

# 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and the resulting increased risks of insolvency and default in the market, businesses have seen trade credit insurance withdrawn, premiums increasing significantly, or the level of cover offered reduced.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](#). The Construction Leadership Council (CLC) welcomed the announcement in a [press release](#). The Scheme became operational in July 2020 and final details, including participating insurers has been published on [GOV.UK](#). On 29 December 2020 the Scheme was extended by 6 months to 30 June 2021 and approved under relevant state aid rules.

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.

## 2.0 THE TRADE CREDIT REINSURANCE SCHEME

2.1 The Trade Credit Reinsurance Scheme is a £10bn temporary business support measure to help mitigate the impacts of COVID-19 by offering support to businesses through trade credit insurers. The Scheme is

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delivered through a reinsurance agreement. It has been approved for EU State Aid. The reinsurance covers trading by domestic firms and exporting firms with payment terms of up to 2 years.

2.2 Government is reinsuring 90% of insurance claims up to a cap of £3bn total industry 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.

2.3 Final details of the [Scheme Rules](#) have been published and 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.

2.4 The participating insurers are:

- American International Group UK Limited
- Atradius UK
- Coface UK Branch
- Credendo – Short-term non-EU risks
- Euler Hermes UK, a branch of Euler Hermes SA (NV)
- Markel International Insurance Company Limited
- Nexus Trade Credit
- QBE UK Limited and QBE Europe SA/NV
- Zurich Insurance plc.

2.5 The reinsurance is temporary, and runs until 30 June 2021. It is being followed by a joint Department for 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 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.

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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 is administered directly between the Government and those trade credit insurance providers that have signed up to the scheme.

3.2 The scheme does 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. If a company feels that their coverage has been withdrawn unfairly they should discuss reinstating cover or look to arrange new cover under the same conditions as their previous coverage. 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:

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## A. An update on the extent to which trading activity is recovering

- What do weekly turnover levels look like compared to normal trading?
- What changes have been made to business operations?
- Pipeline/order book/activity levels
- Strategy – short and medium term

## B. Up-to-date management accounts

- Balance sheet
- Profit and Loss

## C. Monthly Cash flow forecast

- Focus on short term liquidity and working capital/cash
- Include forecast assumptions
- Details of available facilities and headroom including high/low points

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

- Coronavirus Business Interruption Loan Scheme<sup>1</sup> – value and term, security required
- Bounce Back Loan Scheme<sup>2</sup> – value and term, security required
- VAT deferral<sup>3</sup> – positive impact on monthly overheads
- Coronavirus Job Retention Scheme<sup>4</sup> – number of staff furloughed and positive impact on monthly overheads
- Business rates relief<sup>5</sup> – impact on monthly overheads

## E. Covenants

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

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

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

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

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

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- Agreements with banks/lenders regarding any covenant holidays, revised agreements
- Details of both previous and forecasted compliance with covenants.

### F. Additional investment

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

### 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](mailto:construction.enquiries@beis.gov.uk)

*The Construction Leadership Council would like to express their thanks for the contributions made to the development of this guidance by: ABI, CBI, BIBA, the Builders Merchants Federation, EC Insurance Group, National Federation of Builders, Federation of Master Builders, Hogan Lovells, the Construction Products Association, Landsec, the Civil Engineering Contractors Association, Lockton UK, the National Merchant Buying Society (Ltd), , the Construction Industry Council, MKM Building Supplies, Turnbull and Company Limited, the National Federation of Roofing Contractors Limited, Wildgoose Construction, Buro Happold, Tindall Riley, LEW Electrical Distributors, Electrical Distributors' Association (EDA), Knauf Group, together with the Department for Business, Energy and Industrial Strategy. Specific thanks goes to Mike Clark of Credit Risk Solutions Ltd trading as Xenia for his invaluable insight and technical contribution.*

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