CREDIT INSURANCE

WHAT IS IT?
WHY DO YOU NEED IT?
WHAT CAN IT DO FOR YOUR BUSINESS?

Paul Becue

In association with

ACKNOWLEDGEMENTS

In the United Kingdom and Ireland Euler Hermes is the market leader in Credit Insurance as well as in Bonding. Being the authority in both fields, a number of our recent and former staff contributed to the launch of this English version. I would especially like to thank Terry Bridgman, ex-Head of Reinsurance of Euler Hermes in the UK. Terry spent considerable time on this book and has done a remarkable job in adapting it to the UK market.

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Through this book we hope credit insurance will be introduced to a wider audience.

GERARD VAN KAATHOVEN
Euler Hermes United Kingdom & Ireland
Chief Executive Officer

FOREWORD

When the economy is going well, the sky is the limit for many companies. But when the economic cycle slips into a downward spiral, suppliers of goods and services run a significantly increased risk that their customers or 'buyers' will not be able to pay their bills, with the domino effect that even their own business may be threatened. The economic crisis, in which we still find ourselves in, has brought us all back down to earth – with more than one bump. The business community has been shaken to its very foundations.

Companies should apply the principle that they should only take calculated risks. This means covering those risks they are unable to influence, but which could nonetheless have a strong negative impact on their operational results. In other words, they need to be insured. Interest rate and FX risks have been covered in this manner for many years by many companies. Property and casualty insurance is also an everyday part of private and commercial life. However, credit insurance, the insurance of risks relating to the possible default of debtors, is still an area that is relatively unknown to the business community in the UK and Ireland. Research has shown consistently that companies cannot predict the majority of failures to which they are exposed. A £100m turnover business earning a 5% margin would have to increase its turnover by 20% to recoup a bad debt of £1m.

What we saw at the beginning of the crisis was a frequency issue – high volumes of smaller companies failing. What we are now seeing is a reduced number of failures, but larger in size.

Credit insurance supports sustainable growth by helping companies make informed decisions about the level of credit they should offer their customers, identifying those businesses at risk and enabling them to manage their credit risk exposure accordingly, avoiding the negative impact of unexpected bad debts or the need to make a claim. This ensures that companies are offering competitive credit to the right customers, converting opportunities into sales and profits. Like any other insurance policy the real proof comes if and when a claim needs to be made.

Should the unexpected happen and if a (larger) customer goes insolvent with no visible warning signs, through prompt payment of a claim, credit insurance offers peace of mind and security that a company can continue to trade without denting a company's profits.

Back in 2008, Paul Becue - the general manager of the information company of Euler Hermes in Belgium - published a detailed reference book about credit insurance: *Handboek Kredietverzekering. De Onzichtbare Bank* ('Credit Insurance. The Invisible Bank'). He followed this up with a handy and in many ways more accessible sequel, which explained in simple terms exactly how credit insurance operates. However, this book was specifically written for the Belgian market. For this reason, we have decided to make an English 'translation' of this excellent work, with an amended text more suitable to the conditions and practices found in the UK.

Credit insurance is essentially a homogenous product, which can be applied worldwide. However, many countries have added their own nuances to this basic product. For example, there are differences between the way credit insurance is implemented in France, Germany and the United Kingdom. There are also operational differences between the various credit insurance companies active in the market. When you are reading this book, you may even find it necessary to add nuances based on your own perspective. Nevertheless, our purpose was to write a manual in which the essential features of credit insurance are described in easy-to-understand language, without taking into account the details of every possible local variation. Paul Becue has succeeded admirably in this task.

Let us hope that in the coming years we will not forget the lessons of the recent past – it would be foolish to do otherwise.

I wish you an enjoyable and an informative read.

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CONTENTS

ACKNOWLEDGEMENTS 2

FOREWORD 3

INTRODUCTION 15

PART I
DEFINITION AND POSITIONING 17

CHAPTER 1
DEFINITION AND POSITIONING 19

1 What is (private) credit insurance? 19
2 Three core tasks 21
3 What is insolvency? 22
4 General principles 23
4.1 Insuring the trade default risk 23
4.2 Insuring the global turnover of the company 24
4.3 The credit insurer's role in agreeing buyer risks 25
4.4 Indemnifying the insured party 26
4.5 Participation of the insured party 26
4.6 The option to assign the benefits of the policy 27
5 How public credit insurance is different 27
5.1 Private credit insurance: short term 28
5.2 Public credit insurance: medium and long term 28
6 The credit insurance market: a niche in between the insurance and banking sectors 29
7 Surety insurance: the mirror image of credit insurance? 30

CHAPTER 2
THE ECONOMIC CONTEXT AND OFFICIAL INSOLVENCIES 33

1 The Purchasing Manager's Index (PMI) as Europe's leading indicator 33
2 Payment behaviour 36
2.1 SMEs are the biggest victims 36

2.2 Cultural differences 37
Countries and public authorities 37
Sectors 38
Foreign and domestic markets 39
2.3 The reasons for late payment 39
Market structure 41
The economic cycle 41
Access to funding and budgetary limitations 41
The internal organisation of the debtors and creditors 42
A lack of efficient remedies 42
2.4 The European Directive 2011/7/ EU of 16 February 2011 on combating late payment in commercial transactions. 42
2.5 Consequences for company cash-flow 44
3 Official insolvencies (administration, company voluntary arrangements, liquidation) 45
3.1 Major differences at international level 46
3.2 The world insolvency index 48
4 Economic turbulence 50

CHAPTER 3
CREDIT MANAGEMENT 52
1 Good internal credit management 52
1.1 Definition 53
1.2 Credit management as part of the company's risk management procedures 54
1.3 The development of a credit management strategy within a company 55
1.4 Some key performance indicators (KPI's) for credit management 58
General 58
Number of days of customer credit 59
Days sales outstanding 60
Ageing analysis of accounts receivable 62
2 Other tools for combating insolvency 63
3 The outsourcing of credit management: the credit insurer as global credit manager 64

PART II
OPERATIONAL AND TECHNICAL ASPECTS 65

CHAPTER 4
THE TECHNIQUES OF CREDIT INSURANCE 67
1 **Credit insurance as a working instrument** 67
1.1 Credit decisions 68
Applying for credit limits 68
How do you set the credit limit amount? 69
The credit decision 70
Excluded debtors 73
Confidentiality 74
1.2 Monitoring 74
Warning signals for unpaid debts 75
Start and finish of the cover provided by an agreed credit limit 78
1.3 Collection procedures 80
1.4 Loss compensation 83
Cause of loss 83
Why is there a waiting/protracted default period? 83
Determining the amount of compensation 84
Maximum amount of liability 87
Payment 87
Termination of the policy after the payment of compensation 88
2 **Extending the pure commercial risk** 88
2.1 Pre-delivery or manufacturing risk 88
2.2 Binding contracts 89
3 **Types of credit decision** 90
3.1 Discretionary limits 90
3.2 Temporary credit limits 91
3.3 Limits of restricted duration: temporary increases 91
4 **Excesses or franchises** 92
4.1 General excess per insurance year
(AFL=aggregate first loss; AA=annual aggregate) 92
4.2 Threshold excess (IFL=integral first loss; threshold) 92
4.3 Excess per claim (EEFL=each and every first loss) 93
4.4 Minimum retention 93
5 **Costs for the insured party** 93
5.1 The premium 93

	Premium rate	94
	Notification of turnover	95
	Negotiating the rate of premium	97
	Annual minimum premium	98
	Sanctions for the non-payment of the premium	98
5.2	Limit costs	99
5.3	Collection costs	100
5.4	Fiscal procedures relating to insurance premiums, other costs and loss compensation	100
	Insurance premiums and other costs (collection and study costs)	101
	Loss compensation	101
6	**Use factor**	101
6.1	What is the use factor?	101
6.2	The importance of the use factor	102
	SUMMARY OF THE RESPECTIVE OBLIGATIONS OF THE INSURED PARTY AND THE CREDIT INSURER	103
	Obligations of the insured customer	103
	Obligations of the insurer	103
	PRACTICAL EXAMPLE FOR THE SETTLEMENT OF A LOSS CLAIM	105
a)	Principles	105
	Principles relating to loss compensation	105
	Recovery	105
	Policy conditions	106
b)	Case study: description and definition of the problem	106
c)	Case study: solution	107
	Calculation/payment of the loss compensation	107
	Calculation of the insured party's real loss (after proportional sharing of the recoveries)	108
	CHAPTER 5 INFORMATION AS THE BASIS FOR GOOD CREDIT DECISIONS	109
1	**Why should a company give information to a credit insurer?**	110
1.1	Debtor reluctance to divulge information	110
1.2	The importance of providing information	112
1.3	What information does the debtor need to provide?	112
1.4	Confidentiality	113
2	**Database**	114

2.1	High investment costs	114
2.2	Structured and unstructured data	115
2.3	Proprietary and procured information	115
	Proprietary information: the development of a network	115
	Procured information (from commercial information agencies)	116
3	**Creditworthiness analysis**	116
3.1	Political risks	116
3.2	Commercial risks: the analytical principles	116
	Consistency	117
	The general economic climate and the commercial environment	117
	Annexes of the London Gazette (or equivalents in other countries)	118
	Annual accounts	118
a)	*Traditional financial analysis*	119
b)	*International Financial Reporting Standards (IFRS)*	120
	The management and the shareholders	121
	Relations with customers and suppliers	121
	Age of the company	121
	Payment record	122
	Structured warning signals	123
	Other negative information	123
	CHAPTER 6 RATINGS	125
1	**General**	126
1.1	Types of ratings	126
1.2	Sovereign ceiling	128
1.3	Validity of a rating: one year	128
1.4	Different methodologies	128
2	**Company ratings**	129
2.1	Definition	129
2.2	Categories of company rating	129
	Individual ratings	129
	Group ratings	129
2.3	Rating characteristics for credit insurers	130
	Unsolicited ratings	130
	Point-in-time (PIT)	131
2.4	How a rating is created	132
	Automatic ratings	132

Manual ratings 133
2.5 The ratings used by international credit insurers 134
Rating classifications 135
Failure rates (probability of default) 136
a *What is a default* 136
b *Definition of a failure rate* 137
c *Official insolvency rate* 137
Automatic limit decisions 138
2.6 The added value of a rating with a credit insurer 138
Increased operational efficiency 138
Price setting is not definitive
but is linked to the risk profile of the debtor portfolio 139
Increasing commercial competitiveness 139
Consistent credit policy within a worldwide group 140
Reinsurance policy 141
Rating of the credit insurer 142
3 **Sector ratings** 142
4 **Country ratings (Euler Hermes)** 143
4.1 General 143
4.2 The economic risk 143
4.3 The political risk 144
4.4 The combination: economic risk + political risk = country rating 145
4.5 The importance of a country rating 145

PART III
THE PRIVATE CREDIT INSURANCE MARKET 147

CHAPTER 7
THE PLAYERS AND THEIR PRODUCTS 149
1 **The market situation in the private credit insurance sector** 149
1.1 General 149
1.2 The Big Three 150
Oligopoly 150
Euler Hermes 152
Coface 153
Atradius 153
1.3 Other market players 153
1.4 Credit insurance brokers 154

2 **Two international associations representing credit insurers** 156
3 **Market penetration in the private credit insurance sector** 156
4 **Types of policy** 158
4.1 SME policies 158
4.2 Standard whole turnover policies 159
4.3 Excess of loss policies 159
4.4 Credit management polices 160
4.5 Investment policies 161
4.6 Long-term policies 162
4.7 Export credit policies (including political risks) 162
4.8 Multinational policies 162
4.9 Special cases 163
Top-up cover 163
Cover for single trade credit risks 164

CHAPTER 8
CHALLENGES FOR THE FUTURE 165
1 **The current environment** 165
1.1 Fierce competition 166
1.2 Self-insurance 167
2 **New challenges for the credit insurance product** 167
2.1 Code of conduct 168
2.2 Modernisation of the product 168
From difficult beginnings 168
Some suggestions for improvement 169
a) *The problem of nominal credit limits: too much 'fat or air'* 169
b) *The issuing of notice for credit reductions and withdrawals* 171
c) *Certificate of credit management* 171
3 **Broadening horizons** 171
3.1 SMEs (small and medium-sized business) 172
3.2 Fee business 173
Should we fear cannibalisation? 173
Some possibilities 174
a) *Information: the ratings* 174
b) *Recovery/collection* 175
c) *Credit management* 175

PART IV
RETURN AND IMPORTANCE 177

CHAPTER 9
THE FINANCIAL IMPORTANCE OF CREDIT INSURANCE 179

1 **Trade receivables are an important but sensitive balance sheet item** 179
2 **The cost price of customer credit** 181
2.1 Cash payment (on delivery) 181
The simple method 182
The method with compound interest 182
The supplier's choice 183
2.2 Shortening of the payment period 184
2.3 Commercial considerations 185
3 **Cover against exceptional loss on trade receivables** 186
4 **Interaction between working capital and company return** 187
4.1 Liquidity 188
Net working capital (NWC) 188
Working capital requirement (WCR) 190
Net treasury position 191
4.2 Return 192
Principle 192
Return on assets (ROA) 193
Return on equity (ROE) 196
5 **Credit insurance as an outsourcing instrument** 198
5.1 Possibilities for the outsourcing of credit management functions 198
5.2 Credit insurance is a management tool 198
5.3 Outsourcing credit management functions through credit insurance 200
Stakeholders 200
Relationships with suppliers 200
Relationships with the banks 202
Relationships with customers 204
6 **Synthesis of the financial impact of credit insurance** 208
6.1 How great is the financial benefit? 208
6.2 Premium costs viewed from a different perspective 209

CHAPTER 10
THE ECONOMIC IMPORTANCE OF CREDIT INSURANCE 211

1 Macro-economic impact 212
1.1 Anti-domino effect 212
1.2 Multiplier effect 212
2 Mirror of the economic cycle 214
3 The invisible bank 214
Principles 214
Practical example 216
4 The representative of the suppliers 218
5 The gamekeeper and shock-absorber of the economy 219
6 Confirmation of the economic impact of credit insurance during the recent crisis 220

PART V
LIMITING THE RISK 223

CHAPTER 11
THE CREDIT INSURER AND OTHER SECURITIES 225

1 General 225
2 Retention of title 227
2.1 Definition 227
2.2 United Kingdom 228
2.3 Germany 229
3 Guarantees 230

CHAPTER 12
REINSURANCE 231

1 Definition 231
2 Reasons for reinsurance 232
3 The advantages of reinsurance 232
4 Credit insurers and reinsurance 233
4.1 Three methods 233
Quota or share (proportional reinsurance) 233
Excess of loss (non-proportional reinsurance) 234
Facultative 234
4.2 Who provides reinsurance? 234

The large reinsurance companies 234
Worldwide reinsurance community 235
Cession/acceptance of risk between credit insurers 235
Captive (re)insurance companies 235

EPILOGUE 237

REFERENCE SOURCES 239

ABBREVIATIONS 239

APPENDIX 1:
IDENTIFICATION CODES IN DIFFERENT COUNTRIES 240

APPENDIX 2
REGISTRATION/PROPOSAL FORM FOR A PROSPECT 243

INTRODUCTION

During the financial and economic crisis of 2008-2009, credit insurance featured regularly in the news – and not always in a positive light (such as when cover was withdrawn for future transactions with a buyer, when that buyer was in major financial difficulty). Some criticisms were better founded than others, but generally they were wide of the mark. Most often, they arose because credit insurance suffers from being relatively unknown to the media and the wider public. It was only too easy therefore to concentrate on 'what happened' without understanding 'why it happened.' And as the old saying goes: 'unknown is unloved'. Consequently, it is important that credit insurers, beyond selling their products to individual companies, should make greater efforts to publicise more widely how valuable their cover can be and the role it plays in the broader economic community.

This will involve demonstrating how a company can use credit insurance to its maximum advantage. It will mean showing in detail how a credit insurance policy works. It will include explaining why companies should provide a credit insurer with the (often sensitive) information requested. This book attempts to shed some light on all these issues.

But we should be under no illusions. Credit insurance is a technical product and for this reason, we cannot avoid the use of technical terms. Nevertheless, it is intended to keep things as uncomplicated as possible. In this process, extensive reference will be made to charts and examples that are used within Euler Hermes, the world's leading credit insurer with an AA-rating.

This book focuses on the use of private credit insurance to provide cover against the credit risks involved in commercial, non-retail transactions, usually up to a maximum period of one year. This would be the case, for example, when a supplier delivers goods to a company based at home or overseas and has agreed payment terms involving a defined period of credit. We need to distinguish clearly between this type of private credit insurance and the credit and/or political risk insurance provided by the state, which works more to support the provision of medium or long term financing, relevant to major overseas capital

goods contracts, projects and investments. The issuing of this type of export credit, bond support or investment guarantee is handled by governmental export credit agencies, in support of their country's export effort but within a framework of terms prescribed by international treaty agreements (this framework is designed to prevent an uncontrolled credit race). In the UK the public credit insurer is the ECGD.

The book is divided into five parts, of which parts II and IV are particularly important. In part II, we describe the technical operation of a credit insurance policy and explain how the credit insurer analyses the risk of default. In part IV, we take a look at the financial issues at stake from the point of view of the insured supplier and the importance of credit insurance in a wider economic context. By setting credit limits for buyers, terms of payment and amounts of debt, the credit insurer indirectly exercises a significant influence on the liquidity of the business community.

To a large extent, this book can be seen as a reworking of a book, I wrote some time ago (*Het handboek kredietverzekering. De onzichtbare bank:* The handbook of credit insurance. The invisible bank). The target audience for this first book (published by Intersentia) was the credit insurance sector, banks, legal practices, larger companies and the academic world in Belgium, but also the Netherlands. This present book is aimed at a wider, more international audience, whilst at the same time staying geared to the needs of smaller, non-retail companies. This means that close attention will be paid to the more essential and practical aspects of credit insurance available from the private market. Public credit insurance and judicial matters will only be touched on briefly.

The book is written in easily understandable language, with as little jargon as possible. The hope is that it will contribute towards a better understanding of credit insurance and improved communication between the credit insurance sector and the world of business generally. Credit insurance has a major influence on business liquidity, and ignorance of this fact can sometimes lead to frustrations in the business community. This book will go some way towards avoiding this problem in the future.

Paul Becue

PART 1

Definition and environment

In chapter 1, we define credit insurance and examine its most important principles. In chapter 2 we will explore the economic context. In chapter 3 we analyse the role of credit management within a company: above all, credit insurance must be viewed as an outsourced provider of support, for many of its functions.

CHAPTER 1
DEFINITION AND POSITIONING

1 What is (private) credit insurance?

In terms of European legislation, credit insurance falls under class 14 of the insurance sector. This section is simply known as 'credit'. Private credit insurance indemnifies sellers when trade receivables are not paid for by buyers, whether they are foreign and/or domestic. In other words, it covers the risk that can result from a loss caused by a buyer's insolvency or by his defaulting on an agreed debt. Insolvency is the legal or factual establishment of the financial incapacity of the debtor to pay his outstanding debts. In some countries and in some circumstances, the legal process necessary to obtain a formal declaration of insolvency may take a long time. In this event, subject to the debt being undisputed, credit insurance will normally consider claims under the protracted default cause of loss. In return for cover against these causes of loss, the insured customer pays a premium to the insurer. The cover is dependent on the insured customer having complied with all the conditions of the policy.

Assumption of risk on a buyer normally commences at the point of delivery of the goods and/or services. If the buyer goes 'bust' before the goods can be delivered, the goods can simply be re-sold elsewhere. However, manufacturers of tailor-made products (making them very difficult to re-sell in the event of a buyer's demise before delivery) can buy some protection against insolvency risks in this pre-delivery period.

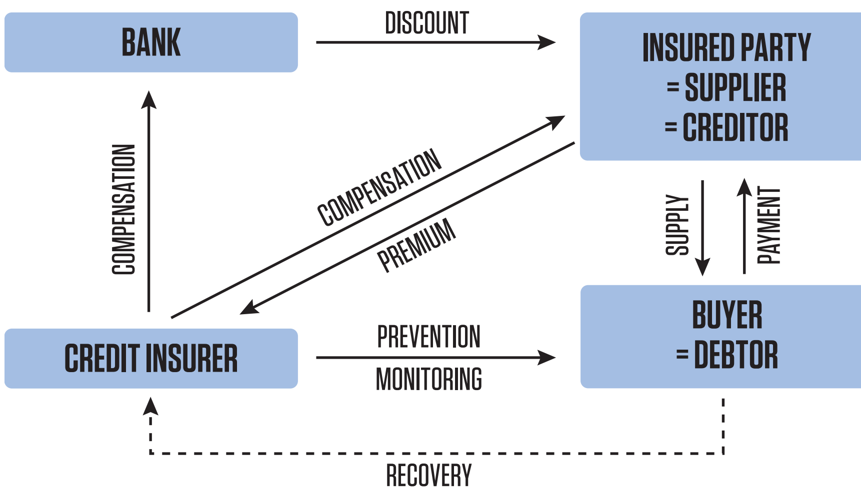
The supplier of goods and/or services, who wishes to insure the risk of non-payment, therefore takes out a policy with a credit insurer. This policy will set out the terms and conditions on which cover will be given and sets a premium. Such conditions and premium are a reflection of the size and spread of the supplier's turnover, the trade sector and the historical experience of bad debts. The supplier's existing credit control systems are reviewed (e.g. what sources of information are used to check a buyer's creditworthiness; what standard actions are taken and when, in the event of non-payment by the due date). Subject to

GOOD TO KNOW

The buyer or debtor has a special status. There is no commercial or contractual relationship whatsoever between the insurer and the debtor: this relationship exists solely between the insured supplier and his buyer/debtor. The credit insurer's only contractual relationship is with the insured supplier. We shall see, however, that the actions of the credit insurer can have an impact on the liquidity and behaviour of the debtor, notwithstanding the absence of any direct commercial relationship between them.

the credit insurer being comfortable with his review, an agreed level of discretion will be granted to the supplier to approve credit limits up to a maximum amount, without further reference to the credit insurer. As a standard condition, the credit insurer will insist upon the insured supplier retaining a share of any loss for his own account. Thus, the indemnity offered will normally be 90% of the policyholder's loss. Any credit limit on a buyer above the agreed level of discretion has to be submitted to the credit insurer for specific approval.

FIGURE 1.1 *The relationship between the credit insurer and other third parties (source: Euler Hermes).*



ATTENTION!

It is essential for all parties that the debtor is clearly identified, both for the insured supplier in terms of his contractual relationship and for the insurer who may acquire the rights of the insured party (a form of subrogation) after payment of the compensation has been made. The insurer will then attempt to recover this compensation from the debtor. This aspect of 'identification' is not found, for example, in theft insurance: in this case, the insurer also has a claim after the payment of compensation, but it is a claim against someone whose identity will probably never ascertained.

In figure 1.1, the bank enters the scenario as a possible third party. Banks provide credit to companies in the form of advances on a current account; for example, through the pre-financing of outstanding trade receivables for which the due date of payment has not yet been reached. As a security, the bank can demand that the company takes out a credit insurance policy, with the eventual payment of any loss compensation being allocated to the bank.

2 Three core tasks

The credit insurer has to recognise that there will be no business to insure, unless the insured customers (the suppliers) are able to generate sales. However, the insured customer has to recognise that unless the buyer pays for the goods/services supplied, those sales will result in a loss. It is on the back of this reconsidered partnership that the credit insurer will work with his insured customer to achieve three objectives:

- Prevention: Every credit case is assessed on the creditworthiness and the ability of the buyer to pay. These factors are then monitored continuously. Credit limits are calculated as the maximum balance that will be outstanding for payment at any one time. The ideal objective, for both parties, is to be able to agree what is required, in order to achieve the desired level of sales. Lower limits than ideally required obviously impact on the supplier's negotiations with his buyer.
- Indemnity: Payment of claims when a buyer with an agreed credit limit (including one set under the insured supplier's discretionary limit) fails to pay.

- Recovery: The credit insurer will attempt to achieve recovery of any loss of payments by co-joining with his insured supplier to pursue the buyer for the outstanding debt. (This might, for example, mean taking legal action to ensure the buyer pays or it might mean arranging a payment plan whereby the buyer pays off the debt over time.)

3 What is insolvency?

In view of these core tasks, insolvency of the debtor is one of the most relevant issues for the credit insurer. This gives the insured supplier the right to receive indemnity on the basis of the financial inability of the debtor to meet its obligations. A company may be considered insolvent if it is unable to pay its debts as they fall due or if its assets are insufficient to discharge its liabilities.

Section 123 of the UK Insolvency Act 1986 sets out when a company is deemed unable to pay its debts (i.e. technically insolvent) and it includes failure to comply with a statutory written demand for a debt exceeding £750 or with a judgment enforcement order, or if the value of the company assets is less than its liabilities.

In the context of credit insurance, insolvency covers a wide range of procedures, which include rescue mechanisms such as administration, schemes of arrangement or a CVA (company voluntary arrangement), and a liquidation which results in the company being wound up and dissolved:

- **Administration**: the main aim of this procedure is to rescue or restructure the company, in order to achieve a better outcome for creditors than might be achieved by liquidation. The administrator is court-appointed and has a duty to act on behalf of all creditors.
- **Administrative receivership**: an administrative receiver is appointed by the holder of a floating charge and acts on behalf of the charge holder, rather than all creditors. This procedure can only be used for floating charges invoked prior to 15 September 2003, when the Enterprise Act was introduced. Exceptionally, some more complex financial transactions, such as those relating to public service companies, still allow for administrative receiverships in all cases.
- **Company voluntary arrangement**: this is the only procedure that allows a debtor to retain legal control over the company, under the supervision of an Insolvency practitioner. This is a collective procedure between the company

and its creditors, which generally requires that part of the debts are relinquished in order to allow the company to continue operations. Agreement on the part of the creditors is required.

- **Liquidation:** this procedure is most commonly used when a company cannot be rescued. The company ceases trading and its assets are realised. The liquidator can be appointed by the company, its shareholders or creditors. The liquidator acts on behalf of all creditors and has powers of investigation extending to the conduct of the directors of the business.

In recent years in the UK there has been a significant growth in the number of 'pre-pack' administrations. These occur when a sale of the profitable assets of an insolvent company is agreed in private through advisers (often with the agreement of the secured creditors), before the company formally enters administration, and without the involvement of the court or a creditors' committee. The advisers are then appointed as administrators, and the sale is immediately completed. Such deals have been the subject of criticism, particularly where the sale is to a party connected to the original owners of the company, because unsecured trade creditors (whose debts are usually eliminated entirely) have no opportunity to influence the process, and cannot always be sure that the transaction has been carried out in their best interests.

4 General principles

4.1 INSURING THE TRADE DEFAULT RISK

As we have seen, the purpose of credit insurance is to provide insurance cover to suppliers against the risk of non-payment for goods and/or services supplied on credit terms. This is the commercial risk. The emphasis is on trade credit in transactions conducted between businesses, and not on sales to individuals. Sole traders can be considered for credit insurance, though they may need to meet specific criteria; e.g comply with the terms of the Companies Act of

> **GOOD TO KNOW**
>
> Credit insurance therefore operates in a business-to-business (B2B) environment. The insured parties are companies, not individuals.

2006 (substitution of section 1201) and the subsequent Regulations of 2009. Non-profit organisations also fall outside the core activities of the credit insurer, since these organisations do not carry out a commercial activity.

Normally, buyers who are state or municipal departments also fall outside the scope of credit insurance cover, since they are deemed to be unable to become insolvent. Contracts with such organisations, within the EU or OECD, need not be declared to the credit insurer. However, contracts with public sector organisations elsewhere in the world may be considered open to the risk of cancellation or non-payment for reasons that are more political than financial. In this case a supplier may consider widening the scope of his credit insurance cover to include political risks. Political risk cover can be taken against the risk that contracts become frustrated by a range of events beyond the control of the buyer and seller (for example: wars, revolutions, etc.); or by economic difficulties, such as a shortage of foreign currency leading to long delays in transferring money; or the imposition of new laws that effectively prevent financial performance.

4.2 INSURING THE GLOBAL TURNOVER OF THE COMPANY

In most cases, a company will be offered a whole turnover policy. The underlying philosophy is that the credit insurer wishes to prevent the insured party from making a systematic selection of risks, so that only the worst of these risks are insured. This is related to the general principle of a sound and balanced spread of risk (mutualisation), on which the insurance world as a whole is based. The provision of cover for 'one-off' risks does sometimes happen, but it is very rare.

WHAT YOU NEED TO KNOW

In principle, the insured supplier's global turnover must be offered for cover to the credit insurer. Obviously, some exclusions are possible (such as the public sector contracts mentioned above), but generally the greater the level of selection being offered, the less acceptable the risk becomes to the insurer.

4.3 THE CREDIT INSURER'S ROLE IN AGREEING BUYER RISKS

The credit insurer not only removes risk from his customer, he also plays a preventative role. This latter function is most important; it is the means by which the insurer offers support to the insured supplier's own credit management policy and practices. Whilst there is a recognition that it is sometimes necessary to take and accept risks in order to succeed – and make a profit – those risks have to be considered acceptable.

Each new request for credit insurance therefore involves a financial analysis of the default risk and, when appropriate, the agreement of a credit limit. If a limit is issued, the risk is systematically monitored. If there is any question of a deterioration in the creditworthiness of the debtor, the credit limit can be reduced or withdrawn for future deliveries. There will inevitably be consultation with the supplier at this point as to the best way to proceed. When a buyer is in danger of going under, he is normally unconcerned about not increasing his debt any further and not taking further deliveries. However, in some circumstances when this is not the case, the credit insurer and supplier will work together, and, if necessary, with the buyer, to find a solution. Obviously, no credit insurer will retain credibility if he withdraws cover without full consideration of all of the facts. He only takes such drastic action when the available information is so adverse as to force his hand.

If a supplier has taken the option to cover the pre-delivery risk in his policy, then the credit insurer knows full-well that he is likely to be at risk for all existing contracts, should a limit need to be withdrawn.

MISUNDERSTANDING

It is sometimes assumed that credit insurers must accept all risks under the terms of a whole turnover policy, even the bad ones. This is not the case. The premium rate for the policy, and other terms and conditions, are indeed set on the basis that the insured party will be offering his whole turnover for inclusion in the policy. But underwriting judgment as to individual buyer credit limits is separate and is part of the support given to a company's own credit management systems.

4.4 INDEMNIFYING THE INSURED PARTY

Notwithstanding the efficient monitoring of the accepted credit risks, claims requiring the payment of indemnity for loss will still occur. No one can foresee all future circumstances and events. Who, for example, would have thought that the banks of the Western World teetered on the verge of insolvency in the autumn of 2008? While the purpose of the insurer's preventative role is to avoid as many insolvencies as possible, when a default does occur the credit insurer will pay the indemnity to the insured party for his loss.

GOOD TO KNOW

The real added value of a credit insurer is to support each individual policyholder by bringing to bear not only his skills in financial analysis, but also his wide ranging experience within trade sectors and the spread of knowledge from his overall client portfolio.

4.5 PARTICIPATION OF THE INSURED PARTY

In principle, a credit insurer never provides 100% cover. Generally, the insured indemnity is 90% of the risk. This means that a claim for £ 1,000 as a result of a business failure will lead to the payment of compensation amounting to £ 900. By insisting that the insured party retains an interest in the debt, the credit insurer wishes to ensure that the insured will also monitor the default risks carefully and, where necessary, assertively. Experience has shown that the granting of 100% cover nearly always reduces the insured party's willingness and enthusiasm to follow up matters (especially in taking recovery action). It is therefore appropriate within the shared responsibility and 'partnership' between the credit insurer and the insured supplier that the latter should also be obliged to carry part of the risk.

GOOD TO KNOW

It is usually stipulated in the policy as a matter of principle that the insured supplier cannot insure his 10% participation elsewhere.

4.6 THE OPTION TO ASSIGN THE BENEFITS OF THE POLICY

The assigning of the benefits of a policy means that any loss due may be paid to the third party to whom the assignment was made, probably a bank. The trade receivables asset in a balance sheet may represent a significant proportion of the company's total assets. If that asset is to be used, in whole or in part, as security for bank borrowing, then the credit insurance policy can be used to enhance that security.

ATTENTION!

The policy benefits can be transferred to a third party for the provision of additional financing security. The credit insurer must agree to this transfer in writing, in order to prevent double-financing of the same debt.

5 How public credit insurance is different

Private credit insurance is entirely focussed on trade-related transactions. Whilst the main focus of public credit insurers is similar, it should be recognised that they and some other private sector insurers also provide cover against confiscation, expropriation and nationalisation risks (in the UK known as CEND), when overseas investments are made. The national export credit agencies (see 5.2 below) also offer financial guarantees and bond support cover in long-term deals (e.g. ships and aircraft).

In this book, however, the focus is on short term commercial trading transactions.

5.1 PRIVATE CREDIT INSURANCE: SHORT TERM

Private credit insurance relates to cover for default and risk of non-payment in respect of debtors, who within the framework of trade transactions (the purchase of goods and services) have been granted credit terms (i.e. a postponement of payment) by their suppliers. Worldwide, this credit insurance market is dominated by three large groups: Euler Hermes, Atradius and Coface.

Historically, private credit insurance companies operated as domestic credit insurers purely within their own domestic economies. Gradually, however, since the 1970's the scope of business has been extended to cover first commercial default risks in exporting to OECD (Organisation for Economic Cooperation and Development) countries and then credit and political risks when exporting all over the world. With increasing globalisation, it is now even possible for international groups of companies (with subsidiaries operating in different countries) to place their credit insurance cover with a single credit insurer.

5.2 PUBLIC CREDIT INSURANCE: MEDIUM AND LONG TERM

Public credit insurance relates to the cover provided by export credit agencies (ECAs). These bodies are sometimes an arm of government itself (e.g. the Export Credit Guarantee Department (ECGD) in the United Kingdom), or insurance companies that are 100% owned by government for the sole purpose of supporting that country's own export effort (e.g. the Belgian National Delcredere Service), or commercial companies given a state guarantee for a specific 'ring-fenced' part of their operation (e.g. Euler Hermes in Germany, NCM in the Netherlands, now part of the Atradius Group, and Coface in France).

The main aim of the state provision of credit or investment insurance is to support local industries in their drive to increase exports. Some level of manufacturing support may also be provided, as can support for bonding requirements ('bond support'), linked to an insured contract. Within the framework of the OECD, a number of agreements exist to restrict public subsidy and unbridled competition between the different member countries with regard to the length of credit that may be provided and, indeed, the type of risks that can be covered in competition with the private sector.

Because state intervention is involved, these ECAs offer intensive support first and foremost to their own exporters, who are registered and pay tax in their own

local national markets. Although the public credit insurance market has been undergoing rapid change in recent years as a result of increasing globalisation, the most noticeable effect has been in the consolidation of the private credit insurance market. As we said in Section 5.1, private credit insurers have been extending their activities globally (including the acceptance of political risks), and are also becoming more active in the field of long-term cover. As the boundaries between public and private credit insurance has become more and more blurred, so the European Commission has moved to counteract the perceived distortion of the competition between the two sectors and has issued a number of Notifications, relating to the distinction between marketable risks and non-marketable risks. Marketable risks are those where capacity is regularly available in the insurance and reinsurance markets. Thus, it is considered unfair for governments to compete in a market whose needs can generally be met by the private sector. An example of this is that public credit insurers may not undertake to credit insure risks in certain countries (usually OECD countries) with a payment period of two years or less.

6 The credit insurance market: a niche in between the insurance and banking sectors

In legal terms, credit insurance in most countries is defined and regulated as part of the general class of 'Insurance':

- European legislation classifies credit insurance under class 14 of the insurance sector.
- As with other types of insurance, the insured party (supplier) pays a premium. In exchange for this, he receives cover against the risk of the possible payment default or insolvency of his customers. If this risk materialises in the form of defaulted payments, the credit insurer will pay the insured indemnity relating to the loss to the insured party.
- As with other insurers, reserves must be set aside, based on actuarial and statistical calculations, in order to meet potential claims from insured suppliers.
- The annual financial accounts must be drawn up in a specific manner, comparable to other insurance companies.
- For the calculation of minimum capital and solvability requirements, the credit insurer is subject to the Solvency II regulations for the insurance sector (as opposed to the Basel II/III regulations for the banking sector).

On the other hand, it is also true that the credit insurer, by the very nature of his task (providing cover for insolvency risk), is involved de facto in the financial analysis of companies. In this respect, his credit analysts also act like those of a bank, with the difference being that the credit insurer places greater emphasis on the short term (in principle, up to one year), whereas a bank dealing with investment credit adopts a much more long-term perspective.

Other points of difference are:

- the credit insurer is not directly involved in funding;
- in general, the credit insurer does not hold guarantees in the same way as a bank; which as a manager of money originating from third parties must (in theory, at least) be perceived to be more cautious in its approach to credit risk. On the other hand, it should be noted that banks are, on the whole, covered by legal charges over the assets of the borrowing party, whereas credit insurers are generally unsecured, relying on up-to-date payment history and buyer information when making their credit assessments of the buyer risk. A credit insurer may also benefit from recoveries obtained from any retention of title.

For all these reasons, credit insurance has been able to create its own niche market.

7 Surety insurance: the mirror image of credit insurance?

Many credit insurance companies are also active in surety insurance, and both insurance branches are regularly treated together under legislation. This is due to the fact that surety insurance can, in a way, be considered as a kind of reverse credit insurance: instead of being paid by the supplier, the premium is paid by the buyer or debtor. The insured interest is the same in both cases: the payment of the trade receivable at due date on behalf of the supplier.

But surety insurance is more than this. Bonds, guarantees and indemnities all form part of the often complex arena of ‘surety’. Surety bonds have been used for many centuries to ‘guarantee’ obligations, particularly between trading parties. References to surety bonds are also found in the writings of Shakespeare and the first corporate surety company was established in the UK in the 19th century.

A surety bond is a means of creating a form of security for the employer of a contractor or service provider, essentially creating a guarantee to compensate for losses and damages sustained as a result of a breach of contractual obligations or insolvency. Bonds are therefore a deed of guarantee rather than a contract of insurance. In most countries bonds can be provided by either major banking or insurance organisations. Bonds are provided and made available, on recourse terms only, where the guarantor's obligation is secondary to the primary obligation of the contractor/service provider under a contract. Unlike indemnity insurance (as with credit insurance), bond premiums are charged for the use of the surety's financial status and guarantee.

Generally, bonds fall into two broad classes:

- On-demand bonds: these can be called at the sole discretion of the employer and are payable at first request. Typically, these would be issued by banks, which do not wish to become involved in potential contractual disputes between the trading parties.
- Conditional bonds: these are bonds where loss or damage has to be ascertained and certified pursuant to the underlying contractual agreements. These would typically be used in support of local contract performance obligations, and are widely applicable to the construction industry.

Typical types of bonds and guarantees would include the contractual bonds:

- Bid or tender bonds: these are issued as part of a *bidding process* to the project owner, to guarantee that the winning bidder will undertake the *contract* as set out in the terms under which they made their bid;
- Performance bonds: these are issued to guarantee satisfactory completion of a project by a *contractor*;
- Advance payment bonds: these *provide* that the advanced *sum* will be returned if the *agreement* under which the *advance* was made cannot be fulfilled;
- Progress and stage payment bonds;
- Retention bonds.

In addition to these contractual guarantees, there are also the legal bonds:

- Customs bonds;
- License, permit or regulatory bonds.

Surety in different countries is characterised and strongly influenced by local laws, customs and markets. International surety companies, often involved in

many lines of international insurance business, will have local specialist knowledge in the field of surety, as well as international expertise from the major insurance centres of the world.

CHAPTER 2
THE ECONOMIC CONTEXT AND OFFICIAL INSOLVENCIES

The economic cycle has a decisive impact on the payment behaviour of companies and, as a consequence, on the number of failures or insolvencies.

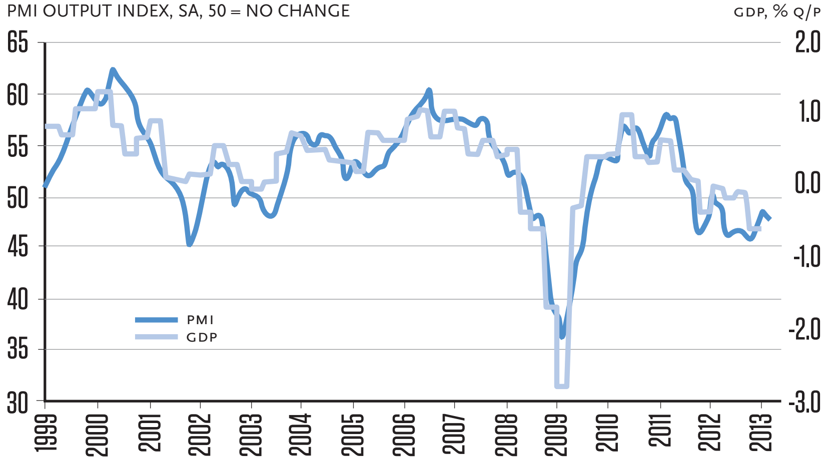
1 The Purchasing Manager's Index (PMI) as Europe's leading indicator.

The working of the credit insurance sector is dependent to a large extent on the prevailing economic climate, and in particular its macro-economic aspects.

This is expressed in the economic cycle, which is a reflection of the current economic conditions at any one time. Markit publishes on a monthly basis its Purchasing Manager's Index (PMI). Markit is a UK global financial information services company. Its PMI surveys are the most closely-watched business surveys in the world (website: *www.markiteconomics.com*), favoured by central banks and business decision-makers for their ability to provide up-to-date indicators of economic trends. The PMI survey is continually tracking variables such as output, new orders, stock levels, employment and prices across the manufacturing, construction, retail and service sectors. Figure 2.1 shows the PMI in the eurozone (i.e. without the UK) for global economic activity. The chart shows that the PMI surveys, which are a reflection of global business sentiment, are closely related to the GDP evolution. A PMI below 50 points towards an economic contraction (or negative GDP). Moreover, while most GDP figures are released after a delay on a quarterly basis, the PMI is quickly published on a monthly basis.

Credit insurance is a cyclical activity. During boom periods – when the economic cycle is favourable – the insured parties will suffer relatively little loss from insolvencies and the insurer will be required to pay less compensation.

FIGURE 2.1 *Markit Eurozone PMI (Purchasing Manager's Index) and GDP (Gross Domestic Product) (source: Markit, Eurostat)*



For the insurer, this leads to growing pressure to reduce the level of premiums and also means that for commercial reasons he will be compelled to accept more risks on potentially 'weak' debtors. When the economic cycle changes and the economic climate becomes less favourable, this can cause considerable problems for the insurer:

- The number of loss claims and the amount of compensation to be paid increases, but the level of premium does not initially rise to the same degree, even though this would be justified in terms of the greater risk now being run.
- Moreover, the turnover of most companies falls during a recession – and turnover is the basis for the calculation of the insurer's premiums, which therefore leads to further reduction in income.

This was the scenario that became a reality during the financial and economic crisis of 2008-2009.

In addition to effective economic growth, the level of growth in world trade is also a significant factor. Table 2.1 compares the growth in world GDP (gross domestic product) with the growth of world trade in goods and services on the basis of volume. A comparison based on the value of goods would probably have enhanced the results still further, in view of the strong rise in the price of raw materials during the period 2003-2006 and in 2010.

Table 2.1 also shows that in recent years world trade has grown faster than the production of goods and services based on world GDP. The only exception was the recession year of 2009. This, of course, is related to the increasing globalisation of the economy and the rise of China as an economic superpower. This is very important for the credit insurance sector, since credit insurers cover the risks associated with possible default in respect of trade receivables. With the growth in world trade, the number and value of trade receivables has also increased strongly.

TABLE 2.1 *Comparison of world GDP with the growth in the volume of world trade (change per year in %) (source: Euler Hermes)*

	World GDP	World trade
2007	+4.2%	+7.2%
2008	+1.9%	+2.6%
2009	-2.0%	-11.8%
2010	+4.2%	+13.9%
2011	+3.0%	+5.9%
2012	+2.4%	+3.5%
2013 (*)	+2.5%	+4.1%
2014 (*)	+3.2%	+5.9%

(*) Forecast

ATTENTION!

The longer the due dates for the settlement of accounts receivable, the greater the chance that the account in question will not be paid on the date due. This can threaten the continued existence of a company. Lack of payment discipline also has an impact on the profitability and cash-flow of the creditor. Late settlement of debts puts a brake on economic growth and reduces productivity, because companies have fewer financial resources at their disposal to make necessary investments.

2 Payment behaviour

It is self-evident that in moments of a weak economic cycle companies will be inclined to settle their outstanding business debts less quickly than in boom periods.

A study by the Intrum Justitia debt collection agency in 2012 revealed that 55 % of the companies questioned admitted to suffering liquidity problems due to late payment. The survey also revealed the amount of debt being written off had grown to 2.8 % of total receivables, reaching the unprecedented level of 340 billion euros, a figure equal to the total debt of Greece or to one-third of total annual healthcare spending across the EU's 27 countries, or more than double the EU's total 2012 budget of 147 billion euro. These are indeed 'serious' amounts.

2.1 SMEs are the biggest victims

ATTENTION!

SMEs are particularly vulnerable in this respect, since they usually have only a limited financial base and liquidity. In these circumstances, an 'accident' in the shape of an unpaid account can have disastrous consequences.

According to a study by the European Commission in 2009, the annual turnover reflected in delayed accounts receivable amounted to 1,864 billion euros, almost two-thirds of which (1,141 billion euros) was owed to small and medium-sized enterprises. These SMEs are doubly vulnerable to the effects of late payment because:

- SMEs experience greater fluctuations in cash-flow; as a result, they frequently need to take out short-term credits to meet their cash-flow needs; however, they often have only limited access to such credits and they are expensive in terms of the interest payable;
- SMEs are frequently dependent for a large proportion of their turnover on a limited number of large customers; these customers can sometimes abuse their position as key accounts by delaying the settlement of invoices for an unacceptably long period;

- the administrative costs of collecting outstanding debts are relatively high for SMEs; they do not have either the specialist personnel or the time to monitor these debts effectively.

In this context, credit insurance certainly offers added value to SMEs.

It was with the aim of offering help of this kind to SMEs that the European Commission issued a new Directive on 16 February 2011, specifically designed to combat late payment in commercial transactions (see below).

2.2 CULTURAL DIFFERENCES

Countries and public authorities

TABLE 2.2 *Payment behaviour in Europe in 2008 (source: European Commission; Intrum Justitia European Payment Index 2008)*

In days	B2B			Public authority		
	1	2	3	1	2	3
UK	**33.2**	**51.0**	**17.8**	**30.0**	**48.0**	**18.0**
Germany	30.0	36.0	6.0	25.0	40.0	15.0
France	49.0	65.0	16.0	57.0	71.0	14.0
Italy	68.0	88.0	20.0	95.0	135.0	40.0
Spain	73.0	89.0	16.0	103.0	144.0	41.0
Poland	29.7	46.8	17.1	27.7	47.9	20.2
Netherlands	26.1	40.0	13.9	27.2	46.0	18.8
Belgium	37.0	50.0	13.0	49.0	75.0	21.0

1 = Average duration – **2** = Average total duration – **3** = Delay

The European Commission has tried to improve these figures with the introduction of its Directive to combat late payment in commercial transactions. The Directive of 16 February 2011 was targeted first and foremost at public authorities, as this is the area with the most room for improvement. Table 2.2 shows clearly that government bodies are currently not setting a good example in this respect: in most countries they take longer to pay than their counterparts in the

private sector. The reason for this is that, in some countries at least, by delaying payments in this manner it is often possible to make the national budget (which is usually drawn up on the basis of cash accounting) seem healthier than it really is.

In the past, companies and sectors that were heavily dependent on state subsidies tended to adopt the same approach: if they had to wait for money from the state, others would have to wait for money from them. If the Directive can persuade national governments to break with this bad habit, the result will be to provide the business community as a whole with greater financial room for manoeuvre. It is therefore important that governments should set a good example to others and should seek to stimulate a more 'moral' approach to correct payment between companies.

ATTENTION!

As far as the payment behaviour of companies is concerned, it is clear that there is a huge cultural difference between Northern Europe and Southern Europe. In Northern Europe the due dates for payment are much shorter and the number of days in arrears is significantly lower. In other words, there is much greater payment discipline. The mentality in Southern Europe is clearly different. Both the due dates for payment and the delays in complying with the due date are much longer. On this basis, it is possible to conclude that the risk of non-payment is greater in Southern Europe than it is in Northern Europe. But it is not a simple task to change this: late payment is deeply ingrained in the culture of these South European countries. As a result, these differences in payment behaviour can sometimes lead to competition distortion within the single market of the European Union.

→ *Sectors*

In addition to geographical differences, there are also behavioural differences between sectors. Companies that are active in sectors such as building, catering, business services, transport and agriculture are the least prompt settlers of outstanding invoices. Institutions and foundations also have a bad reputation in this respect.

Having said this, it is important to place matters in their proper perspective. For example, many of the disputes in the building sector are a result of the discussions held during the provisional completion and acceptance procedure for new building work.

→ *Foreign and domestic markets*

The risk of non-payment increases for companies who export goods to other countries within the European Union. For exporters trading with countries outside the Union, this risk is even greater. The transaction costs are higher as a result of the unreliable nature of the information and uncertainties relating to the market position and the solvency of debtors who do not operate in the domestic market.

ATTENTION!

The unreliability of information means that the buyer also runs a lower risk of damage to his reputation because of late payment when the creditor is located in another member state. In other words, reputational damage decreases as distance increases.

The costs for the provision of trade credit are much higher for exporting companies. The language and legislation are both different and access to solvency information is less complete. This increases the monitoring cost, while the chances of successfully enforcing payment are correspondingly lower.

2.3 THE REASONS FOR LATE PAYMENT

The first EC Directive to combat late payment in respect of commercial transactions, issued on 29 June 2000, foresaw the possibility to claim default interest on the basis of the reference rate published by the European Central Bank, increased with an additional margin of 7%. For various reasons, this has seldom happened – as can be seen from the details in table 2.3.

GOOD ADVICE

According to the European Commission, this is the reason why increasing use is being made of credit insurance and other instruments that help to manage trade risks. They reduce uncertainty relating to income, but they increase production costs by virtue of the necessity to pay the additional credit insurance premium, as well as costs associated with factoring, the purchase of trade information, debt collection, guarantees, etc. This can take a huge bite out of the company's profit margin, particularly for smaller enterprises.

TABLE 2.3 *Reasons for not claiming default interest, expressed in % (source: European Commission; IPM/International Policy Making; EBTP/European Business Test Panel)*

	IPM	EBTP
Fear of losing the customer	58.3	68.5
Procedures too complex to claim interest	47.9	45.9
Competition never demands interest on late payment	37.5	28.8
Default interest is regarded as income	4.9	13.5
Ignorance of the existence of the possibility to claim default interest	11.8	13.5
The rate of interest is unknown	7.6	7.2
Don't know	3.5	5.4

This partially explains the reasons for late payment on the part of the debtors and the relatively passive response on the part of the creditors. In this respect, the elements discussed hereunder are also relevant factors. The European Commission has admitted that it can exert little influence via new legislation on the first two of these elements – market structure and the economic cycle.

→ *Market structure*

The level of competition within a market, the relative power of the market participants and the associated fear of damaging customer relations are important factors. They determine whether or not creditors are prepared to accept late payment and whether or not debtors are likely to try and secure an extension of the payment period.

The most compelling reason for debtors to pay on time is the preservation of their professional and/or business reputation. On the other hand, they know that they are unlikely to be penalised for late payment, in part because the creditors do not want to damage their commercial relations and in part because the legal procedures are too long and too costly.

In general, SMEs are in the weakest bargaining position, particularly in their dealings with larger companies. To secure orders, they sometimes have to agree to long payment deadlines. SMEs often also lack the necessary time and expertise to negotiate contracts effectively. Consider, for example, the one-sided initiative of the brewery group AB Inbev in April 2009 to increase its payment date for its suppliers from 30 days to 120 days.

→ *The economic cycle*

It is easy to understand how a downturn in the economy can lead to an increase in payment arrears. Company turnover falls, with a corresponding decrease in cash-flow. Banks are also more careful about lending money during slumps. This has been plain for all to see since the start of the financial and economic crisis of 2008-2009.

However, a positive change in the economic climate can also result in an increase of payment arrears. Suddenly, the companies are presented with new opportunities for investment, for which they need to make maximum use of their available financial resources.

→ *Access to funding and budgetary limitations*

Monetary policy, liquidity levels and the availability of bank credit can also influence a company's payment behaviour. This is particularly the case for companies where bank credit is a substitute for supplier credit.

Budgetary problems at government level can also have a knock-on effect, resulting in the slower payment of outstanding accounts.

→ *The internal organisation of the debtors and creditors*

The creditor's own credit management procedures, coupled with the quality of their products and services, are important factors in helping to secure prompt payment. However, many SMEs do not possess effective credit management systems to either monitor or prevent delayed payment.

→ *A lack of efficient remedies*

Few companies pursue the option of claiming default interest, because the costs often outweigh the financial benefits. The additional paperwork that the default procedures involve is seldom translated into a net cash gain.

2.4 THE EUROPEAN DIRECTIVE 2011/7/EU OF 16 FEBRUARY 2011 ON COMBATING LATE PAYMENT IN COMMERCIAL TRANSACTIONS.

This new 2011 Directive replaced an earlier version issued in 2000. The 2000 Directive was often referred to as the 'Credit Management Directive', but initially few legislative initiatives were introduced in this domain. The purpose of the new Directive was to secure a degree of consistency in the payment periods adopted by the various member states, since the existing differences between countries were actually leading to unfair competition. In this way, it was hoped that the Directive will act as a form of support for the credit management carried out at company level.

The Directive of 29 June 2000 was the first important step taken at European level to secure the prompt and correct payment of trade receivables. Its provisions were only applicable to national and international transactions between companies or between companies and the government. The Directive was introduced by law in the different EU countries. However, there was little improvement at this stage – and this for three main reasons:

1. The contractual freedom of the individual parties to the business transaction remained paramount.
2. In the event of problems, the creditor was still more likely (for commercial reasons) to waive his right to claim default interest and the related costs: preserving the relationship with the debtor was more important.
3. The government's own payment behaviour set a poor example.

The new Directive 2011/7/EU works within the framework of the European Small Business Act, which aims to reduce the administrative burden on companies. An improved access to funding for SMEs and the development of a legislative and business framework that encourages prompt payment is regarded as one of the ten basic principles of SME policy in the European Union.

The EU now proposes that all invoices should be paid as a matter of principle within 30 days. This applies to both the public and private sectors. Every effort has been made to close potential loopholes, which might otherwise make delayed payment still possible (although this hasn't happened as yet):

- If both parties to a transaction are in agreement, the payment period can be extended to a maximum of 60 days. A longer period is also possible when this is expressly agreed between the creditor and the debtor, and provided that it is not grossly unfair to the creditor.
- Public authorities can also obtain an extended payment period, but this must be explicitly agreed in advance and must be capable of objective justification in relation to the nature and specific features of the contract in question. The European Parliament considers that this period should never be longer than 60 days. In this way, for example, public hospitals could take advantage of the 60 day rule, since they are largely financed on the basis of refunds through various social insurance mechanisms, which often take some time to complete.

In addition, there is also a so-called 'verification period' of 30 days, during which the buyer has the right to check that the goods and/or services provided are in accordance with the conditions set down in the contract of purchase. This period can also be extended, if it is possible to show that complex market conditions are involved (for example, in Italy and Germany), and again on condition that this is explicitly agreed in advance and is not grossly unfair to the creditor. The European Parliament is convinced that this verification period will not be used as an excuse to delay payments unnecessarily.

In the event that payment of an outstanding invoice is not made on time, the creditor has the right to claim default interest on the basis of the reference rate published by the European Central Bank, increased with an additional margin of 8% (instead of the 7% foreseen in the 2000 Directive). In addition, he can also claim minimum compensation for his collection costs in the form of a fixed fee of 40 euros.

As far as the retention of title is concerned (see chapter 11), very little has

changed. It can be exercised in accordance with the relevant national provisions, which, according to international private law, are applicable in such circumstances.

In addition to this Directive, in recent years the European Union has also introduced a number of other Regulations, with the intention of simplifying the procedures for legal claims between member states, including the settlement of unpaid trade accounts. In the first instance, this related more specifically to the introduction in 2000 of the principle of the mutual recognition of legal decisions in respect of civil and commercial cases. This was followed in 2006 by a Regulation introducing the European payment order procedure. The preamble of this Regulation states that the swift and efficient recovery of outstanding debts over which no legal controversy exists is of paramount importance for the economic operators in the European Union, as late payments constitute a major reason for insolvency threatening the survival of businesses, particularly small and medium-sized enterprises, thereby resulting in numerous job losses.

2.5 CONSEQUENCES FOR COMPANY CASH-FLOW

The length of the payment period also has an influence on the financial structure of a company. The longer the average length of this period of outstanding payments (DSO = Days Sales Outstanding), the more heavily it weighs on the assets side of the company balance sheet. We shall see later that this has an important impact on the financing of the company's working capital.

During the preparatory phase of the new Directive 2011/7/EU, the European Commission carried out a number of simulated tests on the basis of the new maximum payment period of 30 days. The tests were confined to B2B transactions (transactions with government authorities were not included). The results for the most optimistic scenario (reduction of the payment period to 30 days and no arrears) showed a cash-flow or liquidity gain of 192.8 billion euros throughout the European Union. The gain for UK companies alone was estimated at 21.5 billion euros.

Even in a more realistic scenario (reduction of the payment period to 30 days and a reduction in the level of arrears proportionate to the shortening of the payment period) the cash-flow gain still amounted to 133.8 billion euros (5.9 billion euros for the United Kingdom).

There is therefore a very clear increase in liquidity. The Southern European countries would reap the greatest benefits from a reduction of the payment period. This is logical, since they currently have the longest payment periods. A reduction to 30 days would give a huge boost to the liquidity levels of companies in these countries, providing them with cash for much needed reinvestment. The situation is reversed in Northern Europe, where most countries already have good payment discipline. The United Kingdom is in a position somewhere between these two blocks, and will therefore also benefit to some extent from the new payment regulations.

Having said this, the simulation was a relatively simple exercise, which did not take account of many other possibly relevant factors, such as potential loss of turnover, contract negotiation costs, the financial consequences of reduced trade credit, etc.

ATTENTION!

It is open to question whether or not the cultural identity of the Southern European countries can be changed as quickly as the EU seems to think, and that payment terms will really contract so strongly.

3 Official insolvencies (administration, company voluntary arrangements, liquidation)

When we speak of official failures or insolvencies, in the United Kingdom we usually think of administration, company voluntary arrangement (CVA) and liquidation. For the credit insurer, the administration and CVA procedures are equivalent to a liquidation. This may seem like a strange assertion, since the intention of both the administration and the CVA is to give companies a last chance by offering them temporary protection against their creditors. But it is precisely this fact that means that the supplier of the goods and services, and after him the credit insurer, will be forced as part of the final rescue plan to remit part – and perhaps a large part – of the debt owing to them. Consequently, the insurer will be required to pay compensation. Having said this, the insurer will continue to view the matter pragmatically: if the administration or CVA procedure is successful, the company will eventually acquire new credit limits, if its creditworthiness permits.

ATTENTION!

As with payment behaviour, there are significant cultural differences with regard to insolvency (or bankruptcy) in Europe.

3.1 MAJOR DIFFERENCES AT INTERNATIONAL LEVEL

A weak economic cycle, resulting in worse payment behaviour, leads to an increase in the number of official insolvencies. Surveys of failed companies have shown that the payment behaviour of customers (and, in the worst case, the non-payment of outstanding invoices) led to liquidity problems and even

TABLE 2.4 *Official insolvencies: number and annual percentage change (source: Euler Hermes)*

	2009		2010		2011	
	Number	%	Number	%	Number	%
UK	**35,185**	**17**	**29,111**	**- 17**	**30,751**	**6**
USA	60,837	40	56,282	- 7	47,806	- 15
Japan	15,480	- 1	13,321	- 14	12,734	- 4
Germany	32,687	12	31,998	- 2	30,099	- 6
France	64,533	12	63,337	- 2	60,655	- 4
Italy	9,400	29	11,400	21	12,094	6
Spain	5,096	76	4,951	- 3	5,910	19
Netherlands	8,040	73	7,211	- 10	7,140	- 1
Belgium (*)	9,421	11	9,579	2	10,224	7
Poland	673	57	691	3	740	7
China	4,448	- 2	3,715	-16	3,043	- 18

(*) For Belgium the figures reflect bankruptcies only, not WCO procedures (similar to the administration/CVA procedures)

insolvency in 64% of cases. Dealing with this insolvency is the core activity of the credit insurers: they provide cover against the insolvency risk.

When assessing table 2.4, it is important not to pay too much attention to the figures: as a result of differences in national legislation, some countries have almost no bankruptcies, whereas others have considerably more. The parameters are also important: do the figures refer exclusively to companies, or are sole traders and perhaps even private individuals included? The credit insurer only provides cover for the (official) insolvencies of companies and sole traders. Spain has very few bankruptcies, since the associated legal procedures are seldom brought to a final conclusion: they are simply too long and too expensive.

TABLE 2.5 *Insolvency index per country: index 100 = 2000 (source: Euler Hermes)*

	Weight in %	2007	2008	2009	2010	2011
World index	100.0	84	106	133	125	119
UK	**4.3**	**85**	**112**	**131**	**108**	**114**
USA (*)	26.8	80	123	172	159	135
Japan	10.4	75	83	82	71	68
Germany	6.3	103	104	116	113	107
France	4.9	115	133	149	146	140
Italy	3.9	53	62	81	98	104
Spain	2.6	125	350	615	598	714
Netherlands	1.5	129	130	225	201	199
Belgium	0.9	113	125	139	141	151
Poland	0.9	37	33	52	54	57
China	12.9	60	63	62	51	42

(*) A weighting of 26.8% is applied for the USA, whereas this country is only responsible for 22.5% of the world's GDP. The reason is that when the index was being calculated, a number of countries were omitted, so that the relative share of the USA in the index increased. This is also the case – but to a lesser degree – for other countries.

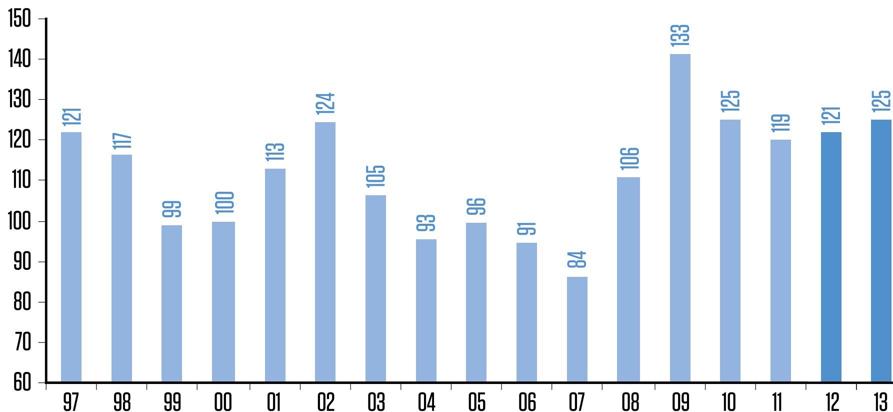
In other words, there are relatively few bankruptcies *de iure*, but *de facto* there are just as many (if not more) as anywhere else. France is an example of a country that takes matters to the opposite extreme.

3.2 THE WORLD INSOLVENCY INDEX

In response to the wide-ranging differences in the official national insolvency statistics, the Euler Hermes credit insurance group developed its own insolvency index. The total nominal number of official insolvencies worldwide (bankruptcies/liquidations, compositions, administrations/CVAs, and other similar procedures in other countries) was deemed to be equivalent to 100 (for indexation) in a given year (2000), so that the evolution of official insolvencies could be monitored year by year. This world insolvency index (see table 2.5 and figure 2.2) is compiled by giving each country a weighting on the basis of its share in global world production. In this way, the emphasis is placed on relative fluctuations, which is more relevant for credit insurers.

In time, this index will be permanently above the 100 level, since the growth of the economy means that the number of companies will continue to increase. Running parallel with this development, the nominal number of official insolvencies will also increase equivalently over time.

FIGURE 2.2 *World insolvency index: index 100 = 2000 (*) (source: national statistics; Euler Hermes)*



(*) Countries weighted with 2011 GDP at current exchange rates

TABLE 2.6 *Insolvency rates per country in 2009 (source: Euler Hermes)*

	Insolvency rate %	Total no.	Source	Total of companies
USA	1.1	60,837	Adm. Office of US Courts	5,752,975
Japan	1.0	15,480	Tokyo Shoko Research (TSR)	1,515,835
Germany	0.9	32,687	DeStatis	3,551,240
France	2.2	64,533	Euler Hermes SFAC	2,925,124
Italy	0.2	9,400	ISTAT, Movimpresse	4,500,000
Spain	0.2	5,096	Inst. Nacional de Estatistica(INE)	3,355,830
Netherlands	1.0	8,040	CBS	844,450
Belgium	1.2	9,421	NIS	763,831
UK	**1.7**	**35,185**	**The Insolvency Service**	**2,119,660**
Poland	0.0	673	Ministerie van Justitie	3,742,673
China	0.1	4,448	China Court/ Sinotrust's creditlink	4,613,000

In this context, there is probably a better way to calculate the insolvency rate per country in the future: namely the total number of official insolvencies offset against the total number of companies. This would allow the level of risk in each local economy to be more easily monitored. The problem with this method, however, is that it is often difficult to get accurate figures for the total number of companies. We might know for one given year the number of new starters in a country and also have available the relevant official insolvency figures, but there is an unknown number of companies that have simply ceased