Credit Insurance

An Essential Safety Net

Prepared by OAMPS Special Risks

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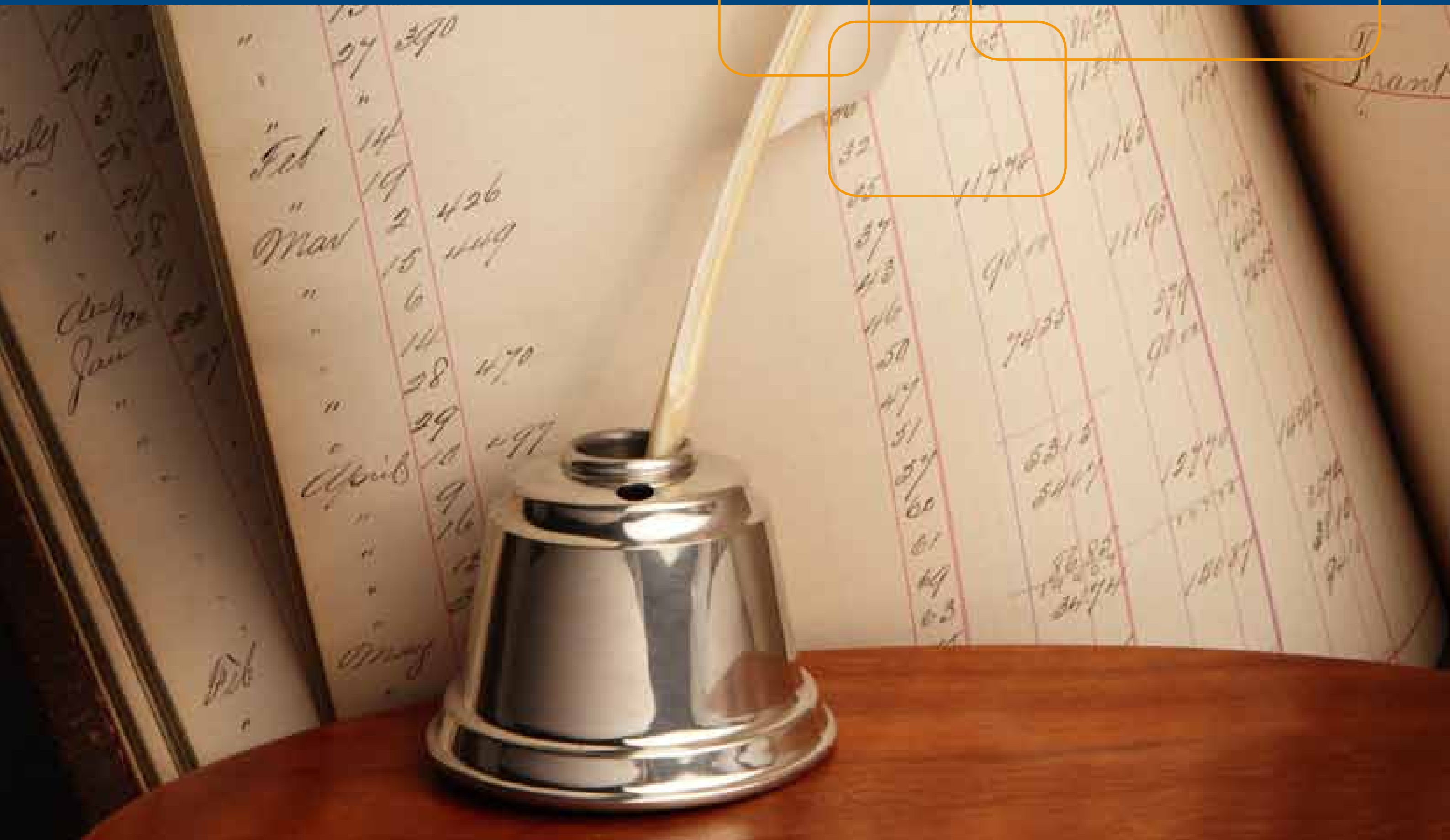

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Risk environment

It is clear that there are economic storm clouds gathering. Fears of a double dip recession are not just being ascribed to leading commentators appearing in the media, but are also being held by credit professionals working in businesses on a daily basis. Organisations such as the UK200 Group of accountants and lawyers are predicting a rise in corporate failures throughout 2012 but there are also more immediate concerns regarding a potential spate of business failures early in the New Year.

The solution

Given this environment it is essential that all businesses maintain strong credit management practices, including the protection that properly structured credit insurance arrangements can provide. Credit insurance operates in the same way as any other insurance in that it provides protection against the risk of the unforeseen, in this case the risk of non-payment by customers, by reason of insolvency or default. Non payment can eventually lead to debts being written off as bad debts. Bad debts don't discriminate – they can affect all businesses and can just as easily occur with long established trading partners as well as with new customers. Debtor failure can have a significant impact on any company and is one of the major causes of company insolvency. There are different ways of structuring credit insurance policies and these will vary according to each company's circumstances and approach to credit management. Whatever the structure, this class of insurance should be viewed as an important tool in any company's credit management procedures, providing essential protection in an uncertain and volatile economic climate.

Additional benefits

As well as providing protection against bad debts, there are additional benefits for companies buying credit insurance. These include access to proprietary credit information on literally millions of companies, trade sector specific information and guidance on individual country risks. All these can assist companies in steering clear of poor risks in order to focus on more profitable business. We have seen this work in practice many times with companies carrying credit insurance having the benefit of an early warning system in respect of their own customers experiencing serious financial difficulties. This would not be available to businesses without credit insurance nor would the major advantage of a safety net that pays out in the event that such a customer goes insolvent with unpaid bills.

The background

After a number of years of the most benign risk environment the global economy became a totally different place in the final years of the last decade. The crisis in the banking and financial markets spilled over into the wider economy and we saw the slowdown in many countries turn into recession. We witnessed significant increases in insolvencies and defaults across many trade sectors and countries, both in the OECD and emerging markets. Concerns over corporate non-payment and insolvency have been compounded by concerns over Sovereign debt, particularly in the eurozone.

Business failures

Corporate insolvencies reached unparalleled levels in 2008 and 2009 as the worst of the recession claimed businesses in every sector. Whilst the UK economy is slowly dragging itself out of recession there are some warning signs as to the future, as mentioned in a recent report issued by R3, the Association of Business Recovery Professionals. As stated in the report "figures from the 1980s and the 1990s recessions suggest that insolvencies continue to rise after a recession officially ends, culminating in an eventual "peak" some time afterwards. In the early 1990s recession, for example, the peak in corporate liquidations was recorded five quarters (18 months) after the return to growth".

Recent figures provided by credit reference agency Graydons suggest that the number of corporate insolvencies in the last three months of 2011 was lower than in 2010. With this said a number of high profile business failures were reported in 2011. Retailers Oddbins, Focus DIY, TJ Hughes and Habitat appointed administrators during the year while travel companies Gill's Cruise Centre and Holidays 4 UK also failed. Family owned Brintons Carpets also entered administration while Floors 2 Go failed for the second time in three years. Numerous business sectors were badly affected. These included construction, property, electronics, non-food retail and textiles.

Business distress levels

With liquidity still tight and the coalition Government in the UK pursuing austerity measures affecting consumers and businesses alike, the risk environment is very fragile. It goes without saying that sellers will need to be very "risk aware" in 2012 and for the foreseeable future. Business distress levels remain high, represented by numerous indicators such as reductions in sales volumes, decreased profits, cash flow difficulties, problems paying debts on time and utilising maximum lending facilities. Recent figures from Bacs have indicated that small to medium sized businesses (SMEs) in the UK are owed a massive £33.6bn in late payments and that half of all UK SMEs are currently experiencing late payments.

OAMPS Special Risks

OAMPS Special Risks is a specialist Lloyd's broker providing bespoke insurance solutions for niche markets and industries. We offer our unique services to wholesale and retail clients in the UK and worldwide through the Lloyd's market.

We are part of the Wesfarmers Group, one of Australia's oldest, largest and most successful public companies. With a market capitalisation of over A$36 billion and employing more than 200,000 people across seven highly diversified business units, Wesfarmers provides OAMPS with the strength and resources to pursue innovative and efficient risk management solutions for our clients.

We have many years experience in providing credit insurance solutions for businesses large and small. We would be delighted to discuss this specialist class of business with you in order to establish the most cost effective type of cover for your business.

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The Credit Insurance division at OAMPS Special Risks specialises in arranging cover for trade credit risks for clients trading in the UK and overseas. The division also arranges bonds and guarantees for clients in the specialist Surety market.

Trade Credit Insurance

OAMPS Special Risks is a leading provider of Trade Credit Insurance solutions. Our highly experienced team ensures that our clients receive competitive quotes, comprehensive policy coverage and claims management assistance.

Surety Bonds & Guarantees

OAMPS Special Risks arranges bonds and guarantees in many contracting and commercial situations. Our highly experienced team provides our clients with advice and assistance in arranging individual bonds and facilities at competitive premiums in this specialist market.

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