

## Trade Credit Insurance – briefing note

### Background

Trade credit insurance covers businesses against the risk of bad debt due to the insolvency or protracted default of their buyers. Credit insurance was perhaps more widely recognised in the context of its application to export businesses, but it also covers thousands of businesses who trade within the UK, such as suppliers of goods to the retail sector.

In the current economic climate the ability of suppliers to obtain insurance either at all, or at a sensible price, has worsened.

Claims on existing trade credit insurance have increased very significantly over the same time 12 months ago.

Without adequate insurance in place, suppliers are looking to impose shorter credit terms on their customers.

Retailers and some commentators have criticised the credit insurers over the reduction in cover at the very time it is needed most.

Latest Association of British Insurers (ABI) figures show that in Quarter 4 2008, the number of trade credit insurance claims rose to 8,366, up from 5,540 in Quarter 4 2007 – an increase of 51%. The value of claims incurred in 2008 was £360m, up from £257m in 2007. Meanwhile, the total value of turnover insured increased to £302.5bn in 2008, up from £282bn in 2007.

### Recent announcements

#### 1. ABI Statement of Principles on Trade Credit Insurance

In April the ABI published a new “Statement of Principles on Trade Credit Insurance” which sets out how trade credit insurers operate and what their clients (i.e. the suppliers) can expect from them. The Statement of Principles includes:

- An overview of how risk assessment decisions are made.
- A commitment to provide, on request, reasons for a decision to stop or substantially reduce credit insurance cover, and to swiftly resolve appeals against decisions.
- A commitment to work with banks and companies to maximise the potential for UK companies to continue to trade as viable businesses.

The ABI has also published *Advice to Businesses* on trade credit insurance, which explains what information insurers expect from their clients and the companies they are trading with, an especially important factor when trading conditions are difficult.

Nick Starling, the ABI's Director of General Insurance and Health, said:

"Both the *Statement of Principles* and *Advice to Businesses* are essential to help correct widespread misunderstandings about trade credit insurance. They reaffirm the important role that insurers have in supporting businesses, especially small and medium-sized enterprises, during these turbulent economic times. Through their risk management processes, trade credit insurers help protect SMEs by warning them of major weaknesses in the companies they supply and by protecting them against unexpected losses.

"The latest rise in trade credit insurance claims, and the value of turnover covered, shows that insurers are playing a crucial role and continue to help their customers through the recession."

#### 2. Government assistance

The Chancellor recently announced the establishment of a £5 billion Trade Credit Insurance (TCI) top-up scheme which enables businesses with certain types of trade credit insurance, that have seen a reduction in the value of their cover to a specific UK buyer, to purchase

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additional insurance to sit on top of the existing credit insurance policy and follow the conditions of that underlying policy.

This scheme will benefit businesses whose cover was reduced on, or after, 1 April 2009 and is administered on behalf of government by credit insurance providers.

Credit insurers participating in the government scheme adhere to the statement of principles published by the ABI.