

CLC COVID-19 TRADE CREDIT INSURANCE GUIDANCE

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1.0 INTRODUCTION

1.1 Trade Credit Insurance (TCI) plays a significant role in construction, giving businesses throughout the supply chain the confidence to trade with one another.

1.2 The coronavirus (COVID-19) pandemic has created problems for many businesses. Given the sudden disruption to economic activity, reduced cashflow and the resulting increased risks of insolvency and default in the market, businesses have seen trade credit insurance withdrawn, premiums increasing significantly, or the level of cover offered reduced. The withdrawal of cover could cause further difficulties for businesses, by placing pressure on liquidity, necessitating changes to payment terms, and depriving SMEs in the construction sector access to trade credit, on which they depend.

1.3 TCI provides protection for businesses when customers do not pay their debts owed for products or services. A TCI policy will reimburse the policyholder in the event of the buyer's non-payment, up to a certain credit limit set by the insurer. This form of insurance can prevent the negative impact of non-payment from having a 'domino effect' along construction supply chains.

1.4 On 4 June 2020 the Government announced the temporary [Trade Credit Reinsurance Scheme](#), which is to run from April 2020 until December 2020. The scheme has been agreed following extensive discussions with the insurance sector and aims to maintain TCI coverage across the UK. The Construction Leadership Council (CLC) welcomed the announcement in a [press release](#).

1.5 The Insurance and Surety Working Group for CLC COVID-19 Task Force has produced this summary guidance to support businesses in the construction and maintenance supply chain, including builder's merchants, electrical wholesalers, manufacturers and suppliers. This guidance aims to provide practical advice and considerations for discussions with brokers and insurers when seeking TCI. It also provides an outline of the TCI reinsurance scheme between government and available insurers.

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2.0 THE TRADE CREDIT REINSURANCE SCHEME

2.1 On 4 June, the Government announced the Trade Credit Reinsurance Scheme, which reinsures trade credit insurance currently provided for hundreds of thousands of business-to-business transactions in the UK. The reinsurance is capped at a maximum of £10 billion of total insurer losses.

2.2 The Trade Credit Reinsurance Scheme will be delivered through a reinsurance agreement. All trade credit insurers currently operating in the UK are eligible to participate. The reinsurance covers trading by domestic firms and exporting firms with payment terms of up to 2 years.

2.3 Government will reinsure 90% of insurance claims up to a cap of £3bn total insurer losses and 100% of claims between £3bn and £10bn of total insurer losses. The Government will receive 90% of gross policy premiums and return 35% of these premiums to insurers to cover their costs.

2.4 Scheme rules will require participating insurers to comply with certain undertakings regarding the conduct of their business during the period of the scheme. This includes conditions that they will forgo profits and not pay dividends or bonuses for senior staff for their reinsured TCI business.

2.5 The reinsurance will be temporary, backdated to 1 April and lasting until 31 December 2020 subject to possible extension at government discretion and insurer agreement. It will be followed by a joint Department of Business, Energy and Industrial Strategy (BEIS)/Her Majesty's Treasury (HMT) review of the TCI market to ensure it can best support businesses in future.

2.6 Implementation of the scheme is subject to state aid approval, agreement of full form documentation with insurers and acceptance of applications from insurers for participation.

2.7 The scheme is also complementary to the export credit insurance routinely provided by UK Export Finance (UKEF) as part of the Government's support for exporters. UKEF will continue to provide credit insurance related to export contracts, which cannot be supported by the private insurance market.

2.8 More information will be published as appropriate in due course.

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3.0 TRADE CREDIT INSURANCE

3.1 Businesses in the Construction sector do not need to apply directly to the scheme. They will apply to their insurance company as normal. Support will be administered directly between the Government and those trade credit insurance providers that have signed up to the scheme.

3.2 The scheme will not affect UK construction businesses' eligibility for other business support measures during the COVID-19 pandemic including the Coronavirus Job Retention Scheme (CJRS) and Coronavirus Business Interruption Loan Scheme (CBILS) etc.

3.3 It is hoped that the reinsurance scheme will increase confidence and allow as many UK businesses in the construction sector as possible to continue to access TCI throughout this period of economic disruption. However, insurers are expected to continue to take responsible underwriting decisions – maintaining their underwriting standards and risk management practices, to ensure that support is offered to businesses that can trade out of the current situation. As a result, there may be some circumstances where it is appropriate for a business' credit limits to be reduced or withdrawn.

3.4 Those companies who purchase credit insurance are urged to discuss your situation with the relevant insurer or specialist credit insurance broker. When appealing credit limit decisions additional value will be placed on obtaining up-to-date details of trading and, in particular, liquidity and access to funding facilities. The risk environment is changing rapidly and continuously. Businesses are urged to establish and maintain collaborative relationships.

3.5 To assist discussions the following checklist offers a useful point of reference. It is not exhaustive but may assist in the preparation and presentation of information to credit insurance underwriters.

4.0 CHECKLIST

4.1 As more normal patterns of trading gradually resume there is a recognition that, in most cases, balance sheets will have weakened considerably. Supplying underwriters with up-to-date information on the financial performance of your business will therefore be of particular importance over the coming months. Following consultation with underwriters, this information should include:

A. Immediate impact of coronavirus (COVID-19) on the business

- What do weekly turnover levels look like compared to normal trading?
- What changes were made to business operations?

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- Pipeline/order book/activity levels
- Strategy – short and medium term.

B. Extent to which coronavirus (COVID-19) government supported facilities have been utilised

- Coronavirus Business Interruption Loan Scheme¹ – value and term, security required
- Bounce Back Loan Scheme² – value and term, security required
- VAT deferral³ – positive impact on monthly overheads
- Coronavirus Job Retention Scheme⁴ – number of staff furloughed and positive impact on monthly overheads
- Business rates relief⁵ – impact on monthly overheads.

C. Up-to-date management accounts

- Balance sheet
- Profit and Loss.

D. Cash flow forecast

- Details of available facilities and headroom including high/low points and current available cash.

E. Covenants

- Agreements with banks/lenders regarding any covenant holidays, revised agreements.

F. Additional investment

- Details of any additional investment into the business – existing or third-party stakeholders.

¹ <https://www.gov.uk/guidance/apply-for-the-coronavirus-business-interruption-loan-scheme>

² <https://www.gov.uk/guidance/apply-for-a-coronavirus-bounce-back-loan>

³ <https://www.gov.uk/guidance/deferral-of-vat-payments-due-to-coronavirus-covid-19>

⁴ <https://www.gov.uk/guidance/claim-for-wages-through-the-coronavirus-job-retention-scheme>

⁵ <https://www.gov.uk/apply-for-business-rate-relief/small-business-rate-relief>

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G. Identity of key suppliers/trade creditors

- Likely value of monthly supplies from each, maximum amount outstanding
- If you have credit insurance - identity of key customers - likely value of monthly sales, your credit limit requirement with each.

5.0 CONCLUSION

5.1 It is hoped that this guidance, together with that from government will provide the support needed to ensure the TCI market works to support businesses during these challenging times.

5.2 It is recognised that the situation is continually evolving, and as such, this guidance will be revised if necessary.

5.3 This document provides general guidance. It does not guarantee reinstatement of cover and/or increase in limits, nor does it constitute legal advice. The obligations of both insurer and insured will be contained in individual credit insurance policy wordings. If in doubt, advice should be sought.

5.4 If you have any comments or feedback, please email:
construction.enquiries@beis.gov.uk

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