International Credit Insurance Association (ICIA) and the International Union of Credit and Investment Insurers (The Berne Union), regarding the Consultative Document "Overview of the New Basel Capital Accord".

In Annex 1 and 2, you will find lists of our Members. The Members of the Berne Union insure annually export credit risks amounting to $420 billion and foreign direct investments amounting to $15 billion. The total insured amount outstanding at the end of 1999 amounted to more than $570 billion. The ICIA Members currently insure trade credit in excess of US$ 1,000 billion.

In the Consultative Document, you mention that the Accord should continue to enhance competitive equality and constitute a more comprehensive approach to addressing risks. Our Members are of the opinion that the risk mitigating effects of their activities are either not reflected in full or not at all. As a result, the two important objectives mentioned above are not met.

For instance, in lc credit risk, treatment of credit risk mitigation techniques, no mention is made of credit risk reduction through credit insurance. This is an established manner for mitigating risks accepted by financing banks as well as a credit enhancement tool in securitisation contracts, particularly where the bank is the policyholder. Although credit insurance is not unconditional, underwritten risks, once accepted, are irrevocable, direct and explicit. The conditionality solely depends upon the good performance of the insured bank. Therefore the credit enhancement affect of the credit insurance policy should not be neglected. Banks will, as they have done in the past, continue to accept the mitigating risk provided by credit and investment insurance. By omitting the role insurers play in mitigating risk, our Members fear the Accord may lead to a negative shift in position towards credit and investment insurers, which could pose a serious problem.

In most countries, both banks and insurance companies issue guarantees. Although our Members do not issue financial guarantees, many of our Members do not only issue unconditional guarantees but also conditional guarantees and credit insurance, as do banks.
What has been mentioned above with regard to credit insurance, also holds for conditional guarantees. The risk mitigating effects should not be neglected completely. Subsequently the contribution of the three pillars (minimum capital requirements, the supervisory review process and the effective use of market discipline) to achieve a higher level of safety and soundness in the financial system, as envisioned by the Committee, ignores major players in this financial system, namely insurance companies. Insurance companies are subject to an effective regulatory scheme. In our opinion collateral from a private insurer is equal to collateral from a bank with a comparable credit rating. If not, a competitive distortion is created between banks and our Members.

Financial institutions are major users of (export) credit insurance (as insureds and loss payees), investment insurance and guarantees.

The absence of clear guidelines from the BIS on the benefits of this important source of risk mitigation neglects its importance, will confuse banks and will increase the financing costs for our customers.

Finally, we doubt whether the Document makes a distinction between government insurers (ECAs) and private insurers. In our view, collateral from a government ECA can be considered equal to a sovereign collateral.

We hope that you appreciate our expression of these serious concerns, and we would be much obliged if we could have a meeting explaining further our objections, and assisting you in creating a more comprehensive approach, resulting in a justified recognition of the important risk mitigating effects of our Members policies.

Yours faithfully

ANNE VAN'T VEER
Secretary-General
The Berne Union

ROB NJHOUT
Executive Director
ICIA
ICIA List of Members

Aseguradora de Créditos y Garantías
Argentina

QBE Trade Indemnity Limited
Australia

Österreichische Kreditversicherungs-Aktiengesellschaft
Austria

Prisma Kreditversicherungs-AG
Austria

EULER - COBAC S.A.
Belgium

GERLING NAMUR - Assurances du Credit
Belgium

The Guarantee Company of North America
Canada

Dansk Kautionsforsikrings-Aktieselskab
Denmark

AXA Assurcredit
France

COFACE
Compagnie Française d’Assurance pour le Commerce Extérieur
France

EULER-SFAC
France

Allgemeine Kreditversicherung Aktiengesellschaft
Germany

Gerling Speziale Kreditversicherungs-AG
Germany

Hannover Rückversicherungs-AG
Germany
Hermes Kreditversicherungs-AG  
Germany  

Munich Reinsurance Company  
Germany  

The Ethniki  
Greece  

Allianz Corporate Ireland  
Ireland  

CLAL Credit Insurance Ltd.  
Israel  

Concordato Cauzione Credito  
Italy  

La Viscontea S.p.A.  
Italy  

EULER – SIAC  
Italy  

Società Italiana Cauzioni S.p.A.  
Italy  

Mitsui Marine and Fire Insurance Co. Ltd.  
Japan  

The Tokio Marine & Fire Insurance Co. Ltd.  
Japan  

The Yasuda Fire & Marine Insurance Company Ltd.  
Japan  

Seoul Guarantee Insurance Company  
South Korea  

Gerling Comesec  
Mexico  

Fianzas Atlas, S.A.  
Mexico  

N.V. Nationale Borg-Maatschappij  
Netherlands
NCM NV
Netherlands

Gerling Nordic Kredittforsikring AS
Norway

WARTA Insurance and Reinsurance Company S.A.
Poland

COSEC – Companhia de Seguro de Créditos, SA
Portugal

ECICS Credit Insurance Ltd
Singapore

Credit Guarantee Insurance Corp. of Africa Limited
South Africa

Credito y Caucion
Compañía Española de Seguros y Reaseguros de Crédito y Caucion S.A.
Spain

CESCE
Compañía Española de Seguros de Crédito a la Exportación, S.A.
Spain

Mapfre Caucion y Credito
Compañía Internacional de Seguros y Reaseguros
Spain

Hermes Credit Insurance Scandinavia
Sweden

Swiss Reinsurance Company
Switzerland

Eidgenössische Versicherungs Aktiengesellschaft
Switzerland

EULER Trade Indemnity plc
UK

Zurich GSG Limited
UK

CNA Surety Corporation
USA
EULER American Credit Indemnity
USA

Federal Insurance Company/Chubb Group
USA

St. Paul Surety
USA

Travelers Property Casualty
USA
International Union
of
Credit and Investment Insurers

The Berne Union

Secretariat
1-2 Castle Lane
London SW1E 6DR
United Kingdom

Telephone 44(0)20 7233 8228
Fax 44(0)20 7233 8208
E-Mail bu-sec@berneunion.org.uk
WWW www.berneunion.org.uk

LIST OF MEMBERS

ARGENTINA (CASC)
Compania Argentina de Seguros de Crédito a la Exportacion S.A.
Corrientes 345, 7th Floor
1043 Buenos Aires

Telephone (54 11) 4 313 3048 / 313 4362
313 4303 / 313 2986
313 5071 / 313 2683
Fax (54 11) 4 313 2919
E-Mail bu-casc@casc.com.ar
WWW www.casc.com.ar

AUSTRALIA (EFIC)
Export Finance & Insurance Corporation
Level 5, Export House
22 Pitt Street
Sydney, N.S.W. 1223

Telephone (61 2) 9201 2111
Fax (61 2) 9201 2294
E-Mail BerneUnion@efic.gov.au
WWW www.efic.gov.au

AUSTRIA (OeKB)
Oesterreichische Kontrollbank
Aktiengesellschaft
Export Guarantee Department/
International Relations & Cover Policy
Am Hof 4
A-1011 Vienna

Telephone (43 1) 53127 - 0 or Ext.Number
Fax (43 1) 53127 - 693
E-Mail barbara.kern-sbury@oekb.co.at
WWW www.oekb.co.at

Mailing Address

PO Box R65
Royal Exchange N.S.W. 1223

Postfach 70
A-1011 Vienna
BELGIUM (OND)
Office National du Ducroire
40 square de Meeûs
1000 Brussels
Telephone (32 2) 509 42 11
Fax (32 2) 513 50 59
E-Mail bu-ndonk@ondd.be
WWW www.ducroire / www.delcredere.be

CANADA (EDC)
Export Development Corporation
151 O'Connor Street
Ottawa
Canada K1A 1K3
Telephone (1 613) 598 2500
Fax (1 613) 237 2690
E-Mail internationalrelations@edc-see.ca
WWW www.edc.ca

CHINA (PICC)
The People's Insurance Company of China
No. 69 Xuan Wu Men Dong He yan
Xuan Wu
Beijing
Telephone (8610) 63 03 46 75
Fax (8610) 63 03 47 14
E-Mail chenxm@piccnet.com.cn
WWW www.picc.com.cn

CYPRUS (ECIS)
Export Credit Insurance Service
Ministry of Commerce & Industry
Nicosia
Telephone (357 2) 86 71 00
Fax (357 2) 37 51 20
E-Mail mcidola@cytanet.com.cy
WWW Not available

CZECH REPUBLIC (EGAP)
Export Guarantee and Insurance Corporation
Vodickova 34
110 00 Prague 1
Mailing Address
PO Box 6
111 21 Prague 1
Telephone (420 2) 2284 2000
(420 2) 2284 2010
Fax (420 2) 2284 4100
E-Mail bu-egap@egap.cz
WWW www.egap.cz
DENMARK (EKF)
Eksport Kredit Fonden
Dahlerups Pakhus
Langelinie Allé 17
2100 Copenhagen Ø

Telephone (45) 35 46 6100
Fax (45) 35 46 61 11
E-Mail bu@ekf.dk
WWW www.ekf.dk

FINLAND (FINNVERA)
Finnvera Plc.
Vuorimiehenkatu 1
00140 Helsinki

Mailing Address
PO Box 1010
FIN-00101 Helsinki

Telephone (358) 204 6011
Fax (358) 204 607 220
E-Mail bu-finnvera@finnvera.fi
WWW www.finnvera.fi

FRANCE (COFACE)
Compagnie Française d'Assurance pour le Commerce Extérieur
12 Cours Michelet
La Défense 10
92800 Puteaux

Mailing Address
92065 Paris La Défense Cedex

Telephone (33 1) 4902 2000
Fax (33 1) 4902 2741
E-Mail Jean-Paul_Doppia@coface.com
WWW www.coface.com

GERMANY (HERMES)
Hermes Kreditversicherungs-Aktiengesellschaft
Friedensallee 254
22763 Hamburg

Mailing Address
D-22746 Hamburg

Telephone (49 40) 8834-0
Fax (49 40) 8834 9175
E-Mail bu-hermes@hermes-kredit.com
WWW www.hermes-kredit.com

GERMANY (PwC)
PwC Deutsche Revision AG
Wirtschaftsprüfungsgesellschaft
New-York-Ring 13
22297 Hamburg

Mailing Address
Postfach 60 27 20
D-22297 Hamburg

Telephone (49 40) 63780
Fax (49 40) 6378 1510
E-Mail kapitalanlagen@pwcglobal.com
WWW www.bmwi.de
HONG KONG (HKEC)
Hong Kong Export Credit Insurance Corporation
South Seas Centre, Tower 1
2nd Floor, 75 Mody Road
Tsimshatsui East
Kowloon

HUNGARY (MEHIB)
Hungarian Export Credit Insurance Ltd.
H-1065 Budapest
Nagymezo u. 46-48

INDIA (ECGC)
Export Credit Guarantee Corporation of India Limited
Express Towers
10th Floor, Nariman Point
Bombay 400 021

INDONESIA (ASEI)
Asuransi Ekspor Indonesia
Sarina Building, 13th Floor
Jl. M.H. Thamrin No. 11
Jakarta 10350

ISRAEL (IFTRIC)
The Israel Foreign Trade Risks
Insurance Corporation Ltd
65 Petah-Tikva Road
Tel Aviv 61201

Mailing Address
P.O. Box 20208
65 Petah Tikva Road
Tel Aviv 61201

Telephone (852) 2723 3883
Fax (852) 2722 6277
E-Mail wendylsl@hkekic.com
WWW www.hkekic.com

Telephone (361) 374 9200
Fax (361) 269 1198/1197
E-Mail bu@mehib.hu
WWW www.mehib.hu

Telephone (91 22) 202 4852
Fax (91 22) 204 5253
E-Mail research@ecgcindia.com
WWW www.ecgcindia.com

Telephone (62 21) 3903535
Fax (62 21) 327886 / 323662
E-Mail bu-asei@asei.co.id
WWW www.asei.co.id

Telephone (972 3) 563 1700
Fax (972 3) 563 1708
E-Mail bu-iftric@iftric.co.il
WWW www.iftric.co.il
ITALY (SACE)
Istituto per i Servizi Assicurativi del Credito all’Esportazione
Piazza Poli 37
00100 Rome

ITALY (EULER-SIAC)
Società Italiana Assicurazione Crediti S.p.A.
Via Raffaello Matarazzo 19
00139 Rome

JAMAICA W.I. (EXIM J)
National Export-Import Bank of Jamaica Limited
48 Duke Street
Kingston

JAPAN (NEXI)
Nippon Export and Investment Insurance
2-3 Floor, Chiyoda First Building
3-6 Nishikanda
Chiyoda-ku
Tokyo 101-0065

NEXI - PARIS
Export-Import Insurance Department
Jetro - Paris
Centre d’Affaires le Louvre
2 Place du Palais Royal
75001 PARIS

Mailing Address (SACE)
C.P. 253 Roma Centro
Telephone (39 06) 67361
Fax (39 06) 678 9835
E-Mail relazioni@sace.it
WWW www.sace.it

Mailing Address (EULER-SIAC)
C.P. 11/253 Roma - Montesacro
Telephone (39 06) 87001
Fax (39 06) 8700 7000
E-Mail Fderrico@grupposiac.it
WWW www.eulergroup.com

Mailing Address (EXIM J)
P.O. Box 3
Kingston
Telephone (1 876) 92 29690/9
Fax (1 876) 92 29184
E-Mail eximjambu@cwjamaica.com
WWW Not available

Mailing Address (NEXI)
Telephone (81 3) 3512 7650
Fax (81 3) 3512 7660
E-Mail bu-nexi@nexi.go.jp
WWW nexi.go.jp

Mailing Address (NEXI - PARIS)
Jetro - Paris
2 Place du Palais Royal
75044 Cedex 01 Paris
Telephone (33 1) 4261 5879
4261 5883
Fax (33 1) 4261 5049
E-Mail kira@eid-miti.netntt.fr
**KOREA**  
(KEIC)

Korea Export Insurance Corporation
33 Seorin-Dong
Chongro-Ku
Seoul 110-752

**KEIC - PARIS**

Korea Export Insurance Corporation
Paris Representative Office
5 Avenue Du Marechal
Juin 92100 Boulogne
Billancourt
Paris

**MALAYSIA**  
(MECIB)

Malaysia Export Credit Insurance Berhad
Level 17, Bangunan Bank Industri
Bandar Wawasan
No. 1016, Jalan Sultan Ismail
50734 Kuala Lumpur

**MEICIB**

P.O. Box 11048
50734 Kuala Lumpur

**MEXICO**  
(BANCOMEXT)

Banco Nacional de Comercio Exterior S.N.C.
Montecito #38 piso 26
ala poniente World Trade Center
Col Nápoles Mexico D.F.
C.P. 03810

**BANCOMEXT**

Telephone (52 5) 5488 2804 / 2806
Fax (52 5) 5488 2803
E-Mail guarantee@bancomext.gob.mx
WWW www.bancomext.gob.mx

**NETHERLANDS**  
(NCM)

Nederlandsche Creditverzekering
Maatschappij N.V.
Keizersgracht 271-285
1016 ED Amsterdam

**NCM**

Postbus 473
NL 1000 AL Amsterdam

**NCM**

Telephone (31 20) 553 9111
Fax (31 20) 553 2811
E-Mail ncm.mtb@ncmgroup.com
WWW www.ncmgroup.com
NEW ZEALAND (EXGO)

EXGO
145 Lambton Quay
Wellington

Mailing Address
P.O. Box 5037
Wellington

Telephone (64 4) 494 3201
Fax (64 4) 494 3111
E-Mail exgo@norwich.co.nz
WWW www.state.co.nz

NORWAY (GIEK)

Garanti-Instituttet for Eksportkreditt
Dronning Maudsgate 15 IV
0250 Oslo

Mailing Address
PO Box 1763 Vika
N-0122 Oslo

Telephone (47) 22 87 62 00
Fax (47) 22 83 24 45
E-Mail bu-giek@giek.no
WWW www.giek.no

POLAND (KUKE)

Export Credit Insurance Corporation
ul. Widok 5/9
00-023 Warsaw

Telephone (48 22) 827 3535 / 7884
Fax (48 22) 827 3587
E-Mail inform@kuke.com.pl
WWW www.kuke.com.pl

PORTUGAL (COSEC)

Companhia de Seguro de Créditos, S.A.
Avenida da Republica 58
1069-057 Lisbon Codex

Telephone (351 21) 791 3700
Fax (351 21) 791 3720
E-Mail internacional@cossec.pt
WWW www.cossec.pt

SINGAPORE (ECICS)

ECICS Credit Insurance Ltd.
7 Temasek Boulevard
#11-01 Suntec Tower One
Singapore 038987

Telephone (65) 337 4779
Fax (65) 338 9267
E-Mail buecics@ecics.com.sg
WWW www.ecics.com.sg
SLOVENIA  (SEC)
Slovene Export Corporation Inc.
Josipine Turnograjske 6
61000 Ljubljana
Telephone (38 661) 2007 500
Fax (38 661) 2007 575
E-Mail vida.zabukovec@sid.si
WWW www.sid.si

SOUTH AFRICA  (CGIC)
Credit Guarantee Insurance Corporation of Africa Limited
Credit Guarantee House
31 Dover Street
Randburg 2194
Johannesburg
Mailing Address
P.O. Box 125
Randburg 2125
Telephone (27 11) 889 7000
Fax (27 11) 886 1027 / 5715
E-Mail MARINA@cgic.co.za
WWW www.creditguarantee.co.za

SPAIN  (CESCE)
Compania Espanola de Seguros de Credito a la Exportacion, S.A.
Velazquez, 74
28001 - Madrid
Telephone (34 91) 423 4800
Fax (34 91) 576 51 40
E-Mail mruizrod@cesce.es
WWW www.cesce.es

SPAIN  (CREDITO Y CAUCION)
Compania Espanola de Seguros de Crédito y Cauccion S.A.
Paseo de la Castellana, 4
E-28046 Madrid
Telephone (34 91) 432 6300
Fax (34 91) 432 6511
E-Mail internacional@creditoycaucion.es
WWW www.creditoycaucion.com

SRI LANKA  (SLECIC)
Sri Lanka Export Credit Insurance Corporation
Level 4, Export Guarantee House
No. 42, Navam Mawatha
Colombo 2
Telephone (94 74) 719 410-13
Fax (94 74) 719 400
E-Mail slecicbu@eureka.lk
WWW www.tradenetsl.lk/slecic/index.html
SWEDEN (EKN)

Exportkreditnämnden
Kungsgatan 36
Stockholm

Mailing Address
Box 3064
S-103 61 Stockholm

Telephone (46 8) 788 0000
Fax (46 8) 411 8149
E-Mail angela.montenegro@ekn.se
WWW www.ekn.se

SWITZERLAND (ERG)

Geschäftsstelle für die Exportrisikogarantie
Kirchenweg 8
CH-8032 Zürich

Mailing Address
Postfach
CH-8032 Zürich

Telephone (41 1) 384 47 77
Fax (41 1) 384 47 87
E-Mail office@swiss-erg.com
WWW www.swiss-erg.com/www.swiss-erg.ch

CHINESE TAIPEI (TEBC)

Taipei Export-Import Bank of China
8th Floor
3 Nanhai Road
Taipei (100)
Taiwan

Telephone (8862) 321 0511
Fax (8862) 394 0630
E-Mail tebc@eximbank.com.tw
WWW www.eximbank.com.tw/tebc
www.taiwanexport.com.tw

TURKEY (TURK EXIMBANK)

Export Credit Bank of Turkey
Müdafa Cad. 20
Bakanlıklar 06100
Ankara

Telephone (90 312) 417 13 00
417 32 87
425 65 02
Fax (90 312) 425 78 96
425 75 47
E-Mail tsayar@eximbank.gov.tr
WWW www.eximbank.gov.tr

UNITED KINGDOM (ECGD)

Export Credits Guarantee Department
2 Exchange Tower
Harbour Exchange Square
London E14 9GS

Telephone (44 20) 7512 7000
Fax (44 20) 7512 7649
E-Mail buecgd@ecgd.gov.uk
WWW www.ecgd.gov.uk
UNITED KINGDOM

EULER Trade Indemnity plc
1 Canada Square
London E14 5DX

(ETI)

Telephone (44 20) 7512 9333
Fax (44 20) 7512 9186
E-Mail eti.countryrisk@eulergroup.com
WWW www.eulergroup.com

UNITED STATES OF AMERICA

Export-Import Bank of the United States
811 Vermont Avenue, N.W.
Washington D.C. 20571

(EXIMBANK)

Telephone (1 202) 565 3630
Fax (1 202) 565 3684
E-Mail bumatic@exim.gov
WWW www.exim.gov

UNITED STATES OF AMERICA

FCIA Management Company Inc.
40 Rector Street
New York N.Y. 10006

(FCIA)

Telephone (1 212) 306 5000
Fax (1 212) 513 4704
E-Mail shoulton@fcia.com
WWW www.fcia.com

UNITED STATES OF AMERICA

Overseas Private Investment Corporation
1100 New York Avenue, N.W.
Washington D.C. 20527

(OPIC)

Telephone (1 202) 336 8582 / 8573
Fax (1 202) 408 5142
E-Mail equin@opic.gov
WWW www.opic.gov

USA

AIG Global Trade & Political Risk
70 Pine Street
New York, NY 10270

(AIG GLOBAL)

Telephone (1212) 770 7000
Telefax (1212) 425 1277
E-Mail buaig.data@aig.com
WWW aigglobal.aig.com

ZIMBABWE

Credit Insurance Zimbabwe Limited
69 Second Street
P.O. Box CY 1584
Causeway
Harare

(CREDSURE)

Telephone (263 4) 738944-7
Fax (263 4) 706105
E-Mail DebbieAmos@credsure.co.zw
WWW Not available
(MIGA) Mailing Address
Multilateral Investment
Guarantee Agency
12th. Floor
1800 G Street, N.W.
Washington D.C.
U.S.A.
1818 H Street, N.W.
Washington D.C. 20433
Telephone (1 202) 473 6168
Fax (1 202) 522 2630
E-Mail bumi@worldbank.org
WWW www.miga.org

MIGA - PARIS

66 avenue d'Iena
75116 Paris
France
Telephone (33 1) 40 69 32 75
Fax (33 1) 40 69 33 89
E-Mail cbellinger@worldbank.org

OBSERVER

BRAZIL (SBCE)

Seguradora Brasileira de Crédito à Exportação S/A
Rua Senador Dantas, n.º. 105/30º andar
Rio de Janeiro - RJ - Cep: 20031-201
Telephone (55 21) 510 5000
Fax (55 21) 262 8672
E-Mail sbce@sbce.com.br

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