

# food & drink

FOOD & DRINK INDUSTRY - CREDIT INSURANCE BULLETIN

SUMMER 2010 UPDATE



## Credit Insurance Some Appetite Returning

The JLT-sponsored Business Leaders Round Table event in conjunction with Food Manufacture magazine identified credit insurance as the number one insurance challenge.

The demise of British Seafood, a group with sales exceeding GBP 300m (and debts exceeding GBP 250m) came as a surprise to suppliers, banks and credit insurers alike.

In the food sector predicting the winners and losers can be extremely difficult. Suppliers to the major food retailers rarely benefit from the security of long term contracts and if allegiances to a supplier change, insolvency can be the inevitable consequence. The knock-on effect for ingredients and other suppliers can be equally damaging.

The extent to which credit insurance influences the supply chain only really became evident when cover started to be withdrawn in 2008 and 2009. In particular, some of the foodservice companies on whom generous levels of cover had historically been written, came under extreme pressure to open their books to the insurers.

Unsurprisingly the underwriters were labelled in some quarters as 'fair weather friends' – happy to offer generous levels of cover and competitive premiums in the good times, but quick to withdraw support when the economy deteriorated.

Is the criticism valid? Ian Edwards, Partner of JLT's Food & Drink Practice feels that, with hindsight, there was an overreaction from the credit market, 'In the early part of 2009, the underwriters feared Armageddon. The volume of claims notifications was increasing month on month and there were real concerns about the Market's ability to sustain such a significant increase in losses. Total paid claims in 2009 were GBP 320m, representing a 95% increase on the previous year.'

**'Encouragingly however Q4 showed a 23% reduction in the numbers of claims received. Whilst the fear of a double dip recession still remains, some normality is returning and interestingly Euler Hermes has recorded record levels of new business in 2010.'**

Now that underwriting appetite is returning what opportunities does this create for users of credit insurance? Ian Edwards comments, 'Early remarketing of your policy is essential and the process should start at least three months before the policy anniversary. In 2009 the probability is that sticking with the incumbent insurer was the only option and it's hardly surprising that, even for relatively loss free business, premiums increased by at least 30-35%. Whilst premiums will not return to pre-recession levels, the likelihood is that your broker will be more likely to offer a range of options. This brings obvious benefits – it's important that underwriters compete on both premium cost and availability of cover for key customers.'

What advice can be offered to companies who have had cover on their businesses withdrawn and may be faced with having to pay for

products in advance or on shorter payment terms? It is crucial to communicate with insurers and provide up-to-date financial information, 'a concern is that businesses are now producing 2009 accounts which, in the majority of cases will show a significant year on year deterioration in performance'.

'The key is to manage the expectations of risk underwriters. We can help this process by supplementing accounts with up-to-date management information and part of our role is to ensure there is a dialogue with key risk underwriters – individuals who, having assessed financial details, have authority to write cover.'

JLT's Food & Drink Practice incorporates insurance broking professionals, risk management and environmental consultants plus

technical claims management specialists, and has provided industry-specific insurance and risk management solutions to the food and drink industry for over 20 years.

We have offices located in Birmingham, Leeds, Liverpool, London, Maidenhead, Manchester and Southampton. This means we have an in depth understanding of regional issues and clients benefit from informed advice and support on their doorstep.

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