



**COFACE WEBINAR:
NAVIGATING THROUGH A TURBULENT
2020 & LOOKING AHEAD TO 2021**

24TH NOVEMBER 2020

AGENDA

- 10.00am Introductions
Frédéric Bourgeois, Managing Director UK & Ireland
- 10.05am Economic Overview
John Nicholas, Underwriting Director UK & Ireland
- 10.20am Corporate Insolvency & Governance Bill
Hans Meijer, EICC Director UK & Ireland
- 10.35am Fraud – Hints & Tips
Andrew Share, COO & Commercial Director UK & Ireland
- 10.45am Questions & Answer Session
Round up & Summary
Frédéric Bourgeois, Managing Director UK & Ireland
- 11.00am Webinar Concludes

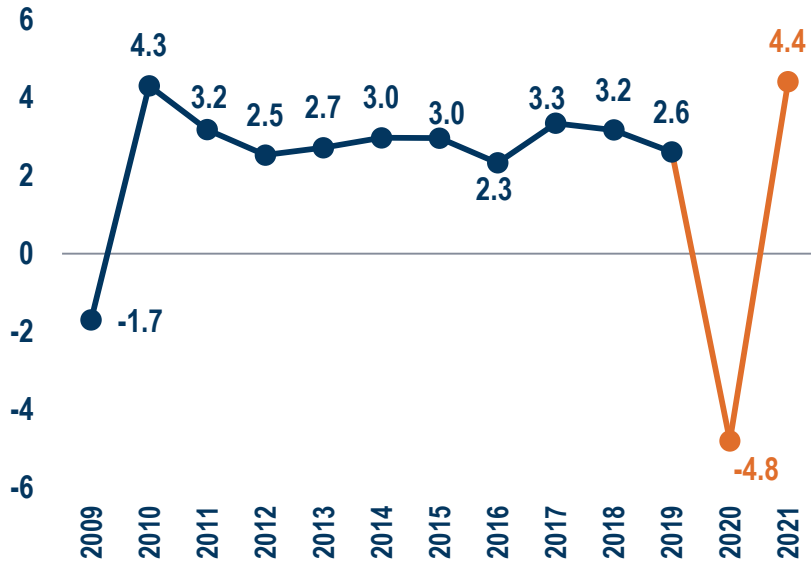


MANAGING RISK IN A 'ZOMBIE' ECONOMY

—
JOHN NICHOLAS
UNDERWRITING DIRECTOR
UK & IRELAND

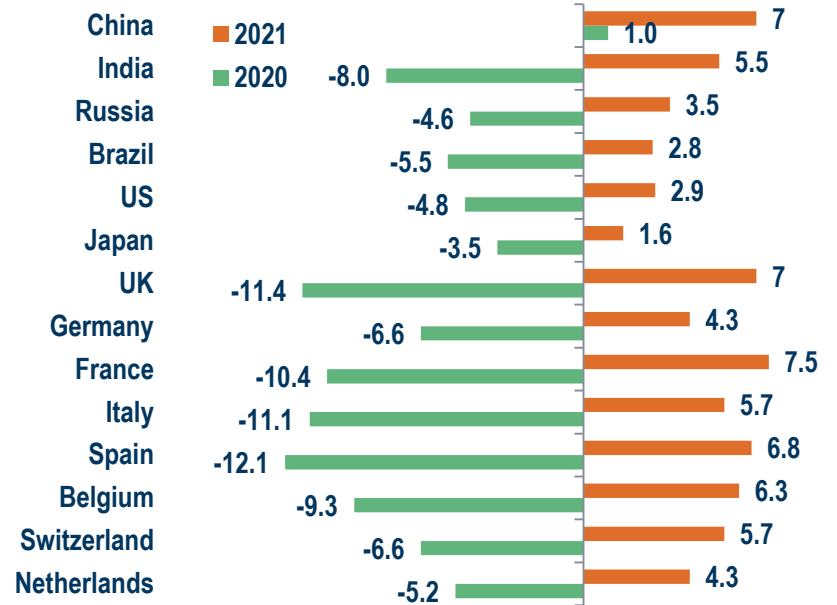
GLOBAL GROWTH: WORST CONTRACTION SINCE WWII

World GDP growth (Coface's forecast, %)

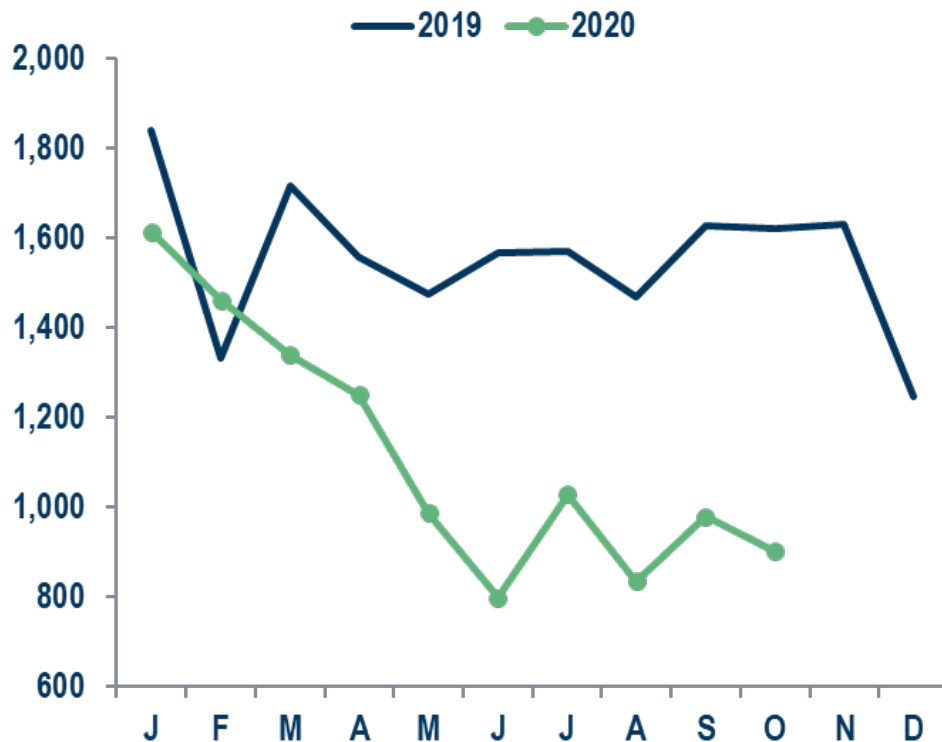


Sources: IMF, National authorities, Datastream, Coface

Coface's GDP growth forecasts (%)



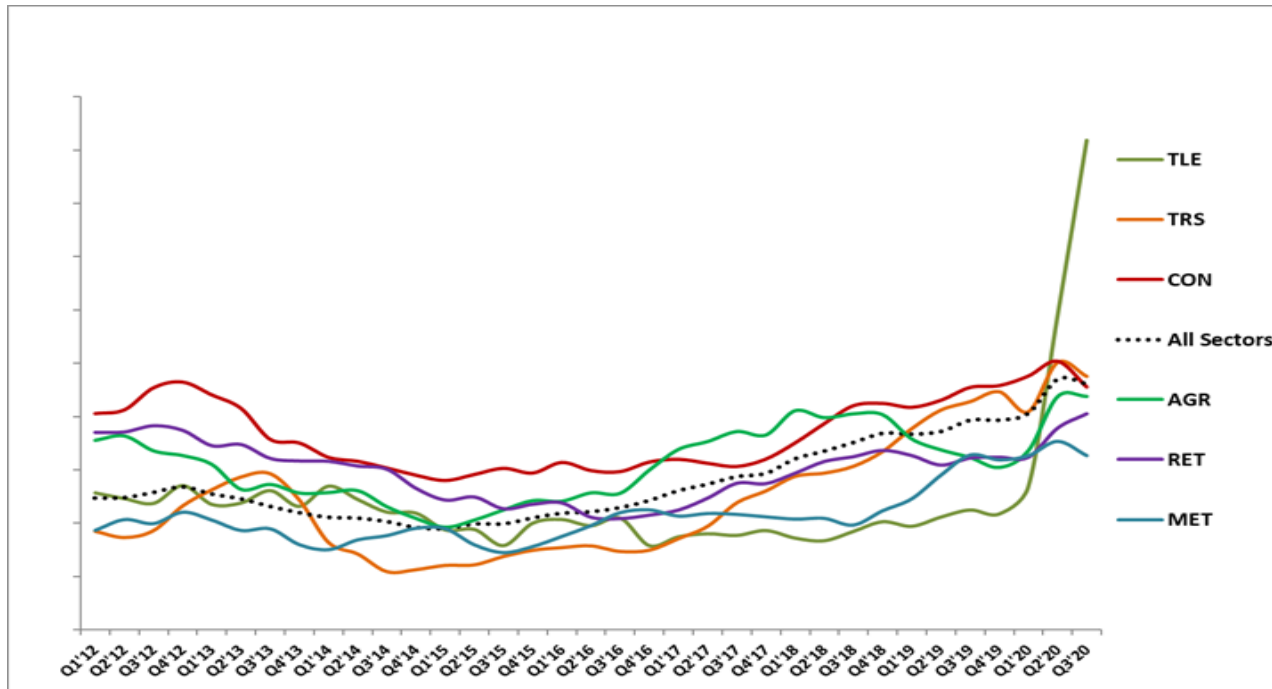
UK INSOLVENCIES EVOLUTION



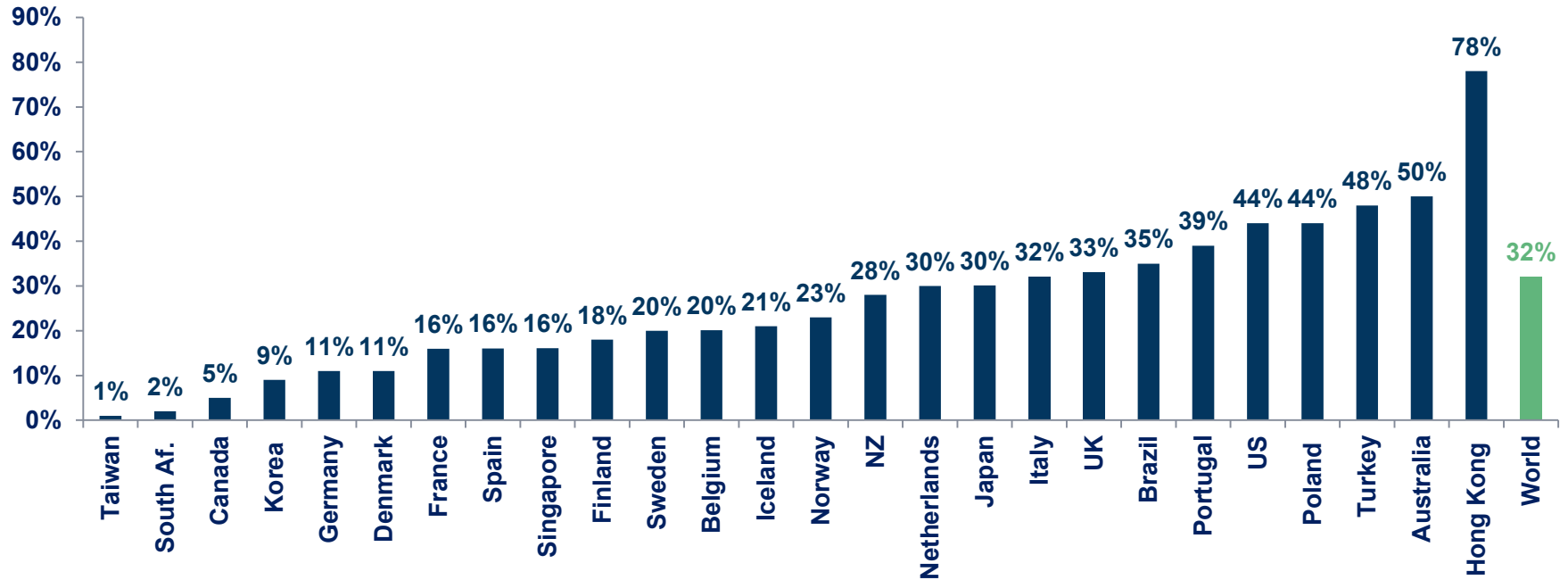
| A ZOMBIE ECONOMY? – A RESET OF THE RISK ENVIRONMENT

- **Benign period for claims and defaults:** substantial but temporary support from government has masked the underlying impact of the sharp recession, meaning many companies are potentially on “life support”
- **Financial leverage has increased, notably for private companies:** most of the support mechanisms are forms of debt where obligation has simply been deferred (VAT and payroll taxes), or new borrowings drawn (e.g. CBILS). Only largest corporates have been able to tap the equity markets
- **Permanent changes to consumer behaviour?:** beyond “right-sizing” a business, some will need fundamental changes to their models – physical retailers, city food outlets, public transport, etc
- **Temporary changes to insolvency process legislation:** hiatus on commencing petitions for winding up, introduction of moratorium, etc

CLAIMS VOLUME TREND IN MORE SENSITIVE SECTORS



BUSINESS INSOLVENCIES: +32% BY THE END OF 2021



- Corporate defaults will increase but severity / timing will depend on how long government props remain in place, and how generous they are
- Business and consumer confidence likely to be influenced by the future evolution of Covid-19

| A ZOMBIE ECONOMY? – THE UNDERWRITING CHALLENGES

- **Statutory financial information is less available and less relevant:** UK companies have 3 additional months to file accounts. Those available also pre-date the pandemic and in many cases will not properly reflect the current health of the business
- **Buyer ratings may not accurately indicate the present / future risk:** majority of buyer risk ratings are based on algorithms connected to aged statutory accounts. These could present a misleading indicator of buyer quality given the acute shift in economic outlook for some sectors
- **Outcome of the Brexit FTA negotiations remains unknown:** impact of border disruption, potential tariffs, further weakening of Sterling, etc difficult to project but businesses are better prepared than the original exit date
- **Weakened liquidity likely to become evident in H1 2021:** companies in sensitive sectors continue to burn cash (hospitality, tourism, airlines) while many others are adjusting to lower revenues outlook



CORPORATE INSOLVENCY AND GOVERNANCE BILL

HANS MEIJER
EICC DIRECTOR
UK & IRELAND

INSOLVENCY LAWS

On the 26th June 2020 the Corporate Insolvency and Governance Bill received Royal Assent, and as the final amendments were subsequently agreed by the House of Commons, it is now law (the Corporate Insolvency and Governance Act 2020).

Corporate
Insolvency and
Governance Act



The Act is the government's efforts to save viable businesses from being forced into compulsory winding up processed by creditors

Temporary relief until 30 September 2020 was provided from being subject to a;

- Winding up petition and from
- Wrongful trading

Provided the business can demonstrate its difficulties arise from trading conditions as a result of the COVID-19 pandemic

The Act introduces three new permanent financial rescue and restructuring strategies:

- a moratorium (or "breathing space") period for companies in financial
- a requirement for suppliers to continue to supply to companies in financial distress during the moratorium; and
- the creation of a "restructuring plan", with the ability to bind creditors to it

STATUTORY DEMANDS & WINDING UP PETITIONS

This prevents a creditor petitioning for the winding up of a company based on an unsatisfied statutory demand

Subject to that demand issued during the period 1 March to 30 September

If however the creditor has reasonable grounds to believe that coronavirus did not materially impact the financial performance of the company he can still apply to the courts for the petition

Further, the Act also provides that where a winding order had already been made, but would not have been made had the Act been in force, then the winding up order is itself void

The relevant period as regards statutory demands and the presentation of winding up petitions has now been extended to 31 December 2020

What does this mean for businesses?

You can pursue a Winding Up petition if the debtors balance sheet was insolvent (or in financial distress) prior to Covid-19

However doing so might be difficult and incur additional costs of doing so



SUSPENSION OF WRONGFUL TRADING

If a Director continues to trade knowing that there is no reasonable prospect that the company would financially survive he can be held personally liable

However as a result of the current pandemic, the court assumes that the person is not responsible for any worsening of the financial position of the company or its creditors that occurs during the period 1 March to 30 September 2020

As such the directors will not face wrongful trading claims if they can show that they only knew that the company was going to become insolvent during that period

While an exception has been made for wrongful trading, all other potential claims (and offences) remain in force. As such, a director can still be found liable for fraudulent trading

The Secretary of State **did not** extend the exception as regards wrongful trading



MORATORIUM & CONTINUATION OF SUPPLY

The aim of the Act is limit the number of companies entering in to insolvency as a result of the current global situation.
The introduced moratorium intends to give companies breathing room to look at restructuring options

The moratorium is a director led process with an insolvency practitioner acting in the role of “monitor” overseeing the company’s affairs as it continues to trade for 20 days

The Act also prevents suppliers from ceasing their supply, should a Policy holder continue to supply?
During the moratorium, the company must continue to pay certain debts including newly incurred liabilities

If the company in moratorium enters into administration or liquidation, unpaid moratorium debts and priority pre-moratorium debts are given a priority ranking in the insolvency distribution waterfall

If failure of the moratorium causes financial distress to our PH, then he can request the courts to terminate his commitment

Ultimately the act provides the ability to come to an arrangement or compromise with their creditors or members
To be sanctioned, a plan must have the purpose of mitigating the effect of the financial difficulties the company is in

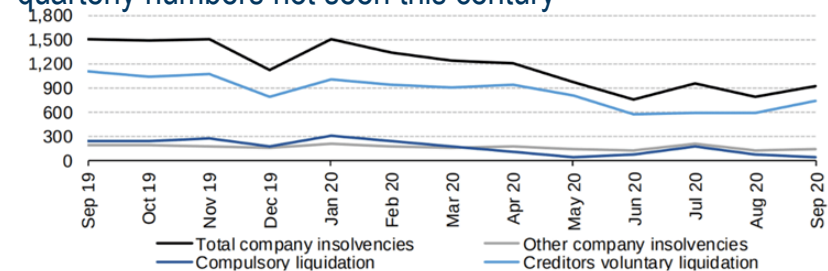
If 75% in value of affected creditors or members vote in favour of the plan, the court then sanctions the plan

HAVE THESE MEASURES MADE ANY DIFFERENCE?

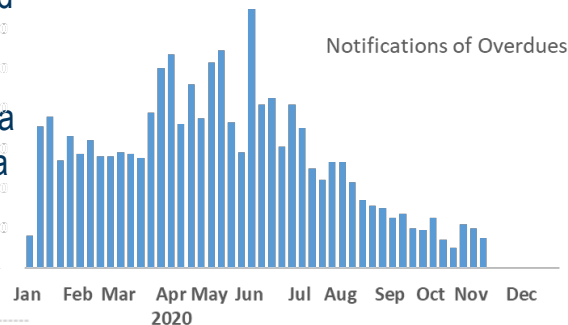
These measures (and other measures like 3 month filing extension in Companies House) have been introduced to give businesses support during the Coronavirus Pandemic and ease the Financial burden they all face

Now England has entered into another period of lockdown, concern is growing that the temporary measures are simply delaying the inevitable and that whether they are extended further or not, 2021 will see a slew of corporate insolvencies

- The Insolvency Service decided that they'd publish company insolvency data now on a monthly basis, all of us expecting a wide rollercoaster ride but instead we are seeing a rapid downhill slide of the statistics
- Company insolvencies in September 2020 fell by over one-third compared with September 2019 numbers – quarterly numbers not seen this century



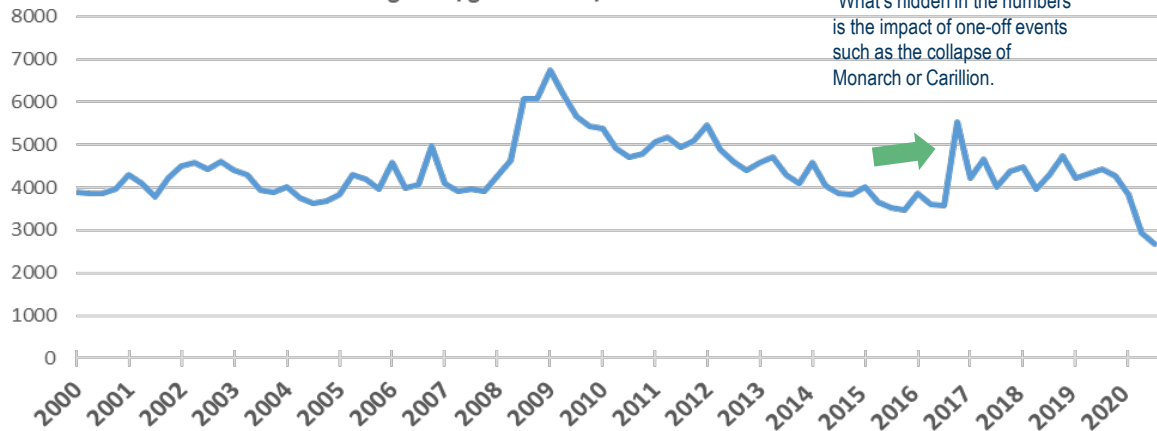
Sources: Insolvency Service (compulsory liquidations only); Companies House (all other insolvency types)



ARE WE IN A ZOMBIE ECONOMY?



Insolvency Statistics
www.gov.uk/government/statistics



It is the monumental amount of borrowing by the private sector, much of it from the Treasury, that will hang like a dead weight on the shoulders of thousands of businesses, possibly for a decade

- 623 large businesses have borrowed the relatively small total of £4.6bn via the Coronavirus large business interruption loan scheme (CLBILS)
- 1.2 million smaller employers have accessed £47.3bn from the other two buckets of cash on offer from the Treasury – the bounce-back loan scheme (BBLs) and the Coronavirus business interruption loans scheme (CBILS)



FRAUD – HINTS & TIPS

ANDREW SHARE
COO & COMMERCIAL DIRECTOR
UK & IRELAND

FRAUD RISK

- The annual cost of fraud in the UK is estimated at £190BN with over 3m incidents being reported each year. (NCA 2017)
- The actual number of frauds or failed fraud attempts, is expected to be many more millions than that!
- The sector split is estimated as:
 - Private sector £140 billion
 - Public sector may be losing >£40 billion
 - Individuals around £7 billion
- **Only a fraction of Fraud is actually reported**

ACTION FRAUD STATISTICS:

NUMBER OF REPORTS

402,540

REPORTED LOSSES

£2.5bn



New Fraud Methods

- The most worrying is 'Deep Fake' and what is 'Deep Fake'?
- Email hijacking

There is general consensus amongst fraud agencies such as; CIFAS, Action Fraud, NCA etc, that the new CV19 environment offers greater opportunities for fraudsters to outwit existing controls, processes and for new opportunists to emerge.

FRAUD RISK



Covid-19 = Greater Exposure to FRAUD

- 1 Business owners/employers are under greater financial pressures
- 2 'Fast tracking' of new Suppliers, Customers, Agents, Intermediaries or other advisors is tempting
Be disciplined in your KYC processes
- 3 Operational efficiency drivers can remove important checks that do not generate income
- 4 Capacity issues from staff illness or furlough schemes can result in mistakes or corners being cut
- 5 Desperation can lead to employees colluding with opportunists or fraudsters:
 - Paying bribes or being engaged in illegal activities on behalf of a company
 - Theft/embezzlement – cash, goods or services
 - Misuse/theft of data
 - Employee & supplier collusion – fake invoice raised by supplier signed off by employee for payment

FRAUD RISK SCENARIO #1

Fraudsters set up a company with the intention of defrauding creditors

Opportunity



The buyer wants to obtain an illegitimate gain

Fraudulent Actions



This buyer orders goods to a supplier with no intention to pay for them

Financial Impact



Creditor has to write off the debt or if insured the insurer pays a claim for unpaid invoices

FRAUD RISK SCENARIO #2

Fraudulent Business Trading

STEP 1

Take over a legitimate business



STEP 2

Order goods and pay promptly



STEP 3

Place a larger order



STEP 4

Run



FRAUD RISK SCENARIO #3

Collusion between an employee and a buyer

Opportunity



The employee and the buyer collude with each other

Fraudulent Actions



Employee sell:

- Sensitive data
- Goods or services at a loss

Financial Impact



Creditors Lose:

- Customers
- Profit

FRAUD RISK SCENARIO #4

Identity Theft

Opportunity



A Fraudster pretends to be a known or unknown person from a company

Fraudulent Actions



The Fraudster orders or redirects goods or services from a supplier to a made up trading address

Financial Impact



The Fraudster disappears and never pays the creditor

FRAUD PREVENTION

TRY TO IDENTIFY OR SPOT IT!

- ? Make sure you **'Know Your Customer'**
 - On-boarding
 - Change of contact or ownership
- ? Does the customer seem under pressure / agitated or aggressive / demanding?
- ? Is the new prospect or debtor a reactivated dormant company?
- ? Does the business frequently change registered or trading addresses?
- ? Have many directors been replaced across a short time frame?
- ? Does the size of the transaction make sense? (e.g. Inconsistency between the order and the real value/size of the company or turnover)
- ? Does the information sourced follow normal trends? (email, phone number)
- ? Have strange requests been made? (change of bank account, increase in orders)
- ? Is the delivery address unusual? (new trading address, location)
- ? Have you considered historic trends (6 years of financial data can help you spot changes)
- ? Complete due diligence from supplier to creditor
- ? Does their business activity match the goods/services you provide?
- ? Do not be afraid to clarify something by asking questions – without tipping off

DOES SOMETHING SEEM TOO GOOD TO BE TRUE?



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QUESTIONS & ANSWERS
