Willis Towers Watson

Are Trade Credit insurers still open for business?

Prior to March 2020, pricing for trade credit insurance was historically low, capacity was high and policy structures were extremely flexible, following a decade of softening terms and rates driven by strong economic growth, low insolvency rates and increased capacity.

Following the widespread Covid-19 outbreak (and subsequent lockdowns), underwriting appetites, structures and pricing changed dramatically, as global economies entered abrupt recessions which immediately impacted the credit insurance market.

Insurer Reactions

The traditional "whole-turnover" (cancellable limit) insurers were the first to act as they can withdraw individual credit limits due to an increase in perceived risk. Insurers took different approaches depending on the sector, but all focused on communication with their clients as well as monitoring actual utilization and real cover needs.

The potential impact of sudden withdrawal of cover across the supply chain led to insurers and host governments discussing reinsurance support. The aim of the support was to enable insurers to maintain adequate levels of cover to allow businesses to continue to trade on credit terms during these exceptional times. Most EU governments responded positively agreeing various stop loss or reinsurance structures to backstop the insurers. Buyers of credit insurance whose financial performance prior to lockdown was already deteriorating would still be subject to normal risk assessment and cover reductions.

Communication was key here and wide-scale cover cancellations did not happen.

Insurers worked with their clients to reduce limit levels and avoid excess cancellations, allowing the client to maintain appropriate trading levels. For companies entering the pandemic already in financial difficulty, insurers still reduced credit cover as the probability of default became too high.

While these actions created challenges for our clients, the blow was softened by working partnerships between insurers and Insureds, aided by "Delayed Effect of Limit Cancellation" clauses found within many existing whole-turnover policies.

As the business model for Excess of loss (non-cancellable) insurers is to reinsure companies with good credit management, working in partnership to support best practice, they were able to rely on insureds to take appropriate loss minimization action, managed by regular communication.

Renewals

At renewal, particularly where government support was not available, and in addition to taking the above actions, we saw insurers implement premium increases or change policy structures. In most cases, policies for WTW clients have been renewed with relatively modest premium increases in the 5-15% range depending on trade sector and loss history.

New Business

Both whole-turnover and excess of loss insurers have remained selective in their new business strategies with reduced risk appetite in certain impacted sectors. However, as the economic activity begins to start up and vaccine rollouts expand (third waves notwithstanding), they have all shown stronger appetites for new risks albeit based on strong fundamentals, with a deeper level of current information required prior to indicating terms.

Claims

WTW were preparing for trade credit claims to substantially increase in 2020 due to the global pandemic and the resulting economic recession. Ahead of the Brexit trade agreement some insurers were suggesting UK insolvencies would see increases of up to 35%[1] even allowing for a successful trade deal being struck with the EU.

The reality has been somewhat different with the expected increases yet to materialise. It is difficult to know to what extent government interventions are keeping insolvencies artificially low, or is there actually a bankruptcy "tsunami" expected when government support dries up?

WTW still expect there to be a significant uplift in the volume of trade credit insurance claims in 2021/22. Many business failures will be in sectors where there is reduced trading activity, with timing dependent on whether various government interventions across the world are extended, enhanced or gradually phased out and how the global economy rebounds.

Conclusion

Despite a strange 2020, our market has resettled with the ability to review and quote new business. The trade credit insurance markets remain open for business, individual insurers have become even more creative in adding sustainable risk, and most importantly, claims have continued to be paid without incident.

Looking Ahead

The impact of the recent failure of a major supply chain and receivable finance provider may prove to be an extreme and isolated case with direct exposure limited to select insurers. However, its impact on the credit risk of the companies it financed likely to be damaging if funding cannot be replaced. Recent conversations with insurers have led us to believe that supply chain (payables) and receivable finance are still insurable and remain key growth areas. WTW anticipate continued demand for trade credit insurance to support financing, particularly where a bespoke policy structure can aid lenders to improve their capital relief position, positively impacting borrowing costs.

It is still a good time for newcomers to secure trade credit insurance or for those looking to expand their current programmes as insurers are still looking to expand their portfolios.

Insurers target sectors include:

- Agriculture/Food
- Chemicals
- Electronics/ICT
- Financial Services
- Machine/Engineering/Infrastructure
- Pharmaceuticals/Health
- Services

Please contact us to explore what Trade Credit Insurance options may be available.

Richard Talboys Executive Director, Financial Solutions

richard.talboys@willistowerswatson.com +44 (0)2031246772

[1] Calm before the storm Covid19 and the business insolvency time bomb (eulerhermes.com)

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