



Marsh Specialty

Understanding trade credit risks for construction companies

Constructing Excellence Midlands

17 September 2021

Rebecca Liddle, Trade Credit Development Manager

1. Marsh Trade Credit team
2. Benefits of credit insurance
3. Types of credit insurance policies
4. Credit insurance market update
5. Construction market update
6. Construction credit insurance policies
7. Construction credit insurance policies – areas of cover
8. Insolvencies on the rise
9. Questions and answers

Agenda

Presenter biography



Rebecca Liddle

Development Manager in Marsh's UK Trade Credit team

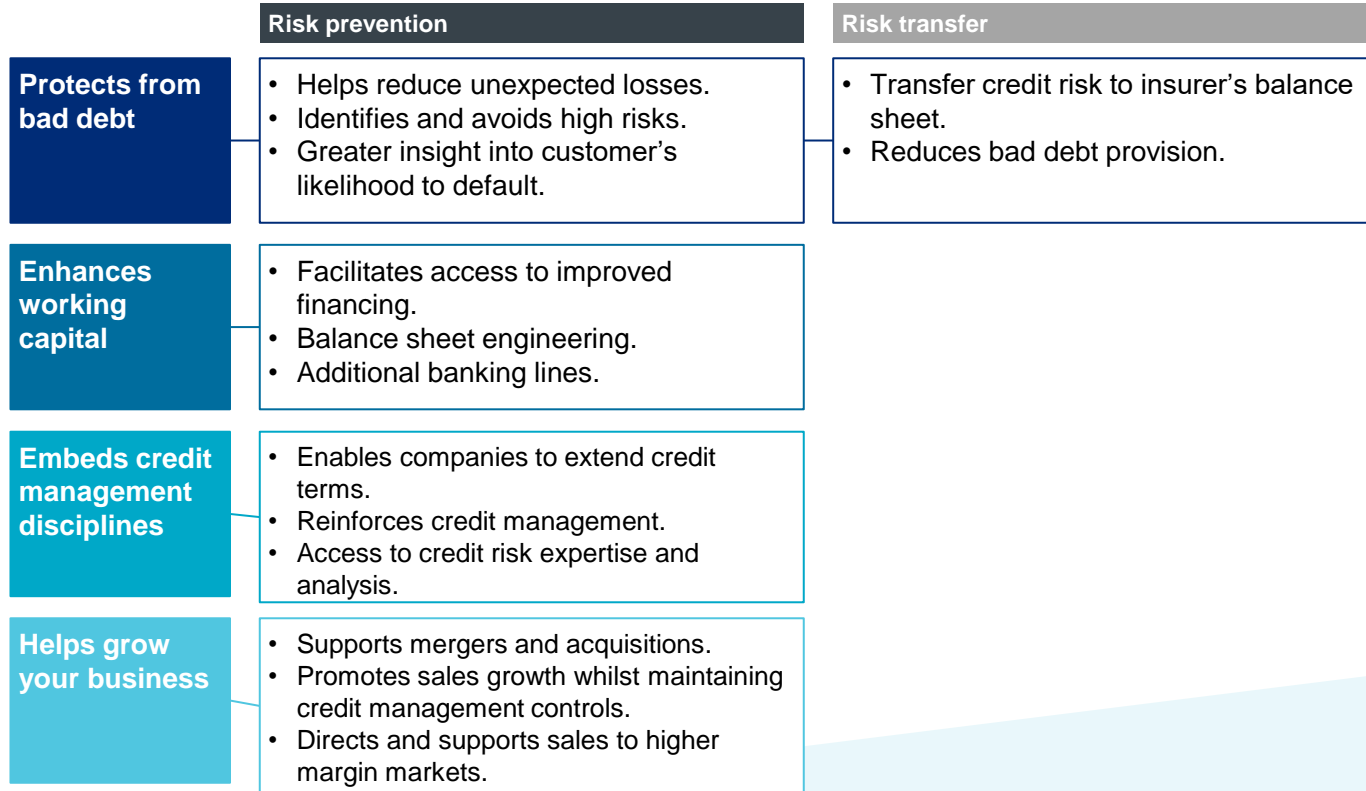
Rebecca works with a range of clients to structure tailored insurance programmes, helping clients to minimise their costs and maximise protection levels. Rebecca has over 12 years' experience in the financial services and insurance industry.

Marsh Trade Credit team

- We have 133 dedicated staff situated regionally to support your needs with an internal claims department delivering dedicated support to policyholders needs.
- We provide a key role by exploring suitable offers to protect and support future trade.
- We have access to all UK underwriters.
- We ensure delivery implementation and most importantly ongoing service support for your business.
- We work on behalf of policyholders.

Trade credit insurance

Strategic business tool



Trade credit insurance programme types

Whole turnover, multi/key-buyer, single-buyer



Whole turnover

Most common policy type. It covers total credit sales (as opposed to key-buyer cover and single-risk cover).

- All domestic and/or export buyers.
- No selectivity.
- Pricing on insurable sales.



Multi-buyer/key-buyer

This covers credit sales to an agreed selection of your largest customers.

- Only select customers insured (requires reasonable spread of risk).
- Pricing on insurable sales or credit limits provided by carrier.
- Credit limits provided on a non-cancellable basis.
- Policy underwritten in conjunction with your credit management procedures.



Single-buyer

Least common policy type. This covers credit sales to a single customer only.

- Investment grade quality buyers.
- Adverse risk selection.
- Pricing on credit limit provided by carrier.

Credit insurance market update

- Government stepped in with a reinsurance scheme until 30 June 2021 to ensure cover was widely available in the market.
- Due to the strength of government support initiatives, insolvencies were broadly non-existent and the government paid out very little in claims.
- Capacity has remained plentiful in the trade credit market post the Government reinsurance scheme, and the appetite for risk remains high.
- Underwriters are seeking more data from debtors ahead of writing risks.
- Trade credit insurers are bracing themselves for an influx of UK insolvencies as the various Government support measures unwind, and businesses are challenged to repay debt and maintain liquidity.

At the start of the pandemic, credit insurers were set to reduce capacity as fears over insolvencies mounted.

Impact on the construction sector

- Co-operation and collaboration within the sector.
- Outlook – office/commercial space difficult.
- Last three months, insolvencies have increased.
- Bidding wars driving prices down.
- Cash focus being lost.
- Lack of supply fuelling price increases in raw materials – fixed price contracts.
- Lack of skilled labour to become a bigger problem long term.

Construction sector performed strongly through the pandemic.

Construction credit insurance policies

- Construction risk is different to the risk of other sectors.
- There are specific underwriters that specialise in construction due to their expert knowledge in providing performance bonds and surety.
- Construction underwriters recognise bespoke nature of where risk is different to other sectors.
- Construction policies can provide comprehensive cover for contractors, including cover for retentions, final account balances, and work done off-site.



Construction credit insurance policies

Key points of cover



Bound contract

Extension of cover where insured is bound into a contract (regardless of whether commenced on site).



Supply-only cover

When materials are delivered to site and invoiced.



Group credit limits

Cover for multiple subsidiaries of the same group.



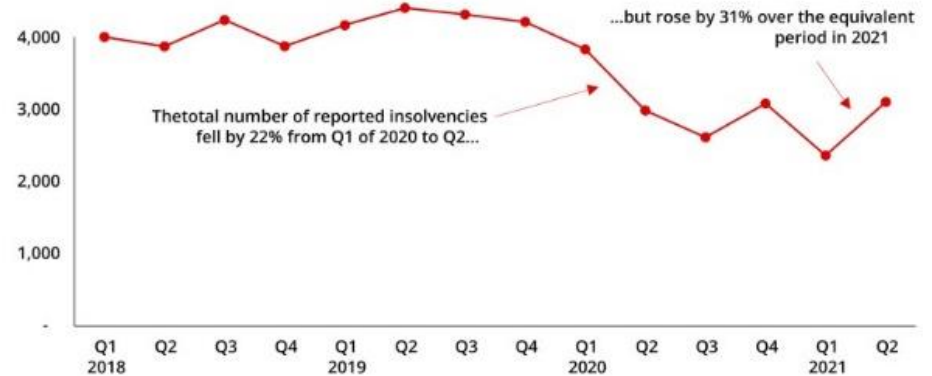
Off-site costs

Cover for materials stored and work done off site.

Insolvencies on the rise

- Data from the Insolvency Service shows that the total number of insolvencies fell by 22% from Q1 of 2020 to Q2, but has since risen 31% over the equivalent period in 2021.
- It's uncertain what the future holds, however, underwriters are confident that there will be an uptick in insolvencies due to the end of the government support. The key question is whether this increase will be a wave or a Tsunami.
- Engage with your broker to review your concerns.

Number of registered company insolvencies in England & Wales, by quarter



**Seasonally adjusted by the Insolvency Service to allow for comparison
Source: the Insolvency Service*



This is a marketing communication.

The information contained herein is based on sources we believe reliable and should be understood to be general risk management and insurance information only. The information is not intended to be taken as advice with respect to any individual situation and cannot be relied upon as such.

This is a marketing communication. The information contained herein is based on sources we believe reliable and should be understood to be general risk management and insurance information only. The information is not intended to be taken as advice with respect to any individual situation and cannot be relied upon as such.

Statements concerning legal, tax or accounting matters should be understood to be general observations based solely on our experience as insurance brokers and risk consultants and should not be relied upon as legal, tax or accounting advice, which we are not authorised to provide

Marsh NV/SA has entered into the UK's Temporary Permissions Regime and is deemed to be authorised and regulated by the Financial Conduct Authority (FCA). Details of the Temporary Permissions Regime, which allows EEA-based firms to operate in the UK for a limited period while seeking full authorisation, are available on the FCA website. Full authorisation will be sought from the FCA in due course. Branch Number BR022344. Registered Office: St Botolph Building, 138 Houndsditch, London, EC3A 7AW. VAT Number GB 244 2517 79.

Marsh NV/SA, part of the Marsh McLennan Companies, Inc. (MMC) group, is a Lloyd's Broker and is registered as an insurance and reinsurance broker with the Belgian Financial Services Markets Authority (FSMA) under number 14.192 A-R. Marsh NV/SA having its registered office at Avenue Herrmann-Debroux/Herrmann-Debrouxlaan 2, 1160 Brussels, Belgium and is registered with the Belgian Crossroads Bank for Enterprises under the number 0403.276.906.

Marsh Specialty, Bowring Marsh, Claims Solutions, Echelon Claims Consultants, Insolutions, Lloyd & Partners, Marsh Aviation Consulting, Marsh Claims Management Services, Marsh Reclaim, Marsh Risk Consulting are trading names of Marsh NV/SA.

Marsh Specialty is a trading name of Marsh Ltd. Marsh Ltd is authorised and regulated by the Financial Conduct Authority for General Insurance Distribution and Credit Broking (Firm Reference No. 307511). Copyright © 2021 Marsh Ltd. Registered in England and Wales Number: 1507274, Registered office: 1 Tower Place West, Tower Place, London EC3R 5BU. All rights reserved.



Chartered

A business of Marsh McLennan