COVID-19 Disruption

Business Information Update

from Berkeley Alexander

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As the impact of COVID-19 increases, of all the concerns businesses have at present, the question of when - and if - customers will pay invoices features highly.

With so many businesses impacted by the pandemic, furloughing staff and seeing income fall dramatically, there are real concerns that a surge in bad debt could be around the corner. Not only will insolvency unfortunately be unavoidable for some companies, others are choosing to hold onto their cash rather than pay suppliers out of self-preservation.

Cash flow is of course the lifeblood of any business - and getting paid for goods and services provided is fundamental to this. Therefore, the number of businesses who are contacting us currently to discuss credit insurance in an effort to protect their all-important cash flow comes as no surprise.

So how does credit insurance work, what options are available and how could it protect client's business as the crisis unfolds?

How does credit insurance work?

Credit insurance provides a shield of cover for businesses, protecting their cash flow when customers fail to pay invoices on time or at all due to insolvency or protracted default (non-payment within a specified timeframe in the policy).

As well as ensuring the business gets paid for the goods and services provided in the event customers don't pay (or, given the current climate, most likely can't pay), subject to designated and valid credit limits being in place at the time of sale, credit insurance also gives businesses the confidence to continue trading with certain customers.

It can also even allow businesses to extend credit to customers in order to support them, whilst safeguarding their own business, and improve access to funding under certain products, such as invoice finance.

What options are available?

Credit insurance can either be obtained against a business's whole turnover - providing comprehensive protection - or a selective portion of customers, who might pose a greater risk to the business.

While credit insurance can be provided as a standalone facility, it can also be incorporated into some commercial finance facilities, providing additional cover of up to 100% of the net customer account values (again subject to designated limits) and give access to funding against those same customers.

In addition to the bad debt protection element, businesses taking this approach can gain instant access to up to 90% of an invoice's value, with the remainder forwarded once the customer pays.

How important is credit protection currently?

Even before the COVID-19 pandemic, the importance of credit insurance was already apparent, with the value of new claims received by insurers in Q3 2019 at an all-time high, according to the latest figures from the Association of British Insurers, 2019.

Clearly recent events are placing an even greater strain on businesses. Corporate insolvencies increased by 50% in March alone, while a survey by the British Chambers of Commerce 2020, revealed that 62% of businesses only have enough cash to keep operating for the next three months. Almost one in five said they only had sufficient capital to cover their outlay for a month.

Particularly while so many unknowns persist, such as how long lockdown measures in one form or another may continue to continue and when a sense of normality will return, it's important that businesses prioritise their cash flow in order to remain solvent and be best placed to emerge the other side in a strong position.

Recent failures arising from COVID19: Flybe, Laura Ashley, Carluccios, Brighthouse, Chiquitos, Debenhams.

If you are interested, talk to one of our business development managers on: 01273 477784 or e-mail: agency@baonline.co.uk

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24th April 2020