C-SUITE SERIES

CREDIT SOLUTIONS

How the food and drink sector can use credit insurance to ride out the storm

15 May 2020

From covering bad debt, to solving working capital issues, credit insurance solutions can be a lifeline for many businesses.

As the current COVID-19 pandemic continues to challenge businesses, the food and drink sector can take some comfort from its key role in making sure the population has access to critical supplies. While many industries are reducing or even suspending activity, the demand for food and drink has been at record levels. Towards the end of March, the Guardian reported some supermarket stores seeing weekly takings up by as much as 50-75%, with an extra £1 billion in UK food sales ringing through the tills during the first three weeks of the month.

Greater demand brings additional challenges to food producers, from hiring additional staff and ensuring they have a safe work environment, to making sure the supply chain can deliver, and juggling supplier payment terms. It's an industry where cash flow is often a challenge at the best of times with customers regularly looking to extend credit terms from 30, to 60 or 90 days. The 'cash is king' cliché has never been as appropriate as it is now and the businesses who are more likely to ride out this crisis are the ones who are agile in securing the working capital and liquidity they need to enable continued trade, while also protecting their balance sheet from bad debt. To do that, they'll need to pull all the financial levers at their disposal, which includes the use of credit insurance solutions.

Credit insurance solutions – to buy or not to buy

Credit solutions usually revolve around the core product areas of trade credit, structured credit and surety. Trade credit is the most prominent within the food and drink industry, and those businesses that buy it and have had the reason to make a claim see it as being hugely effective because it has saved them from a credit exposure. Those who have never had cause to use it may question the value in continuing to buy the cover. This argument needs to be carefully balanced in the context of a hugely volatile trading environment which has seen more than its fair share of high-profile insolvencies.

Do you have the financial defences?

Trade credit is an effective cover and if businesses choose not to buy it, the next question should be, "how are you prepared to financially defend yourself if one of your big customers defaults?" This leads to a broader discussion around the level of diversification within the customer base, and the financial strength (or otherwise) of those customers. For example, does an organisation have a key dependency on two or three supermarket chains? Or is their risk spread amongst a wider range of smaller customers?

Credit insurance can be about more than managing bad debt – used strategically, it has the potential to help unlock working capital, maximise balance sheet efficiency and support new growth – all of which could be critical to help businesses withstand the short and long-term buffeting from the COVID-19 health emergency.

The current volatile environment is reducing the appetite of banks to lend but, as Aon's latest C Suite Series report which takes a closer look at the often untapped potential of credit insurance – Driving growth through uncertain times – finds, "by insuring credit risks posed by their clients' yet-to-be settled invoices and payment obligations, [credit insurers] make it easier for banks to lend against this asset."

AON
Empower Results®

Value in the triangle

Many of the more sophisticated food and drink businesses are using credit solutions in a triangular relationship between themselves, the insurance broker / credit insurer and their bank to help make it easier to borrow. That triangular relationship is a smart one to engage in – particularly in this new environment – and one that every participant in the triangle benefits from. It is a CEO's job is to figure out how to grow safely and carefully in these volatile times, supported by a CFO's whose role is to work out how to find the money to make that happen – working with the credit insurance market could be one of the pieces needed to complete that puzzle.

If a business is looking to use that money to explore new markets, then there is another – often overlooked – part for credit insurers to play. Say a business decides to export to South East Asia for example, will it have the data and analytics on a potential customer in Vietnam to be sure that client represents a good credit risk? That's where credit insurers can come to the table with their intelligence built up on those potential customers and what the experience might have been like for other suppliers. This service can be invaluable for a business looking to grow in new territories.

Insurer appetite

Of course, some businesses may question whether credit insurers will still have appetite for the risk given markets have been hardening and capacity has shown some signs of constricting. Insurers are likely to continue to underwrite food and drink business because it's a sector that will not see a demand downturn anytime soon, but it will be the better run businesses who are more likely to secure the required levels of cover.

Some simple advice when it comes to securing credit insurance is to engage early with your broker before renewal and work closely with the broker to ensure the risk is clearly articulated to the insurance market. The more insight on your business that you can provide, the better, While an underwriter may see food and drink risks as homogenous, the reality is that if a beef processor is selling to a new customer in Indonesia, for example, the possibility of payment default is probably far greater than if the business was selling to a major UK supermarket where there is a long and established relationship. A credit insurance underwriter will also want comfort on the profile of the risk and will be looking at how receivables are managed internally e.g. is there a robust credit control process? How does the business look at aged listings? Does it engage early on debt that looks like it might be going bad?

Get that right, and the odds are that there will be cover available for food and drink businesses; and the opportunity to use the credit insurance markets not just for bad debt but also to enable growth and profitability in the challenging months and years ahead.

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

Aon plc (NYSE:AON) is a leading global professional services firm providing a broad range of risk, retirement and health solutions. Our 50,000 colleagues in 120 countries empower results for clients by using proprietary data and analytics to deliver insights that reduce volatility and improve performance.

For further information on our capabilities and to learn how we empower results for clients,please visit: a**on.mediaroon.com**

Aon UK Limited is authorised and regulated by the Financial Conduct Authority.

Disclaimer

Any statements concerning legal matters are based solely on our experience as insurance brokers and are not to be relied upon as legal advice, for which companies should consult their own professional advisors. As regards insurance coverage questions, whether coverage applies or a policy will respond to any risk or circumstance is subject to the specific terms and conditions of the insurance policies and contracts at issue and the relevant underwriter determinations.

Whilst care has been taken in the production of this report and the information contained within it has been obtained from sources that Aon believes to be reliable, Aon does not warrant, represent or guarantee the accuracy, adequacy, completeness or fitness for any purpose of the report or any part of it and can accept no liability for any loss incurred in any way by any person who may rely on it. Any recipient shall be responsible for the use to which it put

Empower Results®