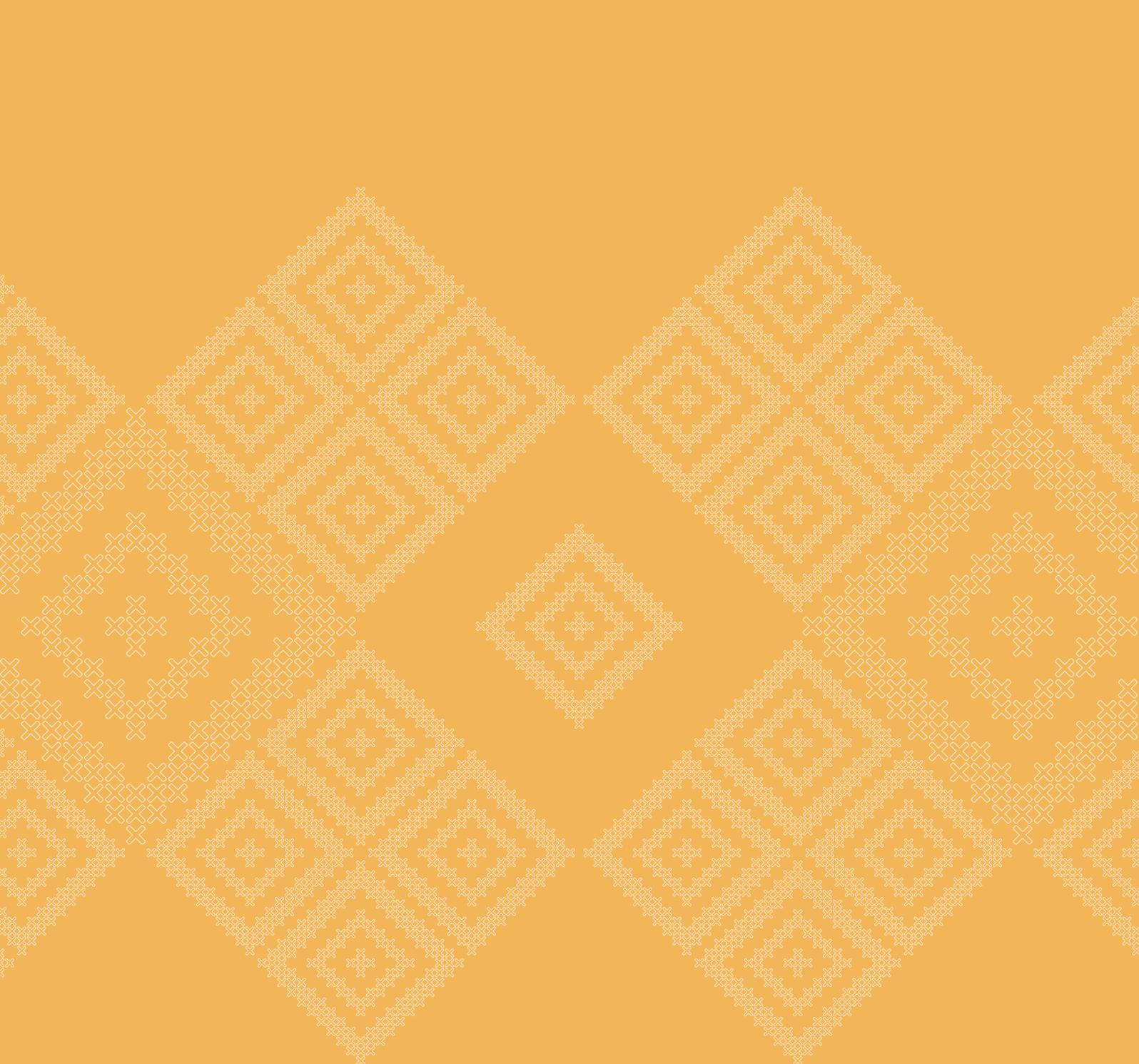




New Zealand Export Credit Annual Overview 2021/22





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New Zealand Export Credit's role

New Zealand Export Credit's (NZEK) purpose is to promote and support exports and the internationalisation of New Zealand businesses by helping exporters and their integral domestic suppliers to:

- > mitigate repayment risks of buyers
- > secure sales, and
- > access finance to enable trade.



We do this by offering trade credit insurance and finance guarantees, backed by the New Zealand Government, that complement those available from the private sector.

NZEK's services enable commercially viable exports that may not have otherwise occurred, by providing financial security and capacity to exporters to grow their exports, enter a new market, and/or trade with confidence during times of increased uncertainty.

We focus on educating businesses about the financial challenges and risks of exporting, and on building awareness of solutions (both private and via NZEK) that can support their aspirations.

In the process, we have supported the Government's economic plan to build a high wage, low emissions economy that provides economic security in good times and bad.

NZEK's solutions support a number of the policies and actions in this plan, including:

- > increasing exporters' resilience during a period of global economic and geopolitical change
- > helping lift the value, diversity, and sustainability of the goods and services New Zealand businesses export
- > encouraging increased participation by small-to-medium enterprises (SMEs), Māori businesses, and regional businesses, and
- > strengthening international connections and expanding the range of export markets.



Above: Feliza Blanch (NZEK) leading a team meeting.

Right: Glen Ross (NZEK) and Wes Terblanche (NZEK) in the Auckland Office.

1 Foreword from the Chief Executive

A thriving export sector is critical to the Treasury’s vision of lifting living standards for all New Zealanders and building a strong, sustainable and resilient economy for all.

This Annual Overview looks back at the work the Treasury’s New Zealand Export Credit (NZEC) function has delivered over the past twelve months to support New Zealand exporters with accessing additional finance and diversifying the markets they trade with.



NZEC is responsible for providing Crown-backed trade credit insurance and financial guarantees to help New Zealand exporters to access, grow, and diversify their export markets. This support is provided where private-sector banks and insurers are unwilling, or unable, to provide cover.

As countries have been recovering from COVID-19, our exporters have faced renewed trade opportunities alongside supply chain challenges, financial uncertainties and geopolitical risks. This combination of factors resulted in a historic year for NZEC, including a record total of NZD 238 million of risk exposure underwritten. NZEC’s products provided 67 exporters with the resilience, confidence and finance to sell their goods and services – totalling an historic high of NZD 611 million into 59 countries.

Collaboration was a key theme and enabler of our work.

Firstly, this was with insurers, brokers, banks, and industry associations to promote NZEC’s services and often create joint risk-sharing solutions for our exporter customers. We worked closely with other government agencies to provide more aligned and coordinated services to exporters. We also shared our expertise, participating in 20 export-finance-focused educational seminars across New Zealand.

In the year ahead, we will continue to play an important role in providing confidence and resilience to exporters through our expertise and export credit solutions. We will also strategically focus on opportunities to support a broader range of innovative businesses, aligned with the Government’s plan to build a high wage, low emissions economy.

We look forward to delivering our services, and working in close partnership with others – with the collective aim of enabling New Zealand exporters to enter, diversify, and succeed on the world stage.

A handwritten signature in blue ink that reads "Caralee".

Caralee McLiesh

Te Tumu Whakarae mō Te Tai Ōhanga
Secretary to the Treasury

2 Annual highlights

Demand for NZEC's services continued at higher-than-average levels, as economic and supply chain turbulence combined with renewed opportunities for New Zealand businesses. In response, NZEC achieved the following measures:



132

guarantees issued
(total exposure of NZD 238 million)



NZD 611 million

worth of exports underwritten into 59 countries



67

businesses directly supported
(of which 33 were SMEs with turnover
under NZD 25 million)



NZD 2.17 million

of operating revenue earned

The NZD 611 million total value of exports supported and NZD 238 million of total new exposure issued were both historical highs, and enabled a wide range of goods and services across food and beverage, healthcare, advanced manufacturing, services, forestry, and agricultural products.



NZEC supported the Government’s objective to deliver an export-led recovery – by helping with:

Supporting regional businesses

Thirty four percent of NZEC customers were regionally located, and a further 25% were city-headquartered but sourced their goods or services from the regions. One example is Gisborne’s largest independent winery: GroCo. NZEC’s trade credit insurance enabled GroCo to establish a new trading relationship with a United States buyer, as well as to increase its sales to a Polish buyer.



Diversifying markets we trade with

NZEC’s services enable exporters to diversify into markets with confidence. Forty nine of the export destinations that NZEC underwrote were outside New Zealand’s top ten export markets and span the globe, including: Canada, Ethiopia, Italy, Vietnam, Kazakhstan, the Maldives, Nepal, Solomon Islands, Tonga, the United Arab Emirates, and Uruguay.

Enabling innovative and productive SMEs

NZEC services are often a critical enabler for SME exporters who may lack the profitability, turnover, or assets required in order to obtain private insurer or bank support. This year we have supported the market entry and growth of innovative high-value SME exporters including those in the ICT (e-commerce platforms), services (digital media advertising), and advanced manufacturing (super-conducting magnets, cyro-cooler units, and airport-boarding bridges) sectors.



Financing longer supply chains

As exporters’ supply chains have lengthened, so has the time between paying suppliers and being paid by overseas buyers. One example is that of Futura Trailers, an Auckland-based engineering SME. NZEC’s loan guarantee enabled its bank to double its working capital facility and enable Futura to keep pace with increasing sales in the United States at a time when its supply chain and payment cycle were being stretched.

‘Crowding in’ private sector support

Our support often results in an exporter growing its profitability, strengthening its balance sheet, and/or establishing a positive trading history with a buyer(s), to a point at which they move beyond the need for our support. NZEC’s involvement signals to private insurers and banks that these businesses may represent an acceptable risk, and results in a ‘crowding-in’ effect upon project completion or the expiry of NZEC’s guarantee. For example, during 2021/22 over 40 of NZEC short-term trade credit policies (issued during the height of the COVID-19 pandemic) expired and were replaced with private insurers’ cover.



3 Summary of performance for the year ended 30 June 2022

Supporting exporters' growth and diversification

During 2021/22, a total of NZD 238 million of new exposure was underwritten. NZEC's insurance and guarantees enabled 67 businesses to deliver NZD 611 million of goods and services into 59 countries.

Demand for our products is influenced by the capacity and appetite of trade credit insurers and banks to assume financial risks in support of exports. This year we met or exceeded all our annual forecasts, which remained at levels above our historical averages.

Key drivers behind these results included ongoing global economic uncertainties and new geopolitical risks. NZEC's partnership with commercial trade credit insurers and local brokers enabled many exporters to obtain sufficient credit insurance limits on their buyers, and have the confidence to grow their sales.

Longer supply chain and cashflow cycles also tested the financial resilience of businesses, particularly when faced with growth opportunities. Consequently, we received demand for our contract bond and loan guarantees at levels that were higher than in recent years.

There were also opportunities to support domestic businesses supplying integral goods and services to a New Zealand exporter, as part of our "domestic supply chain" mandate. Our contract bond guarantee supported the delivery of specialist equipment to an exporter by a New Zealand manufacturer, and two of our trade credit insurance policies covered domestic sales where the credit term matched the exporter's payment terms with its international buyers.

Table 1 – Key performance deliverables

OBJECTIVE	2020/21 (FULL YEAR)	2021/22 (FULL YEAR)	2021/22 FORECASTS
Number of policies issued	155	132	110-130
Value of export transactions supported (NZD million)	478	611	450-500
Number of exporter and domestic supply chain customers ¹	68	67	70-80
Number of export markets (countries) supported	60	59	50-60
Total new exposure underwritten (NZD million)	174	238	180-210
Total exposure repaid/expired (NZD million)	110	162	150

¹ An exporter customer is a business whose exports directly benefited from a policy during the last 12 months. A domestic supply chain customer is a New Zealand business that provides goods or services integral to the delivery of exports.

Figure 1 – Policies, exports, and exposure underwritten by product

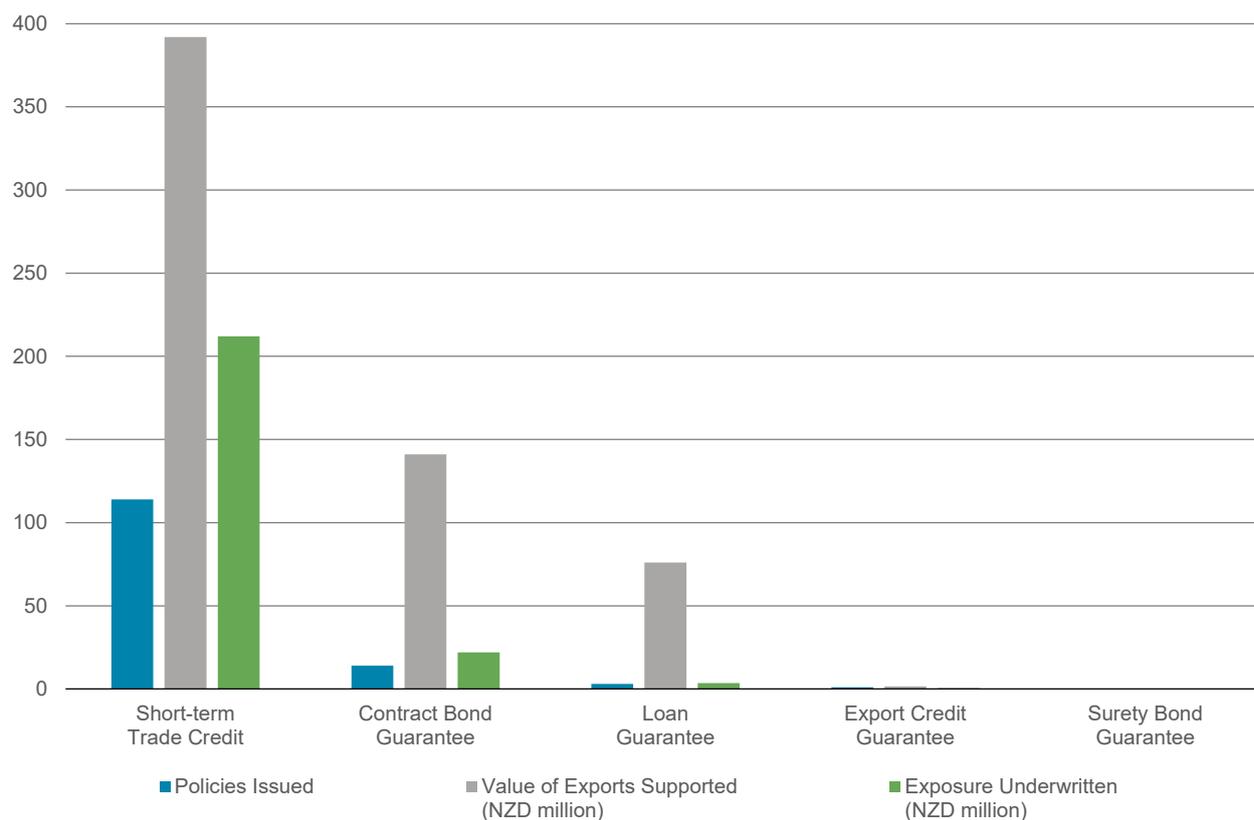


Table 2 – Policies, exports, and exposure underwritten by product

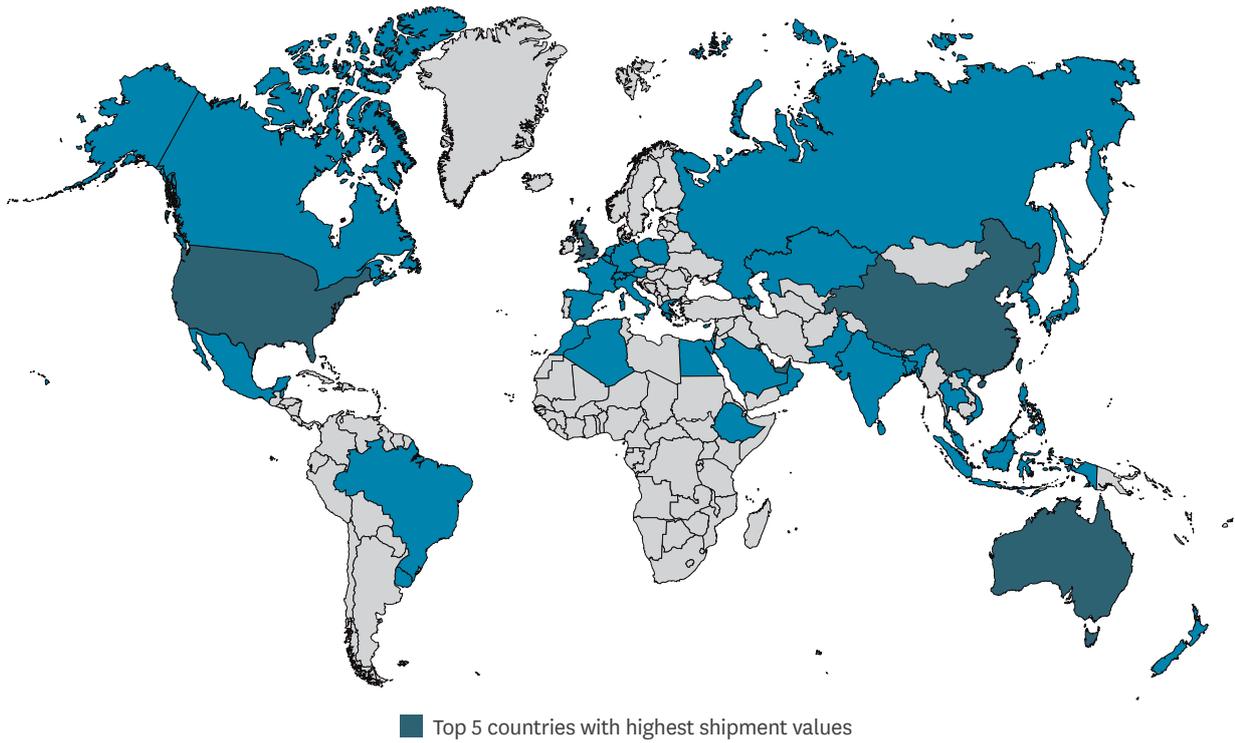
	SHORT-TERM TRADE CREDIT	CONTRACT BOND GUARANTEE	LOAN GUARANTEE	EXPORT CREDIT GUARANTEE	SURETY BOND GUARANTEE
Policies issued	114	14	3	1	0
Value of exports supported (NZD million)	392	141	76	2	0
Exposure underwritten (NZD million)	212	22	3.5	0.5	0

A range of other services provided by NZEC were not captured in our standard measures, such as assisting businesses to obtain private sector support that they may otherwise not have considered or obtained. This included referrals to private sector trade finance and working capital solutions, as well as discussions around medium-term planning for capital raising as an alternative to additional debt.

NZEC’s market experience, international networks, and due diligence, also highlighted risks that helped inform several exporters’ decisions on modifying their terms of payment and/or not exporting to a new market or buyer.

NZEC’s services facilitated both the maintenance and diversification of export markets, as represented in Figure 2 overleaf. While 60% of the total exports supported were to five of New Zealand’s largest export markets (China, Australia, the United Arab Emirates, United States and the United Kingdom), the remaining NZD 241 million worth of exports supported were spread across 54 other countries.

Figure 2 – Map of 59 export markets into which NZEC wrote trade during 2021/22



Panelists at a Supply Chain and Trade export seminar – David Kirk (BNZ), Phil Quinn (NZEC), Jason Reeves (BNZ), Anthony Griffin (Lynn River), Zara Mends (NCI), Adrian Gray (Aorangi Customs & Freight) and Brendon Tipping (BNZ).

4 Product profiles

Short-term Trade Credit Insurance

The Short-term Trade Credit product covers the risk of a foreign bank or buyer failing to make short-term credit payments due to political or commercial events. It provides confidence to an exporter, and may enable them to access trade finance from their bank.

Applications are only accepted from exporters that have been declined or referred by a private trade credit insurer. Our support is provided with the objective of helping an exporter to establish a positive trading history with a new buyer, or to grow their export turnover and number of insurable buyers. This, in turn, may result in private insurers stepping in to provide future cover.

During the year, we issued 114 policies that covered payment risks on international banks, corporate and public buyers. This provided New Zealand exporters with the confidence to diversify and sell a total value of NZD 392 million of goods and services into 36 countries spanning the globe – including Algeria, Israel, Kiribati, Korea, Oman, Poland, Singapore, and the United Arab Emirates.

This also included two policies insuring the domestic sales of New Zealand businesses who were selling on credit terms to New Zealand exporters, and whose goods were integral to the export of forestry and food products.

We have worked very closely with commercial trade credit insurers and brokers to assist their exporting customers, including via “top-up” coinsurance arrangements with each of the four trade credit insurers operating in New Zealand. This partnering approach was successful, with 71% of our Short-term Insurance policies being “top-up” arrangements.

Under each arrangement, NZEC provided exporters with an additional layer of trade credit insurance above the primary limit that their insurer was providing. NZEC administered a streamlined process, which involved following the underwriting of the insurer where the top-up limit was under NZD 1 million and did not exceed the primary insurer’s limit.

Our letter of credit guarantees were also effective solutions in circumstances where exporters sought a more secure payment structure and where New Zealand banks had limited credit capacity or a correspondent bank relationship. We covered banks in 13 countries across Asia, Middle East, Africa, and Europe.

Table 3 – Breakdown of NZEC’s short-term trade credit solutions

	POLICIES ISSUED	EXPOSURE UNDERWRITTEN (NZD MILLION)	VALUE OF EXPORTS SUPPORTED (NZD MILLION)	NUMBER OF EXPORTER CUSTOMERS
Direct trade credit insurance	22	13	43	12
“Top-up” coinsurance	55	65	208	18
Letters of credit guarantees	36	134	141	15
Pre-credit guarantee	1	0.2	0	1

Eagle Protect

Eagle Protect is a small-to-medium sized enterprise that designs and manufactures hygiene products such as gloves and gowns for food producers.

When a major US distributor told Eagle Protect it wanted to graduate from ordering pallets to ordering containers of its food-safety gloves, Chief Operating Officer Gareth Brooks' excitement was tempered with caution. *"If you've got big customers placing big orders in the uncertainty of a pandemic, the losses can be significant if sales and payments fall through."*

When Eagle Protect was unable to obtain single-buyer cover, NZEC was able to assist. Our trade credit insurance provided them with the confidence to offer credit terms, as well as gave confidence to their US bank to provide funding. This support has enabled Eagle Protect to be bold with their ambition and grow significantly into the United States market.



The Eagle Protect team attending 'Expo West' in California, USA.

Surety Bond Guarantee

A surety bond is a financial guarantee that provides assurance to a buyer that the contracted work will be performed and/or that any losses incurred due to a contractor's non-performance will be indemnified.

The Surety Bond Guarantee is provided to international surety bond providers, and is significant to enabling many New Zealand firms to bid for United States or Canadian federal or state-funded projects which require 100% surety bonds to guarantee the performance of the project. This is because most New Zealand firms are unlikely to be known by the offshore surety bond issuers, nor able to meet their minimum financial criteria.

To date, we have supported exporters with delivering telecommunication systems, airport baggage handling systems, information technology services and systems for water management and bus tracking, and stadium seat cleaning services. While there were no applications for this type of support this year, we anticipate supporting a surety-bonded project in a US-administered Pacific territory in the coming months.

Export Credit Guarantee

The Export Credit Guarantee covers credit or loans of greater than one year provided to foreign buyers of New Zealand capital goods and related services. It underwrites commercial and political risk events that result in the foreign buyer failing to make its repayments as they fall due.

During the year, we issued one guarantee to enable an exporter to secure a manufacturing contract – with an Asian tourist resort buyer. It covered one-year payment terms under a letter of credit structure, which mitigated the payment risks for the exporter, as well as providing working capital support.

General Contract Bond Guarantee

A contract bond is a financial guarantee that protects a buyer from losses in the event the contractor fails to meet its contractual obligations. The General Contract Bond Guarantee is provided to an exporter's bank, or specialist contract bond provider, to support the issuance of these bonds when the exporter has insufficient collateral to secure the bond in addition to their working capital facilities.

The number of General Contract Bond Guarantees provided doubled – from seven during 2020/21 to 14 during 2021/22. This increased demand reflected how New Zealand businesses were successfully re-engaging with international buyers and being awarded global projects.

Our support helped New Zealand firms to secure NZD 141 million of multi-year export projects into Australia, China, Italy, Vanuatu, the Marshall Islands, the Solomon Islands

and the United Arab Emirates. These projects covered a wide range of high-value goods and services, including specialised engineering systems for food processing and packaging, water and waste management, superconducting magnets, hydropower and electricity transmission.

We also supported our first 'domestic supply chain' project using our contract bond guarantee. It related to a specialist manufacturer who was providing equipment critical to improving the productivity of a food processing company that exports the majority of its goods. NZEC underwrote an advance payment bond that was required for several months until equipment delivery.

Our contract bond guarantee support often assists exporters of services, including software. One successful example of this is that of eStar, described in the case study below.

eStar

eStar had won the opportunity to design, build, and host a replacement eCommerce platform for a large Australasian department store. This opportunity, which covered a project period of 5 years, was the culmination of thorough due diligence by the retailer – but also came with significant obligations for eStar, and in particular required a Warranty Bond to be provided by their bank.

eStar's bank requested NZEC's support for this.

NZEC offered its Contract Bond Guarantee to allow them to provide the Warranty Bond to the retailer. eStar's Financial Controller Kelly Lord said, "*Having NZEC's guarantee meant we didn't have to tie up valuable working capital to secure the Warranty Bond*".

eStar has successfully completed this five-year contract, and has been invited to renew their contract for a further period with continued NZEC support.



Loan Guarantee

Our Loan Guarantee is provided to banks as security, to enable proven small-to-medium exporters to access additional loan facilities – so they can deliver on export contracts.

Compared to 2020/21, there were higher levels of loan guarantee enquiries from exporters facing growing sale opportunities as well as the challenge of requiring additional working capital to fund a longer supply chain and cashflow cycle.

The case study below of TRG Natural Pharmaceuticals is an example of how NZEC's Loan Guarantee provided a small business with the confidence and capacity to pursue a larger international project.

TRG Natural Pharmaceuticals

TRG Natural Pharmaceuticals (previously Honeylab) develops medical products using natural ingredients such as honey or kanuka oil. Currently, their focus is on dermatological medical conditions such as cold sores, rosacea, and eczema.

TRG had spent a considerable amount of time, money and resources, on developing their products and intellectual property. Before the pandemic hit, TRG signed their first licence deal with Taro Pharmaceuticals (which is listed on the New York Stock Exchange). The result of this was TRG moving from small online sales to a revenue of circa NZD 5.8 million.

While TRG had large export orders, there was a very long working capital cycle before they would be paid. TRG and its bank sought NZEC's support to guarantee a working capital loan, and our Loan Guarantee effectively became the bank's security for the lending required.

The working capital loan enabled TRG to order and pay for more materials and plan with improved confidence its production with its contract manufacturers.

CEO Anthony Lawler says, "None of this would have happened without the NZEC office. This is a real success story of a small New Zealand exporter scaling up, and is testament to the purpose and success that NZEC's services can deliver."



TRG Natural Pharmaceuticals was awarded the prestigious Exporter of the Year to USA (\$1 million to \$10 million) category at the annual awards of the American Chamber of Commerce in New Zealand.

5 Risk portfolio and financial summary

A core NZEC function is to assess, accept, and manage higher levels of commercial and political risk – to facilitate the success of New Zealand companies in international markets. This is focused on where market gaps exist, or where private sector capacity or risk appetite is limited.

Risk portfolio

As at 30 June 2022, NZEC’s risk portfolio, including committed offers, was valued at NZD 287.5 million. This represents a 39% utilisation of NZEC’s total prudential limit of NZD 740 million.

Despite a reduced number of policies outstanding at year end (relative to 30 June 2021), and having NZD 161.8 million of exposure repaid or expired, there was a NZD 87 million net annual increase in total contingent liabilities (see Figure 3). This increase was driven by larger short-term, letter of credit facilities being issued on investment grade banks across Asia.

An important function of NZEC is to facilitate the ‘crowding-in’ of the private sector by actively demonstrating the creditworthiness of a foreign buyer and/or enhancing the performance and profitability of an exporter. The lower number of outstanding policies and committed offers at year end (134 compared to 161 at 30 June 2021) reflects how there were more examples of insurers replacing NZEC’s policies with new or increased insurance facilities.

NZEC’s high percentage of trade credit insurance policies results in a relatively short-term risk maturity profile, with 78% of our current portfolio scheduled to expire over the next 12 months (see Figure 4).

The credit risk profile of our portfolio improved over the year, from a median risk grade of B+ to BB- (see Figure 5). Forty-five percent of our total exposure is now on investment grade obligors, primarily foreign banks. The obligors with ratings between BB+ to B- are small-to-medium sized enterprises or entities located in emerging markets.

Country risk exposures are spread across 35 countries, with the five largest exposures shown in Figure 6. The New Zealand country risk recognises those New Zealand businesses whose performance NZEC underwrites via its Loan and General Contract Bond Guarantees – as well as via its domestic trade credit insurance in support of suppliers integral to an exporter’s supply chain.

Figure 3 – Contingent liabilities and outstanding offers (movements during the year, to 30 June 2022)

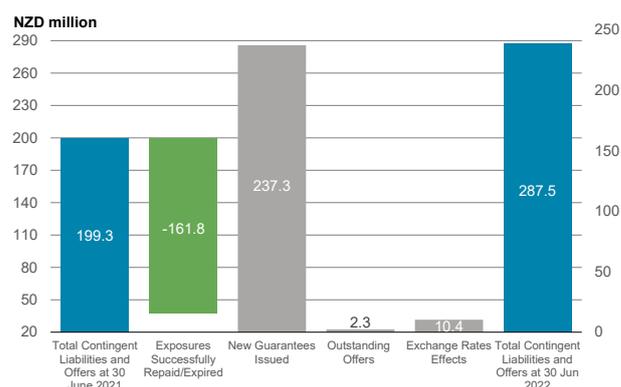


Figure 4 – Outstanding exposure maturity profile, by NZEC product

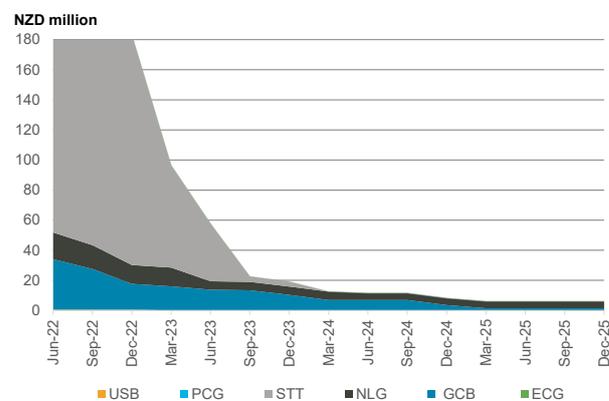


Figure 5 – Credit risk profile of NZEC’s risk portfolio as at 30 June 2022

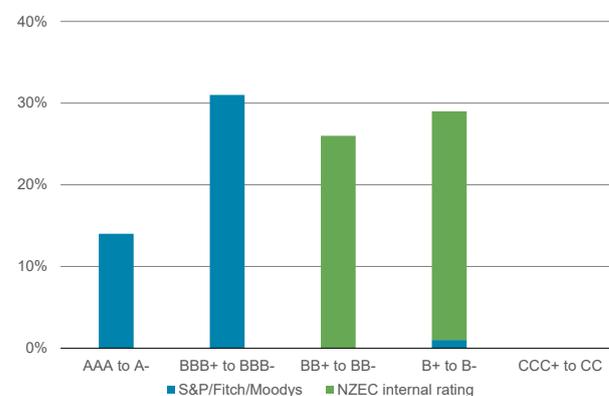
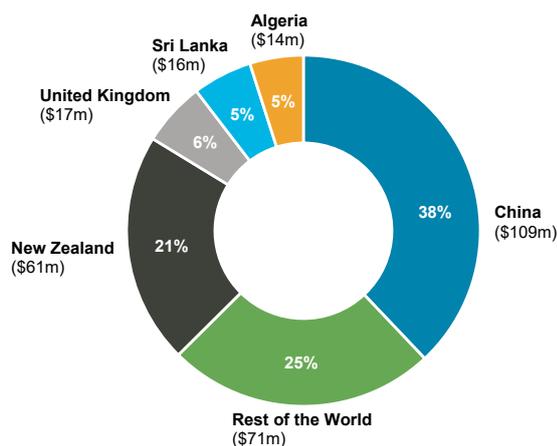


Figure 6 – Country risk concentrations (NZD)



The exposure distribution by the industry sector of the risk counterparty is:



Financial services is the largest sector, accounting for 54% of counterparty exposure. This sector exposure increased over the year, as demand increased for NZEC’s coverage of letters of credit issued by foreign banks.



Food and beverage retailers is the second largest sector, accounting for 12% of our counterparty exposure. This exposure represents our Loan Guarantee support for food and beverage exporters, and Short-term Trade Credit cover on international food and beverage distributors and retailers.



Sovereign and sub-sovereign is the third largest sector, accounting for 6% of our counterparty exposure, and primarily representing finance ministries and state-owned enterprises.

The remaining counterparty sectors are widely dispersed across a range of other industries – including manufacturing, ICT, wood processing, and textile. These sectoral concentrations are mitigated by being dispersed across a range of geographies and counterparties.

One option to balance future risk concentrations is through facultative (single risk) reinsurance with other export credit agencies and multilateral insurers. While no reinsurance is currently taken, it remains an option – as a means of both assisting New Zealand exporters to access larger contracts and helping with managing our risk concentrations prudently.

Risk management framework

NZEC’s core function includes assessing risks and issuing guarantees, monitoring outstanding exposures, and paying and recovering claims that arise. Foreign buyer repayments and New Zealand exporter performance are monitored on a monthly basis – and all policies with payment delays (beyond 10 working days) or adverse performance are actively managed. These processes are designed to manage risk to a reasonable level, rather than to eliminate all risk of losses.

Examples include taking swift action at the beginning of March 2022 to go ‘off cover’ for any future export enquiries for Russia and Belarus, as well as expiring our one existing trade credit insurance policy on a Russian buyer. In April 2022 we also suspended cover on Sri Lankan obligors in light of foreign currency shortages and sovereign payment default.

All policies are also reviewed quarterly, and premiums are reviewed in the context of potential future claims and the adequacy of premium rates applied to those policies.

Table 4 records our expected and unexpected loss calculated for our risk portfolio.

As a division within the Treasury’s Capital Markets directorate, our ‘second line of defence’ function was performed by the Capital Markets Risk team. In addition to this, the Capital Markets Advisory Committee provided risk assurance, monitoring, and advice to the Treasury’s Deputy Secretary Financial and Commercial – in relation to NZEC’s strategy, operations, and performance. During 2021/22, this Committee met on a quarterly basis.

Table 4 – Expected and unexpected loss on NZEC risk portfolio (NZD million)

MEASURE	AS AT 30 JUNE 2021	AS AT 30 JUNE 2022
Value at Risk (Expected Loss) on risk portfolio	4.6	3.1
Value at Risk (Unexpected Loss) ² on risk portfolio	12.1	14

As part of our strategic priority of strengthening our credit and risk management, during the year we developed a new actuarially based, pricing model which applied up-to-date corporate default data, as well as NZEC’s historical operating costs, historical revenue and portfolio mix, claims payments and loss given default ratios. These improvements will better enable NZEC to calibrate and apply premiums which cover its operating costs and expected losses over the longer term.

² NZEC applies a 99.5% (or 1 in 200 year) confidence level in calculating its Unexpected Loss.

Financial summary

NZEC follows the OECD Arrangement on export credits and pricing, as well as its own Crown-mandated criteria and prudential limits. Our objective is to cover all operating costs, and claims, from premiums and fees. Typical, however, of an export credit agency that underwrites risks on countries, markets, and businesses with which political stability and commercial success are uncertain, this full cost-recovery objective is measured with a longer-term perspective.

The financial performance for the full year is summarised in Table 5.

While the total number of policies issued declined from the previous year our annual operating income, operating expenses and net operating profit remained comparable to our 2020/21 results.

No claims were received or paid during the year. There was one default under an export credit guarantee, for which NZEC fully provisioned for. Otherwise there were only a few examples of NZEC policyholders experiencing delayed performance and payments – this was typically due to either supply chain constraints or delayed payments that are cascaded through to the New Zealand exporter.

As at 30 June 2022, NZEC reported a total provision of NZD 5.62 million. This includes a NZD 2.0 million ‘special COVID-19 provision’ to account for future claims arising from adverse impacts on businesses’ operations and financials that were not apparent to NZEC at the time of its credit rating and policy issuance. This acknowledges that heightened commercial and political uncertainties will remain over the next 12 months.

As a result of our increased provisioning, NZEC recorded an annual loss of NZD 330,000, which is an improved result from 2020/21.

This summarised result does not record future revenue arising from:

- > an Unearned Premium Reserve of NZD 760,000 (which is for premium already received, but not yet accounted as ‘earned’), nor
- > accounts receivables of NZD 530,000 (which is an estimate of future premium from current policies where premiums are invoiced through the life of the policy).

Table 5 – Key financial results (NZD million)

	2020/21 (FULL YEAR)	2021/22 (FULL YEAR)
Operating income (earned premium and fees received)	2.25	2.17
Operating expenses	(2.04)	(2.03)
Net operating profit (loss) – before provisions, claims, and recoveries	0.21	0.14
Claims expenses	(1.88)	0
Recoveries	0	0
Changes in credit provisions	(1.59)	(0.47)
Net profit (loss) ³	(3.25)	(0.33)

³ Before any notional interest earned or paid on NZEC’s notional Cash Balance.

6 Building awareness, education, and collaboration

Alongside building awareness of solutions (both private and via NZEC) that can support exporters' aspirations, an important objective for NZEC is to educate businesses on the financial challenges and risks of international trade.

One of our 2021/22 strategic priorities was strengthening our private and public stakeholder networks – in order to broaden our reach to businesses that could benefit from NZEC's experience and services.

Building this awareness and understanding takes place through various stakeholder 'channels' (including trade credit insurers and brokers, banks, regional economic development agencies, industry groups, and government export-promotion agencies), as well as through direct engagements with exporters.

This year, we conducted 261 external engagements – including 20 presentations to external groups (including webinars).

The majority of our exporter seminars were in collaboration with other export-promotion agencies, both public and private (see Table 6).

In recognition of the increased demand for trade credit insurance, we focused on our collaboration with specialist insurers and brokers. This included strategic engagements with these industry representatives, to obtain feedback on our updated streamlined processes for trade credit insurance assessments.

Table 6 – Education seminars delivered during 2021/22

OBJECTIVE	2020/21 ACTUAL	2021/22 ACTUAL
Number of NZEC presentations at exporter events	9	9
Number of NZEC presentations to NZ bank staff	7	5
Number of NZEC presentations to export-facing agencies (government and industry)	6	6



Chris Chapman (NZEC) presenting alongside government agencies and businesses at a regional manufacturer's summit in Dunedin.



Thomas Sheng (NZEC) with Jay Changlani from the India New Zealand Business Council.

NZEC’s range of services and expertise complement other government programmes to build the capabilities, international networks and sales of New Zealand exporters. We collaborated with other ‘NZ Inc’ government agencies to provide more coordinated support for exporters. This included participating on government panels at export business events.

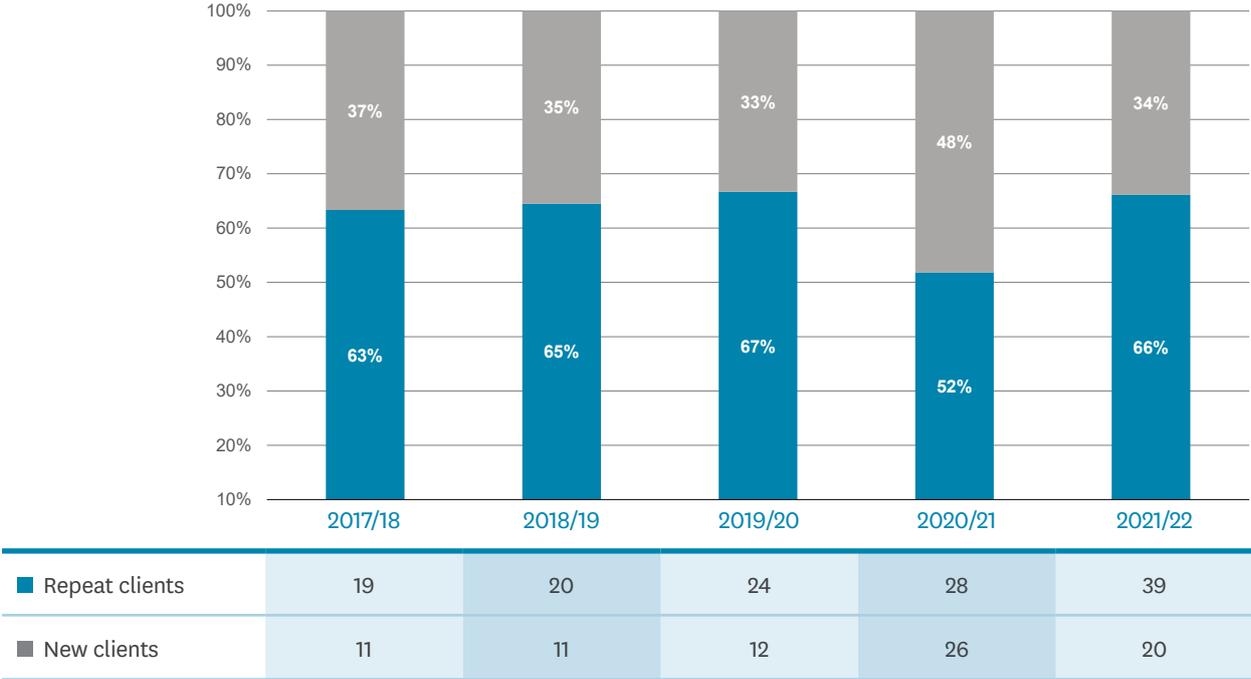
New Zealand Trade and Enterprise (NZTE) is New Zealand’s economic development and trade promotion agency, and a close partner of NZEC. NZEC staff are integrated into one of NZTE’s funding programmes, offering trade finance and commercial credit expertise to both the exporter applicants and NZTE staff. We share market insights across our agencies, and often have joint engagements with services for our shared exporting customers.

One measure of the effectiveness of our engagements, educational activities, and NZ Inc collaboration, is the number of businesses we support for the first time. This year, 34% of NZEC’s policyholders were first-time users of NZEC services.

These businesses operated in the healthcare, forestry, food and beverage, and advanced manufacturing sectors.

Not all exporter enquiries, however, result in approved policies. Another important service of NZEC is undertaking due diligence on international buyers and sharing our market knowledge and experience. This may at times result in NZEC declining to provide support – as a result of adverse market or financial information of which the exporter may have otherwise not been aware. During this year, there were several examples of where NZEC’s feedback prompted an exporter to reconsider its market channel and/or payment terms. Whilst this due diligence is unable to be measured tangibly (ie, it doesn’t result in a policy), it is recognised as being a valuable service for exporters.

Figure 7 – New and repeat NZEC policyholders



7 Customers

This year we began implementing a new strategy to be more ambitious in supporting a wider range of exporters and their integral domestic suppliers, with a focus on small-to-medium enterprises (SMEs).

Historically we have predominately supported SMEs, often to assist them to enter new trading relationships with confidence, and to access additional finance to scale their growth or complete a large project. We have also supported larger New Zealand exporters to obtain additional bonding capacity in order to deliver multiple projects or receive ‘top-up’ trade credit insurance cover limits and letter of credit guarantees (see Figure 8).

Our customers also represent a diverse range of sectors. By way of example, businesses that received support from NZEC for the first time this year operate in the honey, wine, chocolates, forestry, and advanced manufacturing sectors.

The full sector breakdown of the NZD 611 million of exports supported by NZEC is at Figure 9. The share of food and beverage exports supported was circa 31% of our total result. There was an increase in primary sector exports (agriculture, forestry, and fisheries) – reflecting the demand for trade credit insurance and NZEC’s guarantees for letter of credit payments, often in support of larger exporters. There was also a year-on-year increase in high-technology manufacturing, which related to NZEC’s loan and contract bond guarantee support of international projects.

The economic benefits arising from exports reach across New Zealand and help build more productive, skilled, and inclusive communities. Over one-third of NZEC’s customers were regionally located, and a further 25% were city-headquartered but sourced their goods or services from the regions. The annual reduction in regional businesses supported may be partially the result of the NZEC team’s limited ability (because of the impact of COVID-19 restrictions) to travel to the regions over the last 18 months.

Figure 8 – NZEC lifetime of customers by annual turnover

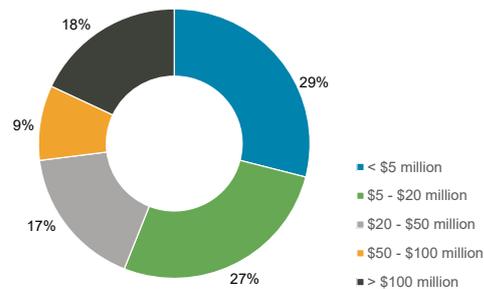


Figure 9 – Sectors (by export contract value in NZD) supported

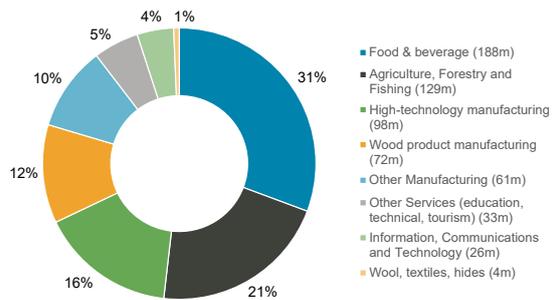
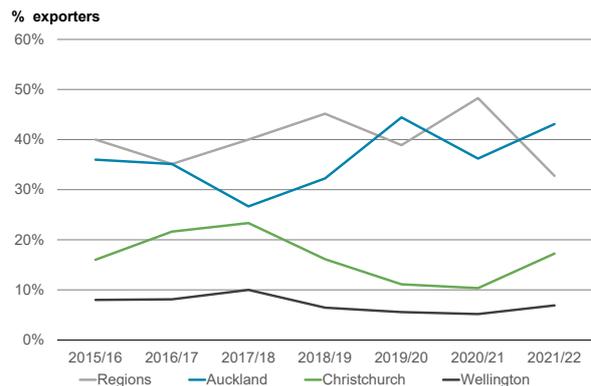


Figure 10 – Percentage of regional exporters supported



Strategic plan to support wider range of businesses

This year we obtained Ministerial approval to be more ambitious in supporting a wider range of exporters and their integral domestic suppliers by adjusting our risk tolerance and processes to provide additional capacity to the private sector.

A two-year strategic plan was prepared with a range of activities focused on helping exporters diversify their international markets and strengthen their financial resilience to fund growth. These new activities are to be aligned with the Government's economic plan and, where possible, its sector priorities.

In response to market feedback, our first strategic priority was to streamline the assessment process for our Short-term Trade Credit Insurance product, with an objective of supporting a higher number of SMEs that are exporting for the first time, entering a new market and/or establishing a new buyer relationship.

Often private insurers cannot support these exporters because their insurance turnover and number of buyers do not meet their minimum insurable criteria. Previously,

we had also struggled to provide our support because we required receipt of a buyer's financials as a condition of our application process.

Under our streamlined process, NZEC can now approve cover on credit exposures up to NZD 500,000 based solely on the receipt of a satisfactory credit report (in lieu of receiving the buyer's financials). To further encourage the use of trade credit insurance by SMEs, we have waived the application fee for exporters with a turnover of less than NZD 30 million.

These changes are designed to support New Zealand's economic recovery and enable exporters to diversify into new markets with the confidence that they are protected if their buyer doesn't pay.

In the long term, these changes may facilitate increased use of trade credit insurance by SMEs. A success metric will be exporters transitioning from NZEC's insurance to the private sector, after they have established a trading history with a buyer(s) and grown their sales to a point where it is viable for the private insurers to step in and replace our support.



Ray Rawlings (Fresco NZ LTD) and Thomas Sheng (NZEC).



Left to right: Miles Fleming (ASB), Amanda Liddle (Export NZ) and Michael Hoare (NZEC).

8 International connections

International connections help identify and facilitate export opportunities for exporters, while also enhancing the quality of risk assessments and potential reinsurance opportunities.

We maintained our connections with the offshore teams of NZTE and MFAT. They provided helpful in-market information, including on how geopolitical events, global inflationary trends and continuing supply chain challenges were impacting both import and export trade and payment cycles for our businesses.

Relationships with other export credit agencies (ECAs) and the Berne Union Association are important for sharing market information, case studies, comparisons of operational processes, and new product developments (particularly for SME exporters).

NZEC has a formal services arrangement with Sweden's export credit agency (Export Kredit Namnden – EKN), a valued resource for assessing country and foreign bank risk.

We were very pleased to enter into a cooperation agreement with our United Arab Emirates counterpart, Etihad Credit Insurance (ECI). This formalised the relationship between NZEC and ECI, and outlined a range of information sharing, training and wider cooperation measures with the objective of facilitating further trade between our countries.

During the year, New Zealand supported an OECD consensus for additional restrictions on official export financing support for coal-based power production. We also recognise the potential for export credit solutions to support the financing of climate friendly projects, technologies and services, and will be closely monitoring the solutions of other ECAs to help inform our current solutions and processes.



Signing the Memorandum of Arrangement is Ambassador Matthew Hawkins (on behalf of NZEC) and Massimo Falcioni, CEO of ECI, in the presence of Honourable Damien O'Connor, New Zealand Minister for Trade and Export Growth and His Excellency Dr. Thani Al Zeyoudi, UAE Minister of State for Foreign Trade.

9 A notable achievement

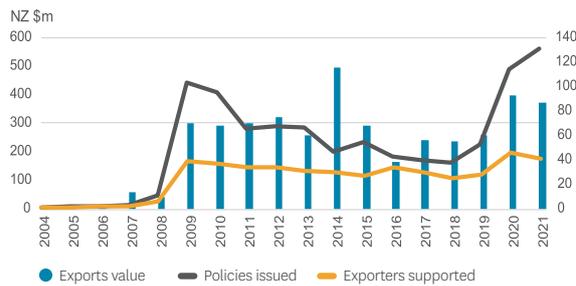
A notable achievement this year has been reaching the milestone of directly supporting **NZD 4 billion** of export transactions – since our first policy was issued in 2004.

Our solutions have provided New Zealand businesses with the confidence and capacity to sell their goods and services into over 110 international markets, with the resulting economic benefits summarised below:

Since its establishment in 2001, New Zealand Export Credit (NZEK) has supported more than \$4 billion to 220 businesses who have exported into 110 international markets. It has done this by providing 935 individual tailored trade credit insurance policies and financial guarantees, backed by the New Zealand Government.

This has supported exporters to sell with confidence and remain resilient through uncertain economic times such as the GFC of 2008 and the tightening credit and insurance conditions resulting from COVID-19. NZEK continues to adapt and grow, responding to the needs of our growing export businesses.

Resilience through economic cycles



Selling with confidence

NZEK has supported exporting business to sell with confidence by issuing over **935** policies to **110** foreign markets

Providing resilience during COVID-19

NZEK responded to the effects of COVID-19 by writing **239** policies covering **\$702m** total shipment value

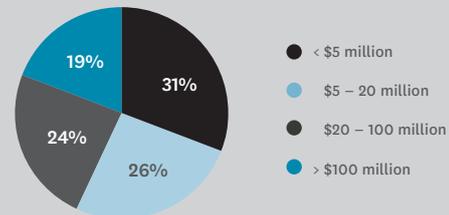
Supporting Māori business

Over **\$180m** of exports by Māori business supported

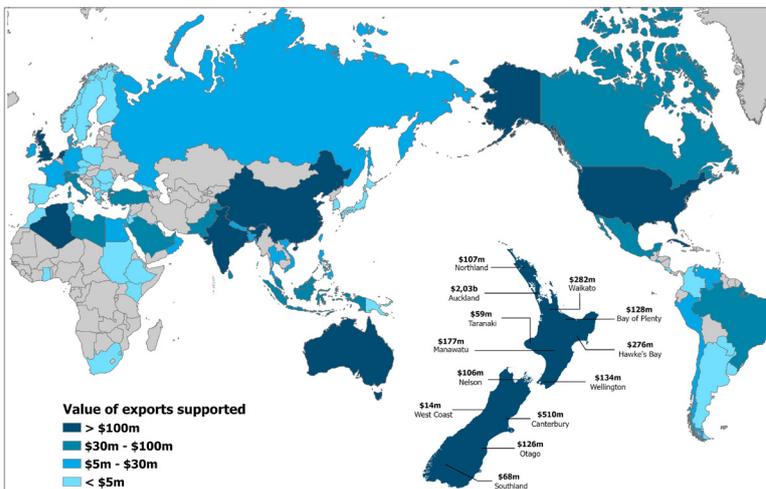
Partnership with private sector



Supporting SMEs – Annual turnover of exporters



Supporting more than 220 New Zealand businesses to diversify around the world



Promoting higher value exports



10 The year ahead

We are focused on improving and applying our range of services and expertise to provide confidence and resilience to exporters – to further support an export-led recovery.

Our priority is to deliver our core responsibilities in educating and responding to business' enquiries, diligently performing credit assessments and policy execution, and the monitoring, reporting and management of policies, claims and recoveries.

We forecast an increase in utilisation of our Short-term Trade Credit Insurance as a result of our new streamlined assessment process for SMEs, in addition to continuing demand for our coinsurance, top-up cover and letter of credit guarantees. High inflationary pressures and recessionary risks may result in increased insolvencies and related claims over the coming year, and we expect that insurers will maintain a cautious approach to underwriting new business, higher-risk markets, and small single-risk limits.

We forecast higher demand for our Loan Guarantee and Contract Bond Guarantees from businesses who are unable to obtain increased credit limits from their bank for export-related working capital, or to secure project-specific performance bonds.

We also plan to incrementally implement improvements to our services and processes in line with our strategic plan to reach and support a wider range of businesses. These include:

- > continuing to improve the integration and alignment of our services with other NZ Inc agencies (including NZTE and Callaghan Innovation)
- > developing a streamlined due diligence process for our Loan Guarantee for specific sectors or lending scenarios
- > minimising operational risks and improving customer service through improvements to our digital platforms
- > implementing an updated short-term trade credit insurance policy, with improved 'plain English language' and consistency with the policy terms applied by the private sector, and
- > supporting New Zealand's international trade relationships through formal co-operation agreements with other countries' export credit agencies.

We look forward to another productive year – and to further success, measured through the delivery of NZEC services and expertise that continue to provide confidence and resilience to businesses in support of an export-led recovery for New Zealand.



Peter Leslie (HSBC), Peter Rowe (NZEC), Vineet Arya (HSBC), Dougal Wylie (HSBC) and Thomas Sheng (NZEC).

