

# Trade Credit Insurance for the Manufacturing Sector

How to protect your  
business from the risk  
of non-payment

ENTER



**Gallagher**

Insurance | Risk Management | Consulting



Trade credit is as an effective risk mitigation tool that can help protect balance sheets and facilitate business growth. Currently, there is appetite and capacity with insurers, reflecting the strong rebound of the sector, post-pandemic. This is welcome news for our manufacturing clients relying on steady cash flow in challenging trading conditions.

Gallagher is one of the largest trade credit insurance brokers in the UK and we have long-standing relationships with all UK trade credit insurers. We are well-positioned to help protect our clients against payment default, so they can continue to trade with confidence.”

***Tim Fisher***

***Managing Director, Trade Credit, Gallagher***



# What is trade credit insurance?

Trade credit insurance protects your business against customers failing to pay for goods or services provided to them on a credit basis, often due to insolvency. Given the challenging cash flow cycles and payment terms involved with manufacturing, trade credit insurance can provide valuable financial protection in the event of payment default by a customer or subcontractor.

## How does trade credit insurance work?

1. The bad debt exposure is transferred to the insurer.
2. If you don't receive the payments owed due to the customer insolvency or protracted non-payment default, you notify a claim with the insurer.
3. In the event of a non-payment, the insurer pays the claim and your cash flow is protected.

## Trade credit insurance can help you trade with greater confidence

- It can assist business growth by enabling your company to build trading relationships more confidently, both with new and existing customers.
- It can enable you to gain insight on the financial health of new and existing customers, by using the insurer's credit intelligence and risk scoring/rating systems.
- By having an early indication of potential problems down the line, it can help you make informed choices regarding not only about who you trade with but how you may choose to trade in the future.



## Did you know?

**56%**

The increase in company insolvencies in September 2021 compared to the same month last year.<sup>1</sup>



**£1 million**

The new sales business would need to produce to cover the loss of **£20,000** bad debt, if working to a **2%** profit margin.



**6 years**

The typical time limit for a creditor to pursue an unsecured debt, before action can no longer be taken.



<sup>1</sup>According to data from the insolvency service - <https://www.bbc.co.uk/news/business-58932615>.

## The current climate of the manufacturing sector

At the beginning of 2021, data showed that 50% of manufacturers expected to achieve their pre-pandemic operating levels by the end of the year.

By November, a survey conducted by Make UK and PwC indicated increasing optimism—73% believed conditions for the sector would continue to improve in 2022, and that opportunities for their business would outweigh the risks.

Since then, the Omicron variant has swept across the globe, and although initial signs show little impact to the sector overall, it could still cause uncertainty and disruption for manufacturers at a time when recovery to full capacity had seemed within reach.


The double impact of the pandemic and Brexit means UK manufacturing firms continue to face a multitude of challenges, including supply chain issues, continued staff shortages, increased freight costs and delays at customs, as well as the rising costs of materials including semiconductors for sectors like electrical goods and automotive.

Given this level of ongoing global uncertainty and disruption, manufacturing firms must consider all available options to protect their cash flow and business continuity.

<sup>2</sup><https://www.makeuk.org/insights/publications/manufacturing-monitor-08022021>

<sup>3</sup><https://www.makeuk.org/news-and-events/news/manufacturers-see-positive-outlook-for-2022>





UK insolvencies  
are predicted  
to rise by

**33%**

in 2022.<sup>4</sup>

**38%**

of companies have  
used, or intend to  
use, restructuring,  
turnaround or insolvency  
professionals.<sup>7</sup>

**66%**

of manufacturing  
companies said they  
were affected by Brexit  
in 2021.<sup>6</sup>

**56%**

of manufacturing  
companies think  
customs delays will  
impact their business  
in 2022.<sup>5</sup>

<sup>4</sup><https://atradius.co.uk/reports/economic-research-insolvency-increases-expected-as-support-ends.html>

<sup>5</sup><https://www.makeuk.org/news-and-events/news/manufacturers-see-positive-outlook-for-2022>

<sup>6</sup><https://www.thetimes.co.uk/article/manufacturers-hit-by-the-cost-of-brex-it-must-wonder-where-the-benefits-are-j2p8jpnhq>

<sup>7</sup><https://www.theguardian.com/business/2021/nov/29/perfect-storm-for-uk-manufacturers-as-costs-credit-and-cash-crunch-looms>

# Why consider trade credit insurance?

1

Late payments and bad debts are the main triggers of insolvency in manufacturing companies.

2

If a key customer(s) becomes insolvent, your cash flow will be protected, reducing your exposure to non-payment risk.

3

It can help protect you from the 'domino effect' of an unrelated business failure which could impact your customer and may cause them to fail.

4

Trade credit insurance can be used not only to help protect against bad debts but also against non-delivery through the supply chain.

5

Insurers are still open for new business and have risk capacity and appetite.

6

A specialist broker can review your risk exposure to help you secure appropriate cover.

7

There are new and innovative products and policies specifically tailored for the manufacturing sector (e.g. Work In Progress Cover, Binding Contracts Cover).

8

There are products to meet your needs, from traditional whole-turnover policies to single invoice cover.

9

Using credit insurance to protect you against the impact of unforeseen bad debts can make your business more attractive to larger suppliers.

10

Improves access to trade finance whilst helping businesses to grow and trade with confidence.

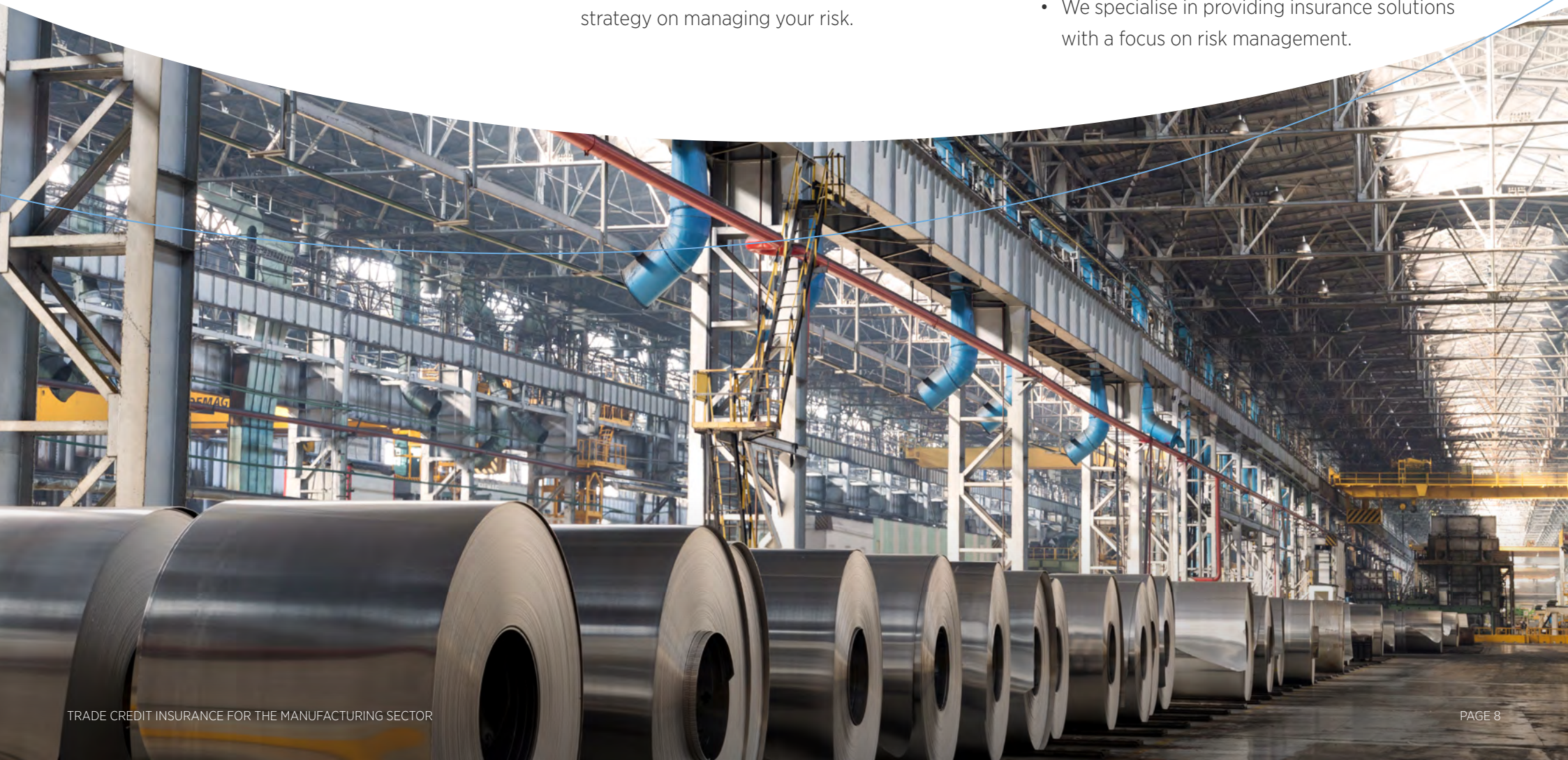


# Gallagher's trade credit capabilities

We are one of the largest trade credit insurance brokers in the UK, with a specialist team working across six regional locations.

With Gallagher, you will benefit from:

- Access to the whole market through our established relationships with all UK trade credit insurers.
- A partnership approach with a clear, agreed strategy on managing your risk.
- Support in managing credit limit coverage, overdue reporting and claims handling.
- Leverage with insurers when placing your risk through being one of the largest trade credit brokers in the UK.
- We specialise in providing insurance solutions with a focus on risk management.





# Gallagher's wider capabilities

Gallagher also specialises in the manufacturing sector, and we understand the challenges faced by businesses of all sizes in this sector as they navigate uncertainty. This combined expertise means we are well-positioned to assist you in finding an appropriate trade credit insurance solution for your business—backed by ongoing support throughout the lifetime of your policy.



One of the World's Most Ethical Companies® — ten years running.





## Would you like to talk?

To learn more about how we can help, or for a no-obligation programme review, please get in touch.

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# About Gallagher

Gallagher is one of the world's largest insurance brokerage, risk management and consulting firms. As a trusted insurance broker and consultant in communities around the globe, we help people and businesses move forward with confidence. With more than 39,000 employees worldwide, we're connected to the places where we do business. Managing risk with customised solutions and a full spectrum of services, helping you foster a thriving workforce, and always holding ourselves to the highest standards of ethics to help you face every challenge—that's The Gallagher Way.

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Registered Office: Spectrum Building, 7th Floor, 55 Blythswood Street, Glasgow, G2 7AT.  
Registered in Scotland. Company Number: SC108909. FP1434-2021 Exp. 09.11.2022.

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