km credit consulting

Hünxe, March 18, 2020

In light of the current situation, our subject today is:

1. Covid-19 Coronavirus
Problem description, central questions, initial answers, and current outlook

Page 1 to 3

An uncertain situation

Dear Customers and Partners: With this special edition of km aktuell, we aim to provide the best possible answers at this stage to the urgent and important questions relating to the global economic crisis brought about by the coronavirus pandemic.
Even though we are all fully aware that the dynamic nature of this crisis makes it impossible to provide complete, all-encompassing information, we would still like to give you some basic guidelines on central questions in connection with receivables management and credit insurance solutions.
The entire km team is available as always to provide you with any assistance you might need. Needless to say, we are fully committed to playing our part in fighting the infection and have set up home office structures for this purpose. However, we are still able to provide you with our full level of service, including all countries in our International Credit Brokers Alliance (ICBA).

Problem description

The dynamic spread of the virus has forced governments around the world to intervene on a massive scale, placing enormous restrictions on the free market economy and public life.
In order to get the pandemic under control – particularly in Europe, its epicenter – the national governments have exercised sovereign rights to impose lasting restrictions on goods and commercial transport.
In the weeks to come, the providers of credit insurance solutions will play a key role in determining how the economy can overcome the repercussions of this crisis. Maintaining supplier credit lines plays a central role in the package of solutions. Even though the credit insurance industry, in its function as risk manager, is forced to evaluate crisis-afflicted sectors, countries and individual exposures realistically and to take suitable damage prevention measures. In view of the conflagration, this would only be able to get insurers to remove credit limits across the board, thereby dramatically reducing the level of protection for your trade receivables.

Measures already undertaken by insurers

Last year, well before the coronavirus reared its ugly head, credit insurers had already used various approaches to examine cover capacity, in some cases adapting it significantly. This refers above all to examining exposures for companies in Italy and the UK, and updating the information basis by securing the latest financial figures. Because of this, the coronavirus has not caught credit insurers completely unprepared, but of course there is no way that they could have planned for the impact in this scope and form.

What can we expect now?

Credit insurers are currently working closely together with national governments and the EU to examine all possible scenarios with a view to providing an adequate response to the imminent liquidity shortage for companies.
We like to emphasize once again that the standard risk process for any credit insurer, when the probability of default is rising and the threat of illiquidity is imminent, is to reduce the coverage volume for the insured risk, for your debtors.
And this reduction option will be a proven method for regaining control of the situation. However, all concerned will be responsible for choosing the right means in order to:

1. Provide you, as a supplier and policyholder, with adequate coverage for continuing supplies
2. Limit the risk of default on receivables
3. To ensure the continued existence of debtors, thereby preventing payment default and insured losses

You can be sure that we will do everything in our power to find solutions together with you that will protect your interests.

Solutions

Since the financial market crisis of 2008, we have always advocated making your insurance concepts and conditions more sustainable – this is in order to guarantee you greater stability in the credit limits at the best purchase prices. Here, we made a point of not granting any concessions to insurers who, for their part, seemed to believe that the kind of conduct seen in 2008, which led to massive removal of limits across the board overnight, could not happen again.

These efforts are now bearing fruit, given that the instruments that we took on board with you as contractual parameters now provide protection and security for continuing insurance cover, albeit limited. The extensions to the scope of cover in the contract, which are now taking effect, are:

- Delayed removal or reduction of credit limit
- Coverage extended to produced, customer-specific goods prior to dispatch (manufacturing risk)
- Coverage of delivery obligations from binding contracts
- Minimum subscription quota regulations

Without these instruments, the risk of your insurer bowing out of the coverage quickly would be exponentially higher. Even though these means are not a cure for all ills, they will bring about temporary stability in coverage and TIME. Which, as we are currently learning from virologists and doctors, is also important in the fight against the coronavirus.

What now?

At present, governments are actively involving the credit insurance industry in their plans for stabilizing the economy and are drawing on experiences from the financial market crisis, where the public sector took over supplier credit cover in addition to private insurance.

Please bear with us for being rather vague here, but the decision regarding such measures has not yet been made. However, we will inform you immediately as soon as specific measures have been announced.
Rest assured that our company has direct contacts on the boards of all credit insurers and is therefore privy to the very latest developments.

CONTACT

The entire km credit consulting team
km credit consulting gmbh
Tel.: +49 (0)2858 91 80 88-0