

Millennium Moments

Monthly Bulletin Issue 10-01

The Credit Insurance Industry in 2009

As a result of the recessions in countries around the world, the private sector credit insurance industry saw exceptionally high levels of claims and reported overdue accounts in 2008. The industry paid over 4.0 billion Euros in claims in 2008. To remedy the situation, the underwriters had to take drastic action to restructure their portfolios of exposure by canceling or reducing credit limits, reducing the capacity for new limits and increasing premium rates. However it should be noted, Export Development Canada, Chartis (formerly AIG) and Lloyds (through Executive Risk Insurance Services) maintained more consistent levels of service and available capacity.

Outlook for 2010 in the Credit Insurance Industry

From our discussion with all the major underwriters operating in Canada, it appears premium rate increases for companies with acceptable loss ratios on their policies should be in the 5% to 10% range and the underwriters capacity for risk should begin to grow towards more normal levels. Notwithstanding, capacity for larger limits or on marginal buyers will continue to be constrained and the underwriters will be more prudent, thus making the role of the broker more important in finding available capacity and structuring policies that optimize the cost benefits.

Credit Management

In times of prosperity, many companies focus on revenue and sales growth. The emphasis is on selling more and increasing market share. Credit resources and standards are often allowed to erode. Past payment experience is the principal criteria for good credit.

In difficult times, when sales are constrained and gross margins are reduced, the volatility of financial information increases enormously. Annual results, received 6 months after the Year End, are already out of date. In 2010, underwriters will be requiring policyholders to enforce tighter credit standards and for the policyholders to have more up to date financial information from their buyers available. Underwriters will take risks that they can evaluate, but they will no longer take on material risks without up to date financial information.

Legal News

Small Claims Court

In Ontario, the limit for cases that can go to Small Claims Court was increased from \$10,000 to \$25,000 on January 1st, 2010. Creditors will now have a simpler and less costly method of taking action against buyers in default.

A problem identified with the enhancement of the Small Claims Court is no additional resources have yet been allocated to the system. With an increase in the number and complexity of cases, the Small Claims Court may quickly become overwhelmed.

Bankruptcy

In September, 2009, changes were made to the Bankruptcy Act. Most of the changes related to consumer bankruptcy. The major point to note is suppliers have only 15 days to file for return of goods supplied 30 days prior to bankruptcy on the Notice of Intent to File.

USA Economy

In the USA, 140 banks failed in 2009, and at the end of the 3rd quarter, there were 552 problem banks up from 171 a year earlier. Consumers and businesses in the USA are filing for bankruptcy at a record pace. 2009 was the worst year on record with more than 1.4 million petitions submitted as shown by the Associated Press. Further, both residential and commercial construction declined for the 7th consecutive month. Problems will continue into 2010.