Technical Bulletin
COVID–19 and Credit Insurance

2 April 2020

COVID-19 continues to raise significant concerns around its short, medium and long-term impact on global trade, companies' operating cash flows and the survival of businesses, big and small, across the world. In Aon's latest C-Suite Series report, we explored how Credit Solutions can help businesses navigate volatile economic times and secure trade receivables accounts in their balance sheet.

Non-payment risk transfer via credit insurance

The critical importance of credit insurance coverage in this exceptional period has led companies to look in close detail at how their existing policies would respond to non-payment events in the context of the economic crisis and global insolvencies triggered by COVID-19.

The causes of loss covered by credit insurance policies are Insolvency, Protracted Default, and where applicable, named Political Risks. First and foremost, it should be remembered that there are no standard answers around coverage questions, which in practice span multiple insurer policy forms and different legal jurisdictions. It is recommended that policyholders carefully review their terms and conditions, and seek legal guidance as appropriate, to ensure the scope of coverage is fully understood.

Aon has been engaging with key credit insurance markets at central and country levels in order to proactively monitor their key steps taken related to credit insurance coverage and credit limits actions. As part of this monitoring, Aon has also been reviewing standard policy wordings in the context of COVID-19, to identify any specific coverage loophole.

Identify and clarify any policy exclusions

Insureds should review their policies for any specific limitations and exclusions wording included such as "force majeure", "natural disaster", "pandemic", "epidemic", "outbreak", "crisis" or "governmental action".

At the time of this report, one global credit insurer has specifically stated that it is not considering COVID-19 to be a natural disaster event, and various other insurers have also confirmed to Aon that they take a similar position.

It is possible that Insureds buyers may seek to justify non-payment in accordance with limitations and exclusions in its underlying commercial contract with the insured, we encourage policyholders to:

- Consider the existence and implications in their contracts of any specific limitations and exclusions including "force majeure" clauses, and to seek legal advice as the interpretation of such limitations and exclusions may depend on the contracts governing law and also vary across jurisdictions; and
- Seek where required specific confirmation from their insurer(s) on their position in respect of any limitation or exclusion clause in their policy.

Where a claim is made under an insured entity's policy, some credit insurers have confirmed to Aon that on an exceptional basis and subject to the terms and conditions of the specific policy wording, they will consider seeking a postponement of any assessment of liability for claims until the end of a restricted period event, as stated by the respective government or local authority.

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Focus on operational requirements under the policy

In view of the anticipated increase in the level of claims, the importance of ensuring that the requirements of the policy are met is paramount, as insurers' claims resources come under increased pressure, as do their loss ratios and profitability.

Aspects of the policy administration, such as timely reporting of non-payment, having the correct credit limit justification on a buyer or passing an account to a third-party (or the insurer's) collection agency on time will come under scrutiny.

In anticipation of a significant increase in policy administration related to a spike of non-payments, some insurers have already begun relaxing policy parameters and amending certain tolerances and thresholds of policy requirements to provide flexibility to policyholders on various matters such as overdue reporting deadlines and extensions of the due dates of their invoices.

However, stop shipment dates to limit any increase of potential liability have not been changed, so remain as specified within the policyholder's schedule. The potential discrepancy between the stop shipment date, the revised due dates and the overdue reporting date can be confusing; and it is therefore critical that policyholders check that their understanding of the amended requirements are correct, discussing their position with a specialist broker and the insurer if required.

Key take-aways for credit insurance policyholders

As policyholders consider the impact of insurer actions linked to new sales, other aspects of their coverage should be carefully considered:

- Generally speaking, insurers expect policyholders to exercise due care and prudence when advancing new credit to their customers even under committed insured credit limits and to act as would a cautious uninsured.
- Policyholders should anticipate that some insured credit limits may be reduced or cancelled, specifically for stressed buyers with poor risk ratings and in high-risk sectors:
  - **If cover is reduced**, we would encourage policyholders to review the applicability of any grace period or delayed effect provisions for the effectiveness of these changes that might be available in the policy.
  - **Where Pre-shipment coverage exists**, we would encourage policyholders to look carefully at the terms of the credit limit withdrawal, you may wish to negotiate the ability to supply finished goods to the buyer.
  - **Where Suppliers have commitments under Binding Contracts cover**, we would encourage policyholders to consider the timeframes for reporting any such obligations and the duration of the cover for fulfilment to be covered under such contracts.
  - **Where coverage has been removed** (no availability to make new covered deliveries), policyholders may consider the recoveries clause of your policy and, where appropriate, request salvage waivers for any deliveries made on an uninsured basis.
- Should an insured buyer seek to reschedule an existing debt or extend a due date, examine whether the relevant policy language requires carrier approval in order to maintain coverage. We would caution against any unilateral policyholder decisions towards re-scheduling without confirming with their insurer(s) whether such action may jeopardize coverage.
- Reporting requirements have in many cases been made more flexible to meet the circumstances, however policyholders should be clear as to what these changes are and above all ensure prompt notification to insurers of any event likely to cause a loss under the policy.
- Broking advisors are available to i) provide guidance around clarifying specific policy terms, ii) manage updates from insurer actions, as well as iii) help coordinate engagement with the insurers to receive specific confirmation of the interpretation of certain clauses if required.

For more insights around Credits Solutions that support businesses Download a copy of Aon's latest C-Suite Series report.

For more information around overall pandemic response, access Aon's COVID-19 Response Site.

About Aon

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