Letter of Credit Guarantee

– insurance against risks in confirming a letter of credit

Risks covered

The bank confirming a letter of credit may choose whether it uses the guarantee to cover commercial risks, political risks or both.

Commercial risks

The commercial risks materialise when the confirming bank, at the latest on the due date, has not received payment of outstanding receivables that have fallen due in accordance with the terms of the letter of credit, and the delay is attributable to the issuing bank.

Political risks

Political risks are caused by the issuing bank's country. These risks are beyond the control of the parties to the letter of credit. Political risks include restrictions on transfer of currency, rescheduling of debts, war or insurrection, or the confiscation of goods in the issuing bank's country.

Guarantee coverage

Normal coverage scheme

In the normal coverage scheme, the coverage for commercial risks is generally 95%, in which case the bank's self-risk portion is 5%. The coverage for political risks is maximum 100%.

Risk-sharing scheme

In the risk-sharing scheme, the maximum coverage for commercial and political risks is 50%. The bank must cover a self-risk portion determined by Finnvera, which is at least 15%. The bank may share the rest of the risk with other risk-takers.

- Two Letter of Credit Guarantee schemes are available for the bank: normal coverage scheme and the risk-sharing scheme.

A Letter of Credit Guarantee protects a confirming bank against commercial and/or political risks associated with a confirmed letter of credit.

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Conditions for granting the guarantee

The letter of credit must be irrevocable and subject to the Uniform Customs and Practice for Documentary Credits confirmed by the International Chamber of Commerce and valid at any single time. A Letter of Credit Guarantee is also available when the letter of credit is confirmed without the issuing bank's authorisation or request.

Guarantee costs

In the normal coverage scheme, the premium is determined separately in each case. It depends on the creditworthiness of the issuing bank and the issuing bank's country, as well as on the validity and payment terms of the letter of credit.

In the risk-sharing scheme, the premium is based directly on a fee (or fees) that the bank charges for confirming a letter of credit and that is acceptable to Finnvera. In addition to the premium, a handling fee is charged in both guarantee alternatives.

Application for a guarantee

The application for a guarantee may be filed by a Finnish or foreign bank that confirms a letter of credit issued for a Finnish exporter.

For further information, please contact the Export Credit Guarantees Unit.

- Application forms can be downloaded from Finnvera's website www.finnvera.fi.
- Telephone Service 029 460 2582 – advice on financing and on how to fill in applications.

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