Regulations on Premium Calculation

Valid from 01-01-2021
Version 7.0, created 01-01-2021

Subject	The Regulations on Premium Calculation govern the framework conditions for the calculation of insurance premiums, expense premiums and premiums for providing reinsurance.
Author	Heribert Knittlmayer
Issued by	Board of Directors
Issued on	03-12-2020
Replaces	The Regulations on Premium Calculation dated 01 08-2017, Version 6.0

Table of Contents

Art.1 Basic principles

The Board of Directors determines the calculation of insurance premiums, expense premiums and premiums for providing reinsurance on the basis of the premium tariff issued by the Federal Council.

For the sake of the clarity of the regulations, the terms “insurance” and “guarantee” and the terms “insurance commitment in principle” and “guarantee commitment in principle” are used synonymously (incl. in Annex 1 and Annex 2).

Art.2 Insurance premiums

2.1 Principles

Insurance premiums are calculated either on the basis of the premium formula pursuant to Annex 1 or on the basis of the market prices pursuant to Annex 2.

For transactions that are subject to a separate sector understanding according to the OECD, the insurance pre- miums are calculated pursuant to the specified principles in the corresponding annex of the “Arrangement on Officially Supported Export Credits”[1].

The applicable debtor and country risk category on issuance of the insurance policy by SERV is used for the premium calculation. The country with the greater impact on the insured debtor risk and – if there is more than one debtor or guarantor – the debtor with the better rating are relevant. If the transfer risk and the risk of possible non-delivery in the destination country is spread across several countries, SERV may calculate mixed premiums.

If there is no provision in the insurance policy to the contrary, premiums must generally be paid in Swiss francs. Conversion of an insurance commitment in principle to an insurance policy

The applicable debtor or country risk category used for the premium calculation when converting an insurance commitment in principle to an insurance policy is determined as follows:

1. If the insurance commitment in principle is temporary, the classification generally remains the same as the debtor or country risk category specified in the insurance commitment in principle if the policyholder submits the conversion request to SERV before expiry of the commitment.
2. If the country risk category changes by more than one level, the new level is applied upon conversion to an insurance policy.

If an extension is requested after expiry of the insurance commitment in principle (i.e. after six months), the risk subject may be assigned a rating category again. If the rating changes and the price is determined using market benchmarking or there is a change to the premium tariff, the insurance premium will be recalculated.

2.2 Specific factors by insurance type

2.2.1. Letter of credit information insurance

Premiums are calculated either on the basis of the premium formula pursuant to Annex 1 or on the basis of the market price pursuant to Annex 2. The basis for calculation of the premium is the insured letter of credit amount.

The credit period corresponds to the period from the shipment of the goods or the shipment of the last partial delivery of the goods until the due date of the insured receivable

The risk period is determined as follows:

a) For transactions with a credit period of less than one year, the risk period corresponds to the credit period.

1 See https://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?doclanguage=en&cote=tad/pg(2020)1

b) For transactions with a credit period of one year to two years minus one day:

– In the case of non-High Income countries[2] and semi-annual repayment instalments: the risk period corresponds to the credit period.
– In the case of non-High Income countries and a non-semi-annual repayment profile: the risk period corresponds to four thirds of the credit period.
– In High Income countries: the risk period corresponds to twice the average weighted credit period, minus six months.

c) For transactions with a credit period of 24 months or more: the risk period corresponds to twice the average weighted credit period[3], minus six months.

The insurance premium for letters of credit confirmation insurance is due when the letter of credit documents are submitted to the competent financial institution.

2.2.2. Confiscation risk insurance

The premium is calculated in accordance with the premium formula pursuant to Annex 1. The basis for calculation of the premium is the amount insured for the insured item.

The risk period starts when the item is shipped to the place where it will be stored, exhibited or used. It ends when the item is sold or returned to Switzerland.

The calculation of the market price pursuant to Annex 2 does not apply when calculating the premium for confiscation risk insurance.

2.2.3. Counter guarantee

The premium is calculated in accordance with the formula for counter guarantees pursuant to Annex 2.

The basis for calculation of the premium is the current market price for the credit and fulfilment risk of the party requesting the guarantee, taking account of the insured sum guaranteed and the term of the counter guarantee.

If the counter guarantee and the associated contract bond insurance have the same term, SERV only charges the higher of the two premiums.

The premium payer is the exporter.

2.2.4. Working capital insurance

The premium is calculated in accordance with the formula for working capital insurance pursuant to Annex 2.

The basis for calculation of the premium is the current market price for the credit and fulfilment risk of the borrower of a working capital loan, taking account of the insured loan amount and the term of the working capital insurance.

If SERV grants the working capital insurance in addition to pre-shipment risk insurance, it only charges the higher of the two premiums.

The premium payer is the financial institution.

2.2.5. Pre-shipment risk insurance

The premium is calculated in accordance with the premium formula pursuant to Annex 1. The basis for calculation of the premium are the insured production costs.

2 High Income countries are specified in Annex 2 of the premium regulations.
3 The average weighted credit period (weighted average life) is the total of the partial amounts multiplied by their due date, divided by the total credit amount.

The risk term corresponds to half the time from entry into force of the supply contract to the shipment of the goods. If there are partial deliveries, delivery of the final partial delivery will be considered full delivery of the goods.

For pre-shipment risk insurance, only the formula in Annex 1 is used rather than market prices.

2.2.6. Supplier and buyer credit insurance

Premiums are calculated either on the basis of the premium formula pursuant to Annex 1 or on the basis of the market price pursuant to Annex 2.

The basis for calculation of the premium for supplier and buyer credit insurance is the insured credit receivable excluding interest (provided these are ancillary claims pursuant to the GTC S and GTC B).

The insurance premiums and surcharges are calculated on the basis of the formula in Annex 1 or the formula for the market price in Annex 2.

The reduction for collateral to reduce the political risk is 20 per cent at most.

The risk period is the sum of half the waiting period and the total loan repayment period. The waiting period is determined as follows:

1. The waiting period starts when the delivery or service commence (supplier credit) or the first disbursement (buyer credit) and ends with the starting point of credit.
2. If, by contrast, the starting point of credit is determined based on the weighted average delivery or service or pro-rata delivery, the waiting period is 0.

The repayment schedule is determined as follows:

a) For transactions with a credit period of less than one year, the risk period corresponds to the credit period.

b) For transactions with a credit period of one year to two years minus one day:

- In the case of non-High Income countries and semi-annual repayment instalments: the risk period corresponds to the credit period.
- In the case of non-High Income countries and a non-semi-annual repayment profile: the risk period corresponds to four thirds of the credit period.
- In High Income countries: the risk period corresponds to twice the average weighted credit period[2], minus six months.

c) For transactions with a credit period of 24 months or more: the risk period corresponds to twice the average weighted credit period[2], minus six months.

2.2.7. Refinancing guarantee

Premiums are calculated either on the basis of the premium formula pursuant to Annex 1 or on the basis of the market price pursuant to Annex 2.

The basis for calculation of the premium is the refinanced amount excluding interest, less the amount covered by the supplier or buyer credit insurance.

The home country of the financial institution granting the export credit and its risk classification are used to determine the debtor and country risk category. This also determines whether the premium is calculated based on the premium formula (Annex 1) or the market price (Annex 2).

The risk period starts when the refinancing guarantee is issued to the refinancing institution and ends when the guarantee expires.

The premium is due when the invoice is received before the refinancing guarantee is issued. The premium payer is the financial institution granting the export credit.

2.2.8. Contact bond insurance

The premium is calculated in accordance with the premium formula pursuant to Annex 1.

The basis for calculation of the premium for the contract bond insurance is the insured sum guaranteed.

The risk period starts with the receipt of the bank guarantee by the beneficiary. It ends when the bank guarantee is returned, the contract bond expires or the policyholder is released from its reciprocal liability by the institution that provided the guarantee.

The calculation of the market price pursuant to Annex 2 does not apply when calculating the premium for contract bond insurance.

2.2.9. Multi-buyer insurance

Premiums are calculated either on the basis of the premium formula pursuant to Annex 1 or on the basis of the market price pursuant to Annex 2.

The calculation of the premium for multi-buyer insurance is based on the applicable provisions for supplier and buyer credit insurance (para. 2.2.6) on the basis of a risk period of six months. For risk periods of more than six months, the longer risk period is authoritative.

Art.3 Reimbursement of insurance premiums

If SERV approves a change to the content or scope of an export credit insurance policy and this results in a change in the maximum insured amount or the risk period, the insurance premium will be recalculated as follows:

1. In the case of an increase or extension: recalculation of the transaction with the original premium tariff and the original rating. The premium that was originally paid will be credited.
2. If the amount is reduced or the term is shortened: if the future risk profile is changed as a result of a reduction of the amount and/or remaining term, the remaining premium will be calculated for the future risk profile using the specific premium and then offset against the unearned premium reserve on the balance sheet. 80% of the difference will be reimbursed. The specific premium is the risk premium for one day and one monetary unit for the risk profile. It remains constant for the entire cover period.

If the risk classification pursuant to SERV has changed when the amendment request is submitted, SERV may choose to reimburse the amount reduced as a result of the premium calculation using the current SERV rating classifications.

Art.4 Expense premiums

SERV charges a flat expense premium of 20% as part of the insurance premium. This premium is not invoiced separately. Fees for special expenses and examination fees are invoiced separately.

4.1 Fees for special expenses

Additional administrative effort is calculated as follows:

– Project financing and financing structures: flat rate in agreement with the premium payer and any third party who pays the expense premium for the premium payer. Expenses, e.g. for travel, and third-party services such as consulting and project and environmental analyses are invoiced separately.

– Standard transactions: in general, the first eight hours are not charged towards working time. If SERV expectsthe time to exceed this amount, it will inform the person subject to the fee in advance about the potential fee.In justified cases, especially in the case of foreign domiciles or payment arrears, SERV can demand that theperson subject to the fee make an appropriate advance or prepayment.

4.2 Examination fees

SERV may charge an examination fee to examine applications. However, this is not currently the case.

Preliminary analyses are free of charge.

Art.5 Reinsurance premiums

When providing reinsurance, SERV charges a reinsurance premium that generally corresponds to a proportionate share of the total premium, less a processing fee imposed by the primary insurer.

SERV charges a higher premium if the premium charged by the primary insurer does not take account of the internationally recognised principles for state-supported export credits, i.e. those of the OECD, or if, in the view of SERV, it does not appear to be adjusted for the risk.

Art.6 Final provisions

The Regulations on Premium Calculation of 1 August 2017 are repealed.

These Regulations on Premium Calculation enter into force on 1 January 2021.

Approved by the Board of Directors on 3 December 2020.

Starting point of credit means

a) In the case of contracts for the delivery of raw materials and semi-manufactured products, consumer goods, parts and components, including services related to these: at the latest, the date the goods are accepted (incl. services) or the actual or weighted average date of the acceptance.

b) In the case of contracts of sale for capital goods comprising individually usable parts: at the latest, the actual or weighted average date on which ownership of the goods is transferred to the orderer.

c) In the case of contracts of sale for equipment for entire plants or factories for which the exporter is not responsible for commissioning: at the latest, the date on which ownership of all equipment pursuant to the contract, with the exception of spare parts, is transferred to the orderer.

d) In the case of the construction of structures for which the exporter is not responsible for commissioning: at the latest, the date on which the structure is completed.

e) In the case of contracts for which the exporter is contractually responsible for the commissioning of the plant: at the latest, the date on which the plant is ready for operations as confirmed by initial test runs. In this case, it is irrelevant whether the plant is transferred to the orderer on this date in accordance with the contract and whether the exporter has undertaken other obligations.

f) If the contract provides for separate performance of individual parts of the export transaction in the cases specified in points c) to e): at the latest, the date on which the starting point of credit is defined pursuant to c) to e) or the average starting point of credit for the relevant performances pursuant to c) to e) or – if the exporter has not concluded a contract for the entire project but has done so for a significant portion thereof – a datethat is relevant for the entire project.

g) In the case of services for which the exporter is responsible for the commissioning: at the latest, the date from which the orderer realises a benefit from the service (at the latest, the commissioning).

h) For other services: at the latest, the date from which the orderer realises a benefit from the service or the actual or weighted average date of the approval of the relevant services.

P +41 58 551 55 55, F +41 58 551 55 00, info@serv-ch.com, www.serv-ch.com