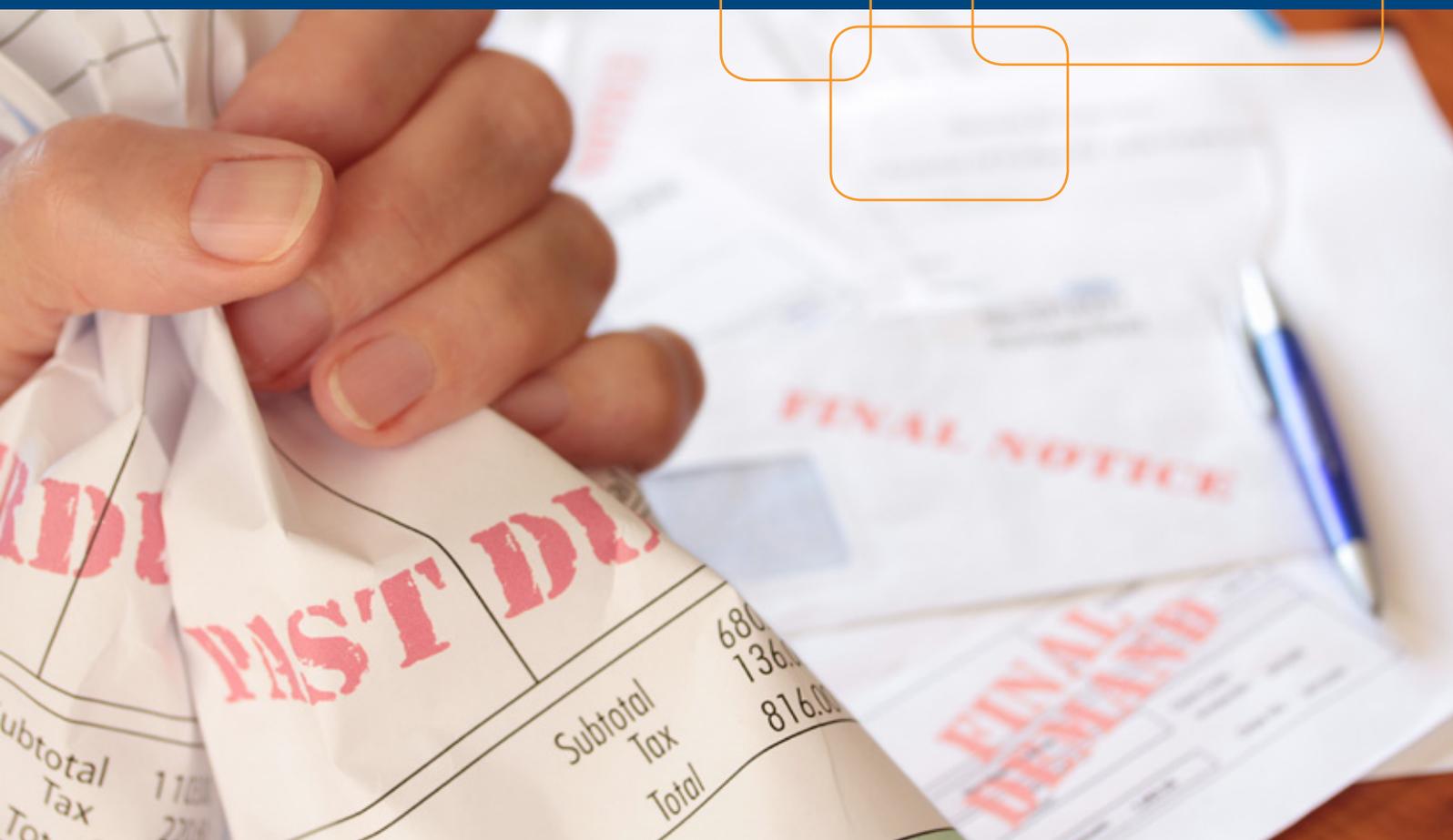
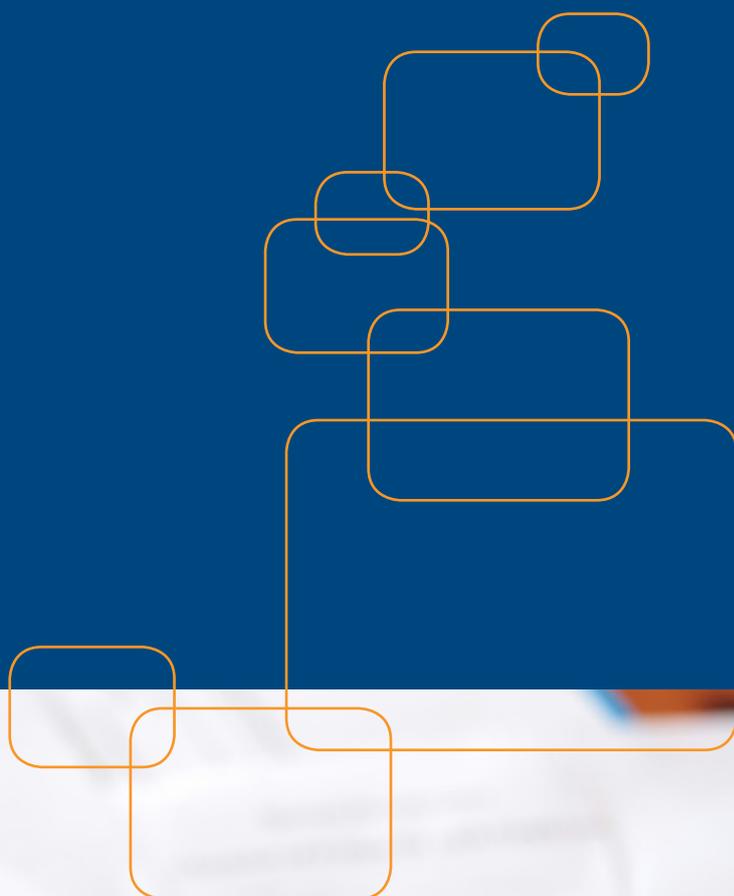


Credit Insurance in 2012

The Year of the Zombie

Prepared by OAMPS Special Risks

www.oampsspecialrisks.co.uk



Credit Insurance in 2012 - The Year of the Zombie

Background

Although this will be a disappointment to some readers we will not be discussing a revival of the Hammer House of Horror or the latest offering in the Twilight series. We are going to be looking at more earthly matters involving how businesses are faring in the current economic climate. We will be concentrating on businesses selling goods or services to other businesses on credit terms.

Credit professionals in any business have a range of tools in their armoury for obtaining and maintaining status information on their customers and for chasing payment. In addition they should consider protection in the form of credit insurance as never before and we set out below why we believe this to be the case.

The importance of Credit Insurance

Credit insurance protects businesses against non payment by customers by reason of insolvency or protracted default. Without credit insurance a business will run the risk of becoming an unsecured creditor with little or no chance of recovering its unpaid invoices. Credit insurance is like any other type of insurance, as it protects against the unforeseen. Like every other type of insurance you hope that it is never called upon, but every indication in the economy is that companies will be looking to their credit insurance policies for support during 2012 and beyond. This is despite the fact that we are not seeing a substantial increase in the level of insolvencies just at the moment.

There have, of course, been some spectacular business failures in the first weeks of 2012, such as Peacocks, Petroplus, Rangers Football Club and Eastman Kodak. But it is the signs of distress that are troubling the experts. The latest Red Flag



alert from insolvency specialists Begbies Traynor shows a 24% year on year increase in companies facing critical levels of financial distress in Q4 2011, compared to Q4 2010. The indicators are of particular concern to businesses in travel and tourism, property, automotive and construction, general retailing and professional services.

Zombie businesses

Whatever the business sector we are considering, the real concern is that we are getting close to the bottom of the economic cycle, which is going to have serious consequences for many "zombie" businesses. These are businesses that have been just about surviving, but not thriving, in the current environment. They may have been benefitting from certain support measures, such as ongoing support from lenders or HMRC's "Time to Pay" scheme*.



The zombie businesses we are talking about could be substantial businesses and not just Small to Medium Sized Businesses (SMEs). With this said, we should take heed of research conducted by the Insolvency Professionals Trade Body, R3, confirming that SMEs are struggling even more than big businesses. According to the research, 29% of SMEs have seen a reduction in sales volumes in the last quarter of 2011, compared to 6% of big businesses, while over a third of SMEs experienced decreased profits compared to 19% of big businesses. Clearly SMEs are under intense pressure and will have in their number many zombies.

**Time to Pay arrangements allow HMRC to collect tax in a cost effective way. They allow customers who cannot pay on the due date to make payments over a period that they can afford. These arrangements are tailored to the ability of the customer to pay and are typically for a few months although they can be longer. These arrangements do not allow HMRC to reduce the amount of tax payable and can only be agreed for more than a year in exceptional circumstances.*

The insolvency lag

Banks are never out of the spotlight these days and they will be playing a very important role in the fate of many zombie businesses. Banks who have been supporting businesses over a long period are unlikely to let those businesses fail right at the bottom of the cycle. Along with other business creditors, banks will wait until there is more chance of recovering greater returns as prospects for businesses start to improve. This explains what is often referred to as the “insolvency lag” – the time that elapses from the depths of recession to the spate of business failures that ultimately follows.

How Credit Insurance can help

The problem that is going to face many businesses and the credit professionals working for them is how to spot a zombie, if one or more happen to be customers. Are these customers going to publicise the fact that they are in difficulties or just surviving? Some may but many will not, which will result in a nasty surprise for those businesses who have sold on credit

terms. Of course companies carrying credit insurance will have no such problem. Credit insurance is designed to support businesses in the event that they are caught out by the failure of a customer, whether or not it can be classed as a zombie.

Reasons to be cheerful

We should not leave this discussion without making reference to the good news stories for the year. We have just witnessed a triumphant London Fashion Week and Brits music awards ceremonies, showcasing the best of British talent in fashion and music respectively. We will be hosting the Olympics in the capital and will be celebrating the Queen’s diamond jubilee. In order to ensure that we can continue to enjoy a feelgood factor in business we recommend that any prudent business selling its goods or services on credit makes certain that it considers the protection that credit insurance can provide. This way businesses can make certain that they will not be caught by the serious effects of a bad debt in the year of the zombie.

OAMPS Special Risks

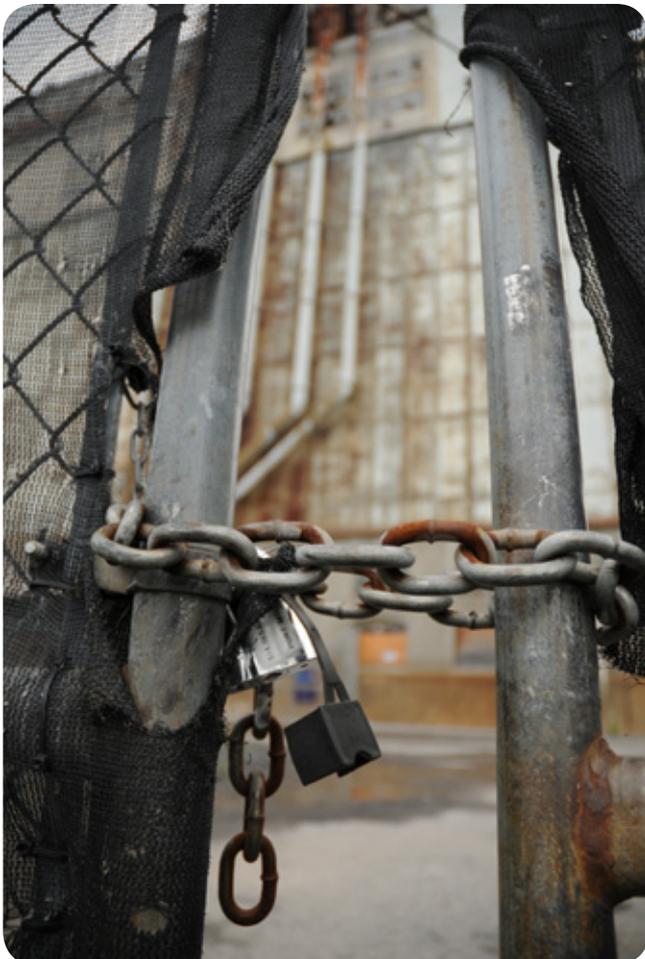
OAMPS Special Risks provides credit insurance solutions for companies large and small. Our team of experienced professionals can provide advice and assistance in arranging credit insurance for any business selling goods or services on credit terms.

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\$36billion 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 would be delighted to discuss this specialist class of business with you in order to establish the most cost effective solution for your business.

Iain Maitland - Divisional Director of Trade Credit and Surety at OAMPS Special Risks.



For further information please contact:

Iain Maitland

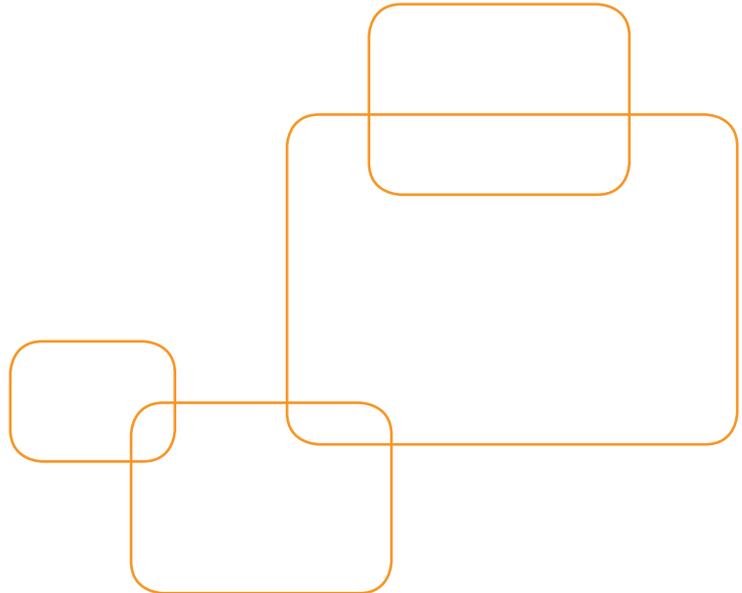
Divisional Director
Trade Credit & Surety Division
OAMPS Special Risks
Direct Dial: +44 (0)20 7375 9082
E-mail: iain.maitland@oamps.co.uk

Rob Coulton

Assistant Director
Trade Credit & Surety Division
OAMPS Special Risks
Direct Dial: +44 (0)20 7375 9088
E-mail: rob.coulton@oamps.co.uk

Martin Fitzwater

Assistant Director
Trade Credit & Surety Division
OAMPS Special Risks
Direct Dial: +44 (0)20 7375 9085
E-mail: martin.fitzwater@oamps.co.uk



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.

6th floor, 10 Fenchurch Street, London, EC3M 3BE
T : 0207 929 6880 F : 0207 929 6889 E : info@oamps.co.uk
www.oampsspecialrisks.co.uk

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