Teneo[®]

Spotlight on trade credit insurance

Restructuring Services

Teneo Insights / June 2021



Trade credit insurance ("TCI") provides businesses with cover against the risk of non-payment of their invoices. TCI supports businesses to grow by giving them confidence to extend credit to customers and enhances **access to funding** from lenders often at improved terms.

The economic impact of COVID-19 has caused insurers to review the terms of the TCI cover they provide and whether cover can continue to be provided. In its response to the COVID-19 crisis the UK government introduced the Trade Credit Reinsurance Scheme ("the Government Scheme") which effectively limits insurers' exposure to 10% of TCI claims paid. Without the Scheme, which is currently due to end 30 June 2021, it is estimated that £50bn of cover to 55,000 businesses would have been at risk.

Mick Summersgill Senior Managing Director Mick.Summersgill@teneo.com **Teneo's Restructuring Team** is able to support businesses by combining skills in the preparation of robust cashflow and financial information with insurance sector expertise. This can help businesses, their lenders, and their stakeholders maintain TCI cover on suitable terms.

The current TCI landscape

- The TCI market is dominated by three specialist insurers, Atradius, Coface, and Euler Hermes – but other insurers such as AIG, Chubb, Markel, QBE, and Zurich also provide TCI. Most TCI is placed via specialist teams within major insurance brokers.
- TCI brokers and insurers are specialists with access to valuable data and analysis on businesses across the Globe – they can be a valuable business partner to businesses which engage proactively with them.
- The COVID-19 crisis, financial distress experienced in many sectors, and wellpublicised failures impacting TCI, has caused the TCI market to "harden" (insurers tightening the terms on which they provide cover, reviewing the risks they are prepared to insure, and increasing premiums).
- Whilst the Government Scheme has given confidence to insurers that they can, in many instances, continue to provide cover and pay claims, insurers will be closely reviewing their exposures in preparation for the Government Scheme being withdrawn. Businesses should expect insurers to be increasingly selective over the trade credit risks they will insure and the terms on which they insure those risks.

Pro-active steps businesses can take

TCI is a partnership between the insured business, its broker, and insurer(s). In order to maintain cover, businesses should:

- Carefully select the broker(s) and insurer(s) based on their particular needs;
- Have a regular and open dialogue with their broker and insurer regarding its trading performance and credit risks;
- Demonstrate strong discipline and diligence over credit control and buyer/supplier relationships; and
- Provide their broker(s) and insurer(s) with regular, quality, financial information and forecasts.

Businesses which can take the above steps will best position themselves to secure TCI and improve their access to funding.



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