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IMPORTANCE AND APPLICATION EXAMPLES OF SERVICE EXPORT INSURANCE

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Abstract:
This study has been prepared in order to research the forms of application of the Service Export Insurance product on the basis of countries in the world, to determine who prefers this product and in which situations it is applied. Another aim of the study is to research how it can be applied to economic activities in the most efficient way in our country's own dynamics. Service exports in Turkey were included in the coverage of receivables insurance by Turk Eximbank in 2021. The purpose of this insurance is to protect the forward receivables formed by exporting services against commercial and political risks in order to encourage and develop service exports. In the study, the applications of export credit institutions operating in the global market were researched with the literature review method, and based on these examples, suggestions were made by Turk Eximbank about improvements in existing applications and new applications that are not currently available. In consequence of review of the studies in the field of export, it has been seen that there are studies in different fields, but academic studies on service insurance in exports are very limited, and therefore, it is aimed to bring a study to the literature with this study. (This study was produced from a doctoral thesis.)

Keywords:
Service, Service Export, Service Export Insurance, Export Credit Agency

1. Introduction
Considering the forms of payment preferred in international trade, open account export, also known as "goods against goods", is the most widely used form of sale in cross-border trade. The exporter ships the products directly to the buyer and issues the invoice with a certain maturity on it. At the due date of the invoice, the receiving party is expected to pay the invoice to the exporter company. If the buyer does not pay the price of the product or service on the due date of the invoice; trade risk occurs in case of default or when the buyer goes bankrupt after loading. With regard to sustainability of trade, the risk management tools ensuring safe exports began to rise in importance. The export credit insurance is an insurance instrument preferred to minimize the said risks the exporter company is faced with.

It secures the exporter companies against the commercial and political risks they may encounter in the open account sales. In the event that the buyer parties default or go bankrupt, the insurance company pays compensation to the exporter company, which is in the insured position in the policy, depending on the conditions in the insurance policy.

Considering the developments in the world, it can be seen that such programs are started to be made in many countries and efforts are made to encourage exports. The "Berne Union" was established in 1934 to meet the need for an umbrella union in export credit insurances. It is the export credit institutions in France, Italy, Spain and the United Kingdom that established this union.

One of the most important benefits of the export credit insurance is the insuring of receivables. In this context, a certain portion of the price of product or service sold abroad is guaranteed in the product credit insurance. The second benefit is to obtain credit by pledging the export credit insurance contract, that is specified in the form of "policy" in practice, as security. In addition, in this way, the insured company can determine the amount of exports based on the buyer's solvency and the political risk situation of the country by obtaining information from the insurer company (export credit institution) regarding the buyer of the product or service to be sold and the country of the said buyer. In this way, the insured company will reduce its risk by reducing its sales volume in the context of low limit buyers, choosing to sell to buyers in non-risky or less risky countries (Pamukçu, 2009).

2. Conceptual Framework of Credit Insurance in Export

Some of the activities that analyzed the effect of export credit insurance on the increase in exports are briefly mentioned below.

Felbelmayr and Yalçın conducted a study using the data of the German official export credit insurance agency, Euler Hermes, to discuss the importance of guarantee supports in exports. Based on the results of the said research, supporting exports with insurance significantly increases exports. 1% increase in the guarantees given increases export by around 0.012%-0.017% (Felbermayr & Yalçın, p. 2013).

In the research conducted by Van der Veer, the effect of the increase in open account exports, which are covered by insurance, on the international trade volume was examined by using the data of 3 important companies (Euler Hermes, Atradius, Coface) with a market share of 95 percent. Based on the results of the said research, every 1 Euro (€) of export insured creates a multiplier effect of 1.3 € on the total exports. One of the reasons for this situation is that it can safely export to countries that are seen as risky, only with the assurance provided by credit insurance. Another reason is that the ability to conduct export in the form of an open account without the need for a certain bank guarantee such as letter of credit, etc. affects the import demand positively (Van Der Veer, 2015).

In the research conducted by Auboin and Engemann in the years 2005-2011, the effect of supplier credit on the global trade volume was examined. According to the result of the analysis carried out with the data provided by Berne Union, insured export has a very high impact on the global trade volume. (Auboin & Engemann, 2014).

In the research conducted by Egger and Url, the effect of export guarantees given by the Austrian export credit insurance institution Kontrollbank (OeKB) on exports was examined. According to the results of the said research, exports increase by 100-130% with insurance support (Egger & Url, 2006).

In the research conducted by Köksal and Genç, 22 high-income states were selected and the effect of short-, medium- and long-term export credit insurance on exports was examined by panel data analysis method. According to the results of the said research, the effect of short-, medium- and long-term export credit insurance support on exports is positive. It has been found out that the effect of medium- and long-term export insurance is more. Our country is not included in this study. (Köksal & Genç, 2019).

Polat and Yeşilyaprak tried to measure the effect of Turk Eximbank export credit insurance on our country's exports in their research covering the years 2000-2015. According to the results of the said research conducted by panel gravity regression analysis with 16-year data for 212 states, export credit insurance is very effective in increasing exports (Polat & Yeşilyaprak, 2017).

In Köksal's research covering the years 2005-2016, the relationship between GDP, export, and export credit insurances was examined. In the said study, "Turkey, Malaysia, Thailand and Indonesia" were analyzed comparatively. According to the results of the said research, there is a cointegration between these 3 variables for Malaysia and Thailand. Cointegration cannot be found for our country and Indonesia. In this research, which was carried out with Granger causality analysis, a two-way causality relationship can be established between GDP and exports for our country and Malaysia, but it has not been concluded that export credit insurance has an effect on the country's exports and GDP. Thailand is the only country where a causal relationship can be established between export credit insurance and exports (Köksal, 2018).

In a field research conducted by Özyüksel in 2017, the value of Istanbul as a regional commercial center is emphasized. For this purpose, a survey was conducted on exporter companies. According to the results of the survey, the importance of export credit insurance support in increasing exports was emphasized (Özyüksel, 2019).

3. Service Export Insurance Example; Switzerland (Serv) and South Korea (K-Sure)

3.1. Reason for Selection

Although the service insurance in export is provided indirectly, it is not marketed as a separate product in a widespread manner by the export insurance institutions. Switzerland (SERV) and South Korea (K-SURE) are two countries that offer service insurance in export as a separate product. For this reason, these two institutions were selected as examples for our study. Although there are various studies in the literature regarding credit insurance in export, there is scarcely any academic study special to service insurance in export. The purpose of this study is to fill this gap in the literature.

3.1.1. Switzerland (SERV) Service Export Insurance Example

SERV (Swiss Export Risk Insurance), Switzerland's export support institution, has classified the products for service providers under the following headings.

3.1.1.1. Supplier Credit Insurance

Supplier Credit Insurance protects Swiss export companies against defaulting on cash or credit receivables for goods or services supplied to a customer abroad. Exporters receive their money from SERV if an insured risk leads to non-payment. Insurance is available for political, transfer, force majeure and del credere risks. Maximum protection rate: 95% (SERV, 2021a).

The insurance covers the fulfillment of the policyholder's claims agreed in the export contract in return for the goods supplied and services provided (original claim) up to the maximum amount specified in the insurance policy.

3.1.1.2. Pre-shipment Risk Insurance

SERV Pre-shipment Risk Insurance covers the exporter's major costs of an export transaction if production has to be stopped because an insured risk has occurred. Coverage can be provided for political risks and the foreign customer's del credere risk. The insured amount may include any cash paid in response to the wrongful use of the advance payment guarantee. This eliminates the need for additional contract bond insurance. Maximum protection rate: 95% (SERV, 2021b).

The insurance covers the following up to the maximum amount specified in the insurance policy:

• The policyholder's production costs for goods to be supplied and services to be provided, as agreed in the export contract with the debtor;

• Fulfillment of the request for the agreed price for export goods and services, to the extent that the policyholder has a contractual or statutory right, in case the debtor terminates the export contract prematurely (evaluation request).

3.1.1.3. Contract Bond Insurance

Contract Bond Insurance protects Swiss exporters from losses caused by a customer seeking a contract bond (usually a bank guarantee) issued to secure the exporter's contractual obligations to the customer.

A bond is usually a down payment, performance or guarantee bond, but SERV insures all types of contract bonds. The down payment insurance is implicitly included in the Pre-shipment Risk Insurance and does not need to be insured separately.

Contract Bond Insurance covers the loss of the guaranteed amount if the foreign customer legally seeks a guarantee because the exporter is unable to fulfill his commitments due to political risks or force majeure or an embargo imposed by Switzerland makes it impossible to fulfill the export contract. Even if the customer unfairly seeks the guarantee and the loss is not reimbursed within three months, the guaranteed amount is covered (SERV, 2021c).

Contract Bond Insurance may be supported by a Counter Guarantee. Maximum protection rate: 95%.

3.1.1.4. Counter Guarantee

The SERV Counter Guarantee covers the Swiss exporter's payment obligation to the guarantor financial institution. SERV will reimburse the financial institution upon first written request if a contract bond is called and subsequently the exporter fails to meet its payment obligations to the guarantor financial institution (SERV, 2021d).

The Counter Guarantee complements the Contract Bond Insurance obtained from SERV and allows exporters to obtain contractual guarantee from their financial institutions more easily. Counter Guarantee helps exporters save cash by eliminating the need to provide additional collateral for their financial institutions.
The Guarantee Rate is 90%. In some exceptional cases, a guarantee of up to the full amount guaranteed is possible.

3.1.1.5. Confiscation Risk Insurance
Confiscation Risk Insurance protects Swiss exporters from losses resulting from confiscation or similar measures taken by foreign countries. It covers the exporter's main costs for owned or leased goods exported abroad for purposes such as contractual services, storage, exhibitions or testing (SERV, 2021e).
The insurance may cover the losses arising from political risks or force majeure risks. Maximum protection rate: 95%.

3.1.2. South Korea (K-SURE) Service Export Insurance Example
K-SURE provides export credit guarantees and insurance on behalf of the Korean government. Korea Export Insurance Corporation (KEIC) was established in 1992 based on the Korea Export Insurance Law, which evolved into the Korea Trade Insurance Corporation (K-SURE) in 2010 to cover exports and overseas investments as well as imports. K-SURE offers a variety of trade insurance programs for international trade in goods and services, overseas project contracts, and currency exchange risks. It also offers credit information services and debt collection services.
The export credit guarantee provides a guarantee for export financing of Korean manufacturers. Currency risk insurance covers the foreign exchange risk associated with international trade and overseas investment transactions. Finally, the overseas debt collection service provides services on behalf of Korean exporters for the recovery of uncollected export account receivables that are not covered by export credit insurance programs with the experience and network of K-SURE (Kim & Choi, 2019; 11).
K-SURE offers the widest range of insurance programs, including Short Term Export Credit Insurance, Medium and Long Term Export Credit Insurance, Export Credit Guarantee and Currency Risk Insurance. An Export Credit Guarantee is provided to Korean exporters to finance working capital for upcoming export transactions. Currency Risk Insurance covers the losses arising from foreign exchange transactions arising from the exports.

3.2. SERV vs. K-SURE Comparison

	SERV	K-SURE
Maximum Loss Coverage Rate	95%	95%
Offered Products	• Supplier Credit Insurance • Pre-shipment Risk Insurance • Contract Bond Insurance • Counter Guarantee • Confiscation Risk Insurance	• Short-Term Export Credit Insurance • Medium and Long Term Export Credit Insurance • Export Credit Guarantee • Currency Risk Insurance

Scope	It covers the service exports to be realized by Swiss citizen traders.	i) Export of goods produced, processed or collected in Korea, ii) Export of goods produced or processed by an overseas subsidiary of a domestic company, or export of goods processed abroad by a third party commissioned by Korean companies, iii) Export of goods imported for export to a third country.
General Operation	Supplier Credit Insurance protects Swiss export companies against defaulting on cash or credit receivables for goods or services supplied to a customer abroad. Exporters receive their money from SERV if an insured risk leads to non-payment. Insurance is available for political, transfer, force majeure and del credere risks. Liability for insured risks begins as follows: • For deliveries, when the goods are shipped; • For services rendered abroad, at the beginning of service provision; • Upon provision of the service or partial service and receipt by the orderer in Switzerland; • For claims for reimbursement of ancillary	Individual shipments of direct exports are insured by either a comprehensive policy or a single Short-Term Export Credit Insurance scheme. The comprehensive policy is issued as an open policy in which K-SURE and the exporter agree that the exporter must notify K-SURE of all shipments that match the types of transactions listed in the open policy, and that K-SURE covers the notified shipments without the need for further underwriting. Comprehensive policies allow the insured to be provided with a bigger credit limit and a lower insurance premium for each overseas buyer. With the comprehensive policy, the insurer can spread the risks by enforcing the law of large numbers and the insured can expand into the overseas market without worrying about non-payment events. Once insured by K-SURE by considering the buyer's creditworthiness, payment term, history of transactions between counterparties, etc., a single policy is issued for each

	financing costs as they become due. SERV Pre-shipment Risk Insurance covers the exporter's major costs of an export transaction if production has to be stopped because an insured risk has occurred. Coverage can be provided for political risks and the foreign customer's del credere risk. The insured amount may include any cash paid in response to the wrongful use of the advance payment guarantee. This eliminates the need for additional contract bond insurance.	overseas buyer upon the application of the exporter.

4. The Place of Service Insurance in The Global Economy

Export credit insurance policy is issued by private capital insurance companies and officially supported export credit insurance institutions all over the world. Export credit insurance products of official institutions of some countries are managed by private sector organizations. Euler Hermes in Germany and Atradius in the Netherlands carry out these programs on behalf of governments. The said companies are also global companies that operate in different countries all over the world to insure exports and domestic risks (Muge & Eke, 2018). Another example is French credit insurance firm Coface, which until 2016 managed the export guarantee program for the French government. Starting this year, Coface has transferred these activities to Bpifrance, an investment bank (Coface, 2016).

Within the framework of the statistics published by Berne Union with the data provided by the World Trade Organization, according to the data at the end of 2018, the member institutions insure 2.5 trillion dollars, almost 13 percent, of the world product trade of 17 trillion US Dollars ($) against payment risk. These institutions have paid more than 50 billion dollars in damages, starting from 2008, when the global financial crisis began. The short-term export insurance included in the statistics by Berne Union includes risks with a credit term of up to one year and generally between 30-90 days. In these policies, risks in the trade of industrial goods are generally covered. Based on the data provided by Berne Union, based on the distribution of new jobs in terms of turnover, at the end of 2017, short-term export credit insurance has a share of around 90 percent in the total with an amount of 2.1 trillion dollars. Medium and long-term export credit insurance has a share of around 8 percent with an amount of 179 billion dollars. The share of insurance related to investment risks is 2 percent with an amount of 64 billion dollars (Berne Union, 2019).

5. Conclusion and Suggestions

When the world trade volume of recent years is examined, it is seen that service exports have increased over the years, and this gives us an idea about how and in which direction foreign trade will take shape in the coming years. In today's digital world, purchases of goods have left their former position to service trade. In this context, it has become very important to support and protect the sectors that export services in our country. Awareness of Turkish service exporter companies on the advantages and insurance coverages they have will contribute to the increase in volumes and the exponential growth of total service exports.

The common feature of developed countries is known as the strong structure of companies exporting to all over the world and the support provided by strong insurance companies. It would be appropriate to manage the same strategic importance in the insurance of service exports, which have a strategic importance in Turkey's exports. World practices should be closely followed, innovations should be immediately integrated into our country's system, insurance companies should be encouraged to be ambitious in this area, and the healthy and sustainable growth of service exports as a national issue should be supported.

Since the service export credit insurance, which came into effect in 2021, will have a leverage effect for all parties, its awareness and prevalence can only be achieved by reaching the audience it addresses. Export companies that need to get to know and introduce the product into their economic life can be reached through promotion and incentives through exporters' associations. Thus, the quick and easy acceptance of the product will ensure a sustainable development. Exporters' associations should be supported and informed by the relevant public authorities while carrying out these promotional activities.

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