Government COVID-19 Trade Credit Protections

Backstops Are Not Just for Brexit!

UK – 13 May 2020

The announcement from HM Treasury on 13 May 2020 to support trade credit insurance has to be very welcome news for many UK businesses and their supply chains. It is a very significant announcement because trade credit insurance plays a vital role in supply chains, oiling, as it does, the wheels of domestic and global trade.

In the UK and the world over, supply chains have been under very significant strain and distress over recent weeks, and in some cases are even broken right now, as a result of the ongoing COVID-19 pandemic. This will likely lead to increased risk of supply chain insolvencies with falling demand for some products or certain supply chain partners seeking to push out payment terms.

The further government assurance on trade credit, which complements all the other financial support packages put in place by the government over recent weeks, such as the various loan schemes and furlough arrangements, will undoubtedly help many businesses to better plan and continue to do (or recommence) business with added security and confidence as the economy re-opens/re-energises – but without additional financial headaches and cash-flow constraints.

Prior to this latest news from Whitehall, there had been a fair degree of lobbying of government from certain sectors, including the food and drink industry, insurers, hospitality firms and manufacturers, etc., for a trade credit backstop to be put in place to further safeguard customer-supplier payments and, specifically, to mitigate against withdrawn cover or massive premium hikes by insurers. So it is particularly reassuring that the government has carefully listened to business and interest groups.

And the UK government is in good European company in taking this step: France and Germany have put in place similar protective measures in recent weeks to help assist suppliers in doing business with their customers, with added confidence around payments as they emerge from lockdown, effectively stepping in as reinsurers of last resort to backstop insurers. The government's move will hopefully mean that insurers in the UK will keep credit limits as close as possible to existing levels.

The guarantee is to be delivered through a temporary reinsurance agreement with insurers currently operating in the trade credit insurance market. It will ensure that the majority of the market is covered by the guarantee, including firms with a domestic focus, as well as those exporting to international markets. Trade credit insurance will be particularly important to the food and drink sector as restaurants and other hospitality businesses start to re-open and will almost certainly be looking for credit from their suppliers.

Obviously, this is hot off the government press and, with all the other schemes recently put in place, the hard work starts now! The UK government is looking to urgently work with businesses and the insurance industry on the finer details of the scheme, as well as with UK regulators and interested industry groups, such as the Food & Drink Federation. This is not least because the challenging intent is to put these guarantees in place by the end of May 2020.

With over £171 billion in business activity insured, covering transactions between around 13,000 suppliers and 650,000 buyers, as of April 2020, this work will now be rightly directed to: (1) ensuring that the measures are effective and fit for purpose; and that (2) suppliers are fully supported, so far as possible, and encouraged to seek out and do business with their customers; and (3) with the ultimate risk of payment default appropriately apportioned between government and insurers. More detail on the scheme will be announced in due course, with it provisionally lasting until the end of 2020, with a more general review of the continued effectiveness of the trade credit insurance market contemplated after that.

Existing government measures, such as furloughing and the various business interruption loan schemes, have already had a positive effect on keeping businesses afloat. Indeed, nationally, insolvencies were down by more than a third in April 2020 when compared to April 2019, with 61 businesses going into administration. The additional measures announced by HM Treasury (13 May) should continue that theme, at least for the time being.

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