

Credit Insurance – A different view of risk

Mark Powell – Executive Director

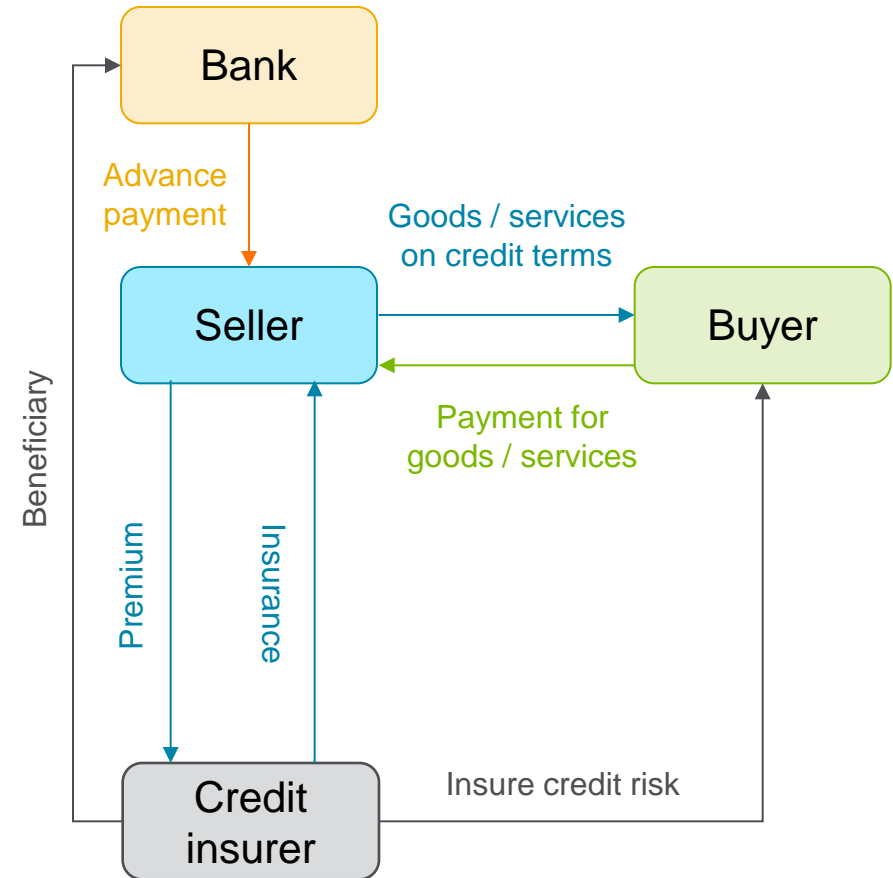
Aon Risk Solutions – Global & Specialty Clients | Trade Credit

July 2013

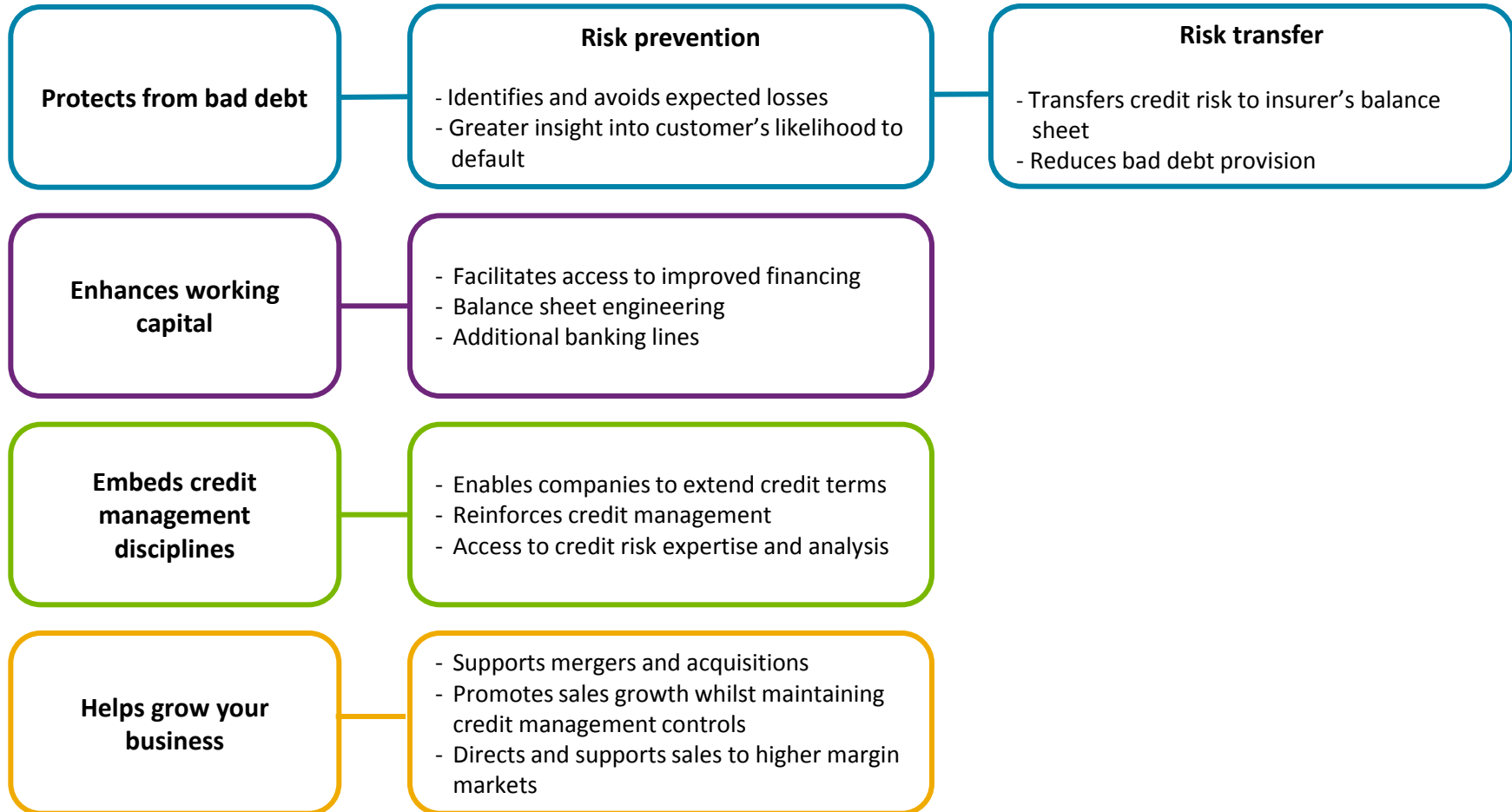


What is Credit Insurance?

- Protects the “debtor” asset
- Insures against non-payment by the creditor i.e. bad debts
- Relates to B2B transactions
- Trade related (not a financial guarantee)
- Covers UK sales & exports
- Purchased by SMEs, corporate, multinationals
- Discretionary purchase
- Different policy structures-ground up, top account, catastrophe
- Purchasing drivers vary for each business



Benefits of Credit Insurance



Timeline of developments

Late 1970's & 80's

- TI Domestic & ECDG Export – underwriters walked to Old Street to extrapolate information from Co's house onto their forms. Limit requests took on average 7 days. All done by post. Policies predominantly whole turnover, typically with 75% indemnity and with small D/I's

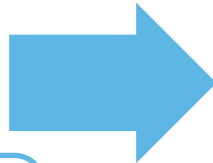


80's – 90's

- Introduction of Excess of Loss via PAN Financial. Information systems starting to develop. Move towards more readily available data. Microfiche replaced by Infocheck & D&B CD ROMS. Limit requests starting to be faxed.

90's & 00's

- Development of online insurance systems. Data available online. Additional underwriters coming into market. Expanded product offering.



00's to date

- Approximately 15 insurers now operating in London market. Global underwriting platforms. Policies tailored to suit. Typical indemnity levels a 90%. Typically 80% in 48 hours.

Credit insurance market overview – the insurers



Investing in information gathering-the big three

- Euler Hermes
 - 300 risk analysts globally
 - UK-45 risk analysts
- Atradius
 - 160 offices and local co-operation partners
 - UK-45 risk analysts/5 risk consultants
 - 5 risk offices in the UK
- Coface
 - Offices in 66 countries
 - Credit insurance cover available in 95 countries
- Underwriter risk analyst role
 - To assess public information
 - To conduct buyer visits
 - To review economic and sector changes
 - To monitor buyer risk



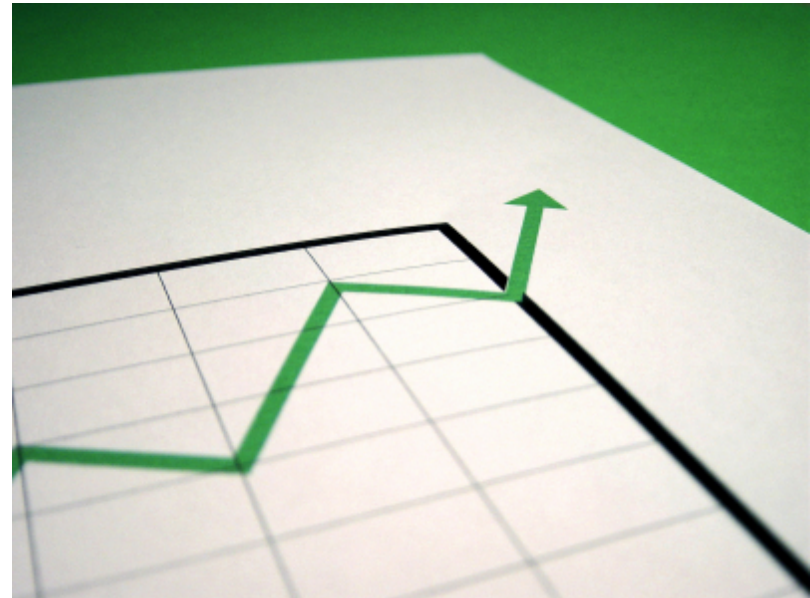
Why are people buying credit insurance?

- Uncertainty of future levels of business failures- domestic and export – Trend – down, but some big hits
- Commercial & Political Risks covered
- New markets / products / identifying new credit worthy customers
- Information on buyers
- Switching from CILC terms to open account terms
- Accounting advantages
- Finance
- Tax advantages – captives



Key issues

- Reliance upon financial information – reporting Requirements
- Zombie businesses
- Fraud
- Pre-packs
- Company voluntary arrangements
- Worldwide Failures
- UK Failures
- Surprise Failures
- Outlook 2013-2014



Financial information

- Total companies on the UK register 3,044,768
- Active companies 2,777,995

	Small companies	Medium companies	Large companies
Balance sheet	Abbreviated balance sheet with notes.	Full balance sheet.	Full balance sheet signed by a director.
Profit and Loss	No. Profit and loss account or turnover are not required.	Abbreviated profit and loss account (no turnover disclosed).	Full profit and loss account including turnover.
Turnover			
Auditor's report	Special auditor's report (if required).	Special auditor's report.	Auditor's report signed by an auditor.
Directors' report	No.	Yes.	Yes. signed by a director or the secretary of the company.
Notes to the accounts	No.	Yes.	Yes, and if appropriate, group accounts.

- Micro entities (proposal for accounts ending 1st October 2013 onwards)
 - Balance Sheet £350k or less
 - Turnover £700k or less
 - Employees 10 or less

Zombie businesses – Ticking time bomb?

- Insolvency levels continue to trend below the level that you would expect in the current economic environment
- Failures tend to be high profile, but insolvency trends in Q1 have continued to drop
- Circa 150,000 businesses fitting “Zombie” profile operating within the UK
- Companies in the zombie state are able to just about manage to service their debts by paying modest interest in the current low interest environment.
- When facilities mature will banks still have appetite?
- Sector specific approach



Fraud

- What are we seeing in the UK market?



- Several applications in a short space of time following no previous activity
- Recent change of registered address and director
- Location of the risk – Manchester which is a Fraud Hotspot
- The director "approving" the accounts wasn't a director throughout the trading period

Fraud

- Fraudulent invoices – non existent invoices raised (usually with real ones) which will then allow the business to draw against facilities
 - Fresh air invoices – seen as a short term measure, but will almost always snowball
 - Very difficult to spot – quite often only identified post insolvency
- Inflating the level of stock held within the business
 - Artificially inflates the strength of the balance sheet
 - Can allow businesses to draw down on facilities that are secured against stock



Pre-Pack insolvencies

- An arrangement under which the sale of all or part of a company's business or assets is negotiated with a purchaser prior to the appointment of an administrator, and the administrator effects the sale immediately on, or shortly after, his appointment – **Association of Business Recovery Professionals**
- **For** – When structured correctly pre-packs can be a highly effective way to ensure the best deal for creditors and employees of the company
 - ♦ Minimum disruption to the underlying business
 - ♦ Brand value etc
 - ♦ Can save jobs
 - ♦ Assumption that trade with current suppliers and customer will continue
- **Against** – The system can be abused and general creditors are the entities that tend feel the negative impact
- In 2011 the Insolvency Service was notified of 723 pre packs – 25% of all administrations during that 12 month period
 - ♦ 85% of sales to a connected party
 - ♦ 50% of IPs undertook some marketing of the business

Pre-Pack insolvencies

- Ongoing Developments
 - Original proposal that Insolvency practitioners would have to notify creditors in advance of a pre-pack and allow three days for proposals to be challenged
 - Government not convinced of benefits and proposal scrapped
 - March 2013 – Government announced an independent review of the pre-pack process – watch this space

- SIP 16 – Statement of Insolvency Practice
 - SIP 16 report provided to The Insolvency Service outlining reason for pre-pack process being utilised
 - Revised professional standard introduced in May 2013
 - To ensure that pre-packs are only conducted with strong justification

Company voluntary arrangements

- Procedure intended to assist in the rescue of a company in financial difficulties
 - Allows company to agree a composition or an arrangement with its creditors of some of all of its debts
 - Creditors - majority of 75% in value of a company's creditors present in person or by proxy voting at a meeting to approve the CVA
 - Shareholders – More than 50% in value of the company's shareholders present or by proxy and voting on the resolution to approve the CVA
- Q1 2013 data shows 142 CVAs for the period, this being a 18.9% decrease on Q1 2012



Worldwide failures 2012

- **Air Australia** – Top 10 airline
 - **Spanair** – Spain’s fourth largest airline
 - **Q-Cells** – Worlds largest producer of solar cells
 - **Schlecker** – German drugstore – 47,000 jobs
 - **Neckermann** – German bankruptcy – 2,400 jobs – UK equivalent is ‘Argos’
 - **Eastman Kodak** – US \$6.2bn pre-petition assets
 - **Digital Domain Media Group** – stock market valuation of US \$400m in May 2012
 - **Eircom Group** – largest ever Irish corporate failure
 - **San Bernardino**
 - **Mammoth Lakes**
 - **Stockton**
- California cities filed for Bankruptcy



2012 UK failures

- Game
- Clintons
- Peacocks
- La Senza
- Jane Norman
- DBC Foodservice
- Past Times
- D2 Jeans
- Pumpkin Patch
- Glasgow Rangers
- Waverley TBS



2012 surprise failures

- **Samuel Cooke & Co Ltd**

- Independent oil distributor - £100m+ turnover
- Graded 5 until Administration July 2012
- Alleged Fraud

- **Petroplus**

- Europe's largest independent oil refiner - £300m+ turnover
- Graded 6 until November 2011
- Administration January 2012

- **Swallow Foods International Ltd**

- Meat trader - £45m turnover/20 years trading
- Graded 6 until Administration 6th September 2012
- HSBC pulled its Invoice Discounting Line

- **MJN Colston Ltd**

- Building Services - £96m turnover
- Graded 6 until January 2012
- Administration February 2012



The outlook for 2013-14 –The insurers' experience – interesting?

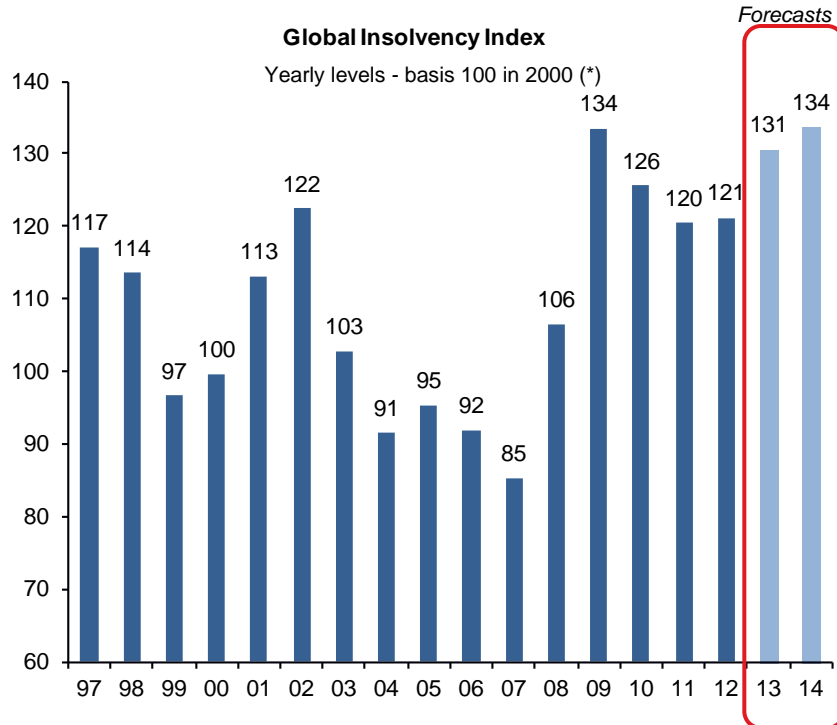
- Update of overdues and claims:
 - **Atradius**
 - Q1 2013 – Number of claims down 2.5% compared to Q1 2012
 - Notifications of Non Payment – Q1 2013 up 2% compared to Q1 2012
 - **Euler Hermes**
 - Overdues & claims up 20% on pre crisis levels in 2013
 - Overdues “values up dramatically year to date”



World insolvencies to increase by +8% in 2013 and +2% in 2014, after a rebound of +1% in 2012

After a first rebound in 2012 (18% above its pre-crisis average level), our Global Insolvency Index is expected to increase by +8% in 2013 (+4pps compare to last forecast)

This forecast clearly points out the insufficient momentum of the recovery in Europe



Insolvency Index by EH region

Base 100 : 2000	% of World GDP (*)	Weight	2012	2013 f	2014 f
Global Insolvency Index	84,1	100,0%	1%	8%	2%
Americas Index	28,8	34,2%	-15%	-6%	-5%
Asia-Pacific Index	25,0	29,7%	-5%	1%	2%
Northern Europe Index	13,0	15,5%	5%	1%	-3%
Germany-Austria-Switzerland Index	6,9	8,2%	-5%	1%	-2%
France Index	4,1	4,9%	2%	2%	-1%
Mediterranean countries Index	6,3	7,5%	28%	33%	12%
Euro zone Index	19,2	22,8%	16%	21%	7%

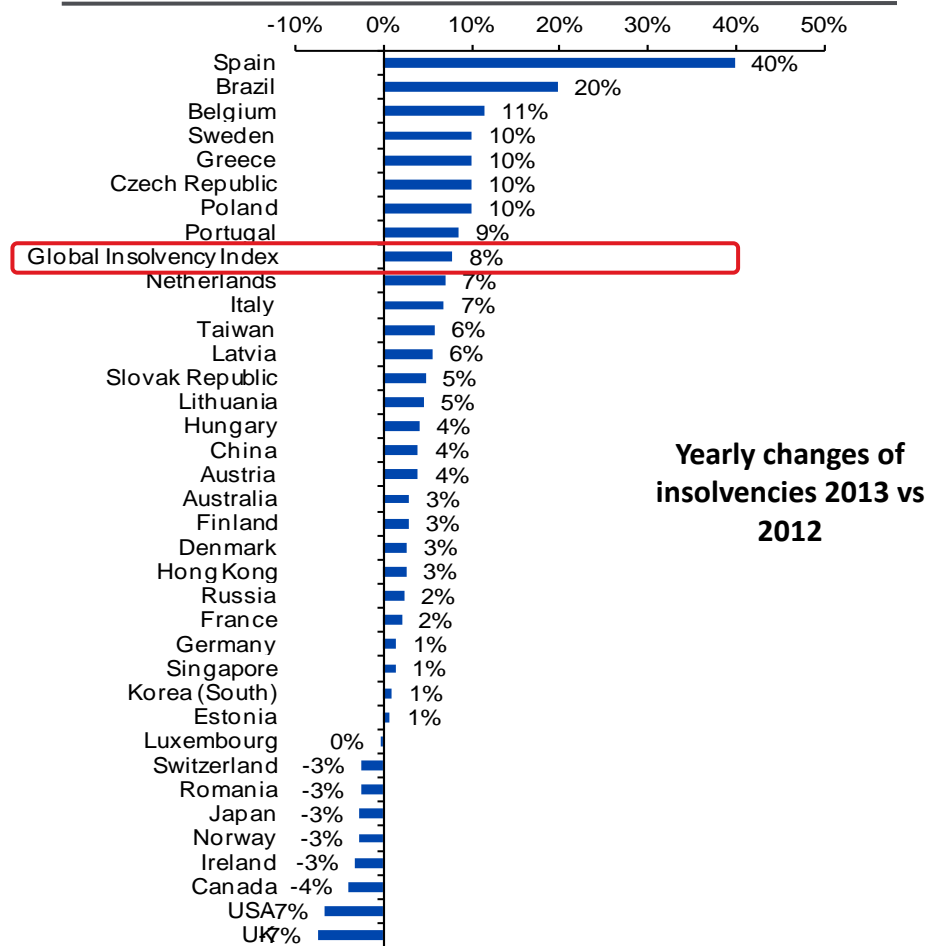
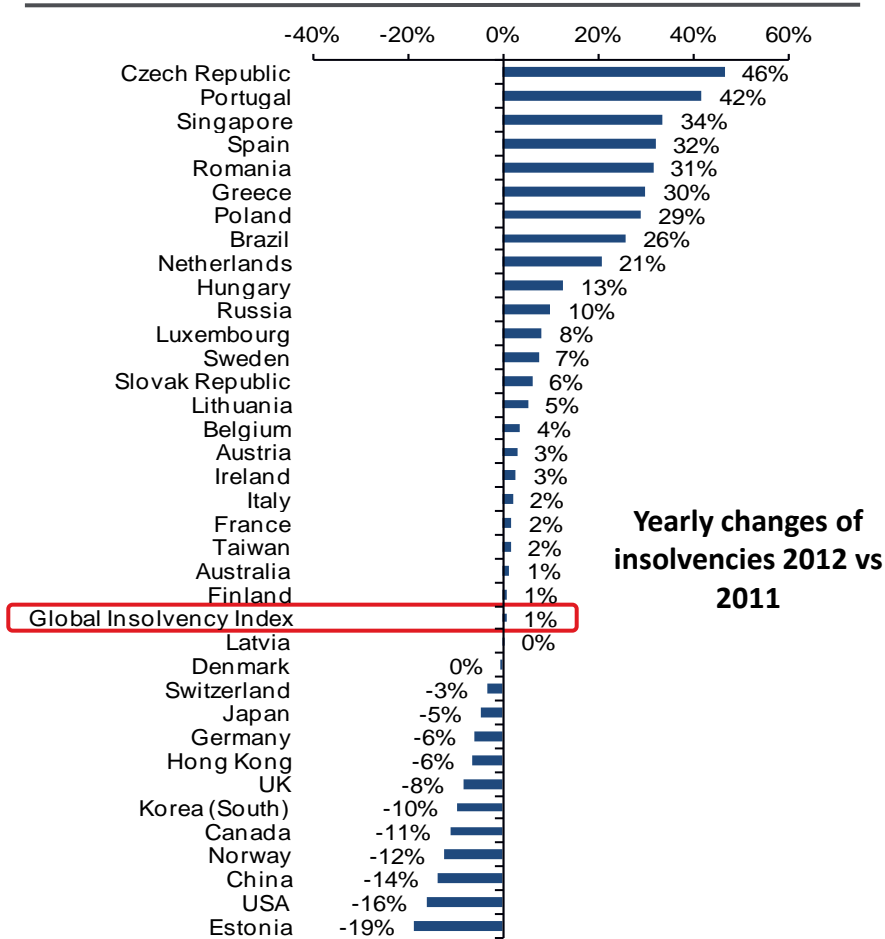
Sources: national statistics, Euler Hermes
(*) Countries weighted with 2011 GDP at current exchange rates

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Summary of 2012 and 2013 insolvency forecasts

2012: upside trend for 26 countries representing 27% of world GDP

2013: upside trend for 29 countries representing 44% of world GDP

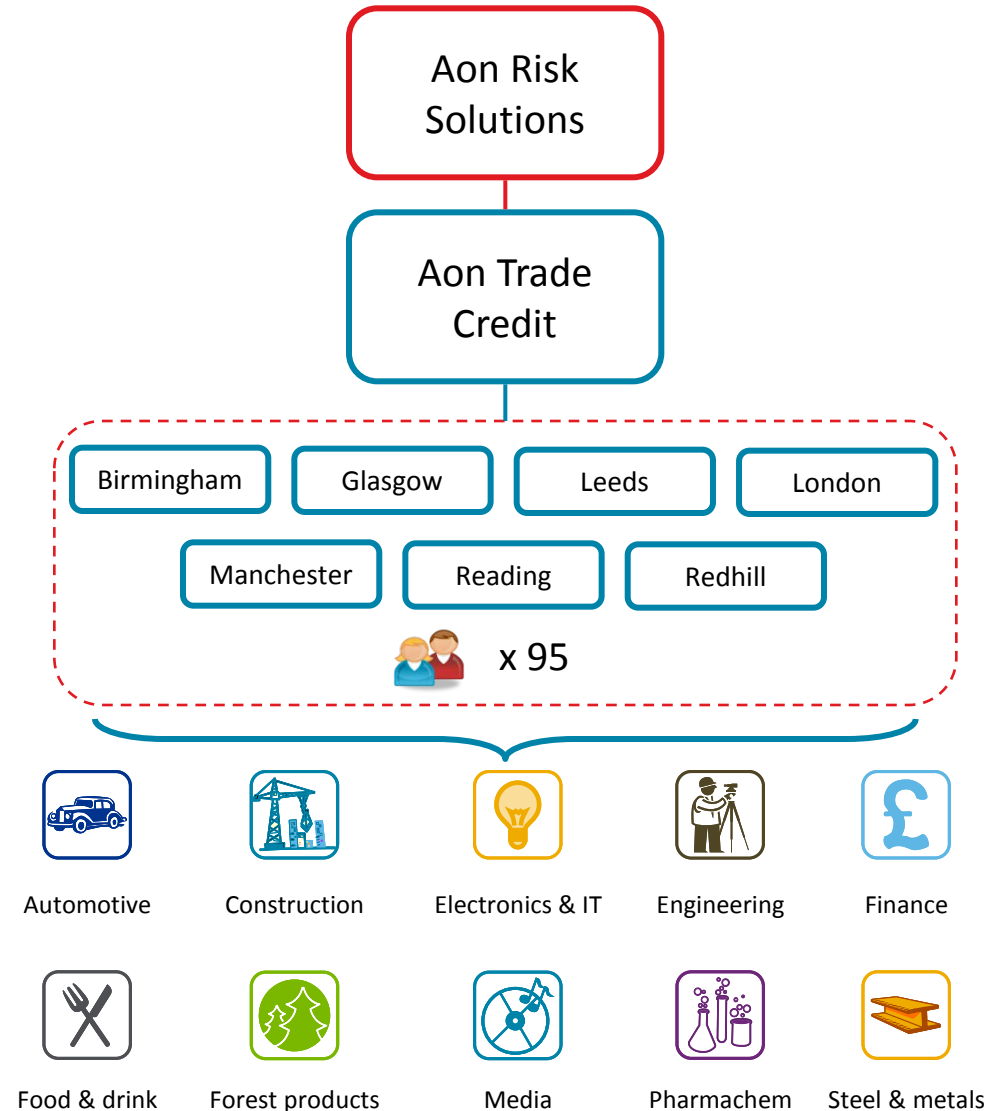


Source : Euler Hermes

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A bit about Aon Trade Credit

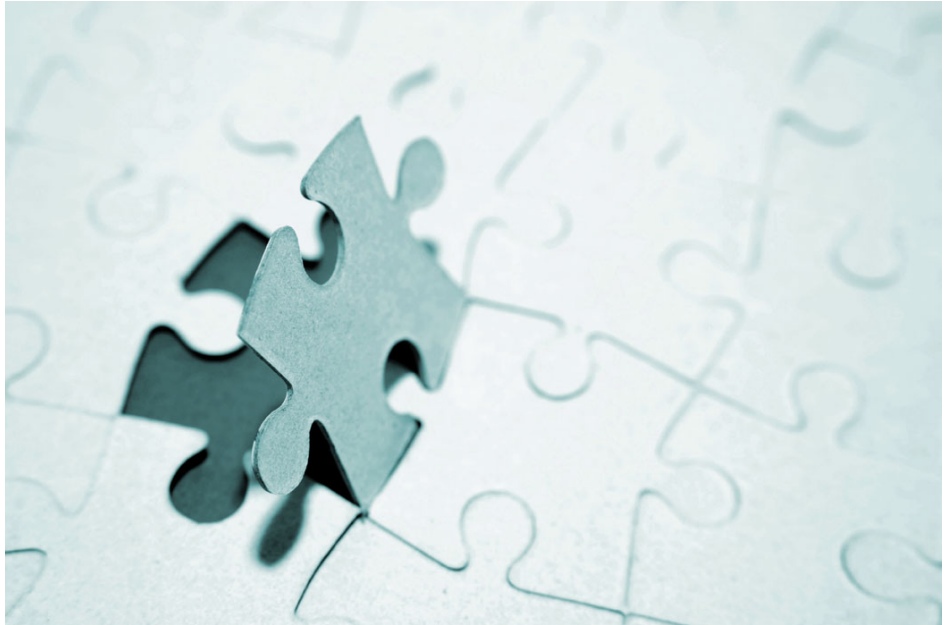
- An independent business of Aon Plc
- We sit within Aon Risk Solutions that provides general and specialist insurance services to its corporate and multinational clients
- We have a 95 strong team of specialists in the UK, located in 7 offices
- We work as part of a global team of 467 specialists in 55 countries
- We are the market leading trade credit broker, both in the UK and the world
- Crossing our UK branch structure, we have specialist sector teams to support our clients. Media is one of our key teams, and again, we're the leader in our field



Can we be of help now?

As an Introduction Aon will come to you to provide a free:-

- Analysis of risk your profile
- In depth analysis of chosen risks
- An introduction to risk grading
- Your suitability for Credit Insurance
- Free health check on existing programmes



What can Aon do for you today?

Your company information

Full company name:

Co. reg. no:

Full address and postcode:

Parent company name:

Your contact information

Contact name:

Job title:

Email address:

Phone number:

Your business

Business activity:

Estimated turnover:

Would you be interested in a complimentary review of your sector, key
