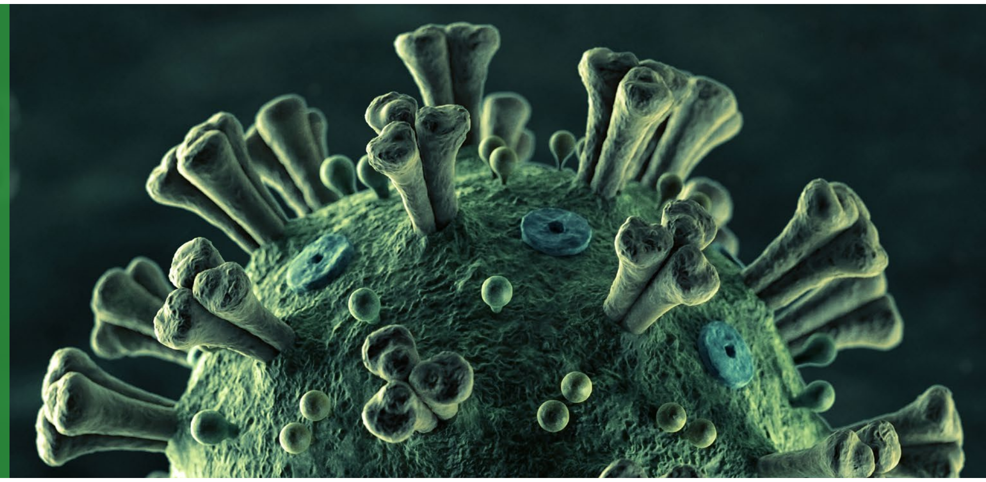
Trade Credit Insurance



The COVID-19 crisis will materially impact company liquidity, protracted default claims will increase and corporate insolvencies will grow. While companies deal with the economic and social impact of this pandemic, customers' non-payment of receivables is an additional strain that can put their own solvency at risk. Trade credit insurance mitigates this risk while at the same time increasing operating line financing and giving policyholders the confidence to expand sales. In summary, it protects policyholders against foreign or domestic customer non-payment of accounts receivable and allows banks to lend more against a more secure receivable asset.

To give you a sense of how fragile company balance sheets are, per *The Economist*, a quarter of large non-bank American firms hold less than three months of operating costs in their cash reserves.* Even if this lasts a few months, over the next couple years we will be dealing with the fallout of marginal companies that do not have the financial strength to weather this storm. Although America's Federal Reserve and the European Central Bank are buying bank assets in order for banks to have liquidity for additional lending, bank support of companies will still be determined on a case-by-case basis. Banks will not be throwing good money after bad if they do not feel a company is able to survive.

To understand the magnitude of the economic impact on business, we can look to China as somewhat of a guide, assuming China may have the coronavirus under control. China's National Bureau of Statistics' latest economic measures for the world's second-largest economy plunged in the January/February period compared to December as follows: value-added industrial production fell 13.5%; fixed asset investment fell 24.5% in the same period; private sector investment fell 26.4%; manufacturing investment was down 31.5%; retail sales shrank 20.5%; and auto sales fell 37.0% in value terms. An economic downfall such as this typically leads to an increase in non-payment of receivables and an uptick in trade credit insurance losses.

Due to the anticipated negative economic results, current users of trade credit insurance will see underwriters taking action to manage buyer risk by reducing coverage on those higher risk buyers in industries most impacted by the economic contraction. In an effort to maintain or reinstate buyer coverage, NFP is pursuing and analyzing additional financial and banking information from buyers and their lenders to provide comfort to underwriters. NFP is working closely with clients to ensure they follow the policy requirements, including past due reporting and buyer slow-pay auto-cancellation triggers. For any exceptions or buyer payment issues, NFP is coordinating claim filing extensions for approval by underwriters.

The increase in non-payment of accounts receivables will lead to an increase in trade credit losses. Is your businesses prepared? Can your business sustain the projected defaults of accounts receivables? Please connect with Tom Leonard by phone at 416.238.1017 or by email at tom.leonard@indemnistrade.com for a complimentary review.

For more information, call Tom Leonard at 416.238.1017 or email tom.leonard@nfp.com

*"The scramble for cash: companies need liquidity to survive," *The Economist*, 20 March 2020, https://espresso.economist.com/f50f73e7e7cab902f8053efa57918bd3