



Atradius is pleased to submit the following as part of the EDC Mandate review. Our answers pertain primarily to EDC's credit insurance operation, as Atradius' activity in Canada is primarily domestic and export credit insurance. As such, we are a direct competitor of EDC.

THEME 1 – EDC COMPLEMENTARY ROLE WITH THE DOMESTIC PRIVATE SECTOR

This section is focused on “the extent to which EDC's lines of business are in any way hindering or crowding out the activities of the private market.....”

The answer on a very simple level to this question is yes.

Since EDC's formation in 1944, they have been the primary driver in the development of the credit insurance market in Canada. Until the 1980's the private credit insurance market was limited, with few entrants and limited appetite. Since that time, a number of private carriers have entered the market and have committed significant resources to grow the market. In 1990, the total credit insurance market in Canada was estimated to be \$20 Million in premium revenue, with EDC's portion at \$16 Million. In 2017 the credit insurance market was estimated at \$242 Million, with EDC's portion at \$106 Million (43%). However, if you factor in domestic business that is generated through EDC's efforts and written by Coface through an exclusive relationship, it could be argued that EDC's market share is 50%. Over those 27 years, EDC added \$90 Million in export premium and an estimated \$15 Million in domestic premium – nearly as much as the entire private sector. Additionally, no private sector carrier has more than a 12% market share that relates to export business.

There are now 9 private sector carriers that underwrite credit insurance in Canada. The market has evolved so that EDC's market share has fallen from 80% to just under 50% of the total credit insurance market. Unlike virtually all developed economies, however, EDC has continued to act in a competitive as opposed to complementary manner. In spite of the resources committed by the major credit insurance carriers, EDC is still able to control over 70% of the export credit insurance market in Canada. Through their domestic partnership with Coface, they control another 15% (estimated) of the domestic market.

Many of the Canadian competitors to EDC can trace their roots to their formation as an export credit agency (ECA), formed to encourage and promote trade. Since the mid 1980's these carriers have all been privatized, and while they may continue to support government export programs, they have all expanded and flourished through efforts to develop the credit insurance market in a competitive manner. Since that time, the big three credit insurers (Atradius, Euler Hermes and Coface) have grown exponentially, giving local companies access to competitive quotes and products. In short, EDC's presence limits choice and competition.

As a Crown Corporation, EDC operates under very different rules and regulations as compared to the private sector. In addition, the inability of banks to promote private sectors carriers (as defined by the Bank Act), limits a very important potential distribution channel exclusively to EDC products (and by extension, Coface products that are delivered via EDC's extensive sales network).

Specifically, EDC enjoys these exclusive benefits:

- 1) The Canadian Bank Act prohibits banks from conducting the business of insurance, and while there is some confusion as to what is eligible, it is clear that banks view EDC as the primary source for credit insurance for its clientele. While EDC has a somewhat passive role in this, the impact to the competitive environment cannot be overlooked. Businesses, especially small businesses, rely heavily on their banks to provide advice. If the banks cannot promote a full range of products, it serves to limit the choices available to their clients.
- 2) EDC is not an insurance company but offers an "insurance policy". As such, they do not have to license their employees to sell credit insurance. Of significant note, EDC's sales force not only sells EDC insurance without the need to be licensed, but they also represent Coface. This is a huge advantage in the market. Private carriers and brokers must license their sales force. This can take upwards of 6-12 months of training. It is an investment in sales that EDC does not have to worry about. In theory, they could have a sales rep speaking to clients immediately and with no training. Even if it can be argued that as a Crown Corporation EDC may be exempt from this requirement, it is not when the sales rep sells the client on the Coface portion of the policy. It should be noted that the "joint" policy issued by EDC is actually 2 policies bundled into one form- EDC for export and domestic by Coface. This appears to be a direct violation of Canadian insurance regulations.
- 3) Limited transparency – private carriers are required to file quarterly statements with OSFI. Our information is publicly available. EDC does not provide any detailed information, although they do share revenue and loss ratio information with the Receivables Insurance Association of Canada (RIAC) of which they are a founding member.
- 4) Influence over companies that are both banking and insurance customers of EDC. While no statistics are available, a significant number of EDC clients utilize multiple products. In the normal course of business, there is certainly an advantage for companies that offer a suite of products that are utilized by its customers. We in the private sector do hear that customers worry that if they accept a competitive offer from the private sector, their access to other EDC products may be curtailed.

- 5) Influence over and investment in industry and government groups. While not purely a regulatory issue, EDC invests heavily in the promotion of both public and private organizations. Just recently, RIAC offered to speak at an export seminar established by the government of Ontario's Ministry of Economic Development, Job Creation and Trade. We were told there was no interest as they already partner with EDC. We have all seen EDC signage at airports throughout Canada as well as on CP24. If the true aim is to promote exports, solutions should be provided that best fit the situation to maximize the benefit for all. While this is not in violation of the mandate, it clearly shows that EDC is a marketing powerhouse with the ability to crowd out competition.

- 6) During the financial crisis of 2008-2009, EDC partnered with the private sector to provide Domestic Supplemental Insurance, which allowed the private sector to access capacity for domestic transactions as long as the primary carrier matched the credit limit. This was a shining example of public-private cooperation allowing for capacity when most needed. The program was ended in 2014 and replaced by an export-centric reinsurance program. Under the new program, Trade Partnership Insurance, (TPI), EDC will support domestic coverage to customers of private carriers as long as the policyholder has at least 50% of its sales to export markets. This has effectively eliminated over 75% of the private carriers' customers, as most do not have this high a level of export sales. This program rarely benefits SMEs who likely do not have significant export sales. While on the surface it appears that this is consistent with EDC's mandate, in reality it creates an additional component to an already unlevel playing field and serves to further entrench EDC in the export marketplace. While the majority of private sector clients do not qualify, a much larger portion of EDC's clients do qualify as they are all exporters.

In general, EDC's development in the marketplace has been beneficial to the Canadian business community. They are able to provide some coverage that the private sector is unwilling to do. They are also able to reach geographic areas within the vast landscape of Canada that the private sector has been unable to reach. The promotion of credit insurance to Canadian business has helped companies grow safely. However, this dominance serves to limit what the private sector can do to grow its market and reach more Canadian businesses with competitive products. Ultimately, the beneficiary of a highly competitive market is the Canadian business community. We look for a level playing field for the benefit of all.

THEME 2 – EDC'S PLACE WITHIN GOVERNMENT

The ideal positioning of EDC within government is difficult to gauge. We believe that EDC's primary role is to promote exports, which lead to a diverse business landscape, provide jobs that are generally higher paying, and provide a higher quality of life. The fact that EDC is able to consistently return a significant dividend to the government (close to \$1 Billion in 2018) indicates that they are successful in promoting exports. It also, however, indicates they operate as more of a commercial entity than a complementary player filling gaps

when they exist. Given that the credit insurance operation is a small part of EDC's overall business, it is impossible to know what portion of that dividend is related to the insurance book. We recommend that EDC's insurance operation be separated from its larger bank etc. operations, at least on a reporting basis, so that comparisons can be made to its competitors. In this regard, its insurance operations should be expected to at least be self-supporting and should be subject to the same rules as its private sector competitors.

THEME 3: MEETING CANADA'S EVOLVING BUSINESS NEEDS

While not solely an EDC issue, banks' inability to promote credit insurance on a large scale and to any provider other than EDC limits Canadian businesses ability to obtain credit insurance – a proven tool utilized by businesses to grow safely. Banks are only allowed to promote one solution – EDC. They cannot utilize EDC if there is only a domestic component, and even if there is an export component, the only solution is an EDC-centric one via its relationship with Coface. While the desire for one stop shopping is valid, the ability of banks to promote private sector insurance either directly through carriers or via the established broker market would provide for greater competition and choice for the Canadian business community.

EDC has recently begun an initiative to greatly expand its presence and to reach a far greater number of businesses than it already does. While the solution sounds like a good idea, it will not greatly promote the use and availability of additional financial tools; it will merely expand their own presence.

THEME 4: ROLE OF EDC IN THE CHANGING GLOBAL CONTEXT

As the world shrinks, the distinction between export and domestic players becomes blurred. Historically, new businesses tend to sell domestically before expanding internationally. The current credit insurance marketplace in Canada is well versed in providing domestic solutions. The carriers currently serving the market are largely part of global firms with operations in dozens of markets. Many of these carriers began as ECAs and currently serve multinational clients. The existence of EDC as a very strong, very aggressive competitor with many built-in advantages curtails investment by the global players. In spite of rapid growth in the domestic sector, all have struggled to gain a foothold in the export marketplace.

The penetration rate of credit insurance in Canada is less than 50% of Western Europe, where a robust competitive landscape has allowed for innovation and growth. The private sector has the capability to provide solutions that will help Canadian business grow both domestically and internationally. We just need a level playing field in which to do so. Again, a robust, competitive, fair competitive environment will result in higher competition, creative product offerings, and more choice for Canadian businesses.

THEME 5: CORPORATE SOCIAL RESPONSIBILITY AND HUMAN RIGHTS

We have no comments on this theme

THEME 6: COMPARISON OF THE CAPACITY OF THE CANADIAN TRADE FINANCING SYSTEM TO THAT OF OECD AND NON-OECD COUNTRIES

From a strictly trade credit insurance perspective, capacity in the private sector is rarely an issue. Any capacity issues in the private sector are driven by quality of risk. This is in line with any private market and is one of the bases of a free market. Capacity will be available if credit risk warrants it. Poor credit risk entails higher premium or reduced appetite.

THEME 7: DOMESTIC POWERS REGULATIONS REVIEW

There is a conflict between what appears to be EDC's role as an export credit agency and its position in the domestic space. EDC clearly participates and competes in the domestic market. In addition to their market share due solely to export "insurance" they do control an estimated 10-15% of the market through its partnership with Coface. In fact, the domestic book is sold, serviced and negotiated on behalf of its export clientele. Its employees engage in ongoing dialogue with these clients with only one partner. There have been discussions of expanding EDC domestic powers further to further tighten the bonds with its policyholders. This extends to companies that have far less than 50% of their sales to export markets. This is in direct conflict with the aforementioned TPI program that requires 50% export sales for the inclusion of domestic reinsurance support. Expanding the domestic powers would give EDC the ability to crowd out the domestic sector in this area.

THEME 8: GOVERNANCE OF THE CANADA ACCOUNT

There is little known of the management or views on the Canada account. In most of the rest of the world, government accounts are managed and underwritten by private carriers, including many of the previously privatized EDCs. The private market has the capability and expertise to do this in Canada. Again, lack of transparency makes it difficult to quantify the role or scope of the Canada account. However, the existence of the Canada account is consistent with one of the primary roles of ECAs – stepping in and filling gaps where they exist where filling those gaps is in the interests of Canada.

THEME 9: DEVELOPMENT FINANCE INSTITUTION

No comment on this theme

Thank you for the opportunity to participate in the EDC review, and we look forward to discussing further and as needed.