

# Suppliers Fail to Find Credit Insurance



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Credit insurance has only appeared on most buyers' radar since the onset of the current economic downturn. However, as reported, particularly in the Financial Times, credit insurance is now becoming an issue that can have a significant impact on the viability of supply chains. As the financial position of more and more companies becomes increasingly perilous, insurance risk grows and insurers are reassessing the viability of their products and withdrawing cover in many cases. The FT reported that, in one week in November, at least 12,000 British businesses had their cover withdrawn. The construction, retail and leisure sectors were particularly badly affected. The total figure is believed to be significantly higher and still rising.

### What is credit insurance?

Credit insurance can offer cover across a business's entire turnover, but it is insurance of the business's key accounts which has potential for the greatest impact on the supply chain. In this context, credit insurance provides cover to businesses against the risk of their customers becoming insolvent or not being able to meet the agreed payment terms. It enables a supplier to better assess and manage its risks, enabling it to secure its cash flows, avoid any cash flow gaps and trade with customers with increased confidence.

### Withdrawal of credit insurance

In the current economic climate, insurers are withdrawing cover to suppliers dealing with specific companies and - it is reported - with whole sectors. When cover is withdrawn or refused, it leaves the supplier with a difficult choice. Do they:

- accept the risk without insurance cover? This could be a very brave call, especially given that the insurer, with their access to information and sophisticated risk profiling, has deemed the risk too high to offer cover
- ask for payment upfront? This may prove difficult if the insurer's assessment of the risk is accurate and the customer may have difficulty financing immediate payment. Something of a catch 22 situation
- renegotiate the pricing of the contract to reflect the increased risk? Whilst this may appear a reasonable option in normal times, in the current climate it is unlikely to give the supplier sufficient comfort, even if they could get the customer to agree to a price increase. Then again the buyer could be faced with a supplier who decides to withdraw supply!

### Impact on supply chains

Clearly the withdrawal of credit insurance is likely to have a significant impact on supply chains.

- Buyers may find a key supplier withdraws supply at short notice or goes out of business. If it is known within the market that the insurance industry views the buyer's company to be too high risk, then it may prove extremely difficult to find other sources of supply.
- The supply chain may be affected at a 2nd or 3rd tier or lower (especially with today's extended global supply chains) level. This may render the whole supply chain inoperative.

### What can buyers do?

How can the buyer try to ensure that they are not impacted by the withdrawal of their supplier's credit insurance? As this is an emerging problem, the first thing that many buyers will be aware of is that supply has, or will soon, be withdrawn. Now that this issue is being reported, buyers should at least be aware of the issue and talking with their supply chain to find out whether there are potential supply issues due to a lack of credit insurance anywhere

within the chain. Where the buyer's company has the capability, it may make sense to consider providing some liquidity into the supply chain, possibly by making early payment to ensure that the supply chain remains intact and functioning.

As this issue becomes more widespread, pressure will mount on the Government to provide insurance or credit to struggling suppliers to help them to continue trading.

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