



# Adviser

## Trade credit insurance update



### Summary

The trade credit insurance market is rapidly changing, but corporate credit transactions totalling hundreds of billions of pounds are still being written.

The major trade credit insurers view risks differently, with some reducing their exposure levels in certain industry sectors or geographies, but others limiting their actions to focused reviews of limits for some clients.

As the economy worsens, trade credit claims are increasing, but are generally still being paid quickly once full information has been provided.

It is now very important to provide detailed financial information to underwriters in the form they require, in order to maximise coverage for trade debtor books.

Some suppliers are refusing to supply to customers if they cannot obtain credit insurance on them, so businesses also need to focus on maximising their own profile with their suppliers' trade credit insurers.

Marsh's experienced and award-winning trade credit team can help you achieve the best possible results in the trade credit market. Call 0207 357 2782 or email: [tradecredit@marsh.com](mailto:tradecredit@marsh.com)

Trade credit insurance and risk management plays a crucial role in the current economic climate – both in terms of protecting against the increasing risk of bad debts and in retaining the confidence of an organisations' financial backers and suppliers. The insurance solutions also support existing overdraft facilities and can assist negotiation of additional funding through financial institutions.

The trade credit market place is fast moving. This document, produced by Marsh's dedicated and award-winning Trade Credit Practice, summarises the current position and the actions businesses can take to enhance their position with the trade credit insurance market.

### The background

The UK's Insolvency Service states that in the last three months of 2008 there were 2,428 corporate insolvencies – a 220% rise on the same period the year before.

Corporate liquidations, the end stage of the insolvency process, also rose strongly, with 4,607 firms being wound up in England & Wales in the last three months of 2008, 52% more than a year before.

Claims statistics from all trade credit insurers show an increasing trend. These differ from insurer to insurer, but range between 20% and 30%.

From a Marsh Trade Credit team perspective, our experience of UK client claims show increases of 12.5% from 2006 to 2007 and 14% for 2007 to 2008.

We also monitor individual losses above £100,000 for UK clients. There have been eight losses so far this year above that figure, totalling £5.6m.

The economic climate is still worsening, and it is unlikely there will be any positive news on bad debt losses through the first quarter of 2009.



## The insurance market position

A large volume of corporate credit trade transactions are still being underwritten by the insurance market. However, against the background of increasing losses, trade credit insurers are focusing on how they allocate and use their capacity and the levels of exposure they retain.

The major insurers each view risks differently. We are aware of some who have reduced their limit exposures globally. This is not a uniform reduction, but based on the changing global economy, their loss ratio in each market, and client utilisation of their limits.

At the other end of the scale, however, one underwriter has not carried out any unilateral cancellations of cover or trade sector reviews, limiting themselves to focused reviews of some credit limits.

As can be seen from these examples, the position varies from one underwriter to another and is fluid. Marsh's trade credit team has access to, and dialogue with, the entire trade credit insurance market. We monitor insurer attitudes and requirements on a daily basis, so we can provide our clients with accurate information and the maximum opportunity to obtain cover. We are working extensively with underwriters to expand market capacity where possible.

We are also helping clients to expand the range of insurance options they consider – there may be a need to be more flexible about the amount and type of cover purchased. A range of cover options remain available, including whole turnover, cover for top customers only, catastrophe cover and use of captives and group schemes. We will be pleased to discuss and advise on options available.

Marsh has also launched a specialised SME product specifically to support this area of British business.

## Suppliers are focusing on trade credit insurance

It is becoming critical for businesses to retain the confidence of their suppliers' trade credit insurers. Increasingly suppliers – often as a requirement of their banking facilities - will refuse to provide goods or services if they cannot obtain insurance on their customers.

It can be necessary for a business to provide detailed information to their suppliers' insurers, or even to attend face to face meetings with them.

Marsh has experts who can help you achieve the best possible profile with these key trade credit stakeholders. Our team can help businesses understand and provide the detailed individual financial information and profit forecasts in a format that underwriters require. Marsh have access to the entire global trade credit insurance market and have some recent success accessing additional underwriters and capacity to fulfil the needs of suppliers.

## The claims position

Marsh has a specialist trade credit claims team. Our experience indicates it is reasonable to expect relatively straightforward claims to be settled within 60 days of submission to an underwriter. The majority of large claims are also being paid, as highlighted in the summary table below.

All insurers are showing signs of scrutinising claims more closely and becoming more reluctant to agree commercial gestures, although we continue to obtain some commercial settlements.

Our trade credit team can help clients to understand and submit the documentation required to enable prompt claims settlement and to negotiate with underwriters as required. We can also advise on specific issues that may arise as a result of a bad debt, including support and discussion with administrators.

## Summary of Marsh's Trade Credit Practice claims experience for claims exceeding £100,000 for 2008 year (extracted at January 2009)

The table below demonstrates a healthy claims picture, with the majority of claims being paid.

Numbers	Outcome	Amount £
87	Claims submitted	24,098,453
5	Collected	870,645
5	Collection ongoing	1,327,109
3	Withdrawn	846,622
14	Outstanding	<b>5,821,618</b>
60	Payable claims*	<b>15,232,457</b>

### Assumptions:

- Gross debt less VAT
- indemnity at 90%

\* Figure could be less if applied any credit limit restriction written by insurer

## Trade credit risk management

As insurance cover becomes more challenging and costly to obtain, it is wise for businesses to increase their focus on management of their trade credit risk.

Marsh can help clients to review their credit risks, credit control policies and procedures and risk mitigation processes. Our aim is to identify strengths and weaknesses within the credit risk management processes and propose improvements that lead to reduced days of sales outstanding (DSO), increase cash flow and mitigate credit risks.

## The Marsh trade credit helpline

In response to the real and continuing concerns of businesses, Marsh has launched a Trade Credit helpline, which is available to any client or future client to address issues related to trade credit risk. Our team of experienced trade credit professionals can offer practical considered counsel that supports and guides businesses in these extraordinary times.

Marsh was voted 'Best Insurance Broker' in the Trade Finance Magazine Awards for Excellence in 2006, 2007 and 2008.

**For information and assistance please call 0207 357 2782 (available between 8am and 6pm weekdays excluding bank holidays) or email: [tradecredit@marsh.com](mailto:tradecredit@marsh.com)**

The information contained in this publication provides only a general overview of subjects covered, is not intended to be taken as advice regarding any individual situation and should not be relied upon as such. Insureds should consult their insurance and legal advisors regarding specific coverage issues.

Statements concerning legal matters should be understood to be general observations based solely on our experience as insurance brokers and risk consultants and should not be relied upon as legal advice, which we are not authorised to provide. All such matters should be reviewed with the client's own qualified legal advisors in these areas.

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