Trade Credit Reinsurance Scheme – Relief for UK Businesses

Wednesday, June 10, 2020

The UK Government have announced the implementation of the Trade Credit Reinsurance Scheme (TCRS), which will provide guarantees of up to £10 billion to Trade Credit Insurers in respect of business-to-business transactions.

Trade Credit Insurance in the UK underwrites an estimated £350 billion of trading for more than 630,000 businesses each year. It insures suppliers against their customers defaulting on payment, ensuring businesses have confidence to trade without fear of lost income and wasted cost.

The effect of COVID-19, and the Government’s response to COVID-19, has led to market concerns that trade counterparties may struggle to satisfy outstanding trade debts and/or default on future trade debts. This has caused a real risk to UK businesses that insurers may withdraw trade credit insurance or increase insurance premiums to unaffordable levels.

The likely impact if trade credit insurance was unavailable would include suppliers shortening payment terms or simply refusing to do further business with customers with unpaid invoices, leading to liquidity issues for businesses and a lack of confidence in trade throughout supply chains. As the UK Government tries to re-start the economy, businesses that rely on trade credit could struggle to re-start if
trade credit is unavailable to support supplies. However, the new Government backed TCRS will hopefully address this.

**What is the TCRS?**

The TCRS will be enacted through a reinsurance agreement with the UK Government and is available to all insurers currently operating in the UK market up to a maximum of £10 billion. The scheme, which is backdated to 1 April 2020, will run on a temporary basis for 9 months until 31 December 2020, with a further extension available if required and will cover both domestic and overseas trade with payment terms of up to 2 years.

The scheme rules will also require participating insurers to comply with certain undertakings regarding the conduct of their business during the period of the scheme. This includes conditions that insurers will forgo profits and will not pay dividends or bonuses for senior staff for their guaranteed Trade Credit Insurance business.

The TCRS will be welcome news for businesses throughout supply chains; ensuring the availability of affordable credit insurance and providing UK supply chains with confidence to trade.

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