

Opinion Lex

Credit insurance: state backstop would avert death spirals Premium

It would be a mistake to rely on credit insurers to smooth disruptions in supply chain finance during the coronavirus crisis

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The UK budget was heftily-freighted with measures to support businesses hurt by coronavirus. One notable omission was any state bolstering for credit insurance. Withdrawal of cover — which typically guarantees payments to suppliers — is a key indicator of financial stress in a downturn. So says Andrew Bailey, the Bank of England's new boss.

The spread of Covid-19 allows the industry to show it has cleaned up its act since the last crisis. Back then, critics attacked credit insurers as fair weather friends. Like banks, they had handed out umbrellas when the sun shone but wanted to take them back when it rained. The removal of credit cover was a tipping point for several troubled companies, heralding a death spiral.

When credit insurance started to be withdrawn on General Motors and Ford, it briefly endangered the European operations of those two US businesses.

Trade credit insurance prevalent in Europe

Penetration (measured by market value*10000/GDP)



estimate.

However well the credit insurers perform, it would be a mistake to rely on them to smooth disruptions in supply chain finance during the Covid-19 crisis. Governments have a crucial part to play. In Britain, a starting point would be the revival of the 2009 scheme to [top up](#) existing trade credit insurance policies. A successor scheme should be more ambitious. Central banks can do little to boost demand. Credit guarantees can at least stop supplies to weakened businesses coming to a grinding halt.

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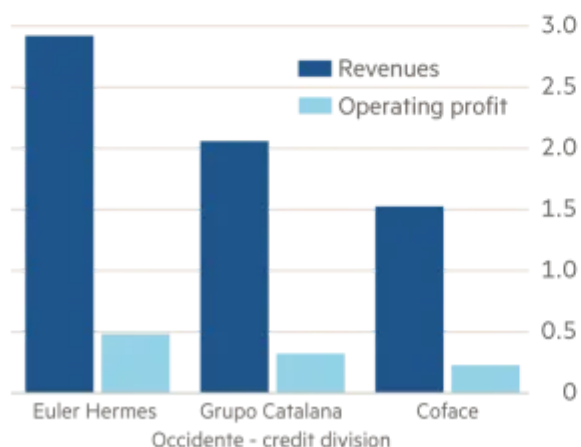
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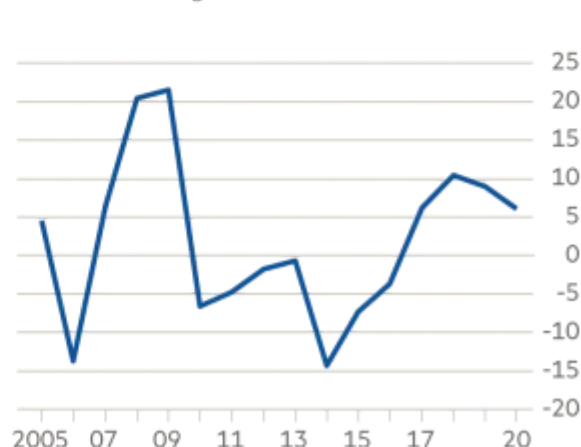
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Year to end 2019 (€bn)



Euler Hermes Global Insolvency index (annual % change)



Sources: Sources: Coface; Capital IQ, company; Euler Hermes
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Some [gripes](#) were unfair. Insurers typically pulled cover on contracts to supply businesses that were already in trouble. Even so, there is a case for the industry to answer. Insurers made too many panicky decisions last time round. Industry bosses say they now have access to more data; risk assessments have improved.

The industry is dominated by Euler Hermes, owned by Germany's Allianz, Coface of France and Atradius, part of Spain's Grupo Catalana Occidente. Europe accounts for the vast majority of the €8.4bn premiums paid globally a year. Even in Europe, there are big gaps. Turnover covered amounts to about 6 per cent of GDP, according to an EU estimate.

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