Department for
Business, Energy
& Industrial Strategy

Evaluation of the Trade Credit Reinsurance (TCR) scheme

Process and interim impact evaluation

Final report

LE
London
Economics

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Executive summary

The uncertainties created by the COVID-19 pandemic posed serious risks to businesses and by extension to the trade credit insurance (TCI) market. To prevent the likely withdrawal of cover from the TCI market by insurers, the government decided to design and operate the Trade Credit Reinsurance (TCR) Scheme. By reinsuring 90% of the value of each in-scope TCI claim of participating insurers up to £3 billion, and 100% of claims between £3 billion and £10 billion[1], the scheme's aim was to support UK businesses, to minimise reductions in economic activity and disruptions in supply chains, and to aid economic recovery following the COVID-19 pandemic.

BEIS commissioned London Economics to conduct a process evaluation and interim impact evaluation of the TCR Scheme. OMB was sub-contracted by London Economics to conduct a computer-assisted telephone interview (CATI) survey. The process evaluation assesses the effectiveness of the scheme and the processes adopted to deliver and operate the TCR Scheme, while the interim impact evaluation provides an indicative Value-for-Money (VfM) assessment and an assessment of the required quantitative data.

To inform the evaluation, the contractors reviewed documents in desk-based research; conducted scoping consultations with BEIS Officials and the external delivery partner PwC; conducted stakeholder consultations with BEIS Officials, PwC, the external legal advisor Slaughter and May (S&M), insurance industry stakeholders, and business stakeholders; analysed monitoring data collected from insurers as part of the scheme; and conducted a telephone survey of policyholders benefitting from the scheme.

As part of the analysis, lessons for future interventions of a similar nature have been identified and are presented below. These lessons are based on the key findings from the process and the interim impact evaluation, which are presented subsequently.

<u>Lessons for future schemes</u>

- **Reinsurance as an effective intervention**. All stakeholders agreed that the overall structure of the scheme, whereby policyholders were protected via the government reinsuring their insurers, was the best way to maintain cover in the trade credit insurance market to support businesses and economic activity. The targeting of insurers meant that the intervention was widespread throughout the market and ensured that policyholders encountered little change to their day-to-day operations. The setup also ensured incentives were aligned.
- **Knowledge of the TCI market**. The initial setup process involved BEIS learning about the market through interactions with insurers and information from the external delivery partners. While it was not expected of the government to have this specific knowledge, a number of stakeholders indicated that the setup process could have been faster if this

[1] For the scheme extension, the approach was amended such that the scheme would reimburse 90% of the value of each in-scope TCI claim up to £10 billion total insurer losses.

knowledge had existed within the government at the time. Retaining this expertise and maintaining the relationships between insurers and government fostered by the scheme could therefore maximise preparedness for future economic shocks and reduce the time needed to set up a future intervention in the trade credit insurance market. Involving an independent intermediary with salient market knowledge in the negotiations could also make negotiations and knowledge sharing more efficient when designing a novel scheme.

- **Communication**. BEIS' communication surrounding the design, negotiation, and operation of the scheme was considered to be exemplary by the vast majority of stakeholders consulted. This made the various processes as efficient as possible and quickly resolved issues that arose during the scheme. The importance of communication was highlighted around issues, such as data reporting requirements, where initially there was a considerable gulf between BEIS' needs for monitoring and evaluation and insurer's internal capabilities. Early bilateral communications could help to create a better understanding of the stakeholders' different business models, internal structures and business needs.
- **Reducing uncertainty**. Providing information in a more timely manner might help to reduce uncertainty and maximise the effect of government interventions. The extension of the scheme was only announced in December 2020, the same month that it was originally scheduled to end in. Announcing the extension at an earlier point or committing to a longer initial scheme period would have reduced uncertainty for insurers and businesses. Similarly, a large proportion of businesses report they would have benefitted from more guidance on the scheme and on the effect of the pandemic on the TCI market in general. Raising awareness about the scheme beyond the public announcements on the government's website and providing more targeted information to benefitting policyholders might have reassured them about the stability of the trade credit insurance market and could have provided the guidance they were lacking. Providing guidance and certainty might create confidence, which could encourage businesses to keep trading.

Other key findings from the process and the interim impact evaluation are presented below:

<u>Process evaluation</u>

1) **Scheme design**: Following the notification of potential issues in the TCI market by insurers and businesses in March 2020, the government was quickly able to identify the need for government intervention and assemble a team of internal and external delivery partners. While contracts with insurers have only been signed in September 2020, the government announced its intention to intervene in May 2020. The nine insurers that ultimately participated in the scheme represented 85% of the market and agreed to maintain cover in the TCI market during the scheme's design and negotiation. This ensured swift support for businesses and economic activity.

2) **Scheme delivery**: The TCR Scheme was backdated to April 2020 and originally ran until December 2020, before being extended in December 2020 to June 2021. Business and insurers were generally satisfied with the scheme period. While some surveyed policyholders would have preferred an earlier start date and particularly a later end date, the scheme period seems appropriate and an extension of the full scheme was not warranted. This is particularly the case because the government worked with insurers to minimise any disruptions at the end of the scheme period. To provide more certainty in the market, insurers and businesses would, however, have benefitted from the extension to been announced earlier or a commitment to a longer initial period.

3) **Scheme impact**: The scheme was considered necessary and successful by all involved stakeholders. It was successful in maintaining cover in the market, which could be observed through a stable number of policies and credit limits for the nine participating insurers. As such, the scheme contributed to maintaining economic activity, reducing supply chain disruptions and aiding the economic recovery. Insurers reported that in the absence of the scheme 7-35% of the cover in place prior to the pandemic and premiums might have been increased by 5-25%. Evidence from the policyholder survey mostly confirms that cover maintained in place, premiums remained constant, and insurers maintained the level of pre-pandemic service. Overall, the scheme increased the confidence of surveyed policyholders in the availability of trade credit insurance and supply chains. While the confidence in supply chains stayed at the elevated level after the end of the scheme, the confidence in the availability of trade credit insurance decreased slightly after the end but remained higher compared to pre-pandemic levels.

4) **Financial performance of the scheme:** As of March 2022, 7,639 individual claims with a cost of £44 million to the scheme have been made by policyholders under the scheme. This is significantly lower compared to initial expectations at the outset of the scheme. The number of claims is likely lower than expected because of the scale and impact of the wider government intervention during the COVID-19 pandemic, including the Coronavirus Job Retention scheme (Furlough) and the VAT Payments Deferral scheme and the COVID-19 loan schemes (BBILS, CBILS and CLBILS) alongside the Trade Credit Reinsurance Scheme. This wider package of support prevented business failure due to the pandemic and meant that fewer businesses were defaulting on payment to trade creditors, resulting in lower levels of claims then were originally envisaged. The TCR Scheme was designed at a time when other support measures where similarly in development, and as such there was uncertainty around the scope and eventual impacts of the overall package of measures. Consequently, the scheme was designed with a worst-case scenario in mind (i.e., a large volume of claims from widespread defaults on payments by businesses from disruption caused by COVID-19) and did not explicitly account for the mitigating effects of other potential interventions. As a result of the relatively low level of claims, the eventual financial position of the scheme is likely to record a surplus for the government from the TCR Scheme. Insurers mentioned that they would have appreciated scope for a ‘profit sharing’ clause to have been incorporated to account for this scenario. It should be noted that premiums and claims can still be paid up to the final termination of the scheme, therefore the figures

provided in this report on the financial performance of the scheme do not represent the scheme's final financial position.

5) **Negotiation process**: The design and negotiation of the scheme comprised two stages. First, the government negotiated a high-level set of rules, the Heads of Terms, with a negotiating panel assembled by the Association of British Insurers (ABI). The panel consisted of ABI staff and representatives from two larger insurers which negotiated on behalf of all ABI members and the rest of the industry. Once the Heads of Terms were agreed, bilateral negotiations took place between the government and each of the nine participating insurers. Any changes in the rules as a result of these negotiations applied to the contracts of all insurers which meant that agreeing the full scheme rules was a more time-consuming process than for the Heads of Terms. Both insurers and the external legal advisor (S&M) agreed that negotiating the Heads of Terms with a subset of insurers before agreeing on the full scheme rules was the best and most efficient approach to bringing a swift resolution of this process whilst allowing further detail to be considered in drafting the full scheme rules. While all involved stakeholders felt adequately included in the design and negotiation process, bilateral discussions with insurers earlier during the development of the Heads of Terms could have helped to create a better understanding of the insurers' different business structures and business needs.

6) **Data reporting requirements**: As part of the scheme, insurers were required to submit data on a regular basis to aid the monitoring and evaluation of the scheme. The scope of this data reporting was decided at a high level between BEIS and PwC, who constructed the data platform, and then the precise scope of data provision was negotiated with the insurers. The data requirements were based on information that would be needed by BEIS and PwC to validate policies, claims, premium and expenses under the scheme. As well as to respond to any potential lines of public enquiry from organisations, such as the NAO or Parliamentary Scrutiny. Requirements were based off information that would be typically provided for similar financial schemes. Almost all insurers considered the data reporting requirements to be too onerous, seeing them as inflexible and not taking account of the data that insurers actually collect, their business models, and other internal processes. Some insurers perceived the complexity as indicative of a lack of trust, but the ABI was conscious of the government's need for accountability and was more sympathetic. Overall, the ultimate data collection seems appropriate given the large public cost that was expected during the design of the scheme.

7) **Efficiency of scheme setup**: Support for businesses was provided in a timely manner and most stakeholders considered the time it took to set up the scheme as appropriate given the unprecedented scale and nature of the intervention. Some insurers, however, would have appreciated swifter negotiations, especially since the lack of a formal contract exposed them to considerable financial risks while they maintained coverage following the government's announcement of the scheme. Processes highlighted to be most time-consuming included a) knowledge sharing by insurers about the TCI market,

b) receiving EU State aid approval form the European Commission, c) negotiating the full scheme rules with each insurer, and d) agreeing data reporting requirements with insurers.

a. In a first instance, the government had to acquire knowledge about the trade credit insurance market in terms of its structure, stakeholders, and particularities in order to design and obtain necessary approvals for the scheme. The insurers did not expect the government to have this knowledge and spent some time sharing their knowledge and market insights. While the government considered that it was able to acquire necessary knowledge and expertise within the delivery team as quickly as possible, some insurers suggested that having an independent intermediary with more salient market knowledge would have made the negotiations and knowledge-sharing more efficient. While an independent intermediary might only have a small impact on efficiency, as company-specific information would still be required to allow for suitable modelling and assessments within the government, it could also improve efficiency by increasing acceptance, for example for the government's need data collection, during negotiations.

b. Obtaining approval from the European Commission took longer than anticipated due to issues with aligning the eventual scheme design with EU State Aid rules and ensuring consistency with comparable schemes in other European countries. This process caused some delay to finalising the scheme rules. It was the view of Government officials and delivery partners that the initial rejection by the European Commission could not have been readily anticipated, due to the similarities that the scheme shared with standard reinsurance arrangements and with comparable European Schemes which did not face similar delays.

c. Bilateral negotiations took place with each insurer after the Heads of Terms had been agreed. Any changes that were made to the rules due to the specific structure and requirements of one insurer had to be agreed to and included in the contract of all participating insurers. In hindsight, the government and insurers perceive this process as very time and resource intensive. On reflection, BEIS officials reflected that negotiating with some of the largest insurers only may have been a quicker and more efficient process. This, however, stands in contrast to some insurers' preference to be included in bilateral negotiations and is likely to disregard some of the businesses' unique structures and processes. This, in turn, might prevent them from participating in the scheme. For this reason, it would be important to (at least) consult all insurers about specific requirements or concerns in bilateral discussions before finalising the contract.

d. Agreeing on data reporting requirements with insurers was one of the more time-consuming processes. The insurers' current structures, business models or data collection processes meant that providing some of the initially required data would have been difficult. Understanding these limitations and agreeing on a set of minimum requirements with each insurer that would suffice to meet the

government's need to be able to adequately monitor the scheme took a considerable amount of time. An approach to negotiations by only asking for the minimum requirements might increase acceptance from insurers and make negotiations more efficient.

8) **Communication and support**: Insurers were overall very complimentary about the communication and support provided by BEIS during all stages of the scheme's setup and operation. The singular exception was that insurers would have benefitted from more and earlier guidance regarding the scheme extension. the policyholder survey suggests that only 39% of surveyed policyholders were aware of the scheme, which is not necessarily surprising given the design of the scheme and its aim to maintain the operation of the TCI market without causing any disruptions for the policyholders. The government's communication with businesses was mostly done through public announcements, with the exception of direct communication with some businesses that reached out to the government. Among the policyholders who were aware of the scheme, 31% stated in the survey that they would have benefitted from more guidance on the scheme and 53% of unaware policyholders would have benefitted from more information on the effect of the pandemic on the TCI market in general. While the government did not intend to reach many businesses through its direct communication, generating more awareness around the scheme might have been useful to provide reassurance and avoid uncertainty in the market.

9) **Scheme governance and monitoring**: The governance and management of the scheme was the responsibility of the BEIS Trade Credit Insurance Steering Board. The Steering Board comprised Senior Civil Servants, the Treasury insurance team, representatives from UK Government Investment and UK Export Finance, and various officials from BEIS, including finance and legal representatives. Their inputs were seen by Government officials as particularly useful when deciding the scheme objectives during the conceptualisation phase, which involved providing guidance to obtain senior official and ministerial approval, advising how to weigh stakeholder inputs, and producing views on contentious and politically delicate matters such as sanctions. The government received monthly and quarterly reports prepared by PwC based on the monitoring data, which BEIS was also able to review via a dashboard. Data checks and sanction checks have been performed by PwC on an ongoing basis to ensure the completeness of the submitted insurer data and to avoid payment being made to government sanctioned entities. Fraud was not a notable concern because it is not common in the TCI market, as defrauding insurers would involve policyholders and their trading partners fabricating the underlying transaction. Moreover, insurers were regulated and had their own internal fraud checks.

<u>Interim impact evaluation</u>

1) **Scheme impact**: The TCR Scheme had a number of quantifiable and non-quantifiable impacts on the UK economy.

a. It was estimated that the TCR Scheme may have had a direct impact of £920 million by avoiding economic activity being discontinued due the withdrawal of TCI cover in the absence of the TCR Scheme. The direct impact relates to the gross added value (GVA) of suppliers who may have discontinued a proportion of their trade in response to a withdrawal of TCI cover. In addition to the direct impact, an indirect impact of £1.6 billion could have been realised in the upstream supply chain. The total (quantifiable) impact amounts to £2.5 billion from April 2020 to June 2021. **These estimates are based on hypothetical scenario modelling drawing on information from the stakeholder consultations, the policyholder survey, and existing literature.**
b. Some of the scheme's impacts have not been quantified in the interim impact evaluation due to the lack of data. Potential impacts that have not been quantified include the indirect impact of discontinued trade on the downstream supply chain; the spill-over effect on non-participating insurers; the business failures that might have occurred due to uninsured trade; and the indirect impact of companies' reduced access to finance without TCI in place.
c. The TCR Scheme also prevented an increase in the premiums of trade credit insurance. The impact of such an increase is likely to be small and negligible due to small proportion of trade credit insurance premiums compared to the overall production cost.

2) **Scheme cost**: As of Q1 2022 (January – March 2022), the TCR Scheme generated a net surplus of £212.6 million for the government. The costs of the TCR Scheme consist of the financial burden, which refers to the net cost of financial flows to and from the scheme, and the administrative costs, which refer to the internal and external staff costs for the government's delivery team.
   a. The financial burden of the scheme was a surplus of £217.8 million from April 2020 to March 2022. The scheme generated a surplus, rather than a cost because the claims by policyholders were relatively low compared to the premiums paid. It should be noted that claims can still be made by policyholders and insurers, which means that the figures do not represent the final financial burden of the scheme. It can, however, be assumed that most claims have already been filed by policyholders.
   b. For the financial years 2020/21 and 2021/22, the administrative burden was £5.2 million with some additional administrative burden expected for the financial years 2022/23 and 2023/24.
   c. Despite the outstanding claims and the administrative burden following March 2022, it can be assumed that the TCR Scheme will generate a surplus for the government.
3) **Indicative Value-for-Money assessment**: Indicative estimates suggest that the scheme generated an economic impact of more than £2.5 billion from April 2020 to June 2021 (in addition to unquantified benefits) and generated a net surplus for the government of £212.6 million, as of Q1 2022 (January – March 2022). Once the final claims and administrative burdens have been realised, the VfM assessment can be updated. Further analysis can also be undertaken to quantify some of the additional

impacts and to better understand the sensitivity of the model parameters and impact estimates.

Introduction

Policy context

Trade credit insurance

Trade credit insurance is a type of insurance that protects businesses from losses due to the default or insolvency of their customers. As such, trade credit is used extensively as part of business-to-business transactions in supply chains. Suppliers act as liquidity providers for buyers by allowing payments for goods after they have been delivered. Around 60% of international trade transactions are financed by trade credit,[2] but it is also prominent within domestic trade. Non-payment of trade credit is a serious risk for suppliers, as an estimated 20% to 40% of assets are trade receivables.[3] This risk is particularly high in economic crises, where buyer defaults are both likely and unpredictable.[4] Consequently, many suppliers purchase trade credit insurance (TCI), which provides protection against the risk of buyers defaulting on payments (policies usually pay around 90% of the value in case of non-payment). This protection allows sales to be expanded to clients who may otherwise be too risky without TCI in place.[5]

Suppliers purchase insurance policies either from underwriters directly or through insurance brokers who function as intermediaries between insurance companies and policyholders. Insurance companies offer different products that cover either the policyolders' 'whole turnover' or provide more nuance coverage (i.e., single buyer, single trade, catastrophe policy, etc.). Premiums for the insurance policies vary by the type of cover, the length of cover, as well as by the risk level of policyholders' debtors (amongst other factors). Consequently, products in the trade credit insurance market have a high degree of complexity and heterogeneity.

In addition to protecting suppliers against commercial risks and political risks, TCI entails other benefits for policyholders, including:

- Insurers assess the creditworthiness of their policyholders' (the supplying business) trading partners (the buyers) and give a credit limit to each one based on their default risk.
- Insurers also monitor the creditworthiness of buyers during the policy period and notify policyholders of any changes. This allows for real-time risk assessment that would otherwise be infeasible for suppliers.
- Insurers often engage in debt collection.

[2] See https://voxeu.org/article/role-trade-credit-financing-international-trade.
[3] International Credit Insurance & Surety Association. (2015). A guide to trade credit insurance. Anthem Press.
[4] International Credit Insurance & Surety Association. (2015). A guide to trade credit insurance. Anthem Press.
[5] See https://www.abi.org.uk/globalassets/sitecore/files/documents/publications/public/2016/guidance/abi-trade-credit-insurance-guide.pdf.

- Many businesses also use trade credit insurance to access bank finance, as having insurance is often a requirement to receive funding.

UK trade credit insurance market

In the UK, TCI supports an estimated £350 billion of economic activity across more than 630,000 businesses every year.[6] It is particularly prevalent in sectors with large, interlinked supply chains where goods and services are often provided on credit, rather than cash, and payments can be expected up to 12 months after the transaction. Examples are wholesale and retail, which represents around 30% of TCI policyholders[7], manufacturing (30%), and construction (9%). The majority of TCI policyholders (41%) are small businesses (10-49 employees) with a relatively equal share of 25% of micro businesses (<10 employees) and medium-sized businesses (50-249 employees) (see the section on policyholder's characteristics for more detail).

The UK trade credit insurance market is relatively mature and complex, dominated by a small number of (international) insurance companies. Some of the main operators in the market include underwriting companies, brokers and reinsurers. Underwriting companies assess the risk of insuring particular companies and transactions and determine the terms and conditions of insurance policies. Insurance brokers act as intermediaries between businesses seeking insurance and insurance companies offering coverage. Reinsurers provide insurance to insurance companies. Reinsuring is a common practice, as it allows insurers to reduce their exposure to potential losses and spreading the risk. The ownership structure and governance arrangements of these companies tend to be complex and in some cases intertwined. DBT is currently performing a separate, wider review of the TCI market, which will provide more details on the stakeholders and structure of the market.

For the purpose of the TCR scheme evaluation, the terms 'insurance provider' and 'insurer' refer to insurance companies that provide insurance policies to customers and assume the risk of losses from customer claims in exchange for premiums. They are not used to refer to brokers or reinsurers.

Need and objectives for government intervention

The economic shocks related to COVID-19 at the beginning of 2020 posed serious risks to the trade credit insurance market, and therefore to supply chains throughout the economy. The sudden and unprecedented economic disruption meant that insurers faced great uncertainty about the potential default risk in the market. Consequently, insurers were beginning to withdraw or significantly reduce credit limits in order to manage their risk exposure. Without intervention, an estimated 30% to 55% of UK trade credit insurance was expected to be withdrawn.[8]

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[6] https://www.gov.uk/government/news/trade-credit-insurance-backed-by-10-billion-guarantee

[7] The shares of policyholders refers to the share of policyholders that benefitted from the TCR scheme. This is likely to closely resemble the overall TCI market, as the participating insurers represent around 85% of the market.

[8] See https://ec.europa.eu/competition/state_aid/cases1/202034/287256_2182123_84_2.pdf.

A sudden withdrawal of trade credit insurance had the potential to have serious and widespread economic effects. In the absence of TCI, businesses might have started asking for upfront cash payments from their buyers, or ceased trading altogether. This would have reduced economic activity and disrupted supply chains in a number of key sectors. Both, businesses and insurers notified the government of the risks arising from the uncertainty caused by the pandemic for the trade credit reinsurance market and the economy as a whole.

A similar situation has occurred after the 2008 financial crisis, when insurers removed TCI in response to the subsequent economic downturn. The British Retail Consortium found that 38% of large and 28% of small and medium retailers reported that the reduction or withdrawal of TCI at the time had detrimentally affected their business.[9] The withdrawal of TCI after the financial crisis also acted as the trigger for the collapse of many retailers, including Woolworths.[10]

Consequently, the government made the decision to temporarily intervene in the TCI market to protect supply chains and prevent a large loss in economic activity. This was to mitigate the risks of insurers taking widespread action to reduce levels of cover in the market. The objectives of an intervention were to[11]:

- Support UK businesses and aid economic recovery following COVID-19 by providing targeted support via trade credit insurers.
- Minimise reduction in economic activity from an abrupt withdrawal of trade credit insurance by maintaining TCI cover in the market.
- Support post-pandemic economic recovery by ensuring viable businesses did not fail due to withdrawal of trade credit insurance.
- Ensure insurers were adhering to the same underwriting standards as pre-COVID-19 in order to prevent a restriction in the access to TCI.

Trade Credit Reinsurance scheme

The government intervention took the form of reinsurance for insurers, providing additional guarantees on claims made by policyholders:

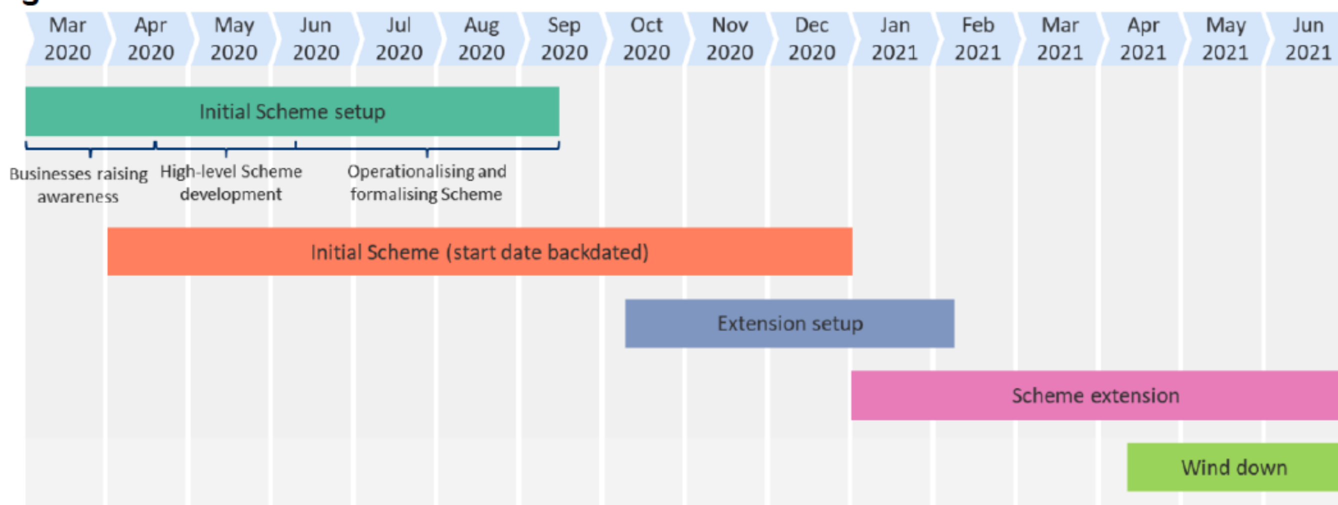
- The scheme included a reinsurance of 90% of the value of each in-scope TCI claim of participating insurers up to £3 billion, and 100% of claims between £3 billion and £10 billion.[12]
- Insurers committed to not reduce policyholders' credit limits on buyers for reasons related to COVID-19, maintain their underwriting standards, forgo payment of dividends or bonuses related to their TCI business, and provide data to the government for monitoring and evaluation purposes, among other requirements.

[9] https://www.insuranceage.co.uk/professional-broking/analysis/1561172/trade-credit-recovery-balance.
[10] https://www.thetimes.co.uk/article/retailers-renew-plea-for-credit-insurance-lzgqf7v3ddb.
[11] A more detailed list of objectives, aims, and success criteria are presented in 'Aims and objectives of the TCR Scheme'.
[12] For the scheme extension, the approach was amended such that the scheme would reimburse 90% of the value of each in-scope TCI claim up to £10 billion total insurer losses.

- The government received 90% of TCI policy premiums and returned 35% of premiums to cover insurer operating costs.[13]

After the ABI and businesses raised awareness to the government of issues in the TCI market in March 2020, insurers were informed by BEIS in April 2020 about their commitment to explore intervention options (Figure 1). After negotiating the Heads of Terms with insurers, the Trade Credit Reinsurance (TCR) Scheme was announced in May 2020, at which point insurers informally agreed to maintain cover in place. The final contracts with the nine participating insurers[14] were signed in September 2020 after the approval of the scheme under EU State Aid rules. The scheme was backdated to cover policies from April 2020 and ran originally until December 2020. A six-month extension to the scheme was announced in December 2020, meaning that the scheme ultimately ended in June 2021.

Figure 1: Timeline of TCR Scheme



Source: London Economics analysis of BEIS documentation

Process map

Designing, setting up and operating the TCR Scheme involved various steps and processes. As part of the evaluation, the different processes that formed part of the scheme have been identified through consultations with the government and the external delivery partners. The main processes can broadly be split into four categories:

- **Scheme design**: The design encompasses all processes related to the scheme rules, starting from analysing the need of the scheme to negotiating the scheme rules and

[13] These were the initial terms of the Scheme negotiated during the set-up period in 2020, but this had to be renegotiated to ensure compliance with EU State Aid rules. To meet these rules at the time, the initial Scheme (until December 2020) involved the government receiving 100% of TCI policy premiums, and reimbursing operating costs based on historic insurer-specific data. For the extension from January 2021, the initially proposed rules applied.

[14] The participating insurers were: American International Group UK Limited; Atradius UK; Coface UK Branch; Credendo – short-term non-EU risks; Euler Hermes UK, a branch of Euler Hermes SA (NV); Markel International Insurance Company Limited; Nexus Trade Credit; QBE UK Limited and QBE Europe SA/NV; Zurich Insurance plc

signing contracts with the insurers. At each stage, multiple different stakeholders, including government departments, external delivery partners (PwC and Slaughter & May), insurers and business groups, provided inputs and multiple strands of analysis and expertise were used to inform the scheme's structure and rules. Similar processes also occurred to set up the scheme extension, and to facilitate the scheme end and associated wind down activities.

- **Scheme implementation**: The implementation of the scheme included raising awareness amongst insurers and businesses, as well as setting up the data and payment infrastructure. Once it has been decided to put a TCR Scheme in place, the implementation was performed in parallel to the scheme design. First, BEIS and the government had a close communication with insurers and the ABI to inform them about their intention of setting up a reinsurance scheme. The government's communication with wider businesses was mostly done through public announcements and through engagement with relevant business groups/industry bodies, with the exception of direct communication with some businesses that reached out to the government. The second strand was setting up the data and payments infrastructure needed to operate the scheme. This involved BEIS and the external delivery partner PwC deciding on data requirements and the construction of a data platform for insurers by PwC.
- **Scheme operation**: Data uploading and checks constituted a large proportion of the processes underpinning the Scheme's operation, including the notifications and decisions to be made if data submissions by insurers were rejected or flagged. Payments were another key component, with premiums being ceded by insurers, government payment of claims, and reimbursement of insurers' operating costs by the government. These occurred quarterly, with annual adjustments and ad hoc processes in the cases of large or unusual claims. Finally, as part of the scheme's operation, insurers agreed to codes of conduct under which they would operate during the scheme period, such as maintaining underwriting standards, level of cover, and levels of service.
- **Scheme monitoring**: Data was collected during the scheme's operation to allow BEIS to monitor the progress of the scheme. Data was uploaded to the platform by insurers and run through a series of checks set up by PwC. BEIS was consulted when the government needed to make decisions, such as relating to fraud, payment of sanctioned entities, or ad hoc payments. They also received regular updates about the number of policies, claims and payments covered by the scheme, which were reviewed by BEIS and the Steering Board. Finally, processes were set out in contracts in cases of disputes within the Scheme (i.e., for missing information or breaches of contract).

Detailed process maps illustrating the various steps and interlinkages are presented in Annex 1. These maps have been used to structure and inform the process evaluation.

Research questions

To assess whether the TCR scheme has met its aims and to identify key lessons for potential future interventions, BEIS has commissioned this report comprising of a process and interim impact evaluation. The process evaluation assesses the effectiveness of the scheme and the

processes adopted to deliver and operate the TCR Scheme, while the interim impact evaluation provides an indicative Value-for-Money (VfM) assessment and an assessment of the required quantitative data.

The study's specific research questions are set out below in Table 1.

Table 1: Process evaluation framework

Policy design	How effective was communication and collaboration at inter and intra-department level in the design and delivery of the scheme?
	To what extent did BEIS have access to the right expertise? Did BEIS have the ability to mobilise and stand up the appropriate internal and external resource at the outset of the policy?
	What can be learned from the negotiation process with ABI?
	To what extent were decisions made based on analysis and evidence?
Processes, oversight, and governance	Was the programme stood up quickly enough?
	Was the right governance in place to manage the programme effectively?
	How successful was the procurement of legal advice and a delivery partner?
	How effective was communication and collaboration with insurers and the business community?
Scheme delivery / intended purpose	To what extent do stakeholders think the scheme has achieved its aims?
	To what extent did the scheme meet its objectives and expectations?
	Is there evidence of fraud and excessive risk tasking?
	What learnings should be applied to future HMG reinsurance schemes? What would have helped/what could have been done differently for any areas of concern? Which areas of delivery require the most improvement?
	How does the delivery method of the scheme compare internationally?
	Whether and how were protected characteristics within eligible sectors taken into consideration to ensure that the scheme was accessible to all?
Interaction with wider government interventions	What can be said about the interaction of different COVID-19 interventions/schemes? What feedback is available in terms of how the interaction influenced outcomes from design to delivery stages?
TCI market	How do the existing customer relationships between insurers and businesses (suppliers) currently work?
	Has the scheme strengthened relationships between government and industry/businesses? If so, how?

	The cyclical nature of the TCI market and its implications

Data collection tools and methodology

The process and interim impact evaluations relied on multiple strands of research, data collection and analysis. The various sources of information are summarised below:

Desk-based research and document review

Research was conducted to identify the high-level processes that formed part of the TCR Scheme. This made use of official details of the scheme published by the government, information released by insurers, and other external sources such as news reports. Research was also performed on trade credit insurance in general, gathering information on the workings of the markets and the international context.

This research was supplemented by a review of documents relating to the TCR Scheme which were provided by BEIS. This included an overview of the objectives and intentions of the scheme, various documents relating to the setup process, and PwC reports on the collected monitoring data.

All elements of research and document review fed into the construction of a process map, whereby each process within the scheme was mapped and linked. This set out a framework to understand inputs, activities, and outputs within the scheme, and the causal links that facilitated different elements of the setup and operation of the intervention.

Scoping consultations

Scoping consultations were undertaken with BEIS officials and PwC to refine the identified processes and gain an understanding of the monitoring data available for assessing the impact of the scheme. These interactions particularly helped scope the roles of each stakeholder, understand the processes behind payments and the data platform where insurers uploaded monitoring data, and provided context to findings from research. The process map was finalised after these consultations. This process map and discussions with BEIS officials then set the evaluation framework process evaluation, identifying key research questions (see Table 1). Information from PwC and discussions with BEIS officials about the workings of the TCI market also informed the structure of the modelling for the scheme's impact evaluation.

Stakeholder consultations

The evaluation framework identified the stakeholders that needed to be consulted to provide the necessary data and insights to perform the process and interim impact evaluation. The consultations were conducted as semi-structured interviews and took place over online video calls, lasting up to two hours. The research questions from the evaluation framework informed the topics covered in the interviews. The consultations were also used to collect data for the interim impact evaluation based on hypothetical scenarios. Such data were required to model

the economic impact of the TCR Scheme. The consultations covered four main groups of stakeholders:

- **Government –** An extended consultation was performed with BEIS officials. As the party with ultimate responsibility for the policy, BEIS were involved in every element of the scheme and had relationships with every other stakeholder, providing an overview perspective for the whole scheme. As well, BEIS officials provided particular insights on the governance, procurement, and design of the scheme.
- **Delivery partners –** Both external delivery partners were interviewed. The external delivery partner, PricewaterhouseCoopers (PwC), gave insight on elements of the scheme design, setting up and operating the data platform. Slaughter & May (S&M), as the external legal advisor, gave details on drafting the Heads of Terms and full scheme rules. These external delivery partners, together with BEIS, are referred to collectively in this report as the 'delivery team'.
- **Insurance industry stakeholders –** Of the nine TCI providers[15] who signed up to the scheme, five insurers of different sizes were interviewed. Insurers provided their views of the scheme as participants, providing crucial insights on the negotiations process, their experience of the scheme's operation and their communication with the government and the delivery team. Insurers also explained how they would have acted in a counterfactual scenario where the scheme had not been implemented. These explanations informed the impact evaluation modelling. The Association of British Insurers (ABI), who acted as a representative for insurers during the design of the scheme and subsequent negotiations over the rules, were also interviewed to provide an industry-wide perspective.
- **Business stakeholders –** To provide an overview of the experience of businesses who held TCI policies during the pandemic, a stakeholder consultation was undertaken with the Confederation of British Industry (CBI).

Views and information provided during consultations were cross-checked and triangulated with different sources, and themes were identified, informing the results of the process evaluation. The collected information was also cross-checked and contextualised with existing information from earlier research and other external sources[16].

[15] For the purpose of the TCR scheme evaluation, the terms 'provider' and 'insurer' refer to insurance companies that provide insurance policies to customers and assume the risk of losses from customer claims in exchange for premiums. They are not used to refer to brokers or reinsurers.

[16] Existing information from earlier research mainly related to the potential actions insurers would have taken without the intervention, or actions insurers did take in countries where the government did not intervenie: EIOPA (2021) Financial Stability Report (July 2021). Available at: https://www.eiopa.europa.eu/sites/default/files/publications/reports/financial-stabiliy-report-july-2021.pdf; Euler Hermes (2020) Trade credit insurance support scheme. Available at: https://www.eulerhermes.co.uk/trade-credit-insurance/support-scheme.html; Honan. (2020) Supply Chain Challenges: Key insights on Trade Credit Insurance through COVID-19. Available at: https://honan.com.au/news/supply-chain-challenges-key-insights-on-trade-credit-insurance-through-covid-19/

Survey of policyholders

To provide further insights on businesses' experience of the TCR Scheme and the TCI market during the pandemic, a random sample of 600 businesses was surveyed out of the 11,456 businesses that held trade credit insurance policies with participating insurers during the scheme period.[17] A Computer-Assisted Telephone Interview (CATI) was conducted on this sample. The survey questions focused on policyholders' awareness of the scheme, experiences of changes to their policies, views on the scheme's aims, and the evolution of business confidence throughout the pandemic. Policyholders were also surveyed on their likely actions in the face of a number of different hypothetical scenarios, providing information for the interim impact evaluation.

Annex 2 analyses the business characteristics of surveyed policyholders.

Monitoring data

Participating insurers submitted data on a monthly and quarterly basis to the scheme throughout its course in order to monitor the scheme's effectiveness and insurers' adherence to the scheme's rules and objectives. Insurers provided the scheme with detailed monthly records of in-scope policies as well as details on the insured (the debtor) within the policy file. Examples of the data type and variables collected are presented in Annex 4. Throughout the scheme, this data was collected and processed by PwC, who developed thorough processes to check the data against pre-set parameters and developed a dashboard to report the collated data. Some of these checks, for example, included checks on whether insurance policies fulfilled the scheme's eligibility conditions. The collation of data provided by insurers contributed to the evaluation of the scheme's impact as well as to the assessment of the insurers' adherence to the scheme's rules. Information on non-participating was not available for the evaluation.

[17] Details on the full population of policyholders were provided via monitoring data collected by PwC.

Process evaluation

The purpose of the process evaluation is to assess the effectiveness of processes adopted to design, set up, operate and monitor the TCR Scheme. This consists of assessing whether these processes enabled the scheme to meet its policy objectives in an efficient manner, while highlighting key lessons learned along the way. The process evaluation answers the research questions by drawing on the process maps and the data collection tools set out in the Introduction. The analysis is structured as follows:

- Policy design
- Process, oversight, and governance
- Scheme rules and operational delivery
- Claims and beneficiaries
- Intended purpose
- Interaction between wider government interventions
- International comparison
- TCI market and stakeholder relationships

Policy design

This section analyses the processes involved in the design of the TCR Scheme. As part of this, the resources and expertise of the government, the use of analysis and evidence, and the involved stakeholders are analysed. Furthermore, the negotiations between the government, insurers and the ABI are explored for potential learnings. Finally, the government's risk management is evaluated in view of potential risks, mitigation measures and unintended consequences.

Overview

The inception of an intervention in the trade credit insurance market arose from discussions among insurers at the beginning of 2020, with the ABI notifying the government in March about potential issues in the market. Insurers anticipated that the pandemic would likely cause a large downturn in economic activity and were planning to withdraw large amounts of cover. This would greatly expose policyholders to the risk of trading partners defaulting on payments, leading to losses in business confidence and significant reductions in economic activity. This information from the insurance industry, and the government's experience of similar developments in the wake of the 2008 financial crisis, led to the government decision to intervene.

Conceptualisation discussions occurred between BEIS, the Treasury, external delivery partners (PwC and S&M), the ABI, and experienced individuals from two participating insurers.

This led to a decision to set up the Trade Credit Reinsurance scheme, which would support businesses through the government providing additional guarantees in the form of reinsurance of TCI policies extended by insurers.

The first stage of negotiations focused on the Heads of Terms of the TCR Scheme, which set out the high-level structure of the intervention as well as the government's and insurers' financial compensation. These heads of terms were negotiated between the government, advised by the external delivery partners, and the ABI, acting as a representative of participating insurers. The agreement of the scheme Heads of Terms in May 2020 led to the initial public announcement of a government reinsurance guarantee in the trade credit market.[18]

The second stage of the negotiations was over the full and detailed scheme rules. These negotiations occurred bilaterally between BEIS and individual participating insurers, to ensure that the scheme aligned with business structures and idiosyncratic needs of all participants.

As EU State Aid rules applied during the Brexit transition period, the UK's TCR Scheme was required to be consistent such rules.[19] Obtaining approval from the European Commission took longer than anticipated due to issues with aligning the eventual scheme design with EU State Aid rules and ensuring consistency with comparable schemes in other European countries.. This meant that contracts were signed with nine participating insurers only in September 2020 after a period of negotiation.

The initial scheme agreement was backdated to cover policies agreed from April 2020 until December 2020. In December 2020, the scheme was extended for an additional six months until 30 June 2021 after further negotiations with insurers and the ABI.[20]

Resources and expertise

The initial phase of the setup of the scheme proceeded under the joint ministerial responsibility of the HM Treasury and BEIS, utilising HMT's experience with insurance policy development and BEIS' experience of delivery. The internal team from both departments consisted of policy officials with delivery backgrounds, as well as analysts, finance, PMO and government lawyers.

HMT were more involved in the initial stages, particularly advising on behalf of the Chancellor, but became less directly involved once the Heads of Terms were agreed. BEIS assumed responsibility for overall delivery, including policy design, obtaining approvals and funding, and leading negotiations. The division of labour and responsibilities across different government departments were, thus, clearly defined.

Early in the process, it was determined that the assembled government team lacked specific understanding of the TCI market. Therefore, a quick tender process was launched to procure

[18] https://www.gov.uk/government/news/government-to-support-businesses-through-trade-credit-insurance-guarantee
[19] https://ec.europa.eu/competition/state_aid/cases1/202034/287256_2182123_84_2.pdf
[20] https://www.gov.uk/government/news/update-on-the-trade-credit-reinsurance-scheme

external delivery partners who could provide this TCI market expertise. PwC were brought in to advise on the scheme design and delivery, particularly with reference to lessons from a previous intervention in the wake of the 2008 Financial Crisis and from other countries. PwC offered the experience of their in-house insurance team and other related industry experience and knowledge gained through their relationships, including with a number of the participating insurers. S&M were brought in to assist in the drafting the Heads of Terms and ensuring compliance to State Aid rules, and to benefit from their experience with reinsurance contracts more generally. This procurement process in the initial design phase for both external delivery partners took place over less than a week.

In the stakeholder interviews, BEIS officials considered that, overall, the roles of all internal and external delivery partners were well defined, and the various tasks were divided up clearly. They commended the collaborative effort and agility of the combined team particularly during the initial setup. The delivery partners concurred with this view. Both BEIS and external delivery partners noted that they worked together efficiently and collaboratively as one team, and roles were easily determined through reference to the different participants' specific expertise. At the beginning there was unavoidable overlap between workstreams as the nature of the intervention was still being determined. However, roles became more delineated as the setup progressed and specific jobs could be better articulated. Both delivery partners considered this approach successful, which further underlines the well-established collaboration within the delivery team.

BEIS officials felt that the expertise brought by external delivery partners was sufficient to be able to make informed decisions during the setup and design phase of the scheme. While these partners provided expertise on reinsurance and the TCI market, BEIS officials noted that the reality was that a reinsurance intervention of this nature was new to all delivery partners. The external delivery partners themselves felt they had access to the requisite expertise between them and from internal resources that they could draw on if needed (i.e., there was support from PwC's actuarial team and S&M's antitrust team when needed at certain stages).

However, insurers and the ABI noted in their consultations that insurers felt that the delivery team did not always have the required knowledge of the trade credit insurance market during the initial stages of the scheme design. While the insurers did not expect the government to have a specific expertise in the trade credit insurance market, provide the relevant information and explanations to government officials and the delivery partners was mentioned as a factor that contributed to inefficiencies during the negotiations. Such initial inefficiencies do not seem particularly surprising due to the novelty of the scheme.

Insurers suggested that involving an independent intermediary with more applicable market knowledge would have made negotiations more efficient and is in line with the typical experience of insurers from reinsurance agreements with stakeholders from the private sector. While an independent intermediary might be able to increase efficiency by providing some general knowledge on the TCI market, insurers would still have to provide company-specific information, for example on their particular business model and operating structure, to allow for suitable modelling and assessments within the government. But, an independent intermediary

could also improve efficiency by increasing acceptance, for example for the government's need for data collection, during negotiations.

Overall, BEIS and the delivery partners felt they generally had access to the right resources and expertise to design the scheme, and these resources were assembled quickly and efficiently at the beginning of the scheme. However, insurers still perceived some lack of market understanding among the delivery team during negotiations.

Use of analysis and evidence

Decisions made by BEIS during the design, setup and extension of the scheme were based on multiple information sources. The evidence gathered by BEIS informed the objectives at the start of the design process, which provided a framework for subsequent decisions about the scheme. In defining the objectives for the scheme in early 2020, the government drew from three main sources:

- **Lessons from the 2008 financial crisis.** A reinsurance scheme for the TCI market also had been set up in the aftermath of the crisis. This scheme included substitution guarantees, whereby the government provided insurance guarantees in instances where insurers did not want to underwrite risks of certain buyers (known as a 'top-up' scheme). The experience with the complexity of this approach suggested it took too long to set up and negotiate and had limited coverage (i.e., with policyholders having cover fully withdrawn not being eligible).[21] Consequently, it was decided that the COVID-19 intervention needed to be kept simple, rely on market mechanisms, and not directly affect policyholders' day-to-day business activities while having broader coverage.
- **International comparisons.** There was a level of engagement with other countries which were having similar discussions, on both the government and insurer sides. As some countries were more advanced at early stages (i.e., Germany), there was an element of learning from their immediate experiences.
- **The immediate COVID-19 context.** Due to the size of the economic shock, it was quickly decided that a broad intervention was needed. It was also understood early on that a TCI market intervention was not just needed to mitigate immediate COVID-19 shocks, but also to build a foundation for the economic recovery from the pandemic.

These considerations helped set objectives early in the setup process, which then informed all subsequent design stages of the scheme, setting out a clear framework.

Evidence and analysis from multiple sources also informed the need and design of the scheme and was considered crucial in these steps. Evidence came from discussions with the ABI as the representative of insurers, informing the government of likely actions that would occur without an intervention. The headline was that insurers would likely withdraw 30-50% of cover to manage their exposure. This information resulted from an ABI analysis with commercially sensitive insurer data. BEIS used this information to perform economic analysis to quantify the

[21] https://www.accountancyage.com/2009/12/03/5bn-government-trade-credit-scheme-is-branded-a-failure/

likely impact on businesses. While this analysis was a high-level exercise due to the required response speed, it was important in conveying the scale of intervention needed and, particularly, the understanding that the scheme could be a crucial backstop if other government support schemes did not function as intended. Views of policyholders were also provided by the CBI and other business groups to give a wider view of potential impacts on different sectors.

Similar discussions, data and government analysis toward the end of 2020 informed the decision to extend the scheme. This additional evidence made it clear that even only a 5-10% reduction in cover at this point would have still widespread economic implications, particularly for vulnerable businesses.

In summary, every decision-making stage of the scheme's design was informed by an appropriate range of available evidence, and the analysis performed both in-house and by the ABI sufficiently contributed to the design of the scheme. A crucial step of this stage was the setting key policy objectives early based on existing evidence and experience, which set a clear framework for subsequent design steps within the scheme setup.

Stakeholder involvement

The stakeholders involved at different design stages of the TCR Scheme can be broadly grouped into four categories:

- **Government stakeholders.** The policy was the joint responsibility of BEIS and the Treasury, with the former responsible for delivery and the latter in a more advisory role. Other government departments contributed when needed, such as UK Export Finance and the Crown Commercial Service.
- **Delivery partners.** These were external resources tendered by BEIS to help the government to deliver scheme, and consisted of PwC and S&M.
- **Insurance industry stakeholders.** This stakeholder group comprised the participating insurers and the ABI as their representative.
- **Business stakeholders.** These were the policyholders covered by the scheme, represented by the CBI and other business groups who provided inputs into the scheme set up and design.

Scheme design

The ABI was the primary point of contact between government and industry up to the signing of the Heads of Terms, and felt sufficiently involved in these proceedings. The ABI were also satisfied with their involvement during negotiations of the full Scheme rules, where they took the more background role of providing external expertise for insurers.

Insurers generally felt adequately represented during the scheme set up, both via the ABI during Heads of Terms negotiations, and then by participating in direct negotiations with BEIS over the full scheme rules. Larger insurers were satisfied overall as most felt like they occupied a prominent role in discussions. However, one larger insurer felt that an equal weight was

given to all insurers in discussions and would have liked to be more pivotal due to their relative importance in the market. Meanwhile, smaller insurers felt less involved, but were satisfied given that they were represented proportionally to their size. Some participating insurers were not members of the ABI. These insurers, though not involved in shaping the ABI's negotiating position with other ABI members during Heads of Terms negotiations, were nevertheless pleased to be represented at all. They were included in correspondence and provided feedback once Heads of Terms negotiations had concluded.

Overall, the level of involvement of different insurers seems appropriate, as all insurers had a chance to share their views and contribute to the scheme design. Including the ABI and two larger insurers was an appropriate, practical approach and ensured more weight was given to those insurers representing a larger share of the market.

The CBI was also involved in an advisory capacity, highlighting to government the importance of the TCI market to businesses through provision of case studies and statistics. While not directly involved in policy design, the CBI welcomed its level of involvement and felt policyholders were adequately represented.

As delivery partners, both PwC and S&M were satisfied with being heavily involved in all design stages during setup and being part of the core delivery team.

Scheme extension and end

The need for a scheme extension was discussed among insurers and the ABI, who then brought their views to the government. As insurers and the government independently agreed that the scheme should be extended, decision making was smooth, and all insurers felt sufficiently involved. The CBI also welcomed involvement at this stage, providing views of businesses who were also in favour of extension due to worries about cover withdrawal.

Similarly, all insurers agreed that the scheme end date was appropriate. It was noted by the ABI that the government took on board this view from insurers and was convinced that the scheme would benefit from a successful wind down rather than a further extension. Though some CBI members were in favour of a further extension, the CBI considered this to be more down to individual business circumstances and did not see the necessity from a broad sector perspective. Consequently, they supported the scheme end date.

Summary

Overall, stakeholders were sufficiently and adequately involved in all stages of the scheme design.

Negotiations with insurers and the ABI

Heads of Terms

Negotiations over the Heads of Terms occurred in May 2020 and involved discussions over the high-level design of the scheme. These were conducted between BEIS, supported by delivery partners, and the ABI, with experienced representatives from two insurers taking a prominent role.

All parties were generally satisfied with this stage of negotiations. The following **positive aspects** were highlighted during consultations:

- Insurers generally felt negotiations went smoothly and were conducted professionally. Similarly, the government thought the negotiations were well set up, run, and resourced. This was particularly important to the government as it was necessary to agree on high-level details in a timely manner as some insurers had already started withdrawing cover in March and April 2020, and a government priority was to prevent further action from being taken.
- Some insurers noted that stakeholders adapted quickly to initial challenges arising from remote working (such as negotiations by email, telephone, and transitioning to then-unfamiliar video call software), and engagement remained strong despite these challenges.
- Delivery partners were very complimentary about this stage of negotiations, highlighting the efficiency of the process.

Nevertheless, some **key challenges** were encountered during Heads of Terms negotiations:

- Some insurers were dissatisfied that the government framed the TCR Scheme as a 'bailout' of the TCI industry in initial discussions. Contrary to this, insurers saw introducing a scheme as a mutually beneficial intervention for both parties, where insurers would reduce exposure to risk and the government would support the economy by maintaining cover. Insurers were clear that they would have stayed solvent in absence of an intervention (in part by withdrawing large amounts of cover). Therefore, they had to push back on the 'bailout' characterisation a number of times during these negotiations. More sensitivity around this topic could have increased acceptance by insurers and aided the general relationship with the government.
- Having to renegotiate elements of the Heads of Terms to ensure compliance with EU State Aid rules caused unanticipated delays to finalising the design of the scheme. The initial agreement was for the government to receive 90% of premiums and return 35% to cover insurers' administrative costs. This had to be renegotiated to the government receiving 100% of premiums and reimbursing operating costs based on historic insurer-specific data.[22] This was a surprise to the government and delivery partners, who did not think this action could have reasonably been foreseen. BEIS officials noted the European Commission raised general concerns in pre-engagement activities, but these were not sufficiently specific to warrant concern. Ultimately, the government officials and legal partners considered the scheme design as typical of private sector arrangements, with upside and downside risks to bring about desired incentives. This view was supported by the fact that the German scheme was later renegotiated to include the reimbursement initially proposed in the UK scheme, and that the UK's initial proposal was accepted when the TCR Scheme was extended.
- Insurers noted that the delivery team lacked some knowledge about the market and individual businesses at the beginning of the negotiations, which created additional

[22] https://ec.europa.eu/competition/state_aid/cases1/202034/287256_2182123_84_2.pdf

complexity for the negotiations. This topic has been discussed in the section on 'Resources and expertise'.

Full scheme rules

Once the Heads of Terms were agreed, direct negotiations between BEIS and each insurer over the specifics of the scheme rules took place. The completion of these talks was required for insurers to sign the final contracts, executed in September 2020.

Generally, views on these negotiations were more mixed than the views on the Heads of Terms. The following **positive views** were mentioned by stakeholders:

- Some insurers considered compromises from both parties were well understood at this stage, and that one-on-one negotiations between the government and insurers were beneficial for this understanding.
- Insurers with specific business structures, such as Managing General Agents (MGAs), felt their specific needs were well accommodated by these negotiations, as they were added in the full scheme rules.
- The government and delivery partners generally expected these negotiations to be more in-depth and take longer, and were happy with the effort that was put into them to deal with their complexity.

However, a number of **key challenges** were raised during consultations:

- BEIS conducted simultaneous bilateral negotiations with all insurers, which all had to approve changes to rules that may only have been relevant to a subset of insurers. This caused some inefficiencies, which have been discussed in the section on 'Efficiency of set-up'.
- The government was relying on the goodwill of insurers to maintain levels of cover, as contracts were only signed in September 2020, which caused insurers to feel uneasy about the legal uncertainty. This topic has been discussed in the section on 'Efficiency of set-up'.
- Some insurers viewed the language in the scheme rules proposed by the government as being more complex than in contracts typically used in the industry. They felt this often complicated understanding between parties. This was another area where an independent intermediary with knowledge of contracts in the TCI industry could have smoothed proceedings.

Summary

The negotiation process as a whole was generally seen as adequate by all parties involved. The Heads of Terms negotiations were considered more successful than the subsequent negotiations over the full scheme rules, where there were more mixed experiences and suggestions of how to improve proceedings. However, all participants in the negotiations were of the view that agreeing the Heads of Terms followed by negotiations over the full scheme rules was the correct and most efficient way to structure proceedings.

Processes, oversight and governance

This section evaluates the processes, communication and frameworks that underpinned the management and monitoring of the scheme. This includes views on the government's management of the scheme, the creation of a steering board, and the procurement process for external delivery partners. Also covered is an assessment of whether the elements of the set-up process were carried out efficiently, such that the efficiency of the scheme set-up was appropriate for the government, insurers, and policyholders, and whether the set-up could have occurred faster without compromising on the scheme's objectives. Finally, BEIS' communication and collaboration both with insurers and policyholders is investigated to detail the success of interactions and awareness raising.

Governance and management

The governance and management of the scheme was the responsibility of the BEIS Trade Credit Insurance Steering Board, an advisory and oversight committee drawing on expertise across government departments. The Steering Board comprised Senior Civil Servants, the Treasury insurance team, representatives from UK Government Investment and UK Export Finance, and various officials from BEIS, including finance and legal representatives. The Steering Board was selected to include individuals across different government organisations who had a broad range of experience relevant to the scheme. The Board initially met twice weekly before the signing of the Heads of Terms, with the frequency of meetings gradually reduced to quarterly by the time the scheme was in operation.

The Steering Board's role was to oversee the design and delivery of the scheme and advise the BEIS delivery team by drawing on its specifically curated expertise on reinsurance, trade credit and other relevant topics.[23] Based on updates from BEIS on the scheme's design and operation progress, the Board provided views on actions and advice on decisions. PwC provided the monitoring data to the BEIS delivery team, who would raise any concerns with the Board, which would then provide advice on reasonable steps to take.

BEIS officials saw the Board's inputs as particularly useful when deciding the scheme objectives during the conceptualisation phase, which involved providing guidance to obtain senior official and ministerial approval, advising how to weigh stakeholder inputs, and producing views on contentious and politically delicate matters such as sanctions. The Steering Board also provided a clear internal process to deal with potential non-compliance issues among insurers (which never occurred in practice).

Overall, BEIS officials found the Board to be very useful and would generally adapt plans based on the advice given. In general, the Board's role was clearly defined and provided the necessary level of advice throughout to aid the delivery of the scheme.

[23] For instance, the Treasury insurance team provided expertise on reinsurance, while UK Export Finance provided expertise on trade credit. Other members of the board provided wider expertise needed for the Scheme (i.e., financial, legal, and general policy delivery experience).

Procurement

Due to the time-sensitive nature of the intervention, the scheme procurement process (for the initial design of the scheme) was far faster than the usual government process. The standard government procurement process requires tenders to be public for a number of weeks as well as other lengthy authorisation processes. The crucial need for a fast response to tackle withdrawals in the TCI market meant that these government procurement rules were relaxed. BEIS worked with the Crown Commercial Service (CCS) to send out a tender for external delivery partners, including high-level questions about experience with TCI and reinsurance. The whole process led to PwC and S&M being contracted as external delivery partners and was completed over a matter of days. These shortened procurement processes are consistent with how other government support schemes operated during this period.

BEIS officials were happy with this expedited process given the circumstances and did not feel that necessary compromises in tender detail and competitiveness led to any issues arising from the procurement. Though having a short, single-page tender for the design phase, BEIS officials felt that the process was competitive, and they could analyse responses effectively and select the most competent and credible bid. BEIS officials also considered a combination of discounted COVID-19 price rates and good contract management with partners on short-term contracts meant that, in BEIS officials' opinion, the procurement process provided taxpayer with value for money. Finally, there was a separate tender to set up the data platform and oversee the operation of the scheme (also won by PwC), which was longer and more detailed and more in line with the standard government procurement process.

Even though the tender document only gave high-level requirements, both BEIS and delivery partners considered that the expertise outlined in the procurement matched what was required during the scheme. Both delivery partners felt that requirements were clearly set out during the procurement process and noted the importance of discussions and meetings that were set up to present the companies' proposals and discuss the project requirements in more detail. Due to the urgency, the scope of work was necessarily less detailed, but the precise scope organically materialised during the set-up and was not considered an issue by delivery partners or BEIS.

In summary, despite the expedited nature of the procurement, the procurement was carried out effectively, accurately detailed the required roles and expertise, and was not hindered or less competitive due to the speed required for the set-up. Instead, the speed and effective manner of the procurement allowed the government to address stakeholders' concerns quickly.

Efficiency of set-up

The ABI notified the government about issues in the TCI market in March 2020, though contracts were only signed later in September 2020. This was a concern for many insurers, particularly as they were holding cover in place for an extended period of time without having signed contracts, exposing them to risk if claims had come in and contracts had failed to be signed. Some insurers nevertheless felt this was an appropriate amount of time considering

the amount of work required to implement such an intervention with no previous precedent. This sentiment was echoed by BEIS officials and delivery partners.

The primary aim of agreeing the Heads of Terms was to get insurers to agree to maintain cover and signal the high-level structure of an intervention at an early stage. Consequently, full scheme rules negotiations were less time pressured, and took necessarily longer as specific details needed to be ironed out. Furthermore, as insurers kept cover in place as intended following agreement on the Heads of Terms agreement, the slower progress of these negotiations did not have significant effects on the scheme outcome.

Some elements that could have been set up faster in theory, were difficult to anticipate or to amend significantly in practice. Insurers highlighted that a delivery team with prior knowledge of the market could have hastened the process, particularly during the conceptualisation stage and subsequent negotiations. However, insurers did not expect the government to have this prior knowledge.[24] The ABI and insurers noted that sometimes government responses and ministerial approvals took longer than they thought necessary. However, the overall initial mobilisation, conceptualisation, and drafting of the Heads of Terms were widely considered to have proceeded as efficiently as possible.

Subsequent stages took longer, but generally large time savings were not considered feasible. Deciding data reporting requirements took longer than anticipated by PwC and insurers, due to the discrepancy between the initial data requests and insurers' capabilities (in terms of volume, complexity, and data availability). The volume of data reporting requirements was considered necessary by the government and PwC to adequately monitor the scheme and be able to provide accountability in the case of a large number of claims and high financial costs for the government.[25] Consequently, significant simplifications to data reporting that could have sped up the process were not suitable.[26]

Similarly, negotiating with only the largest insurers over full scheme rules could have saved time but ran the risk of reducing other insurers' participation. The chosen format of negotiations involved bilateral discussions with each participating insurer, which was noted by both parties as a complex and time-intensive process.[27] On reflection, BEIS officials considered an alternative process for negotiating scheme rules would have been to have bilateral negotiations with a few of the largest insurers, and then make a 'take-it-or-leave-it' offer to smaller insurers. This would have avoided bilateral negotiations with all participants, while maximising potential participation by targeting the largest market share. This way, even if some smaller insurers had not been satisfied with the contract terms and decided to pull out of negotiations, this would only account for a small amount of the trade credit insurance market. While a 'take-it-or-leave-it' offer for smaller insurers has the potential to make the negotiations more efficient, it is likely to disregard some of the businesses' unique structures and processes. This, in turn, might prevent them from participating in the scheme. For this reason,

[24] This topic is further discussed in the section on 'Resources and expertise'.
[25] For the justification of these data reporting requirements from a risk mitigation perspective, see **'Risk management and unintended consequences'.**
[26] This topic is further discussed in the section on 'Data reporting requirements'.
[27] The structure of the full scheme rules negotiations was considered a key challenge by the government and Insurers. See discussion in 'Negotiations with insurers and the ABI'.

it would be important to (at least) consult all insurers about specific requirements or concerns in bilateral discussions before finalising the contract.

A primary contributor to the delay in contract signing were the unanticipated delays due to renegotiate elements of the Heads of Terms to ensure compliance with EU State Aid rules.[28] As outlined in the section on the negotiations with insurers and the ABI, it was the view of the government and delivery partners that this action could not have been readily anticipated. As such, the process could not have been conducted in a timelier manner.

While some stakeholders considered that the scheme took too long to set up, possible improvements that would have facilitated a faster process, while conforming with government accountability requirements and addressing insurers' concerns and needs, appear to be limited.

Communication and collaboration with insurers

All stages of the scheme involved BEIS having communication with insurers. The insurers' views on this communication are summarised for four key scheme phases:

- **Set-up:** No insurers felt underprepared for the scheme during the design phase. Guidance from the government and particularly the ABI was widely appreciated, especially by smaller insurers who were less directly involved in the scheme's design. BEIS officials also felt close relationships maintained with insurers and the ABI during negotiations worked well and led to an effective process. BEIS officials noted that a challenging element at this stage was the amount of government resources required, with one or two individuals being on calls all day. However, BEIS officials considered that these resourcing constraints did not necessarily delay or reduce the effectiveness of the set-up process.
- **Scheme operation:** All insurers appreciated BEIS' regular and informed communication during the scheme's operation. It was highlighted that BEIS' team was very supportive and did not change personnel throughout the whole scheme's operation, which prevented any stop/start issues in communication.
- **Decision to extend the scheme:** At this stage, most insurers would have appreciated more guidance on the government's plans for other COVID-19 interventions. Insurers agreed to extend the scheme in part due to uncertainty over whether other government support (such as the Furlough Scheme) would also continue into 2021. Had the insurers known that this and other support was to continue, it may have changed their decision to participate in the extension. Some insurers also raised the issue that earlier confirmation of the scheme extension would have been appreciated as it would have provided more certainty to the insurers and their policyholders. The extension to the scheme was only officially announced on 29 December 2020, two days before its

[28] The delays in finalising the scheme rules to ensure compliance with EU State Aid rules was seen as a key challenge to the Heads of Terms negotiations by BEIS, delivery partners, and insurers. See discussion in 'Negotiations with insurers and the ABI'.

original end date.[29] The CBI mentioned other countries, such as Germany, decided on a longer duration of their TCI reinsurance scheme early on which reduced uncertainty and disruptions for insurers and policyholders.

- **Decision to end the scheme**: All insurers agreed that not much government guidance was needed to prepare them for the scheme end as they considered that the market had stabilised and were confident in carrying out business unsupported. To prepare policyholders for the end of the scheme, BEIS' communication involved encouraging insurers to communicate with policyholders, particularly with those at risk of losing cover, and performing a data exercise with insurers to highlight which sectors were likely to be affected. BEIS officials considered these communication exercises as important for helping keep cover in place once the scheme ended.

Insurers were overall very complimentary about the communication and support provided by the government during all stages of the scheme's set up and operation. The singular exception was that insurers would have benefitted from more and earlier guidance regarding the scheme extension, including other COVID-19 interventions. If possible, the government should provide guidance at an earlier stage and/or for a longer period of time, as it would help to create certainty amongst insurers and the economy more generally and would better allow other government schemes to consider interdependencies and interactions.

Communication and collaboration with policyholders

The main manner that the government informed businesses (except for insurers) about the TCR Scheme was through public announcements on the government website, principally announcing the introduction,[30] extension,[31] and confirmation of the end of the scheme.[32] These announcements were not widely circulated in national media.[33] Aside from this, the government only had communication with some businesses that raised concerns with the government directly. This approach was in line with the fact that the reinsurance scheme was not meant to affect policyholders' day-to-day business.

Some participating insurers shared information about the scheme with their policyholders and published answers to common questions about the scheme and what it would mean for policyholders on their website.[34] [35]

From the CBI's perspective, policyholders had a good awareness of the scheme, mainly through information from brokers and trade associations. The CBI also considered government

[29] https://www.gov.uk/government/publications/trade-credit-reinsurance-scheme
[30] https://www.gov.uk/government/news/update-on-the-trade-credit-reinsurance-scheme
[31] https://www.gov.uk/government/publications/trade-credit-reinsurance-scheme
[32] https://www.gov.uk/government/publications/statement-on-the-closure-of-the-trade-credit-reinsurance-scheme/joint-statement-on-the-closure-of-the-trade-credit-reinsurance-scheme
[33] The exception was the Financial Times, which in June 2020 reported on the initial announcement of the Scheme (https://www.ft.com/content/d5bfb040-4466-4e0b-b040-2a9ea93b7389) and in June 2021, reported on retailers who were unhappy with the end date of the scheme on the back of concerns about cover (https://www.ft.com/content/ade1c464-1e7b-42fd-832e-c44e60e553e1).
[34] https://www.clearviewcredit.co.uk/trade-credit-reinsurance-scheme-faq-s
[35] https://cmris.co.uk/blog/trade-credit-insurance-government-scheme-faqs

awareness raising through press releases and government website portals to be adequate, noting that BEIS were very proactive in engaging with trade bodies.

The survey of policyholders, however, suggests that only 39% of surveyed policyholders were aware of the scheme. Larger companies tended to be more aware than smaller ones. These results are not necessarily incongruous, as the CBI's members may have been more aware of the scheme than the average policyholder, due to information shared through its network of businesses.

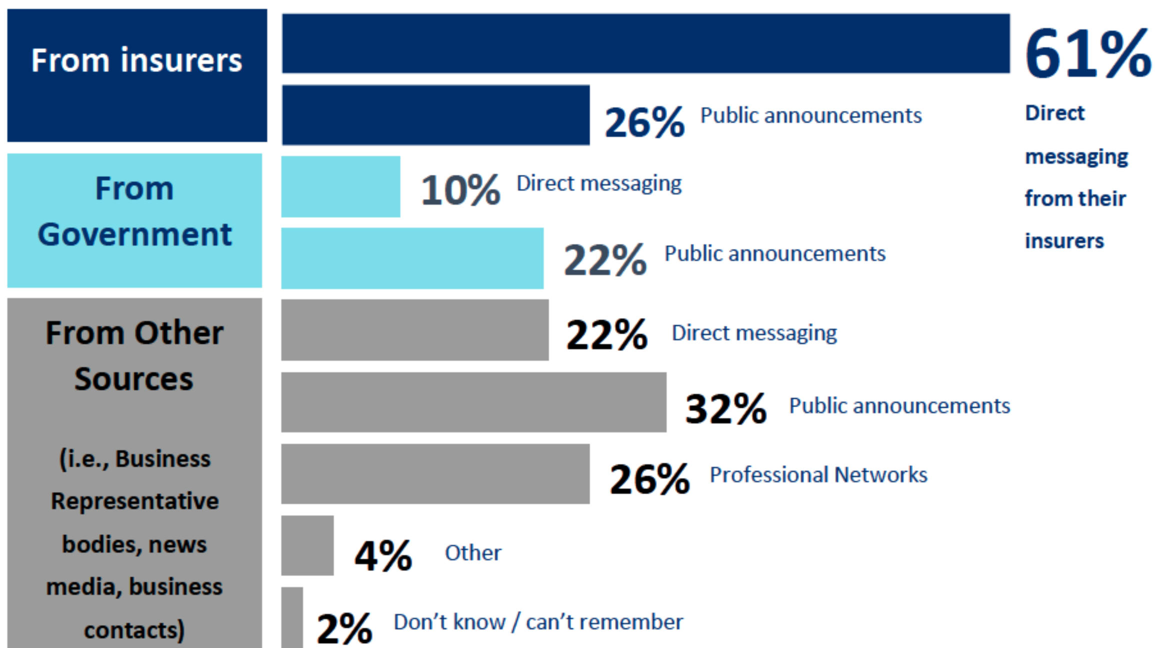
While the CBI saw trade associations and government messaging as the important factors for spreading awareness, the policyholder survey suggests that insurers were the main source of information, with 61% of policyholders made aware through direct messaging from their insurers (Figure 2).[36] Government messaging through direct means (10%) and public announcements (22%) was relatively less important. Comparing different sized companies, larger companies were made aware more by their professional networks, and less from direct messaging by their insurers.

Among the policyholders that are aware of the scheme, 31% report they would have benefitted from more guidance on the scheme. This compares with 53% of unaware policyholders that report they would have benefitted from more information on the effect of the pandemic on the TCI market in general. This suggests that the information disseminated to aware policyholders was sufficient for some, but not all companies.

Overall, the evidence suggests that awareness amongst the whole population of policyholders was not particularly high, and that government messaging did not reach many businesses. While the government did not intend to reach many businesses, it seems that generating more awareness around the scheme would have been useful to provide reassurance and avoid uncertainty in the market.

[36] Of those aware of the scheme, 82% knew they were directly benefitting through their insurer.

Figure 2: Policyholder sources of awareness of scheme



Notes: Respondents could choose multiple sources. Based on full sample of surveyed policyholders (600 responses).

Source: London Economics analysis of policyholder survey responses.

Scheme rules and operational delivery

This section evaluates the processes and stakeholders' satisfaction with the rules of the TCR scheme, including the policies that are covered by the scheme and the profit sharing arrangement, as well as the operational scheme delivery, including the timing of the scheme, the administrative burden that arose for participating insurers, the data reporting requirements agreed as part of the scheme, and fraud and risk taking.

Policies covered by scheme

In terms of the policies that the scheme covered, some insurers considered the scheme too complex with regard to the inclusion of policies including both UK and non-UK tax domiciled entities ('foreign joint insureds'). The rules required that claims within foreign joint insureds were to be partitioned between UK and foreign entities, which was not standard practice among insurers, and made them difficult to administer. The preferred solution for insurers was for the scheme to cover the whole portfolio of these claims. Ultimately, as the scheme was potentially using UK taxpayer money, it was deemed that these rules were necessary from the government's perspective. From a Value-for-Money (VfM) perspective, which the UK government is required to consider, restricting the covered policies to ensure that UK entities are benefitting is more appropriate.

Profit sharing

In hindsight, some insurers expressed dissatisfaction about the lack of profit sharing in the scheme. The scheme rules stipulated that 90% of premiums were ceded to the government, who agreed to cover 90% of the value of each in-scope TCI claim up to £3 billion and 100% of claims from £3 billion to £10 billion[37]. However, , overall claims were lower than expected and the scheme generated a net surplus. While this scenario was unexpected, insurers would have appreciated a profit-sharing system in the scheme rules, whereby any money in the government credit at the end of the scheme would be shared out among participants. Additionally, one insurer mentioned they would have supported a higher risk burden on insurers for incentive reasons, where claims had less cover but insurers retained more of their premiums. Aligning incentives between insurers and government were considered in the design of the scheme. Risks associated with moral hazard were considered, for example insurers acting less risk averse on providing cover they would usually deem too risky. However, this was not considered to be an issue due to government and insurers sharing responsibility for costs and premiums.

Allowing for some profit sharing (while increasing the risk burden for insurers) seems appropriate from an economic perspective, as insurers might otherwise be less inclined to participate in future schemes if they are concerned, they might lose out on potential profits.

Timing of the scheme

The scheme, announced in May 2020, was backdated to April, and originally ran until December 2020, before being extended to June 2021. Insurers generally thought that the scheme was operationalised too late.[38] Insurers were generally satisfied with the decision to extend the scheme in December 2020, as there was still uncertainty over the future effects of the pandemic and the continuation of other government support at the time. Similarly, insurers were satisfied with the scheme's end date in June 2021, by which time they considered that they could make informed underwriting decisions as the uncertainty in the market had settled.

From the policyholder perspective, while only 24% of those surveyed thought that the announcement of the scheme was too late, 43% considered the wind down of the scheme in 2021 was too early. However, from the CBI's market perspective, concerns about the scheme end were largely unfounded or driven by distressed firms. The CBI considered the overall timeframe of the scheme to be appropriate to support businesses, though questioned the initial end date of December 2020. They suggested that the government could have given businesses more certainty by either committing to a longer initial period or committing to an extension at an earlier date.

[37] For the scheme extension, the approach was amended such that the scheme would reimburse 90% of the value of each in-scope TCI claim up to £10 billion total insurer losses.

[38] The negotiations over the full Scheme rules and the delays in finalising the scheme rules to ensure compliance with EU State Aid rules were two key elements that increased the time taken to set up the scheme. The efficiency of processes during the scheme set up and whether could have been put in place faster is discussed in 'Efficiency of set-up'.

The start of the scheme in April 2020 and the eventual end date in June 2021 appear to be adequate, as insurers and business representatives pointed out. Concerns by particular businesses are not likely to warrant an extension of the full scheme, particularly since insurers worked on and mentioned a smooth transition from the scheme to a normal functioning of the TCI market.

Administrative burden

Insurers were generally satisfied with the reimbursement of costs set out in the scheme. However, some insurers noted that these costs did not cover the additional administrative costs that were a result of the complex data reporting requirements. Table 2 shows that the extent of this burden varied by insurer. Interviewed insurers provided an estimate of their administrative burden in terms of the full-time equivalent (FTE) hours spent on a) negotiating the scheme rules, setting up contracts and agreeing on data requirements (i.e., set up costs) and b) completing monthly and quarterly reports (i.e., operation costs). Set up costs ranged from 0.5-5 FTE, while operation costs ranged from 1-5 FTE. Generally, smaller insurers reported higher administrative burden than large insurers, as smaller insurers did not have automated processes in place to fulfil the reporting requirements. Nonetheless, the reimbursement of costs appear to be appropriate.

Table 2: Insurer's estimate of the administrative burden of the scheme

Insurer	Time spent on negotiating rules, contracts and data requirements (set up costs)	Time spent completing reports (operation costs)
Insurer 1	2 FTE	2 FTE
Insurer 2	0.5 FTE	1 FTE
Insurer 3	0.75 FTE	1 FTE
Insurer 4	5 – 7 people involved*	2 FTE
Insurer 5	5 FTE	5 FTE

Notes: Insurer 4 indicated that 5 to 7 people were involved in the setup process of the scheme, but could not quantify in terms of FTE. Insurer 5 noted that 10 FTE was required for data and operation, so this have been split equally across setup and data requirements.

Source: London Economics analysis of stakeholder consultations.

Data reporting requirements

Insurers raised a number of key challenges surrounding the scheme's delivery, including the negotiation process, reporting of monitoring data, handling ad hoc requests such as ex gratia claims.

Insurers were required to submit data on a regular basis to aid the monitoring and evaluation of the scheme (see Annex 4). The scope of this data reporting was decided at a high level between BEIS and PwC (who constructed the data platform) and then negotiated on with the insurers. Deciding data reporting requirements took longer than anticipated by PwC and insurers, due to the discrepancy between the initial data requests and insurers' capabilities (in terms of volume, complexity, and data availability). The majority of insurers felt that data collection and sharing was too onerous, inflexible, and overly complex, especially given their data capabilities and existing internal processes. Consequently, their suggested improvement to this process was a reduction in this data reporting complexity and allowing insurers to mainly rely on adherence to their internal processes for monitoring of policies. The complexity was seen among insurers as indicative of a lack of trust by the government, particularly in contrast to some insurers' experiences with less detailed data reporting requirements in other countries, such as the Netherlands and Germany. While there was scepticism over the need for certain data among individual insurers, the ABI was conscious of the government's need for inputs to future policy evaluation purposes, and so was more sympathetic.

BEIS officials also considered insurers' internal processes insufficient for the government's monitoring and evaluation purposes, and so it was decided that PwC would set up a separate system of checks to confidently monitor whether insurers were operating in line with the scheme rules, requiring more data disclosure. BEIS officials and delivery partners noted that this level of detail would be necessary in a scenario where the level of claims was higher, which would have led to more government and media scrutiny.

Ad hoc reporting, such as for unusual and ex gratia claims, caused a lot of extra work for some insurers. They considered that these processes would have been particularly burdensome if the level of these claims had been higher.

Accountability and the possibility to monitor the scheme effectively is an important element of publicly funded government schemes. For this reason, the data collection seems appropriate given the large cost that was expected during the design of the scheme. This is further emphasized by the fact that the ABI was sympathetic with the data requirements and tried to communicate the need for such data collection to its members. It might, however, be beneficial for the government to add clarity and explore further detail-preserving simplifications to data reporting requirements in the design stage. In particular, the government should approach negotiations by only asking for the minimum requirements to increase acceptance from insurers and make negotiations more efficient.

Some insurers also mentioned that the level of engagement with delivery partners often did not help them understand the reason behind certain data checks and data submission failures, which may have contributed towards data reporting difficulties at the beginning of the scheme's

operation. More guidance and better explanations on the reason of data submission failures might help to avoid submission failures and reduce the burden for insurers.

Fraud and risk taking

BEIS officials did not encounter any cases of fraud during the scheme. It was clear to BEIS officials throughout the scheme that TCI was much harder to defraud compared to other COVID-19 loan or grant interventions. Insurers were regulated and had their own internal fraud checks. Additionally, the scheme design supported policyholders indirectly such that businesses ideally would not experience any change to their business circumstances, minimising incentives for moral hazard or fraudulent behaviour. Finally, BEIS did not encounter any cases of suspected fraud from its analysis of the monitoring data throughout the scheme.

Fraud was also not a prominent concern to the ABI and insurers during the scheme due to the nature of the trade credit insurance market, and no insurers experienced any changes in the rate of fraud during the scheme. Consultations highlighted that fraud was not generally a feature of TCI markets, and that defrauding insurers would involve policyholders and their trading partners fabricating the underlying transaction.

Insurers also did not experience any significant change in the risk profile of their clients during the scheme. One insurer noted that clients gained during the scheme had a lower rate of purchasing insurance to access banking finance compared to usual, suggesting that these companies had sufficient access to funding during the pandemic.

Summary

Insurers were overall satisfied with the scheme form (i.e., high-level rules and structure) and extent (i.e., coverage in terms of contracts and the window of time that the Scheme was operational for), with some minor suggestions about profit sharing and the original duration of the scheme. At a high level, all parties agreed that the choice of a reinsurance scheme was the simplest and most effective approach, providing the right incentives to maintain cover while relying on market mechanisms and not affecting the day-to-day operations of policyholders.

The prevailing view of the government and insurers was that the delivery of the scheme was also adequate, with the main challenges arising from the level of data reporting requirements. While this seems to have been necessary to aid monitoring and evaluation of the scheme, more considerations of the minimum requirements at the scheme’s design stage could have marginally eased the burden on insurers. Fraud was not identified throughout the scheme and does not appear to be a concern in the TCI market more generally.

Claims and beneficiaries

This section provides an overview of the use and the users of the TCR scheme. Based on the monitoring data submitted by participating insurers, the number of claims that have been submitted by policyholders and are covered by the scheme are analysed, in addition to policyholders’ characteristics and their employees’ protected characteristics.

Claims made by policyholders

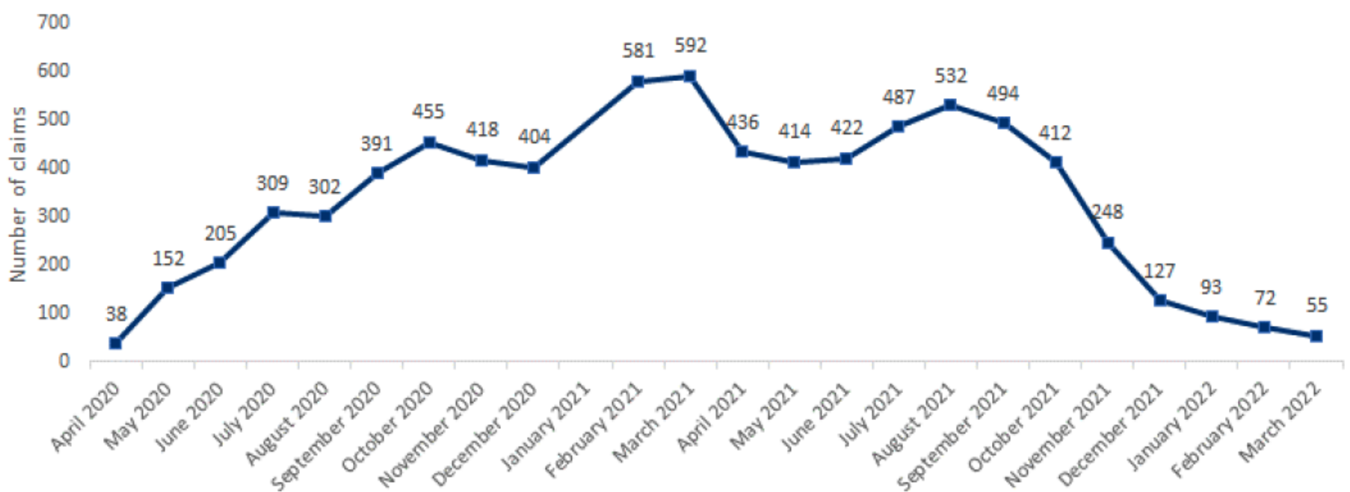
The monitoring data included the number of claims received by insurers throughout the scheme in order to provide BEIS with an early indication of the volumes of claims and the claim amounts that insurers were receiving.

Number of claims

Between April 2020 and March 2022, 7,639 individual claims were made by policyholders of the nine participating insurers, with a cost to the scheme of £44 million. The realised volume of claims was a lot lower than the expected amount estimated in June 2020.

The total number of claims notified by participating insurers showed an increasing trend from April 2020 up to March 2021, with a downward trend observed thereafter (Figure 3).

Figure 3: Total number of claims



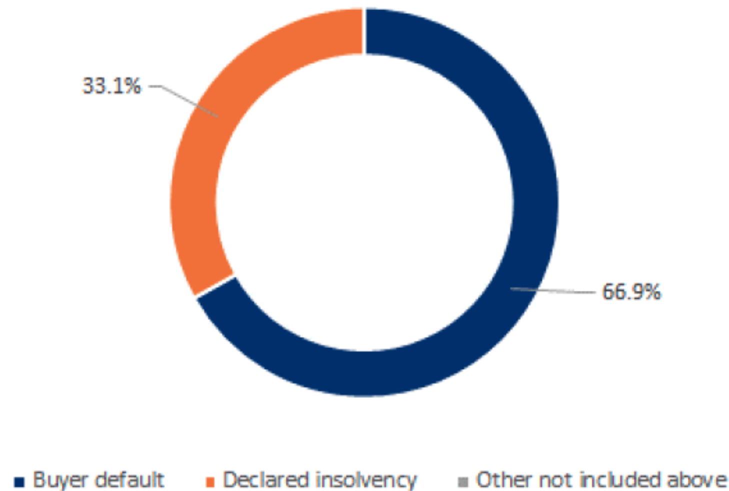
Notes: This data was taken from the processed data on the PwC dashboard

Source: London Economics analysis of monitoring data.

Reason of claims

For each claim made by policyholders, insurers reported the reason that was provided for the claim. During the scheme, the majority of claims were caused by a buyer default (66.9%), with the remaining due to a declared insolvency (33.1%)

Figure 4: Claim reasons

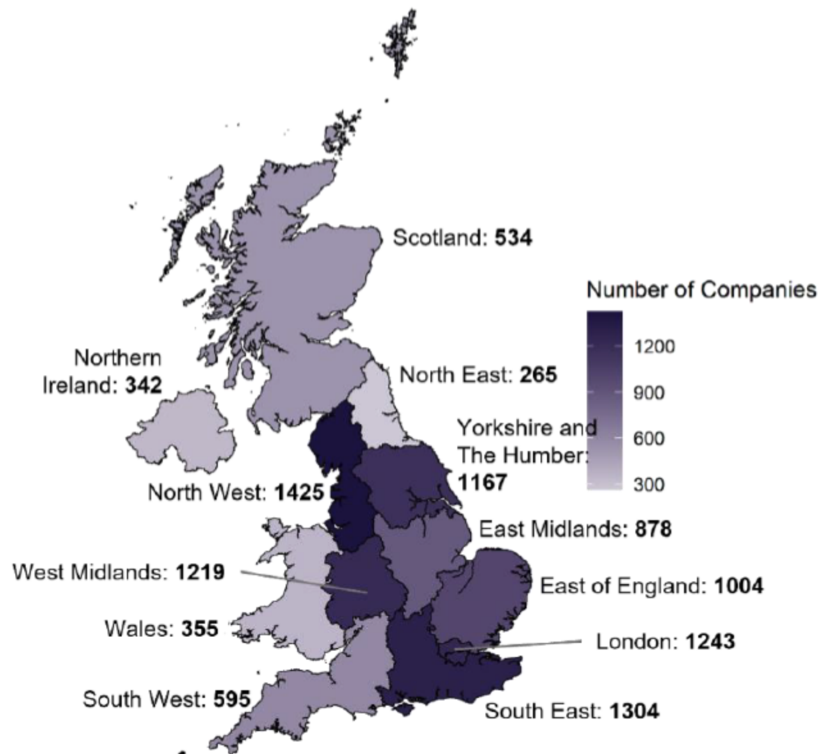


Notes: This data was taken from the processed data on the PwC dashboard

Source: London Economics analysis of monitoring data.

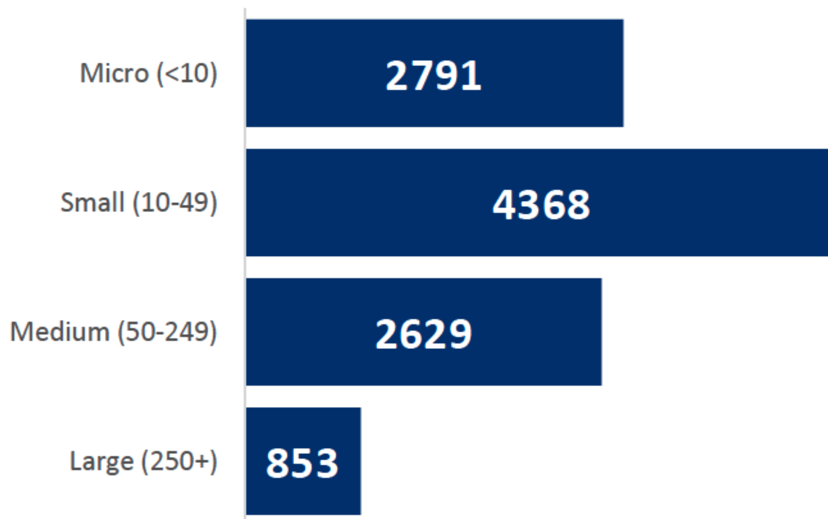
Policyholders' characteristics

Monitoring data submitted by the nine participating insurers provides an insight into their policyholders, which are the ultimate beneficiaries of the scheme. The details provided by insurers on policyholders (such as the firm's name, companies house number and postcode) were used to match to the FAME database which provides comprehensive information on both public and private companies across the UK and Ireland. This included data on the size of policyholders, the UK region in which their headquarter is registered and the sector in which they operate. The majority of the policyholders were small businesses.(Figure 5) and the highest number of policyholders were in North West and South East England (Figure 6).



The top three sectors in which most of the policyholders operated were in manufacturing, wholesale and retail trade and repair of motor vehicles and administrative and support service activities (Figure 7).

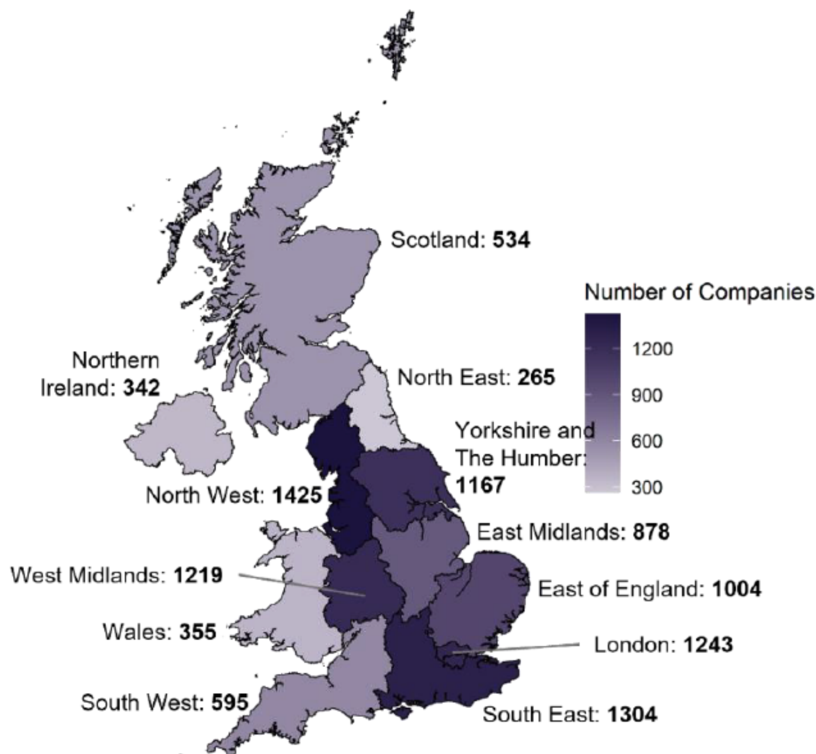
Figure 5: Number of benefitting policyholders by size (in terms of number of employees)



Notes: Does not include 815 policyholders with missing data on employee numbers.

Source: London Economics analysis of monitoring data and FAME data.

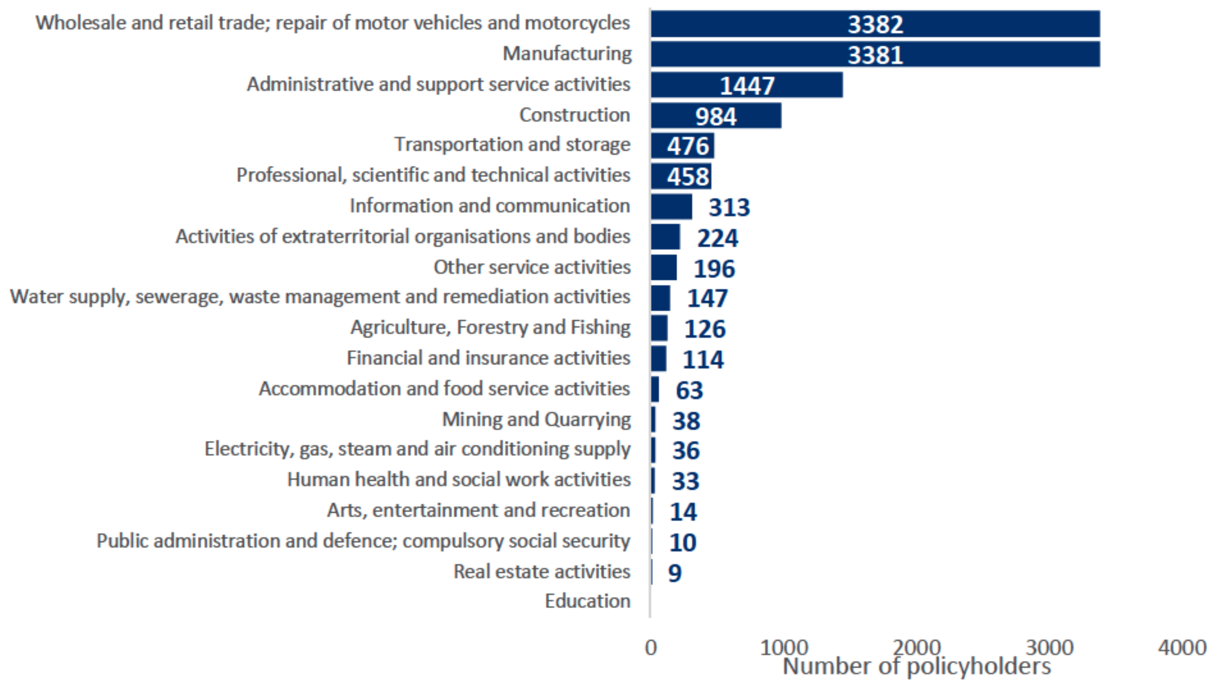
Figure 6: Number of benefitting policyholders by region



Notes: Map does not include the 1125 policyholders that have region listed as 'missing'.

Source: London Economics analysis of monitoring data and FAME data.

Figure 7: Number of benefitting policyholders by industry



Source: London Economics analysis of monitoring data and FAME data.

Protected characteristics of policyholders' employees

As part of the 2010 Equality Act, it is unlawful to discriminate against individuals based on the following protected characteristics:[39]

- Age;
- Disability;
- Gender reassignment;
- Marriage and civil partnership;
- Pregnancy and maternity;
- Race;
- Religion and belief;
- Sex; and
- Sexual orientation.

Unfortunately, due to a lack of data it was not possible to assess whether the TCR Scheme might have had a differential impact on policyholders with certain protected characteristics. None of the interviewed insurers collected data on the protected characteristic of their policyholders' employees. While the data may be informative for other types of insurance, insurers saw this data as largely irrelevant for underwriting trade credit insurance which is assessed on the economic characteristics of the firm and wider economic environment. Insurers have no plans to collect protected characteristic data in the future.

Pre-scheme equality analysis

The government carried out a public sector assessment of potential impacts on protected characteristics during the scheme setup and, though not based on any data, concluded that the intervention would not have a particular impact on individuals with protected characteristics. This conclusion was based on the fact that the scheme was a universal business support intervention, rather than targeted at particular businesses. Consequently, businesses were only covered by virtue of their insurers participating, and so there was no direct self-selection into the scheme. Insurers came to a similar conclusion due to the nature of trade credit insurance. Therefore, insurers do not see it as likely that access to or impact of the scheme would be different for policyholders with certain protected characteristics.

Protected characteristics of surveyed policyholders

The policyholder survey collected data on four protected characteristics: age, ethnic backgrounds, the gender ratio and disability amongst employees (Figure 8).

[39] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/925278/Guidance_on_Protected_Characteristics_-_v1.1.pdf

The majority of policyholders' employees are between ages 25 and 49, with over a third aged 50 or more. This is almost exactly in line with the composition of the UK working age population.[40]

The data shows that the scheme predominantly covered firms with a majority of male employees, with only 12% of firms having majority female staff versus 75% having majority male staff, and 4% not having a single female employee. The average percentage of female employees among surveyed policyholders was 31%.[41] The two main sectors represented among policyholders of trade credit insurance are wholesale/retail trade and manufacturing. According to the ONS, male employment in wholesale/retail trade sector in the UK accounts for 53% of total employment in the sector in 2022 and for 74% in manufacturing sector.[42] This suggests that the gender ratio in the policyholders is lower compared to the wholesale/retail sector, but in line with the manufacturing sector.

The vast majority of policyholders have less than a quarter of their employees with non-white ethnic backgrounds. Surveyed policyholders on average had 9% non-white employees, while 47% of surveyed policyholders had only white staff.[43] As a comparison, among working age individuals in the UK from the 2011 Census, 14.4% identified as non-white.[44]

The proportion of disabled employees was almost universally below 15% among surveyed policyholders, with an average of 1% disabled employees, and 75% of policyholders not having a single employee identified with disability.[45] In comparison, one in five of the working age population is classified as disabled.[46]

Based on the limited data from the policyholder survey, the distribution of age, female employees, and non-white employees amongst benefitting policyholders appear to match broadly the distribution in the UK business population at large and the sectors that are most commonly represented in the monitoring data. The reported number of disabled employees within policyholders is lower compared to the overall population. It should be noted though that individuals responding to the policyholder survey are unlikely to be aware of hidden disabilities for all employees within their company, which could explain some of the identified discrepancy.

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[40] https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationprojections/datasets/tablea21principalprojectionukpopulationinagegroups

[41] The median surveyed policyholder had 25% female employees. Note that the average percentage of female employees among surveyed policyholders is not equivalent to the percentage of female employees across all policyholders, as number of employees per policyholder is not accounted for.

[42] https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/datasets/employmentbyindustryemp13

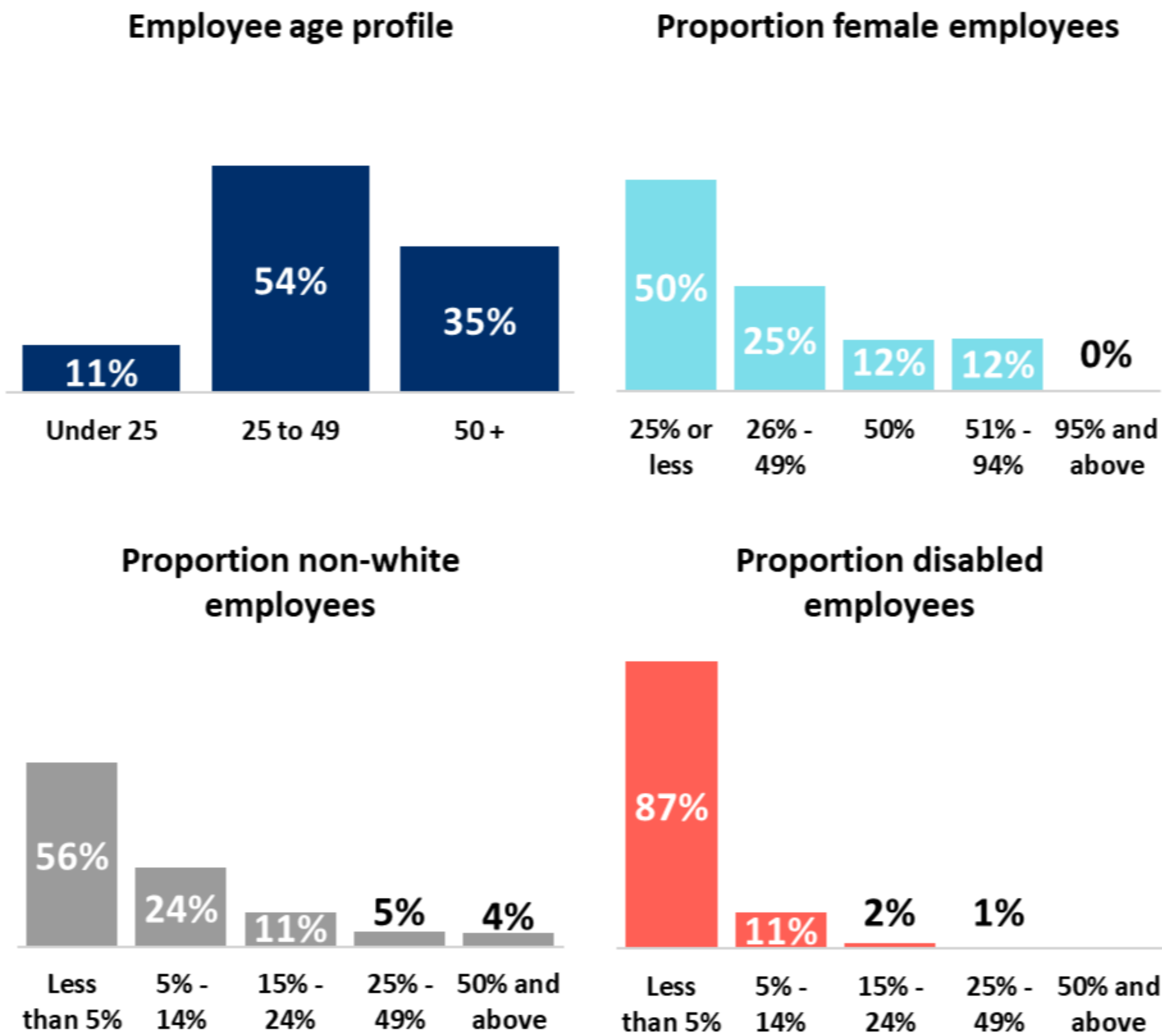
[43] The median surveyed policyholder only had 1% non-white employees.

[44] https://www.ethnicity-facts-figures.service.gov.uk/uk-population-by-ethnicity/demographics/working-age-population/latest

[45] This data should be treated with caution as the respondent was unlikely to be aware of all disabilities within their firm.

[46] https://www.gov.uk/government/statistics/the-employment-of-disabled-people-2021/the-employment-of-disabled-people-2021

Figure 8: Protected characteristics of policyholder employees



Notes: Age based on 100% of surveyed policyholders (600 responses); sex based on 98% of surveyed policyholders (585 responses); ethnicity based on 91% of surveyed policyholders (546 responses); and disability based on 91% of surveyed policyholders (543 responses). Attrition due to policyholders not knowing answers or refusing to answer.

Source: London Economics analysis of policyholder survey data.

Intended purpose

In order to analyse the effect of the TCR Scheme and to compare it to the aims and objectives of the scheme, this section analyses how business confidence, the availability of TCI cover in the market, pricing and level of service provided by insurers, and supply chains and economic activity have evolved over the scheme period.

Aims and objectives of the TCR Scheme

The purpose of the TCR Scheme was to support UK businesses and aid economic recovery from the COVID-19 pandemic by providing targeted support via trade credit insurers. This consisted of the principal aims of maintaining coverage and credit limits in the TCI market in

order to reduce the likelihood of business failure and minimise reduction in economic activity from the eventuality of an abrupt withdrawal of insurance.[47]

To meet these overarching aims, various success criteria were set at the beginning of the scheme, which are summarised as follows:

- **Scope of support:**
    - Market coverage to be broadly maintained to support businesses impacted by the economic fallout from COVID.
    - Maintaining underwriting standards in the market to ensure insurers adhere to the same underwriting standards as pre-COVID.
- **Scheme participants:**
    - Alignment of insurer and government interest.
- **Financial considerations:**
    - Minimisation of tax-payer exposure, and management of scheme through an appropriate risk framework, to deliver a cost-effective intervention.
    - Ensuring economic benefits of government support is targeted at businesses not insurers.
- **Governance structures:**
    - Ensuring feasibility and deliverability of scheme through appropriate governance structures to ensure timely and effective intervention.
    - Flexibility to adjust support as needed and withdraw at an appropriate end date.
    - Effective monitoring and evaluation framework to capture best practice and ensure lessons are learnt to inform a future review of the viability of the TCI market.

Business confidence

To prevent a reduction in economic activity, it is important for businesses to have confidence in the market. The CBI noted that confidence among businesses about the availability of cover was fairly low before the scheme but grew quickly after the scheme was announced in May 2020. The CBI also highlighted that business confidence was particularly important in sectors where TCI was heavily used, such as the steel and, more broadly, the manufacturing industries.

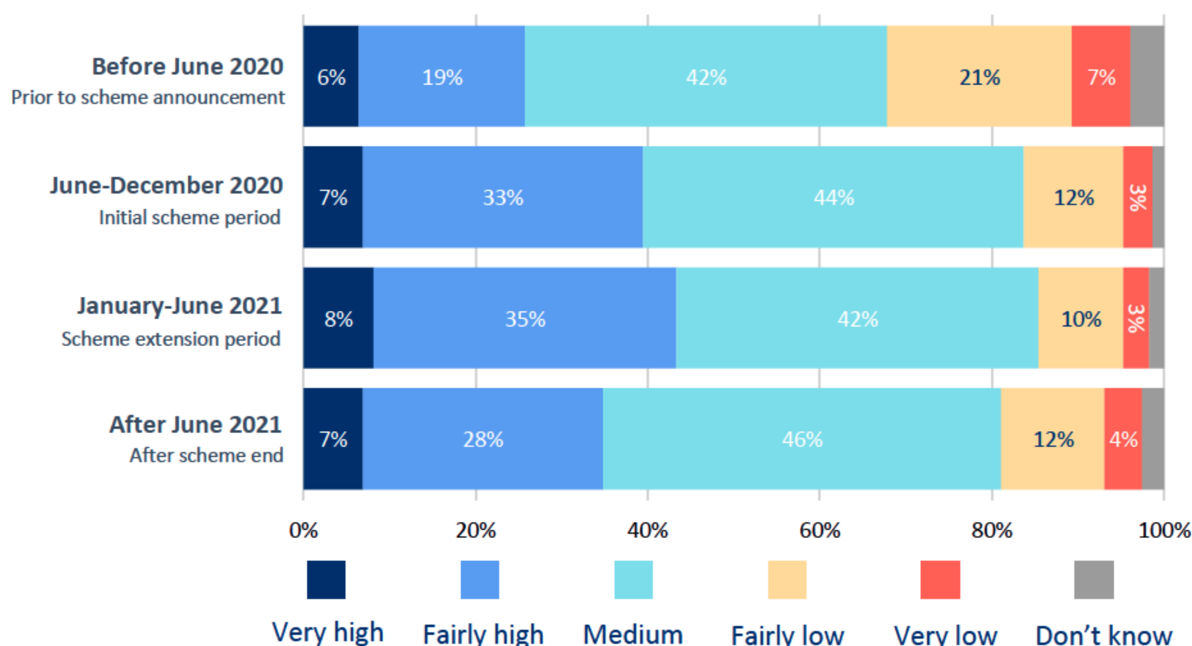
The CBI's view is corroborated by data collected through the policyholder survey. While only 25% of surveyed policyholders had fairly or very high confidence in the availability of trade credit insurance before the scheme announcement, it increased to 40% in the initial scheme period and 43% during the extension (Figure 9). This increase during the scheme's operation

[47] https://www.gov.uk/government/publications/trade-credit-reinsurance-scheme

period indicates the importance of the scheme for building confidence. The data also suggests that policyholders' confidence in the availability of trade credit insurance decreased slightly after the end of the scheme, with only 35% having fairly or very high confidence after June 2021. However, confidence remained higher than before the scheme announcement, particularly with reference to those with fairly or very low confidence (28% before scheme announcement versus 16% after scheme end).

The different pieces of evidence suggest that confidence in the availability of TCI has been boosted through the scheme, particularly during the periods associated with the highest uncertainty in the market.

Figure 9: Policyholder confidence in the availability of Trade Credit Insurance

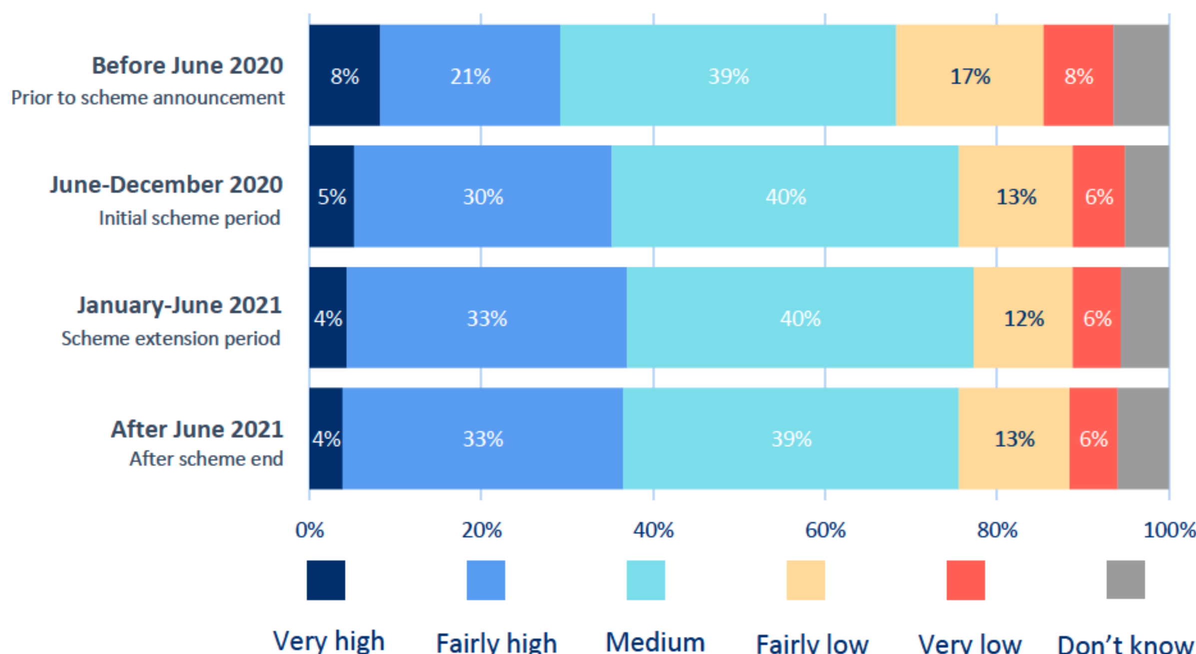


Notes: Responses from the 39% of policyholders (233 responses) who were aware of the scheme.

Source: London Economics analysis of policyholder survey.

Similarly, policyholder confidence in the functioning of the supply chain increased around the initial scheme announcement, with 29% having fairly or very high confidence before the announcement, rising to 35% during the scheme's initial period, and 37% during the scheme's extension (Figure 10). Unlike for trade credit insurance availability, confidence in the supply chain did not fall after the end of the scheme, suggesting the boost during the scheme's operation was maintained among policyholders after its wind down. While this may have been in part the result of the TCR Scheme, other factors, such as continuing government support from other COVID-19 interventions and general reduction in uncertainty over the course of the pandemic, could also have contributed to the confidence in the overall supply chain.

Figure 10: Policyholder confidence in the functioning of the supply chain



Notes: Responses from the 39% of policyholders (233 responses) who were aware of the scheme.

Source: London Economics analysis of policyholder survey.

This data overall supports the view that business confidence was increased by the TCR Scheme, and this increase was maintained after the end of the scheme (with a slight decrease after scheme end in the case of confidence in insurance availability). However, the increase in supply chain confidence may not be solely attributable to the TCR Scheme, due to the effects of other COVID-19 interventions and general macroeconomic conditions.

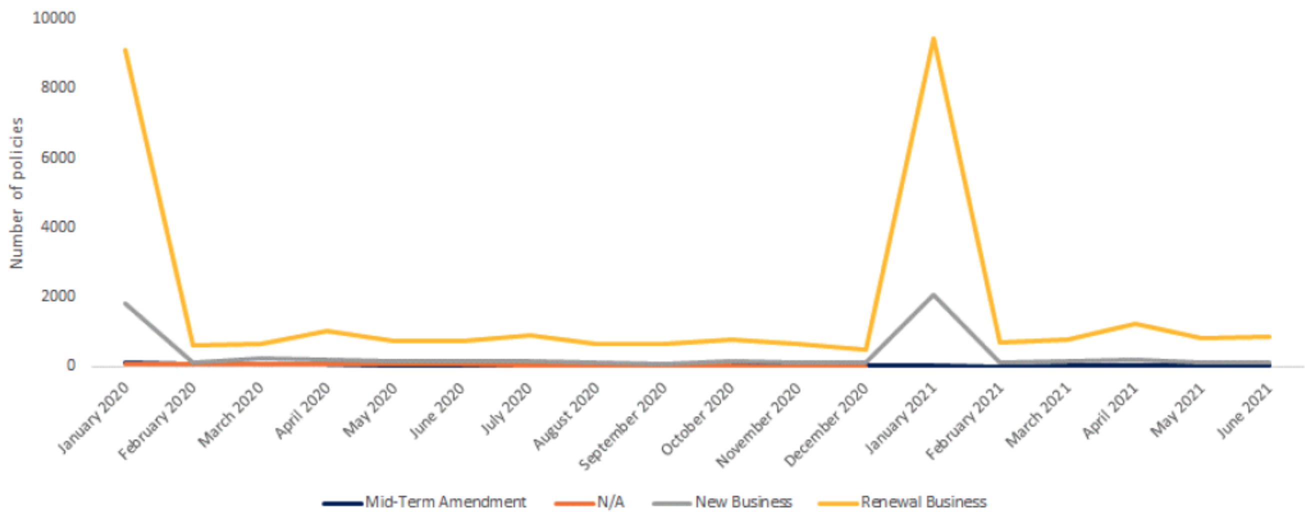
Availability of cover

The TCR Scheme was explicitly set up by the government to prevent sudden and large-scale withdrawal of TCI in the market in response to the pandemic. Interviews with insurers, analysis of the policyholder survey, and analysis of monitoring data all generally support the conclusion that insurers cover was maintained throughout the pandemic and would have been withdrawn in the absence of the scheme.

Number of policies

Analysis of the monitoring data similarly suggests that levels of cover were maintained throughout the scheme's operation. The number of policies in place did not change significantly over the course of the scheme, which suggests that insurers continued to offer and renew policies at a rate similar to the one prior to the Scheme (Figure 11). The increase in renewals in January 2020 and 2021 is indicative of the cyclical nature of renewing contracts at the start of the year. The majority of policies were renewals, followed by new business, particularly in January 2020 and 2021.

Figure 11: Number of Policies by Policy Inception Month



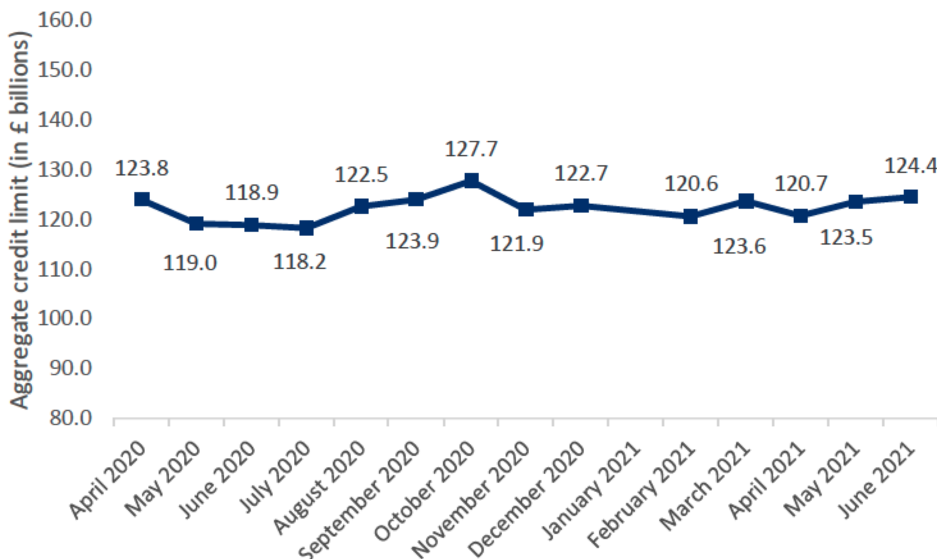
Notes: This data was taken from the processed data on the PwC dashboard

Source: London Economics analysis of monitoring data

Credit limits

The monitoring data also shows that aggregate credit limits remained relatively stable during the scheme period (Figure 12), therefore showing a key objective of the scheme being met as TCI cover was maintained in the market.

Figure 12: Aggregate credit limits among participating insurers during TCR Scheme



Notes: Data for January 2021 is excluded due to missing data from two insurers. This data was taken from the processed data on the PwC Debtors dashboard.

Source: London Economics analysis of scheme monitoring data.

Prevented withdrawal of cover

All insurers agreed that the scheme allowed them to maintain cover in the market. In the absence of the scheme, all interviewed insurers noted that they would have removed some cover in the market. For those insurers who provided an estimate in the stakeholder consultations, this ranged from 7-35% of pre-pandemic cover (Table 3). Insurers noted that the cover would not have been withdrawn equally from all policyholders, but more risky policyholders would have faced higher withdrawals compared to less risky policyholders.

Table 3: Insurer estimates of the proportion of cover withdrawn in absence of the scheme

Insurer	Estimate of the proportion of cover that would have been withdrawn	Comments
Insurer 1	20-35%	
Insurer 2	20-25%	Knowing the extent of other COVID-19 support schemes, the reduction might have been closer to 7-10%.
Insurer 3	15-20%	This could have increased up to 50% for the sectors with the highest risk i.e., retail and hospitality

Source: London Economics analysis of stakeholder consultations.

Throughout the scheme, insurers were asked to report on the actual credit limits that were in place for individual debtors but also provide an estimate of the credit limits that they would have in place in the absence of the scheme. The actual limits were consistently higher by between 7.8% and 11.3% than the estimated limits reported by insurers between April 2020 and June 2021 (Figure 13).

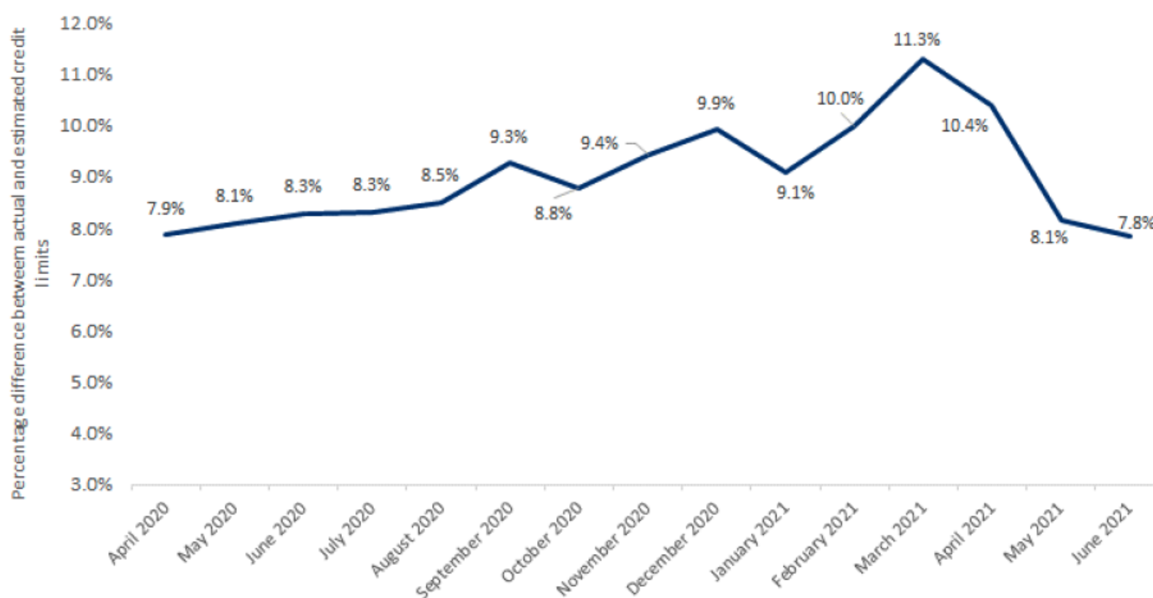
These estimates are lower compared to the ones provided during the interviews. It should be noted that half of the insurers consistently reported the actual and estimated limits to be exactly the same each month. Given the information collected in the stakeholder consultations, this is not likely to be accurate and the difference between actual and estimated credit limits is likely to be higher.

Excluding the insurers that report the same value for the actual and the estimated limit, the actual limits were between 31% and 50% higher than the estimated limits in absence of the

scheme. This is likely to be an overestimate, as companies that report the actual and estimated limits to be exactly the same each month might perceive there to be a smaller difference between actual and estimated limits. In some cases, no difference between actual and estimated limits might also be correct.

Overall, the ranges identified in the monitoring data (8%-11% and 31%-50%) should be interpreted with caution. But, they corroborate the upper and lower bound identified in the interviews with insurers (7%-35%). It can also be assumed that more consideration and reflection has been put into the estimates provided by senior executives during interviews compared to the estimates provided as part of monthly reporting requirements. For this reason, the amount of cover that would have been withdrawn in the absence of the TCR scheme is assumed to range from 7-35%.

Figure 13: Percentage difference between actual credit limits and estimated credit limits in the absence of the scheme



Notes: This data was taken from the processed data on the PwC Debtors dashboard. Data for October 2020, November 2020, January 2021, March 2021 and April 2021 was missing for up to two insurers. For these months, actual and estimated market limits were imputed by taking an average across months for which data was available.

Source: London Economics analysis of monitoring data.

Policyholder experience

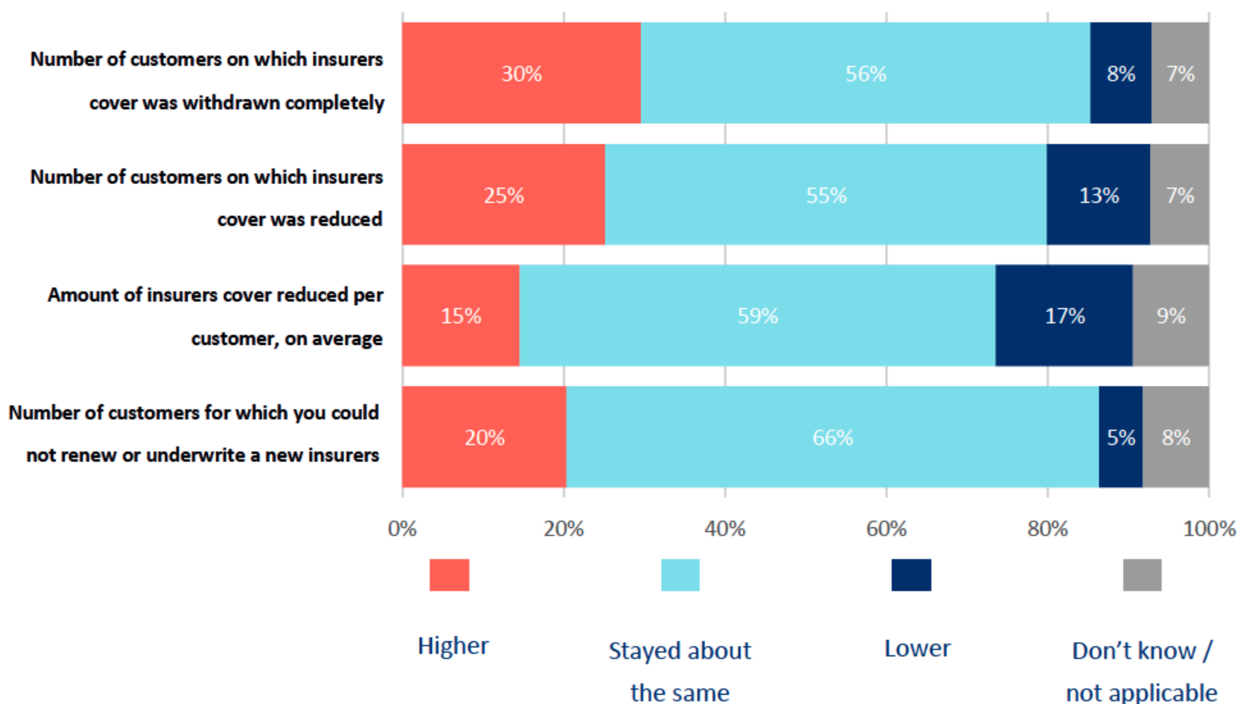
The majority of policyholders saw no significant changes to the availability of TCI cover during the scheme, confirming the findings from the monitoring data and the information provided by insurers. The average reduction in cover per customer was largely the same compared to normal business practices before the pandemic for 59% of policyholders (Figure 14). The majority of policyholders (66%) also did not experience any significant changes in the number of policyholders covered by their trade credit insurance. Therefore, generally policyholders experienced little change relative to normal times.

However, there were some findings from surveyed policyholders that were not consistent with the monitoring data. For example, a large minority (30%) reported an increase in the number of policyholders' customers for which insurers had withdrawn cover completely, and 25% reporting an increase in the number of customers on which insurers cover was reduced. It should be noted though that some policyholders also reported a lower number of customers, for which cover was withdrawn completely (8%) or partially (13%). This suggests that some of the changes indicated by policyholders might be due to normal fluctuations in cover due to changes in business relationships that are unrelated to the TCR scheme or pandemic.

Policyholders that experienced a reduction in cover during the pandemic were more likely to have been aware of the scheme, suggesting that they may also have had a more heightened focus on this area of their policies.

Furthermore, it is important to consider that it might be difficult for policyholders to assess changes in cover relative to normal times in a telephone survey. For this reason, more emphasis has been given to the monitoring data. As such, the evidence suggests that insurers have kept cover in place, as intended by the scheme.

Figure 14: Policyholder experience of changes in availability of cover during TCR Scheme relative to normal times



Notes: Responses from 94% of policyholders (564 responses) who had trade credit insurance before the pandemic.

Source: London Economics analysis of policyholder survey.

Pricing and levels of service

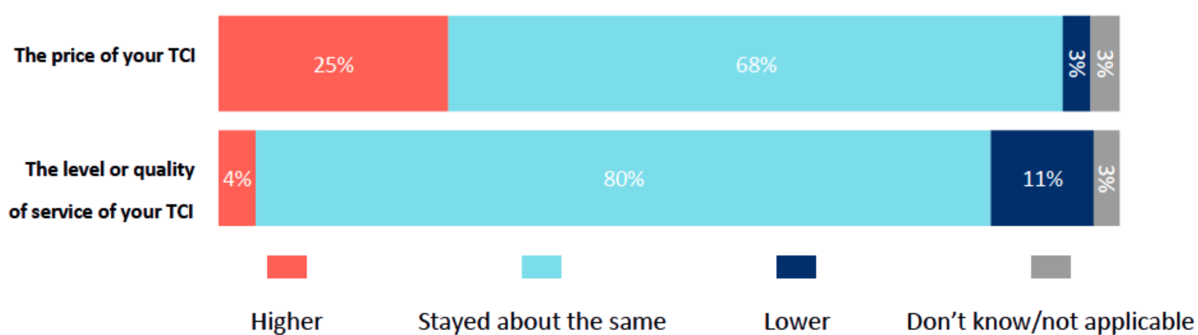
As part of the scheme, insurers agreed to maintain their approach to the pricing of policy premiums, similar to the maintenance of cover. Insurers also agreed to maintain their levels of service to policyholders and generally maintain standard business practices and guidelines. Policyholder and monitoring data suggests that these objectives were met.

A majority of surveyed policyholders (68%) did not experience any significant changes to their premium (Figure 15).

However, while one in four did experience a price increase, only 3% had their prices lowered during the pandemic. Policyholders reporting price rises experienced a median price rise of 10%, and were more likely to be smaller companies, particularly based in London and the South West, and particularly in the sectors of Construction, administrative support services, and manufacturing. It is however possible that these price rises were unrelated from COVID-19, as it might be difficult for policyholders to assess changes to prices relative to normal times in a telephone survey.

Regarding levels of service, the survey results show that the vast majority of policyholders (80%) did not experience a change during the pandemic.

Figure 15: Policyholder experience of changes to pricing and service levels during TCR Scheme relative to normal times



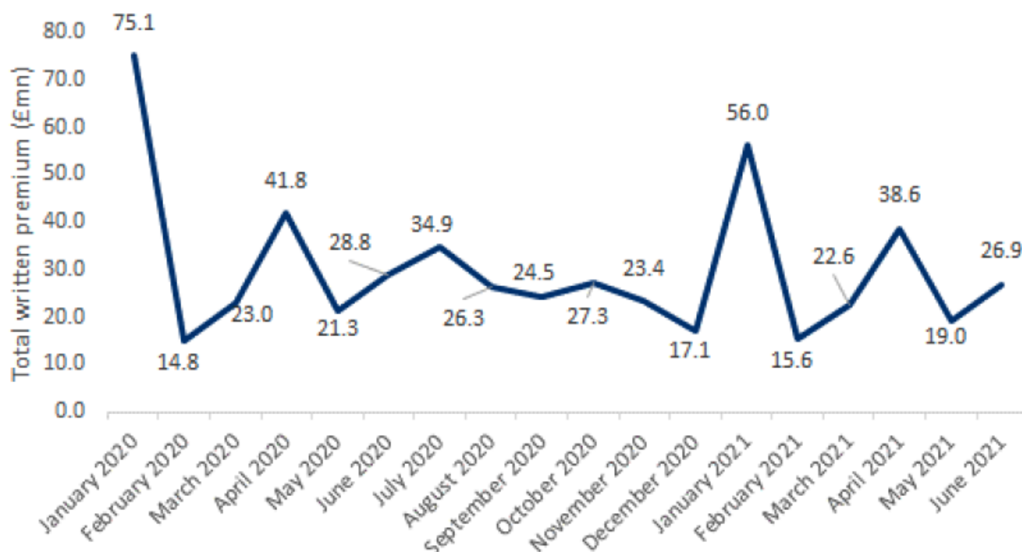
Notes: Responses from 94% of policyholders (564 responses) who had trade credit insurance before the pandemic.

Source: London Economics analysis of policyholder survey data.

Monitoring data also supports the conclusion that premium levels generally remained stable during the scheme. As part of the monitoring, insurers reported each month the premium on new or renewed policies. The pattern of total written premiums follows the same as that of the total number of policies (Figure 11), and there is no increasing and decreasing trend compared

to the period before the scheme was introduced (Figure 16). This suggests that insurers adhered to the scheme rules to keep their underwriting policies consistent to that of early 2020. It also suggests that any individual price increases, as reported in the policyholder survey, might be due to normal fluctuations and changes in business relations, as the overall price level has not changed.

Figure 16: Total written premium



Note: This data was taken from the processed data on the PwC dashboard

Source: London Economics analysis of monitoring data.

In all consultations, insurers said they would have raised prices had there been no government intervention. While the withdrawal of cover would be the main and immediate reaction to reduce their exposure, most insurers noted that premiums on their policies would have increased by up to 25% in 2020 without the government reinsurance guarantee. Table 4 breaks down these estimates by interviewed insurers.

Table 4: Insurers estimate of increases in premiums in absence of the scheme

Insurer	Estimate of premium increase
Insurer 1	15%
Insurer 2	10-20%
Insurer 3	5-15%
Insurer 4	10-25%

Overall, the policyholder survey, monitoring data and interviews with insurers suggest that insurers have maintained overall price levels during the TCR scheme and that prices would have increased in the absence of the scheme. Service levels provided by insurers also seem to have remained the same compared to pre-pandemic times.

Supply chains and economic activity

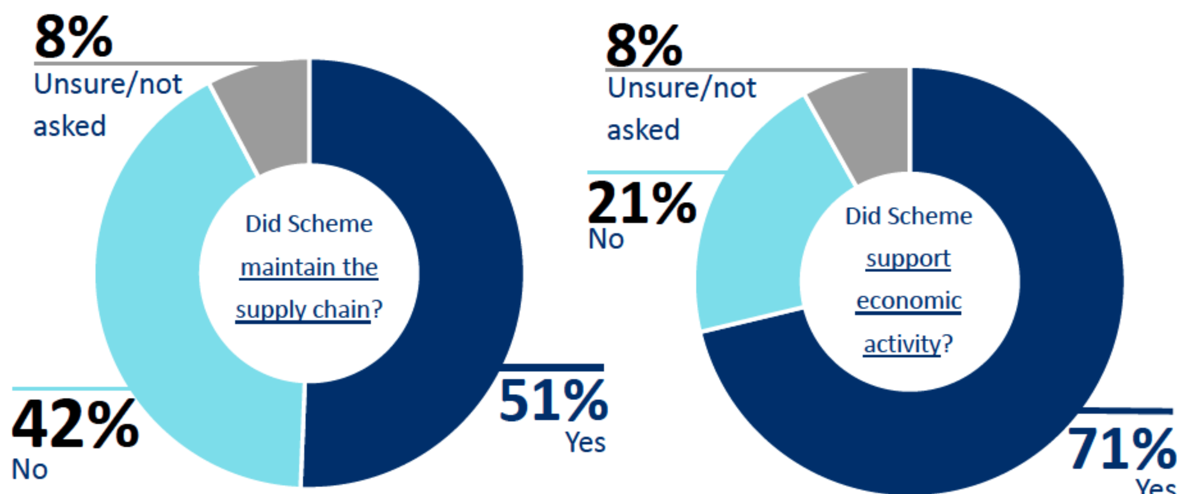
Insurers detailed that a combination of the following scenarios likely would have occurred if cover had been withdrawn:

- **Businesses would cease trading altogether**. In the insurers' experience, most businesses with TCI do not have large cash reserves and so would cease trading to avoid risk of defaults from transactions. This would have had an aggregate impact on economic activity.
- **Businesses would switch to trading with upfront payments**. This would have caused liquidity issues in the supply chain.
- **Businesses would not be able to invest.** Banks often require a certain level of insurance cover on trading activities for them to provide loans to businesses. Consequently, many businesses purchase cover to gain access to banking finance. Without cover, this funding would dry up for some policyholders, leading to failures and reduced economic activity.
- **Lower willingness to trade with businesses who did not have cover**. Trading partners would gain this information through advice from their own insurers, or from word-of-mouth along the supply chain. This lower willingness to trade could cause a domino effect along the supply chain.

By maintaining cover in place, insurers all agreed that the TCR Scheme helped maintain the supply chain and support economic activity during the pandemic, meeting two key scheme objectives.

Policyholders were broadly in agreement with this view. 71% of those aware of the scheme thought that economic activity was supported by the scheme, while 51% agreed that the supply chain was maintained by the scheme (Figure 17). The lower percentage for the perceived impact on the supply chain likely reflects the fact that policyholders would have considered aspects beyond TCI of both upstream and downstream elements of the supply chain when answering the question. They may have experienced supply chain issues unrelated to the availability of cover in the market, such as physical restrictions brought about by the pandemic. Consequently, the context in which they answered this question was likely different to the context of insurers and may have influenced answers.

Figure 17: Policyholder views on whether scheme maintained the supply chain and supported economic activity



Notes: Responses from 39% of policyholders (233 responses) that were aware of the scheme.

Source: London Economics analysis of policyholder survey.

Interaction between wider government interventions

This section investigates to what extent other government interventions have been used by beneficiaries of the TCR Scheme, have had an impact on overall business confidence, and have been considered in the design of the TCR Scheme.

Wider government interventions

The TCR Scheme was one of a group of business-targeted COVID-19 support packages introduced by the government during the pandemic to support the economy. Many packages were designed and implemented around the same time. Some of the main interventions include:

- **The Coronavirus Job Retention scheme (Furlough).** Allowed employers to keep employees on their payroll even if they were unable to operate or their activity was reduced due to COVID-19. Employers could apply for a grant to cover part of the employee's regular wages.
- **VAT Payments deferral.** Allowed UK VAT-registered businesses to defer VAT payments, paying in smaller instalments over longer periods, interest free.
- **Coronavirus (Large) Business Interruption Loan scheme (CBILS / CLBILS).** Provided financial support to businesses in the UK affected by COVID-19. CBILS were aimed at smaller businesses while CLBILS were aimed at medium-sized and larger businesses.
- **Bounce Back Loan scheme (BBLS).** Enabled smaller businesses in the UK to access finance more quickly during COVID-19.

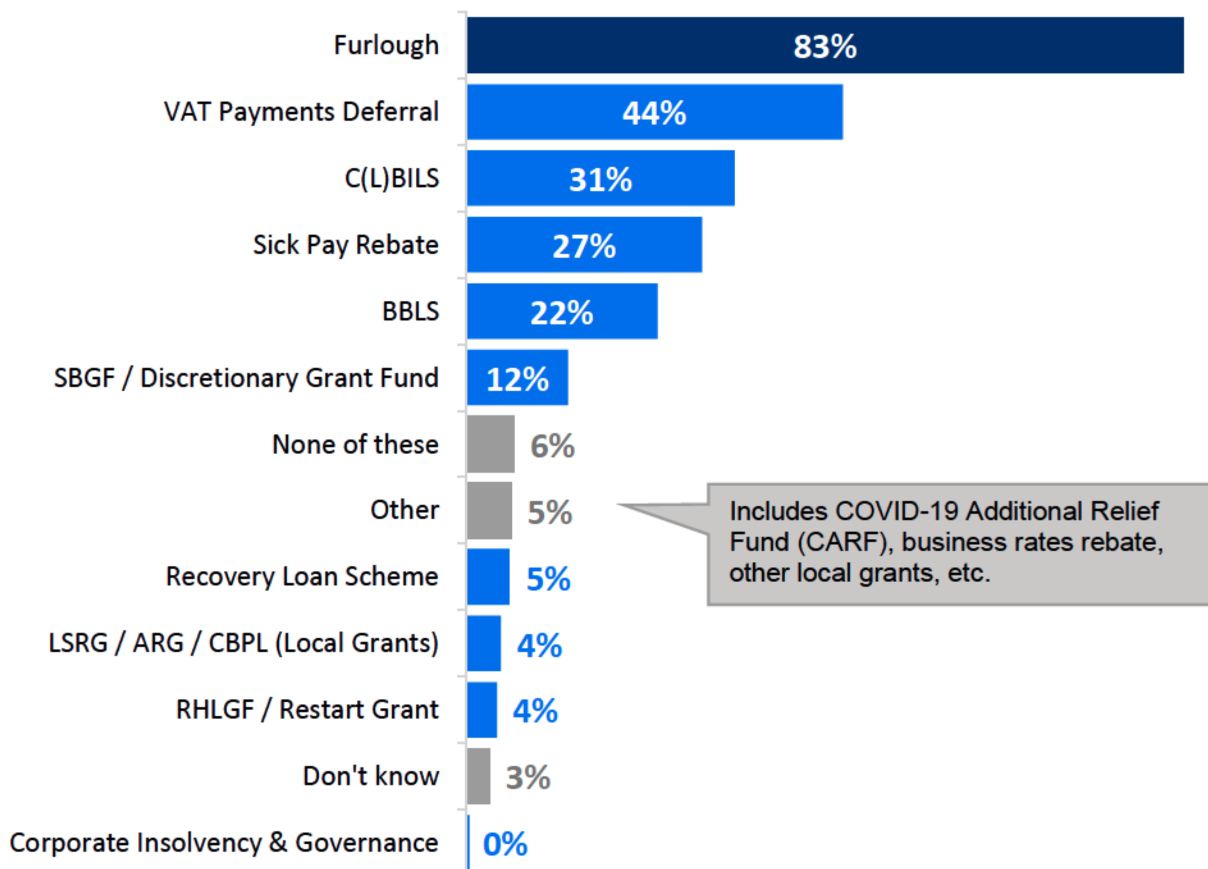
- **Statutory Sick Pay Rebate scheme.** Allowed SME employers using a PAYE payroll scheme to claim back up to two weeks of statutory sick pay for employees due to COVID-19.

Utilisation of other interventions

Many surveyed policyholders that benefitted from the TCR Scheme through the participation of their insurers utilised multiple other government COVID-19 interventions (Figure 18). The Furlough scheme was by far the most widely used support program among policyholders, with 83% of those surveyed using it during the pandemic. Other widely used programmes include the VAT payments deferral, CBILS/CLBILS, Statutory Sick pay rebate, and BBLS. Only 6% of surveyed policyholders did not benefit from support by any COVID-19 intervention (other than being a beneficiary of the TCR Scheme).
The utilisation of different support programs varied by different firm characteristics:

- **By region:** Policyholders in London had a lower utilisation of Furlough (74%), VAT payments deferral (33%), and Sick pay rebate (9%) than policyholders outside the capital.
- **By sector:** Comparing the manufacturing and wholesale/retail trade sectors, manufacturing had higher utilisation of the Furlough (89% versus 79%) and Statutory Sick pay rebate (44% versus 15%), while wholesale/retail trade businesses had higher use of BBLS (16% versus 24%).

Figure 18: Policyholder utilisation of other COVID-19 support schemes



Notes: Based on full sample of surveyed policyholders. Acronyms: C(L)BILS = Coronavirus (Large) Business Interruption Loan scheme; BBLS = Bounce Back Loan scheme; SBGF = Small Business Grant Fund; LSRG =

Local Restrictions Support Grant; ARG = Additional Restrictions Grant; CBPL = Closed Business Lockdown Payment; RHLGF = Retail, Hospitality, and Leisure Grant Fund.

Source: London Economics analysis of policyholder survey data.

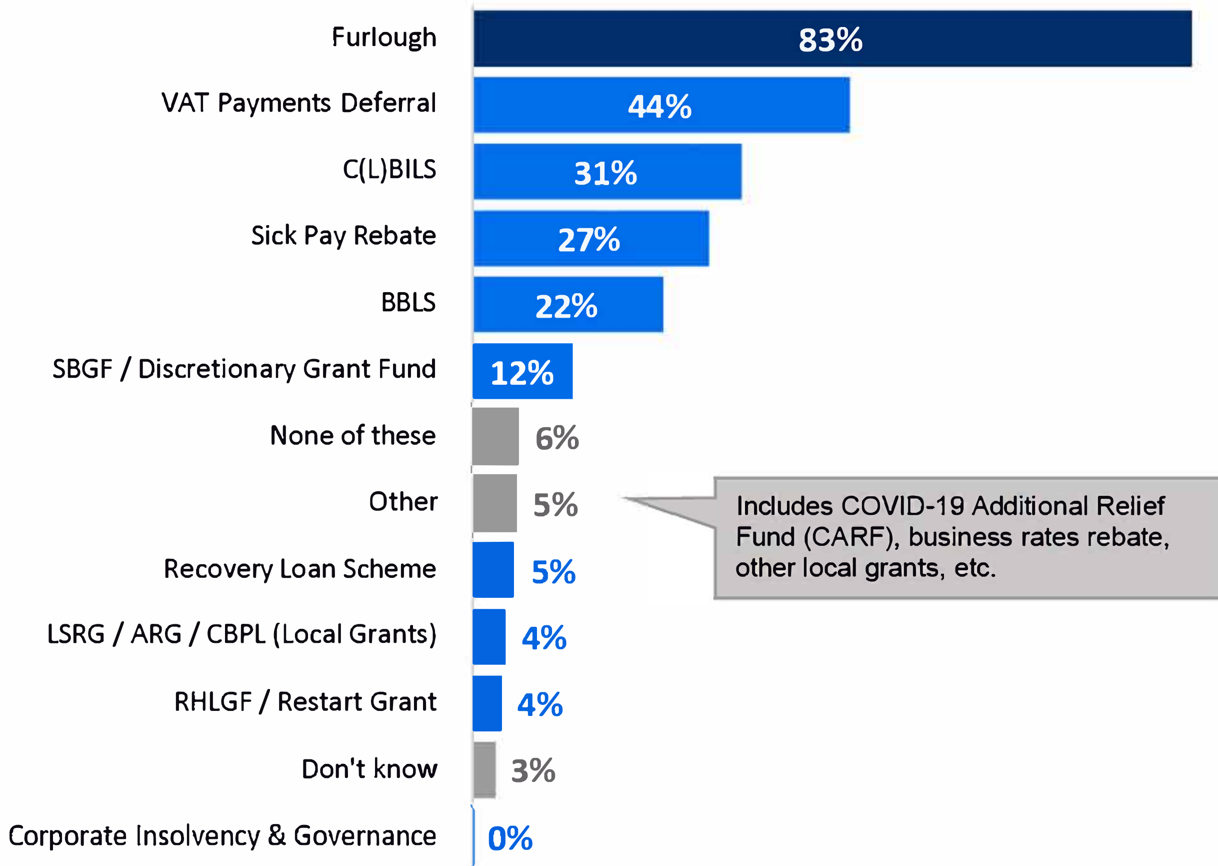
Impact on business confidence

Each COVID-19 intervention likely had a wide array of impacts on businesses (i.e., providing liquidity and funds for investment, or supporting businesses through lost revenue or labour input due to restrictions). One way to assess the relative importance of each intervention to policyholders is a subjective measure of how each one impacted their business confidence over the course of the pandemic.

The policyholder survey asked respondents to identify which of the support programmes that they had accessed were among the most important for their confidence. The question was addressed to all surveyed policyholders that utilised at least one scheme other than TCR Scheme (if the survey participant was aware of the TCR Scheme) and to all that utilised more than one scheme other than TCR Scheme (if the survey participant as unaware of the TCR scheme). This means that policyholders who only benefitted from one scheme and were not aware of the TCR Scheme have not been included when considering the relative importance of different government interventions.

Furlough, as well as being the most widely utilised, also gave rise the most to business confidence, with 68% of those utilising it (and at least one other Scheme) stating it was one of the most important (Figure 19). In comparison, just 14% of policyholders who were aware of the TCR Scheme, and had utilised at least one other intervention, saw the TCR scheme as particularly important for their confidence. The relatively lower perceived importance may reflect to some extent that the TCR scheme was designed such that it would have minimal impact on businesses day-to-day activities. By maintaining the status quo many policyholders might underestimate its impact. Meanwhile Furlough and the large loan schemes which had the largest impact on business confidence were much more prominent interventions from a policyholder perspective.

Figure 19: Proportion of policyholders using a scheme that listed it as one of the most important interventions for business confidence during the pandemic



Notes: Asked to all that utilised at least one scheme other than TCR, if aware of TCR; and all that utilised more than one scheme other than TCR, if unaware of TCR. Number of responses depends on answer to which schemes policyholders utilised (Figure 18).

Answers normalised by number of policyholders utilising each intervention. TCR normalised by number of individuals aware of TCR who utilised at least one other intervention. Acronyms: C(L)BILS = Coronavirus (Large) Business Interruption Loan scheme; BBLS = Bounce Back Loan scheme; SBGF = Small Business Grant Fund; LSRG = Local Restrictions Support Grant; ARG = Additional Restrictions Grant; CBPL = Closed Business Lockdown Payment; RHLGF = Retail, Hospitality, and Leisure Grant Fund.

Source: London Economics analysis of policyholder survey data.

The CBI's view largely corroborates responses from policyholders. While they saw the CBILS and BBLS loan schemes as playing an important role, they agreed that furlough was the most crucial in giving policyholders the confidence to carry out business, while other packages simply helped alleviate wider pressure. However, the CBI places a higher importance on the TCR Scheme than suggested from the policyholder survey, having received feedback from businesses that it had a very strong impact on businesses during the pandemic.

Accounting for interactions between TCR Scheme and other interventions

The TCR Scheme and other UK government COVID-19 support were largely developed independent of one another, and so potential interactions between these different interventions were not explored in detail during the scheme's setup. This was largely a result of the immediacy of the COVID-19 pandemic, and the fact that fast intervention was required across broad swathes of the economy at the same time, which did not allow for close coordination between teams involved in each intervention. Most stakeholders were of the view that the size and scope of other schemes (i.e., Furlough) was the primary reason why claims were unexpectedly low and the scheme's reinsurance support was not utilised much by insurers. This means that the TCR Scheme performed better financially than expected, which points to a clear interaction between the Trade Credit Reinsurance scheme and other government interventions.

During the setup period, BEIS officials highlighted that, due to the fast nature of the TCR Scheme setup, it was largely designed in isolation from and without knowledge of the specifics of other government interventions. Consequently, the scheme was designed with a worst-case scenario in mind (i.e., a large volume of claims from widespread defaults on payments by businesses) and did not explicitly account for the mitigating effects of other potential interventions. Providing more cover than needed did not cost extra public money, as it only made funds available that only translate into a direct cost if and when a claim was made.

The process evaluation identifies two main areas where the scheme's interaction with other COVID-19 intervention may have led to sub-optimal outcomes:

- First, the CBI highlighted that some policyholders may have taken out loans to support themselves through the pandemic only due to lack of awareness of the TCR Scheme. There is some corroborating evidence in the data from the policyholder survey, as only 17% of aware policyholders utilised the BBLS, compared to 25% of unaware policyholders.[48] While companies aware of the scheme might differ in their characteristics from those that were unaware, this example suggests that there was the potential for government budgetary savings had interventions been coordinated and had policyholders received more communication about the TCR Scheme upfront. In this

[48] The use of C(L)BILS did not differ by awareness.

case, fewer policyholders might have utilised other government support schemes, which might have reduced the direct costs of those schemes.

- Second, insurers agreed with the decision to extend the scheme at the time, but many said that, in hindsight, they would not have agreed had they known the level of continuing support from other interventions.[49]

International comparisons

EU State Aid rules meant that all European reinsurance schemes in the TCI market had to take a broadly similar form. The ABI further described early discussions about setting up trade credit reinsurance schemes occurred at a trans-European level, with Germany's scheme setting a 'model' example due to its advanced nature in the initial stages. Schemes in the major European countries were all designed and implemented around the same time from early 2020.

This section provides a brief comparison of the TCR Scheme to other international examples of government interventions in the TCI market during the COVID-19 pandemic based on the perception of interviewed stakeholders.

Countries with similar interventions

The main countries highlighted by insurers as having similar interventions to the UK were Germany, Netherlands, Belgium, and Denmark. These had the same overall structure as the UK TCR Scheme, whereby the government solely provided *additional guarantees* on insurers policies through reinsuring claims received by the insurers.

The UK TCR scheme was considered by insurers and the ABI at least as successful as these similar interventions in achieving aims of maintaining cover in the market, price stability and business confidence in the TCI market. However, many insurers perceived these comparable interventions to be up and running more quickly than the UK's scheme, and with simpler rules overall. The UK's data reporting requirements were especially seen as much more complex than insurers' experience of reporting under schemes in other countries; Netherlands was a key example of a simple and efficient data reporting process.

The UK's delay in setting up the scheme can largely be attributed to having to renegotiate elements of the Heads of Terms to ensure compliance with EU State Aid rules, which stakeholders did not think could have been readily anticipated.[50] Additionally, while insurers considered the UK's scheme more complex, from the perspective of BEIS and the external delivery partners, the TCR Scheme displayed levels of sophistication and detail that other European interventions lacked. For example, the scheme rules explicitly accounted for different eventualities in the TCI market and in stakeholders' behaviour that provided legal protection to the government. When looking at the terms of other European interventions to inform how to

[49] See discussion in 'Communication and collaboration with Insurers'.
[50] See discussion in 'Negotiations with insurers and the ABI'.

account for these potential scenarios, S&M found that many scenarios they had considered as realistic possibilities during the scheme had not been mentioned in the rules of other countries.

Countries with slightly different interventions

The main countries highlighted by insurers as having notably different interventions to the UK scheme were France and Spain. While these were still reinsurance schemes in line with EU State Aid laws, their main difference to the UK and similar schemes was the inclusion of *substitution guarantees*.[51] This structure was similar to the UK's TCI intervention during the financial crisis,[52] whereby the government would provide guarantees in instances where insurers do not want to underwrite risks of certain buyers.

The perception among insurers was that these schemes did not work well to maintain the normal operation of the market during the pandemic, and that the UK scheme was more successful in comparison. One insurer noted that the French scheme not being extended into 2021 was indicative of its lack of success.

Summary

In the European context, the UK TCR Scheme was seen as a successful intervention, alongside similar comparable schemes in Germany, Netherlands, Belgium and Denmark. While outcomes were similar, these other similar schemes were considered by insurers to have simpler structures. However, the UK scheme was seen as more successful than countries that set up interventions involving substitution guarantees, which were more in line with the less successful UK intervention in the wake of the 2008 financial crisis.

TCI market and stakeholder relationships

This section provides a brief overview of the TCI market in the UK, including the cyclicality thereof. It also provides a brief discussion of the impact of the TCR Scheme on the relationship between the government and insurers.

Overview

TCI insures businesses against their trading partners defaulting on payment, providing confidence in business-to-business transactions. The UK TCI market underwrites around £350 billion of economic activity for over 600,000 businesses each year.[53]

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[51] https://www.econone.com/wp-content/uploads/2020/07/A-Strong-Recovery-Requires-a-Healthy-Trade-Credit-Insurance-Industry.pdf
[52] https://www.btha.co.uk/trade-credit-insurance/
[53] https://www.gov.uk/government/news/trade-credit-insurance-backed-by-10-billion-guarantee

Insurers participating in the scheme represented about 75% of the UK TCI market, including the three biggest insurers (Euler Hermes[54], Atradius, and Coface) which together account roughly for 60% of the market.

Aside from insuring against delays or default of payment, the ABI highlighted three other benefits that businesses receive from having trade credit insurance:

- Many businesses purchase cover in order to gain access to finance, as banks often require a certain level of cover on trading activities in order to lend to businesses.
- Insurers effectively provide credit management services to businesses, with detailed guidance on their trading partners.
- Businesses having cover encourages other businesses to engage in trading relationships, as businesses without cover may experience less favourable contract terms or less willingness to trade from potential buyers who are aware of their lack of cover. This information is often shared through their own insurers or general knowledge-sharing across the supply chain.

TCI market cyclicality

The trade credit insurance sector is procyclical and tracks the real economy. Hence cover falls and premia rise during economic recessions, and vice versa in periods of expansion. The ABI noted that this was unlike most other insurance markets, where cycles were relative to the occurrence of specific risk events (i.e., natural disasters).

This feature of the TCI market provided the rationale for the intervention in the form of the TCR Scheme during the pandemic. The COVID-19 pandemic gave rise to an extreme and sudden downturn in the economy, and so the scheme set out to mitigate the resulting widespread cover withdrawal (and price rises) that would accompany this shock.

In consultations, insurers noted that the primary lever used to mitigate losses during downturns would be the withdrawal of cover, including complete cancellation for some high-risk policyholders as well as partial reductions for others. This is because as an instrument, cover withdrawal could be carried out far more efficiently and would have the largest impact on reducing exposure. Meanwhile, prices were fixed within contracts and so price rises could not be used as effectively and flexibly to combat exposure from a sudden shock.

Relationship between the government and insurers

The overarching view is that the scheme has forged a closer relationship between the government and the TCI industry, and has had a positive effect on business confidence in the wider supply chain. This is because the scheme has signalled to businesses that insurers and the government are able to come together and implement an intervention if there are challenges affecting the TCI market.

[54] Euler Hermes is now known as Allianz Trade, as of March 2022: https://www.insurancejournal.com/news/international/2022/03/28/660013.htm

Both the ABI and BEIS officials considered that the scheme has made the TCI market more visible both to businesses and the government itself, particularly as BEIS had limited understanding of the market or insurers at the scheme's inception. One unintended consequence of this increased visibility raised by the ABI was that the TCR Scheme may lead to future calls to intervene in the TCI market when intervention is not needed. This has already been observed by the ABI after the scheme end, particularly from businesses in the hospitality industry. The ABI saw it as important that any future comparable scheme should only be seen as a last resort.

Interim Impact Evaluation

The interim impact evaluation provides an indicative Value-for-Money (VfM) assessment to establish the value that was created by the Trade Credit Reinsurance (TCR) scheme and the public resources that were used for it. The assessment considers both the quantifiable and unquantifiable benefits and costs of the scheme and is based on information collected in the stakeholder consultations, the policyholder survey, desk research, and the monitoring data provided by insurers.

The quantifiable benefits of the scheme are estimated using a hypothetical scenario modelling approach. The approach estimates the additional impact on economic activity that would have occurred in the absence of the intervention.

The quantifiable costs of the scheme were divided into the financial burden to the government (i.e., paying claims and expenses to insurers) and the administrative burden of the scheme (i.e., costs involved in its set-up and operation). These costs were aggregated using data provided by BEIS and PwC.

Scheme impact

The benefits of the scheme were estimated using a hypothetical scenario modelling approach. The model estimates the additional impact on economic activity from March 2020 to June 2021 by considering the actions that insurers and policyholders would likely have taken in the absence of the intervention.

The next sections provide a reasoning for the modelling approach and assess the likely actions by insurers and policyholders based on data collected from the stakeholder consultations and the policyholder survey.

In response to the uncertainty posed by the COVID-19 pandemic, insurers would likely have withdrawn some cover from the market and increased premiums. The quantifiable and unquantifiable impacts of the scheme are presented separately for a withdrawal of cover and for an increase in premiums.

In the following, policyholders are also referred to as ‘suppliers’ and the policyholders’ customers are referred to as ‘buyers’.

Modelling approach – counterfactual group

To estimate the impact of the TCR Scheme, companies benefitting from the scheme have to be compared to a counterfactual. One possibility is to compare the business outcomes of those benefitting from the scheme (i.e., businesses who had in-scope policies with one of the participating insurers), with a group of companies that did not benefit from the TCR scheme.

Several counterfactual groups were considered but it was not possible to find an unbiased counterfactual group:

- **Counterfactual group 1**: Businesses without trade credit insurance

  Businesses with and without trade credit insurance are likely to be very different, for example, operating in different markets and supply chains. The decision to not have trade credit insurance in the first place suggests a fundamental difference in businesses which could mean that they could have been affected differently by the pandemic.

- **Counterfactual group 2**: Businesses who have policies with participating insurers, but their policy is not in-scope of the scheme

  There were a small number of participating insurers' existing policies that were out of scope (around 15%). The reasons for policies being out of scope include them not being trade credit insurance policies, the policyholder being based overseas, or not meeting the due diligence requirements. By default, these policies and companies are different from in-scope policies and would not allow for an appropriate counterfactual.

- **Counterfactual group 3**: Businesses who have policies with insurers not participating in the scheme

  Only a small number of insurers, representing around 15% of the TCI market, did not participate in the scheme. According to BEIS officials, the majority of non-participating insurers did not participate in the TCR scheme because most of their policies or policyholders were not covered by the TCR scheme rules. As such, the type of policyhoders, policies and type of economic activity differ from the ones covered by the scheme. These reasons affect the comparability of the two groups of businesses and would not allow for unbiased counterfactual. Furthermore, market decisions and prices in the TCI market are largely driven by the larger insurers, who were participating in the scheme. As a result, smaller non-participating insurers might have been under pressure to adapt their behaviour (i.e., maintaining cover in the market) to not lose their customers.

Due to the challenges relating to the above-mentioned counterfactual groups, a hypothetical scenario modelling approach has been identified as the preferred approach. The hypothetical scenario modelling considers the likely behaviour of participating insurers and benefitting policyholders if the scheme had not been in place. The assumptions made in the model are based on responses from interviews with the insurers, the policyholder survey, and supplemented with evidence from international comparisons.

Insurers likely actions in the absence of the TCR Scheme

In the absence of the TCR Scheme, insurers would likely have taken two main actions in order to reduce their risk exposure during the pandemic - withdrawing insurance cover and increasing premiums. This assumption is based on reports from insurers from before the scheme was introduced, stakeholder consultations with insurers, historical evidence (i.e., actions taken by insurers in the aftermath of the financial crisis) and desk research into actions taken by insurers in different countries.

Withdrawing cover and increasing premiums are mutually exclusive and will apply differently to different policyholders. For example, policyholders with a high-risk portfolio of trading partners might face a complete removal of insurance cover, while other policyholders might face a partial or no removal of cover. Increases in the premium can only apply to cover that is not withdrawn and might also not apply to all policies. As a result, the total cover underwritten by insurers can be split into three categories:

- Cover that is withdrawn by insurers
- Cover, for which the premiums are increased
- Cover that is unaffected by the COVID-19 pandemic

The modelling approach estimates the impact of insurers withdrawing cover and increasing premiums if the government did not intervene and implement the scheme. In order to do so, it is necessary to identify a) the share of cover that is being withdrawn, b) the share of cover, for which the premiums are increased, and c) the percentage increase in premiums. Since the parameters provided by insurers for a) and c) are average figures across their entire policy portfolio, it has been assumed that the premiums are increased for all cover that is not cancelled.

Hypothetical share of withdrawn cover

In the stakeholder consultations, insurers estimated that they would have withdrawn between 15-35% of TCI cover on average in the hypothetical scenario in which the scheme was not introduced (Table 3). The estimates varied by insurer.

Table 5: Insurer estimates of the proportion of cover withdrawn in the absence of the scheme

Insurer	Estimate of the proportion of cover that would have been withdrawn	Comments
Insurer 1	20-35%	
Insurer 2	20-25%	Knowing the extent of other COVID-19 support schemes, the reduction might have been closer to 7-10%.
Insurer 3	15-20%	This could have increased up to 50% for the sectors with the highest risk i.e., retail and hospitality

Source: London Economics analysis of stakeholder consultations.

The estimations from insurers were broadly consistent with the findings from desk research and insurers' actions in 2007/08. During the financial crisis, trade credit insurers withdrew 20% of market cover on average, this proportion varied substantially across insurers.[55] In October 2020, the ABI reported the withdrawal of coverage on policyholders in the worst-affected sectors (i.e., retail, hospitality and construction), could have been around 25-30%, with some policyholders having as high as 50% of cover withdrawn.[56] The largest insurer in the UK market, Euler Hermes[57], estimated that, had the scheme not been introduced, insurers would have reduced their coverage by around 25% to prevent potential losses.[58]

Outside of Europe, few countries introduced support measures for their trade credit insurance market. In these countries, the common action seen by insurers was to withdraw insurance coverage. The ABI report states that in the countries that did not support their trade credit insurance markets through government intervention, cover was between 20-27% lower as of October 2020.[59,60] One study in the US estimated that US-based insurers reduced their coverage by 13.8%.[61] Similarly, the CEO of Euler Hermes in North America reported a 15% reduction of coverage across all sectors in September 2020.[62] Furthermore, one of Australia's major insurer reduced their coverage by 12.5-25%.[63]

Throughout the period of the scheme, there was a lot of variability in the level of market confidence and demand. For example, the introduction of wider COVID-19 support schemes boosted confidence, supported businesses and avoided business failure. By gaining knowledge on the level of government support and changes to the number of claims, insurers indicated in the stakeholder consultations that they would have gradually reduced the level of withdrawn cover. In order to reflect these variations across time, the modelling included a dynamic, time-dependent element for the share of cover that would have been withdrawn at different points in time.

The parameters used in the analysis for the share of withdrawn cover in the modelling (Table 6) are based on discussions with insurers, desk research and historical evidence.

[55] BEIS Negotiation outcome and final AO advice (2020)
[56] ABI Trade Credit Scheme Extension Proposal (2020)
[57] Euler Hermes is now Allianz Trade.
[58] https://www.eulerhermes.co.uk/trade-credit-insurance/support-scheme.html; The CEO of Euler Hermes states "offset the potential losses" in an interview, which is likely to mean 'prevent the potential losses'.
[59] This change is likely to be relative to the previous year but this is not stated in the ABI report.
[60] It is worth noting that the report does not establish if the reduction is a causal result from insurers withdrawing cover, as it could also have been due to demand factors such as suppliers ceasing to trade and therefore requiring no cover.
[61] Litan, R. & Xu, Y. (2020) A Strong Recovery Requires a Healthy Trade Credit Insurance Industry. Available at: https://www.econone.com/wp-content/uploads/2020/07/A-Strong-Recovery-Requires-a-Healthy-Trade-Credit-Insurance-Industry.pdf
[62] Euler Hermes (2020) Trade credit insurance support scheme. Available at: https://www.eulerhermes.co.uk/trade-credit-insurance/support-scheme.html
[63] Honan. (2020) Supply Chain Challenges: Key insights on Trade Credit Insurance through COVID-19. Available at: https://honan.com.au/news/supply-chain-challenges-key-insights-on-trade-credit-insurance-through-covid-19/

Table 6: Modelling assumptions for the proportion of cover withdrawn by insurers

After the introduction to the scheme (March – June 2020)	After the introduction of other COVID support schemes (July - December 2020)	After the introduction to the scheme extension (January – June 2021)
30%	10%	10%

Hypothetical increase in premiums

In the stakeholder consultations, insurers also estimated by how much they would have increased the premiums to manage the increased risk. Insurers estimated that, in absence of the scheme, they would have raised premiums by between 5-25% (Table 4). It has been noted by insurers that while their contracts with policyholders allows them to reduce and change the amount of cover, premiums are less flexible and would only have been changed for existing contracts at the time of contract renewals.

Table 7: Insurers estimate of increases in premiums in absence of the scheme

Insurer	Estimate of premium increase
Insurer 1	15%
Insurer 2	10-20%
Insurer 3	5-15%
Insurer 4	10-25%

Source: London Economics analysis of stakeholder consultations.

Similar to the withdrawal of cover, insurers' estimates were relatively consistent with findings from desk research, although historical and international evidence of increasing premiums was very limited. One report noted that premiums started to increase in the UK by 5-10% at the start of the pandemic on cancellable limit policies.[64] Another source stated that they had seen their premiums increased by around 10-15% in December 2020.[65] Furthermore, the ABI reported that, during the financial crisis, average premiums increased by 24%.[66]

[64] Willis Tower Watson (2021) COVID-19 and Trade Credit. Available at: https://www.wtwco.com/en-GB/Insights/2021/01/covid-19-and-trade-credit
[65] HC Group (2020) Insight: The effects of Covid-19 on the trade credit insurance market. Available at: https://www.hcgroup.global/hc-insider/insights/the-effects-of-covid-19-on-the-trade-credit-insurance-market
[66] ABI Trade Credit Scheme Extension Proposal (2020)

While insurers were asked by how much their premiums would have increased at different time periods in order to account for the dynamic element, most insurers struggled to provide an estimate for each time period. Some insurers also indicated that increasing premiums would not have been their initial response (as opposed to withdrawing cover). Based on discussions with insurers and the evidence in the literature, it is reported that premiums would have increased by the amounts presented in Table 8.

Table 8: Modelling assumptions for the percentage increase in premiums by insurers

After the introduction to the scheme (March – June 2020)	After the introduction of other COVID support schemes (July - December 2020)	After the introduction to the scheme extension (January – June 2021)
15%	10%	10%

Withdrawal of cover

In the case of insurers withdrawing cover in the absence of the TCR Scheme, suppliers would likely have chosen to:

a) discontinue a proportion of their now uninsured turnover due to the increased risk,

b) continue trading with up-front payments from the buyers, or

c) continue trading by granting buyers credit despite the lack of trade credit insurance.

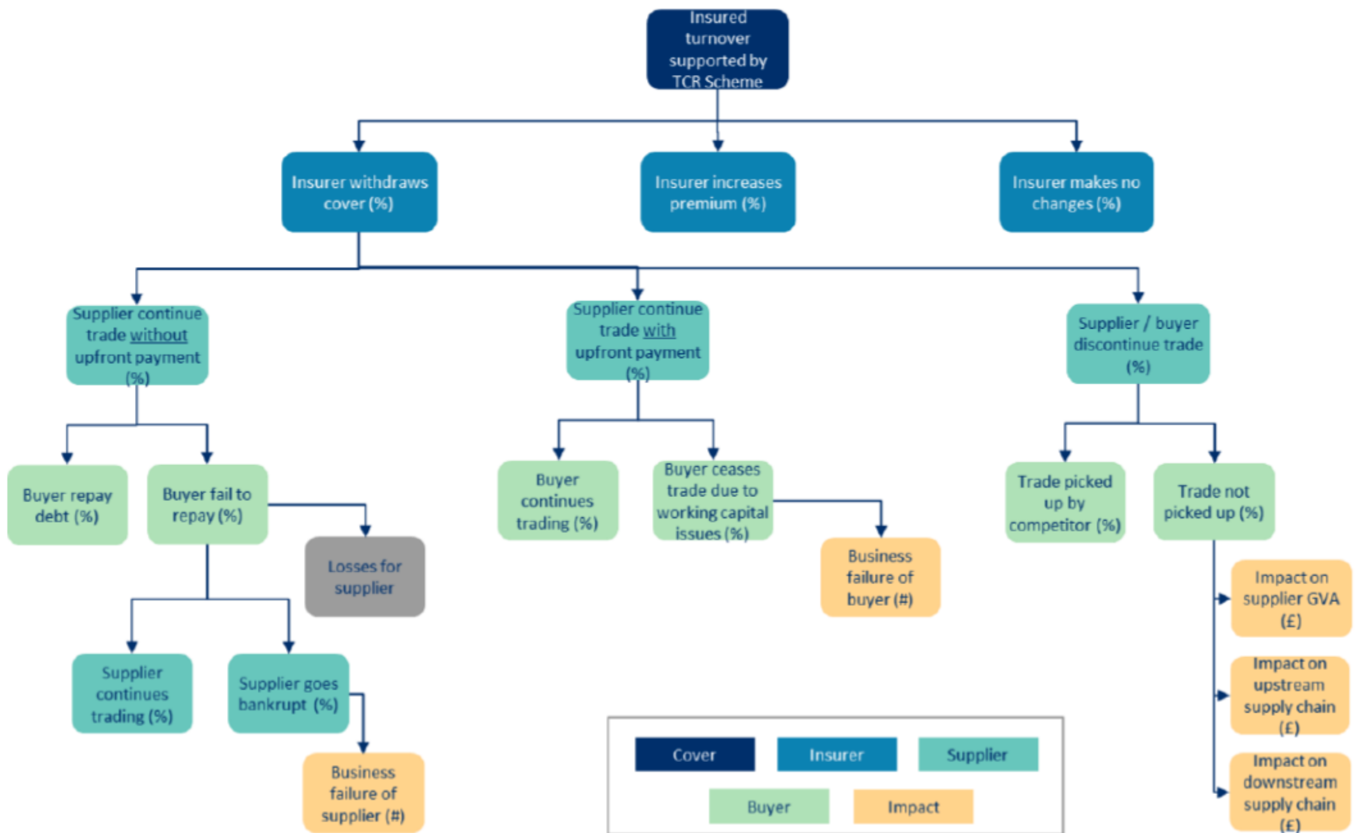
Suppliers could have adopted one or a mix of the three strategies. The impacts of insurers withdrawing cover in the absence of the TCR Scheme that have been identified as part of the indicative VfM include:

- Direct impact of discontinued trade on GVA
- Indirect impact of discontinued trade on GVA (in upstream supply chain)
- Indirect impact of discontinued trade on GVA (in downstream supply chain)
- Indirect impact from non-participating insurers
- Indirect impact on business failure
- Indirect impact on access to finance

Figure 20 provides an overview of the modelling structure that has been used to estimate the impact of insurers withdrawing cover in response to the pandemic and in the absence of the TCR Scheme. Each of the modelling steps is discussed in turn below.

The estimates are based on information collected in the stakeholder consultations, the policyholder survey, desk research, and the monitoring data provided by insurers. Due to lack of data, only the direct impact of discontinued trade on GVA and the indirect impact of discontinued trade on GVA (in the upstream supply chain) have been quantified. The other indirect impacts have been assessed qualitatively for the interim evaluation.

Figure 20: Model structure for insurers withdrawing cover



Source: London Economics

Direct impact of discontinued trade on GVA

If suppliers chose to discontinue a proportion of their trade, it has a direct impact on their economic activity and reduces their GVA.

The model quantifies the direct impact on suppliers' gross value added (GVA) by estimating the share of the discontinued turnover, accounting for a proportion that would have been picked up by the policyholders' competitors (market displacement) and estimating the gross value added as a share of the discontinued turnover.

The direct impact of the TCR Scheme, which is modelled as the GVA that would have been lost in the absence of the scheme, is estimated to be £920 million from March 2020 to June 2021.[67]

Table 9 illustrates the modelling steps from the total cover to the estimated impact. More detail on the estimations can be found in Annex 3 – Methodology of interim impact evaluation.

Table 9: Estimates for the direct impact of discontinued trade

Modelling step	Turnover / GVA
Average total cover	£122.6 billion
Insured annual turnover	£306.5 billion
Total insured turnover (over entire scheme period)	£383.1 billion
Total insured turnover after GDP adjustment	£349.6 billion
Insured turnover affected by TCI withdrawal	£55.5 billion
Turnover discontinued by suppliers because of TCI withdrawal	£6.1 billion
Turnover discontinued by suppliers that is not picked up by competitors	£2.9 billion
GVA of discontinued turnover	£0.9 billion

Source: London Economics

Indirect impact of discontinued trade on GVA (in upstream supply chain)

Suppliers discontinuing a proportion of their trade would have had a wider impact on their upstream supply chain due to their reduced demand for the materials required in the production process. As a result of the reduced demand, businesses in the upstream supply chain would likely have been forced to reduce their production. The model quantifies the indirect impact of discontinued trade due to withdrawn cover on the upstream supply chain, which was estimated to be £1.6 billion from March 2020 to June 2021.

[67] It can be assumed that a 10% increase in one of the model's parameters, for example, a 10% increase in the amount of discontinued turnover, would roughly equate to a 10% increase in the direct impact on GVA. However, this is only a simplification and a full sensitivity analysis could be conducted to get a better understanding of the impacts' likely ranges.

If businesses in the upstream supply chain have trade credit insurance of their own, there might be some overlap with the scheme's direct impact of discontinued trade on GVA. However, this case of double counting is likely to be low.

Indirect impact of discontinued trade on GVA (in downstream supply chain)

Suppliers discontinuing a proportion of their trade would likewise have had a wider impact on their downstream supply chain due to reduced production. When fewer goods are produced, the suppliers' buyers might struggle to source the input products needed for their economic activity. Consequently, it would reduce their GVA as an indirect impact of the withdrawal of trade credit insurance. This indirect impact was not quantified in this interim stage of the impact evaluation due to insufficient data on the policyholders' position in the supply chain and the impact on their buyers.

Indirect impact from non-participating insurers

The direct and indirect impact of discontinued trade on GVA only considers the impact of actions taken by insurers who participated in the scheme. However, it does not account for the wider impacts on those who had policies with insurers that did not participate in the scheme. BEIS officials shared anecdotal evidence that suggests that non-participating insurers adopted similar measures compared to insurers participating in the scheme. This would likely be due to the fact that participating insurers represent 85% of the TCI market, which puts competitive pressure on the non-participating insurers to adapt similar policies. As a result, the scheme might have had an impact on non-participating insurers and by extension the economic activity of their policyholders. This spillover effect may have been an additional benefit of the TCR Scheme for the economy.

Indirect impact on business failure

While suppliers might have discontinued some of their trade that would have lost its TCI cover in the absence of the TCR Scheme, some of the trade would likely have continued without TCI cover in place. Suppliers could have continued trading by giving their buyers credit, or by asking for upfront payments. A report by the ABI noted that, if cover had been withdrawn from policies that utilise the maximum cover for specific buyers (also referred to as marginal buyers) only about 50% of their suppliers would have stopped supplying on credit.[68]

By giving buyers credit without trade credit insurance in place, the risk is borne solely by the supplier. Losses arising for the supplier due to payment defaults by their buyers are a transfer of income from suppliers to buyers and are, thus, not considered an economic impact for the purpose of the VfM assessment. However, if suppliers becoming insolvent or bankrupt because of a substantial loss from failed repayments, the failure of the supplier would impact economic activity. Preventing business failures of this nature can be attributed to the TCR Scheme as an indirect impact.

Alternatively, by asking for upfront payments, the risk is borne by the buyers instead of the suppliers. Having to pay upfront for goods and services could have resulted in working capital

[68] ABI Trade Credit Scheme Extension Proposal (2020)

issues for the buyer and eventual failure of the business.[69] A report by EIOPA states that buyers, in response to their suppliers requesting upfront payments, could have responded by looking for short-term financing to cover their invoices.[70] While some buyers might be able to obtain business loans to cover these payments, it could also result in greater insolvencies and business failures. The loss in economic activity of buyers who had to cease trading due to working capital issues would, thus, have been a further impact of the pandemic that has been prevented by the TCR Scheme.

The ABI report predicts that around 10% of the buyers that benefited from the scheme would have potentially failed in its absence.[71] Furthermore, the ABI also predicts that supporting the survival of these buyers, resulted in the scheme supporting up to 400,000 jobs in the UK economy.

Indirect impact on access to finance

The ABI and some insurers noted that managing the risk of supplying with trade credit is not the only reason for suppliers to acquire trade credit insurance. In fact, TCI is often used by companies to access finance. For example, the CEO of Euler Hermes in the UK and Ireland discussed on their website that reducing TCI coverage can hamper suppliers' ability to raise a loan with a bank, as banks often supply finance based on the collateral of the trade credit cover.[72] Therefore, in absence of the scheme, some businesses might have struggled to raise finance if a proportion (or all) of their trade credit insurance cover was withdrawn. Lack of finance can translate into reduced economic activities or business failure.

Increase in premiums

In response to increases premiums in the absence of the TCR Scheme, suppliers could have:

a) cancelled their TCI cover,

b) kept their TCI cover and passed on the price increases to their buyers, or

c) kept their TCI cover and absorbed price increases

Suppliers could have adopted one or a mix of the three strategies. The impacts of insurers increasing the premiums in the absence of the TCR Scheme that have been identified as part of the indicative VfM include:

- Direct impact of cancelled cover
- Indirect impact of reduced demand
- Payments of higher premiums

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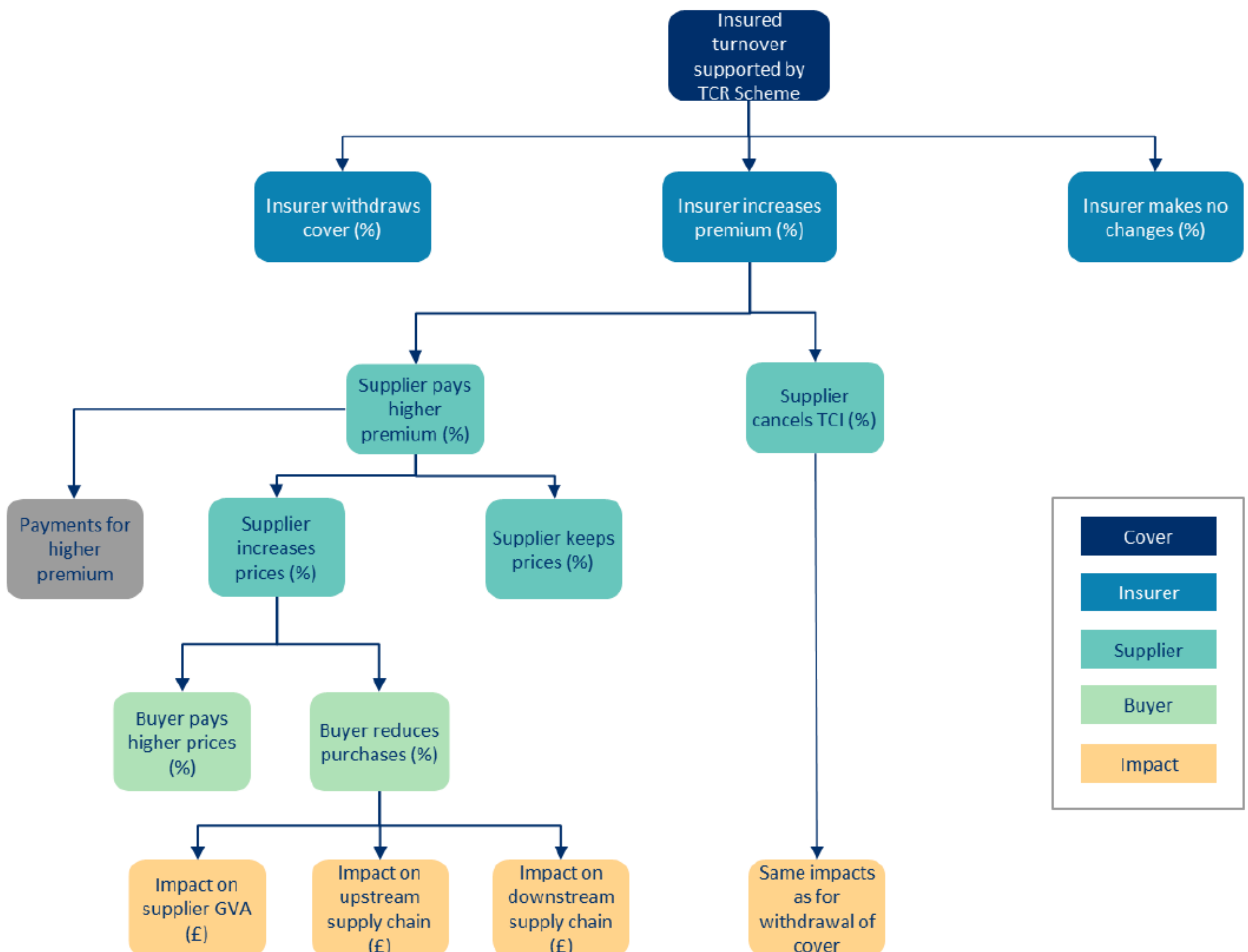
[69] ABI Trade Credit Scheme Extension Proposal (2020)
[70] EIOPA (2021) Financial Stability Report (July 2021). Available at: https://www.eiopa.europa.eu/sites/default/files/publications/reports/financial-stabiliy-report-july-2021.pdf
[71] ABI Trade Credit Scheme Extension Proposal (2020)
[72] Euler Hermes (2020) Trade credit insurance support scheme. Available at: https://www.eulerhermes.co.uk/trade-credit-insurance/support-scheme.html

Figure 21 illustrates the modelling structure to estimate the impact of insurers increasing premiums in response to the pandemic.

The different impacts are discussed below. But, the impacts are likely to be negligible and have not been quantified because trade credit insurance makes up only a small percentage of the production costs. An increase of the premium by 10-15%, which is the most likely scenario in the absence of the TCR Scheme based on the stakeholder consultations with insurers, is therefore not likely to have a significant effect on the suppliers' decision to purchase TCI cover, the suppliers' internal cost, the products' price, or buyers' demand for the product.

Insurers also mentioned in the stakeholder consultations that prices could only be changed for new contracts and contract renewals. For this reason, changes to the premiums would have been spread out over time and would only have affected a small percentage of suppliers in the first months of the pandemic, when most insurers faced most uncertainty about the impact of the pandemic and the extent of other COVID-19 support schemes.

Figure 21: Modelling structure for estimating the impact of an increase in premiums



Source: London Economics

Direct impact of cancelled cover on GVA

In response to an increase in the premiums, some suppliers might choose to cancel their TCI cover, either partially or entirely due to being unable or unwilling to pay higher premiums. As mentioned before, this is relatively unlikely due to the small proportion of trade credit insurance compared to the overall production cost.

Suppliers that chose to cancel their TCI cover face the same choices as suppliers that might have their cover withdrawn by insurers. For this reason, it is possible that some of these suppliers would have decided to discontinue a proportion of their trade.

Policyholders that face higher premiums are likely to have lower risk policies compared to those policyholders that have their TCI cover withdrawn by insurers. For this reason, one can also assume that the share of trade that would be discontinued by suppliers would be lower than in the case of withdrawn cover.

Indirect impact of reduced demand

If suppliers would have decided to keep their TCI and pass the price increase on to their buyers, the demand for their products could have decreased due to higher prices. The effect of this impact is likely to be low because premiums make up only a small share of the overall price of products and because suppliers might not have passed on the full increase in premiums. As a result, the percentage increase in prices would have been considerably lower than the percentage increase in premiums. Relatively small changes to the products' prices are not likely to have had a large effect on demand. This is further supported by the fact that many goods faced wider issues in the supply chain that caused a shortage in supply and an increase in prices.

Payments of higher premiums

Following increases in the premiums suppliers would have had to pay higher premiums to their insurers. Assuming an efficient and competitive TCI market, the increases in premiums should match the increase in risk in the market. In line with the government's Green Book, these payments are considered a transfer from buyers to suppliers, and are, thus, not considered an economic impact for the purpose of the VfM assessment.

Total scheme impact

It is estimated that the TCR Scheme had a direct impact of £920 million by avoiding a reduction in economic activity due to the withdrawal of TCI cover in the absence of the TCR Scheme. The direct impact relates to the gross added value (GVA) of suppliers who may have discontinued a proportion of their trade in response to a withdrawal of TCI cover by insurers. In addition to the direct impact, an indirect loss in economic activity of £1.6 billion could have occurred in the upstream supply chain due to suppliers discontinuing trade. The estimate for the total (quantifiable) impact amounts to £2.5 billion from April 2020 to June 2021.

The TCR Scheme could have had further impacts that have not been quantified in the interim impact evaluation due to the lack of data. These potential impacts include the indirect impact of

discontinued trade on the downstream supply chain; the spillover effect on non-participating insurers; the business failures that might have occurred due to uninsured trade; and the indirect impact of companies' reduced access to finance without TCI in place.

The additional impact of preventing increases in the premiums of trade credit insurance is likely to be small and negligible due to the small proportion of trade credit insurance compared to the overall production cost.

Scheme costs

The costs of the TCR Scheme to the government can be divided into two categories:

- **Financial burden**: This refers to the net cost of the scheme from the government's perspective. The financial outflows include the total amount of claims paid by the government and the total amount of expenses paid by the government to cover the insurers' operation costs, while the inflows include the premiums payable to the government.
- **Administrative burden**: This refers to the internal and external staff costs for the government's delivery team. It covers the budgets allocated to the design, setup and operating of the scheme. Administrative costs include the budget allocated to external delivery partners (PwC and S&M) and the staff costs for the internal BEIS project team.

The data underlying the scheme's financial burden in the VfM assessment are taken from the monitoring data provided by PwC, and the administrative costs were provided by BEIS.

Financial burden

The financial burden from the government's perspective includes:

a) claim amounts owed by the scheme to insurers,

b) expenses owed by the scheme to insurers, and

c) premium amounts paid to the scheme.

Based on this data, the financial burden of the scheme, which is equal to the net payment to insurers, has been calculated and summarised below. As of Q1 2022 (January – March 2022), the scheme's financial burden was a surplus of £217.8 million, with a net outstanding inflow of £93.9 million as £123.9 million has already been paid to the government. It should be noted that claims can still be made by policyholders and insurers, which means that the figures do not represent the final financial burden of the scheme.

Table 10: Financial burden of the scheme (as of Q1 2022 (January – March 2022))

Scheme cost	Total[73]
Claim amounts owed by the scheme to insurers	£44,016,032.00
Expenses owed by the scheme to insurers	£149,749,310.00
Premium amounts paid to the scheme	(£411,593,370.00)
Net financial cost/surplus	**(£217,828,028.00)**
Of which…	
Amount already paid by the scheme to the government	*£123,900,000.00*[74]
Surplus of the scheme due to the government	*(£93,928,028.00)*[74]

Source: BEIS

At the time of the design of the scheme, the government assumed that it had to disclose a contingent liability of £10 billion on introducing the scheme and to recognise an immediate expected loss of more than £1 billion. This might have added to the UK's level of government debt. Due to the low interest rates at the time of the introduction of the scheme, no additional costs related to interest payments on any additional government debt have been assumed in this model.

Administrative burden

The data for the administrative burden of the scheme borne by the government was provided by BEIS and included the budgets allocated to the setup and the operation of the scheme. External costs include the cost of procuring an external delivery partner (PwC) and the cost of acquiring external legal advice (Slaughters and May). Internal costs include the staff costs for the BEIS project team whose role was to oversee the delivery of the intervention.

As of Q1 2022 (January – March 2022), the scheme's administrative burden was £5.2 million. It should be noted that some additional administrative burden will occur for the financial years 2022/23 and 2023/24.

[73] Positive values indicate a cost to the scheme, while negative values (in brackets) indicate a surplus.
[74] This figure does not constitue a cost or benefit to the government, but indicates in cash flow terms if the amount is an outstanding payment (indicated as negative/in brackets) and if the amount has already been received by the scheme/government (indicated as positive).

The scheme also created administrative burden for insurers, for example, the burden of negotiating the terms of the scheme and the time involved in collecting and reporting the data required. In interviews, insurers provided estimates for the amount of time spent on the setup of the scheme and data requirements (Table 2). This cost is included indirectly via the 'expenses paid to insurers' in the financial burden, which are meant to reimburse insurers for their administrative costs. In discussions with insurers, some confirmed that the reimbursement was sufficient to cover their administrative costs associated with the scheme, while others reported that it did not cover all of their administrative costs.

Total scheme cost

As of Q1 2022 (January – March 2022), the financial burden was a surplus of £217.8 million and the administrative burden was £5.2 million. This means that the TCR Scheme generated a net surplus of £212.6 million for the government.

When the scheme was designed, the government expected a loss of more than £1 billion. The scheme generated a surplus rather than being a cost to the government because of the unexpectedly low level of claims under the scheme.

It is important to note that policyholders and insurers can still file claims relating to the scheme period and that some additional administrative burden will incur for the financial years 2022/23 and 2023/24. For this reason, the final cost of the scheme cannot be determined at this point. But it can be assumed that most claims have already been filed by policyholders, which means that the TCR Scheme will likely generate a surplus for the government.

Summary

It is estimated that the TCR Scheme had a total (quantifiable) positive GVA impact of £2.5 billion from April 2020 until June 2021 (Table 11). Due to the relatively low number of claims, the scheme did not incur a financial cost but generated a surplus to the government of £212.6 million up until Q1 2022 (January – March 2022) (Table 12).

The scheme costs are not yet final, as policyholders and insurers can still file claims relating to the scheme period and because of additional administrative burden for the financial years 2022/23 and 2023/24.

Nonetheless, the TCR Scheme is likely to generated a surplus for the government, while having a positive economic impact on the UK economy.

Table 11: Total estimated impact and cost of TCR Scheme (from April 2020 until June 2021)

Total estimated (quantifiable) impact[75]

[75] The figures refer to nominal values.

Direct impact of withdrawing cover	£919 million
Indirect impact of withdrawing cover	£1,570 million
Total estimated (quantifiable) impact	**£2,489 million**

Table 12: Total estimated impact and cost of TCR Scheme (as of Q1 2022 (January – March 2022))

Total cost[72]	
Financial burden	(£217.8 million)
Administrative burden	£5.2 million
Total scheme cost/surplus	(£212.6 million)

Caveats, data requirements and next steps

The model is subject to a number of caveats that are discussed below. Most of the caveats are related to the lack of data, which would allow for a more accurate or nuanced modelling approach, and due to the iterim nature of the evaluation. If additional and/or more granular data becomes available, it might be possible to address some of these caveats and perform some of the additional (sub)-analyses as part of a final impact evaluation.

- **Hypothetical scenario modelling**

  Due to the lack of a suitable counterfactual group, the impact of the scheme was estimated using a hypothetical scenario modelling approach. Insurers and policyholders were asked about their likely behaviour during the scheme period from April 2020 to June 2021. As a result, the impacts are based on self-reported data, which might be less reliable. Furthermore, it is likely to be challenging for stakeholders to provide robust estimates for a hypothetical scenario like this.[76] Additional econometric analysis of companies' performance (including the prevalence of insolvencies amongst insured and uninsured) might provide additional information on the level of impact for benefitting policyholders. As part of this, it could also be of interest to analyse the type of companies self-selecting into TCI and characteristics of policyholders that have made claims.

- **Insured turnover supported by the TCR Scheme:**

  The raw monitoring data submitted by insurers includes multiple records for the same policies to reflect changes, for example, in the policy period, the credit limit or for data corrections. But the raw data still appears to have erroneous entries[77]. As a result, the amount of insured turnover reported on the monitoring data dashboard is unrealistically high and not suited for the impact modelling. Instead, the model draws on the aggregate credit limits among participating insurers that was processed by PwC. Drawing on the cover, instead of the insured turnover, means that an additional assumption has to be made for the ratio between the cover and the insured turnover.

- **Accounting for policyholders' level of risk in insurers' actions:**

  Insurers mentioned during the stakeholder consultations that they would have withdrawn a greater amount of cover from suppliers with a greater default risk. Due to the lack of information on policyholders' risk level, the impact has been estimated based on average figures. While average figures provide an indication of the overall scale of the impact, they do not reflect the heterogenous impact that the pandemic would have likely had on different policyholders.[78] Different level of withdrawals might also have prompted different reactions by policyholders, which might not follow the linear relationship that is indirectly assumed by applying average figures. Analyses by level of

[76] For example, some responses suggested that some policyholder survey respondents might have struggled to estimate the relationship between cover and insured turnover during a telephone interview.

[77] For example, in some cases the estimated annual insured turnover was reported to be £1, which is unlikely to be correct.

[78] For example, insurers noted that suppliers with more risky trade are not only more prone to withdrawals of cover, but they also tend to use more of their cover.

risk (and by characteristics of policyholders and type of TCI policies) might provide additional, more granular insights.

- **Account for variability in policyholders' actions:**

  The policyholder survey collects information about policyholders' action in response to insurers withdrawing cover. Different policyholders have been asked about different proportions of withdrawn cover. The results do not indicate a particular pattern in the responses but appear to be random across the different proportions of withdrawn cover. As a result, policyholders' actions are assumed to be independent from the amount of cover withdrawn by suppliers in the model. It is, however, possible that policyholders' actions vary depending on the amount of cover withdrawn, the risk underlying their trade, or their confidence in the market. For example, policyholders' decision to discontinue trade in response to a proportion of their cover being withdrawn, as well as the propensity to bear the risk of continuing trade (i.e., by not asking for upfront payments from their buyers), would likely have changed over the course of the scheme.

- **Policyholders' gross value added (GVA) and imports**:

  To estimate policyholders' GVA, a turnover to GVA ratio of 'non-financial businesses' has been multiplied times the insured turnover that would have been discontinued in the absence of the TCR Scheme. Using sector specific turnover to GVA ratios could provide a more accurate estimates of the benefitting policyholders' GVA.

  To estimate the indirect impact of discontinuing trade on GVA in the upstream (and downstream) supply chain in the UK, imports have to be deducted from the products' revenue. Neither the monitoring data, nor the policyholder survey provide information on the proportion of insured turnover that relates to imports. In the model's estimate of the indirect impact on the upstream supply chain, it has been assumed that 20% of the input values are imported. More sector or policyholder-specific estimates on the amount of imports would allow for more robust estimates of the scheme's impact on the upstream (and downstream) supply chain.

- **Interaction with other government support programmes:**

  Due to lack of data and limited evidence on the interaction between the various COVID-19 interventions, the scenario modelling does not explicitly account for the existence of other government support programmes, such as the Furlough Scheme or business loans (i.e., BBLS and CBLS). Linking and analysing monitoring data from multiple government support schemes might provide additional information on potential interactions and might help disentangling the individual impact of each scheme.

- **Sensitivity analysis:**

  The interim impact evaluation provides an indicate Value-for-Money (VfM) assessment and does not include a sensitivity analysis. As a simplification, it can be assumed that an X% increase in one of the parameters results in an X% increase in the economic impact of the scheme. But this does not account for the fact that a change in one parameter could also have an impact on other parameters. A more detailed sensitivity

analysis could be performed to get a better understanding of the likely range of parameters and the scheme's economic impact.

- **Impact on the downstream supply chain and the impact on business failures (unquantifiable benefits):**

  Due to a lack of data, it was not possible to quantify the impact of the scheme on the downstream supply chain as well as the possible impact on business failures. With better access to data on buyers and their potential behaviour in absence of the scheme, it would be possible to estimate these additional benefits of the TCR Scheme.

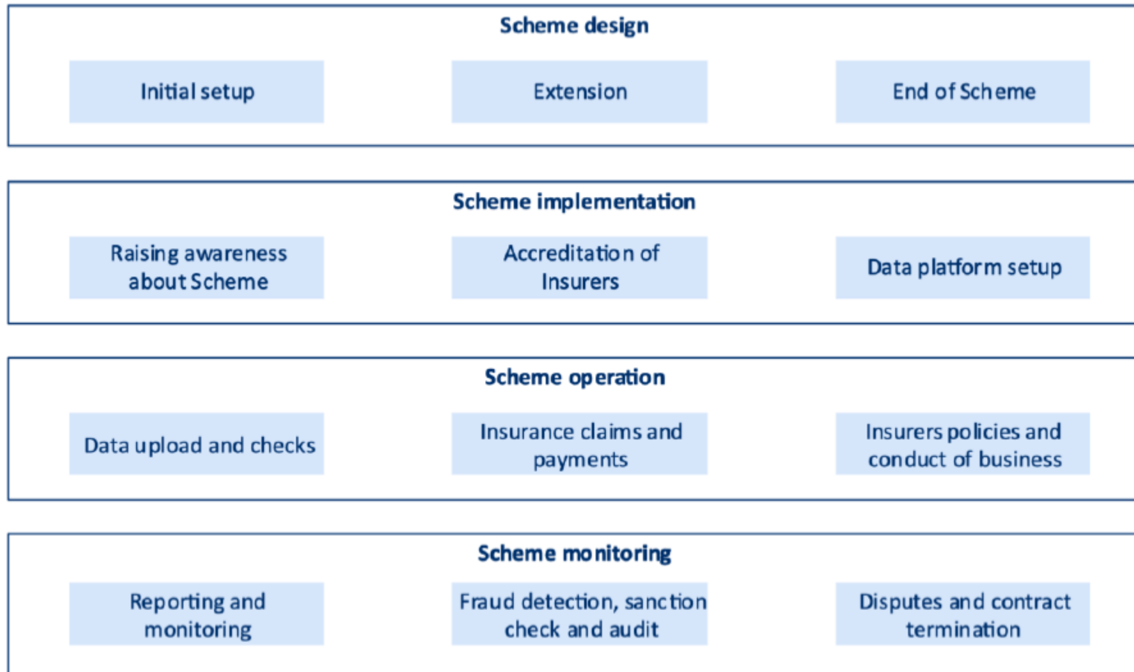
- **Data as of Q1 2022 (January – March 2022):**

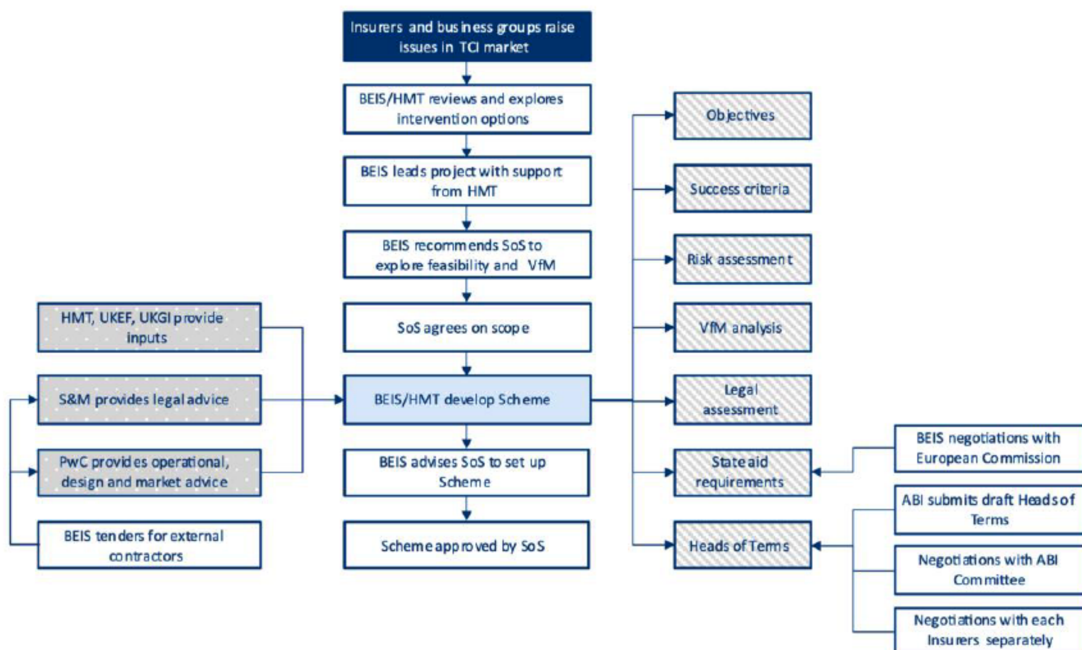
  Due to a combination of lack of data and BEIS's year end timeframes, it was not possible to have actual values relating to claims, expenses and premium insurance. The figures used in this report include forecast figures for financial year 2021-22 but are aligned with figures included in BEIS's Annual Report and Account for 2022. Figures aligning with BEIS's Annual Report and Account have been used for the sake of consistency and avoidance of confusion. It should be noted though that the figures will have changed in more up-to-date data.

Annex 1 – Process map of TCR Scheme

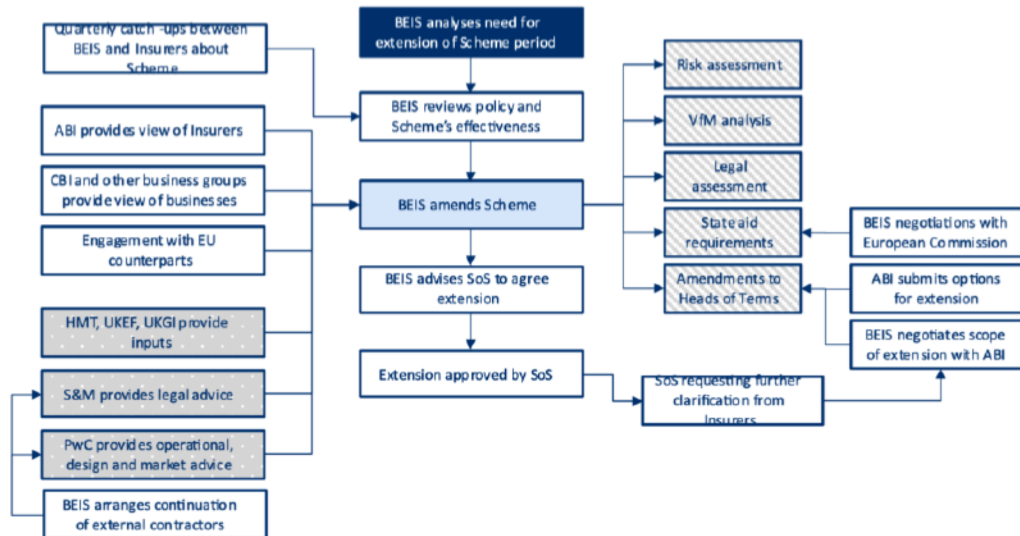
This annex illustrates the various elements and processes involved in designing, setting up, operating, and monitoring the TCR Scheme. The information is based on desk-based research and document review, as well as the scoping consultations.

Figure 22: Process map of TCR Scheme

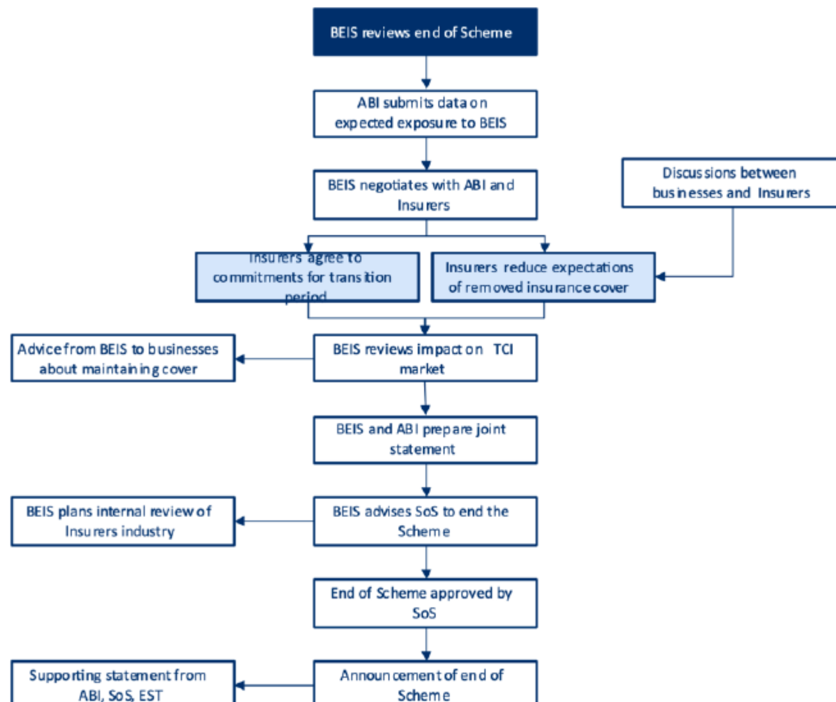




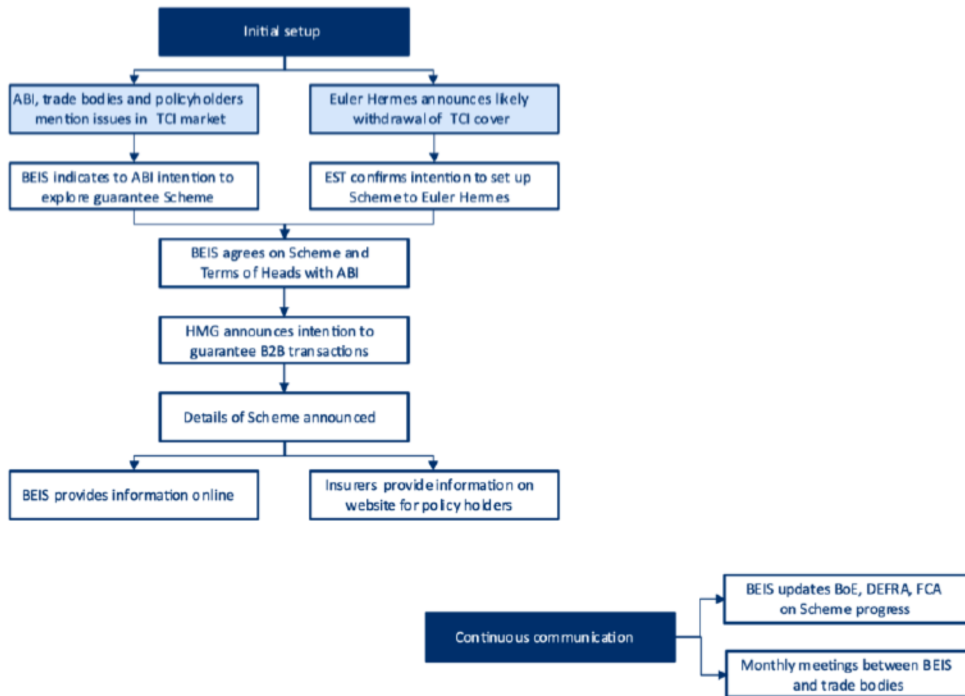
Scheme design
Extension



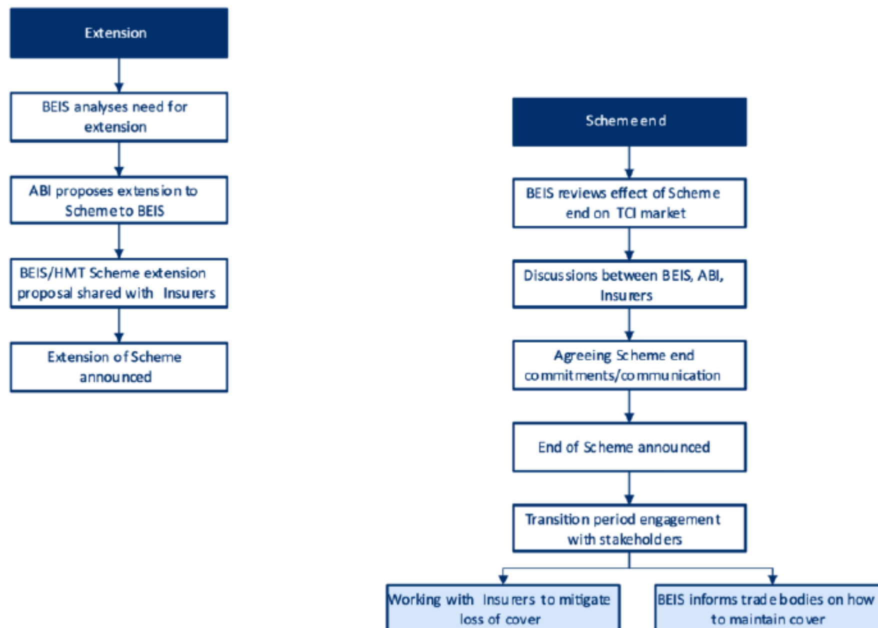
Scheme design
End of Scheme



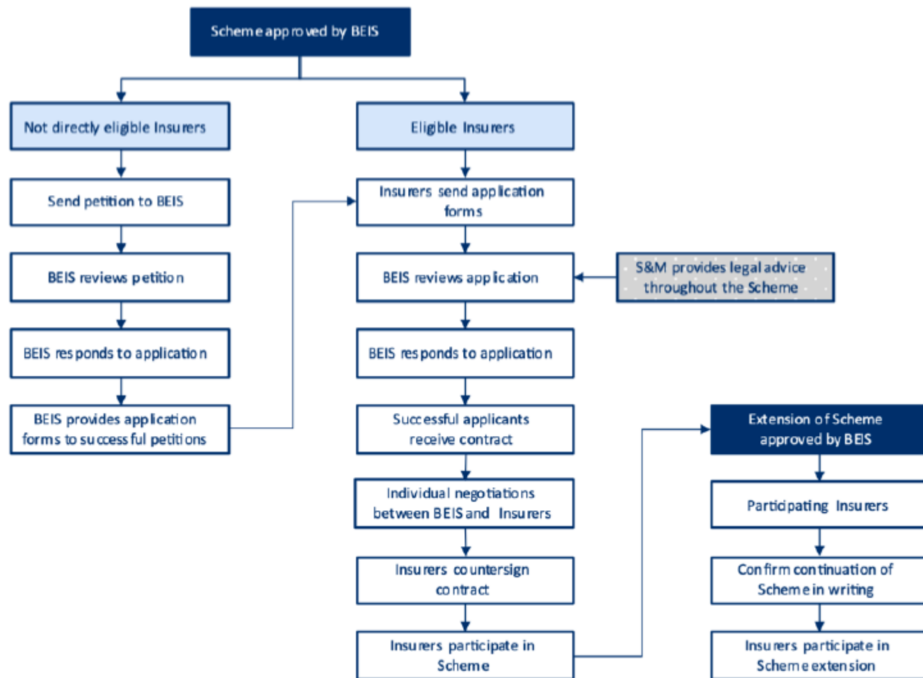
Scheme implementation
Raising awareness about Scheme (1/2)



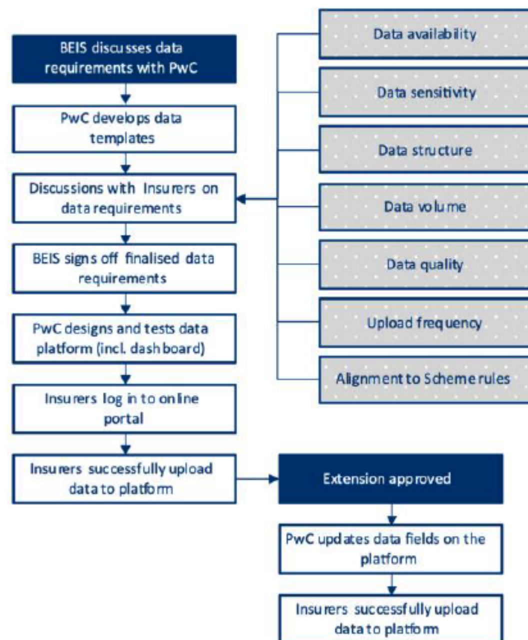
Scheme implementation
Raising awareness about Scheme (2/2)



Scheme implementation
Accreditation of Insurers

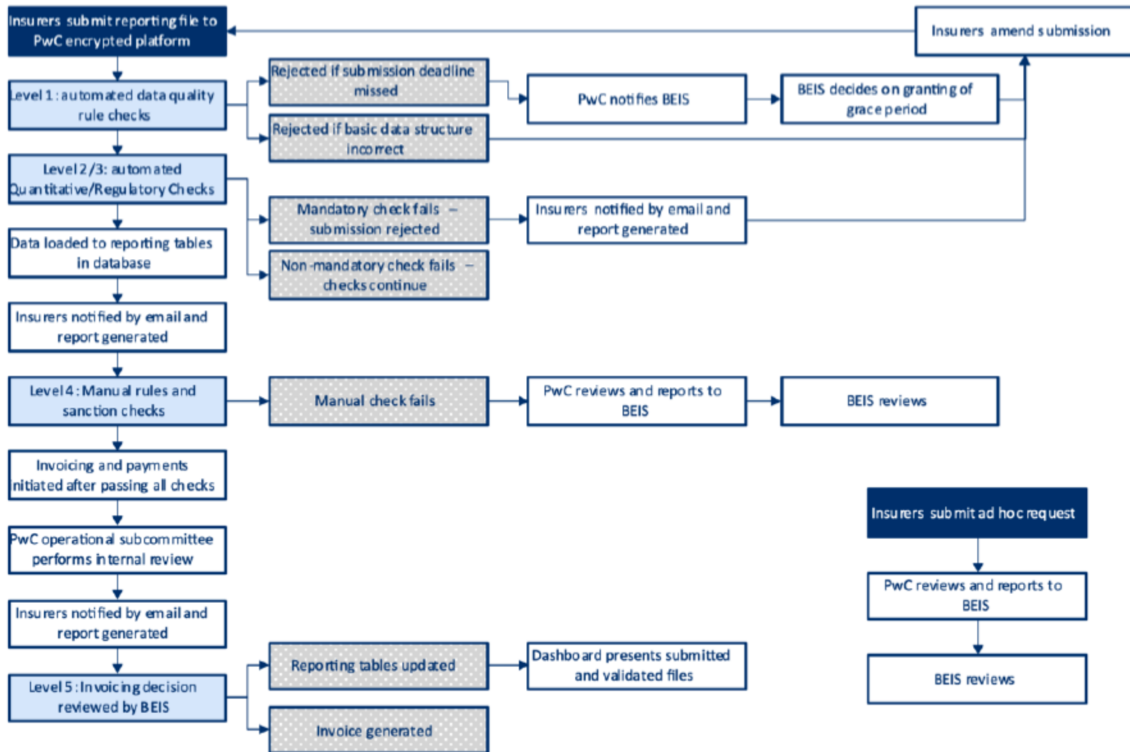


Scheme implementation
Data platform setup



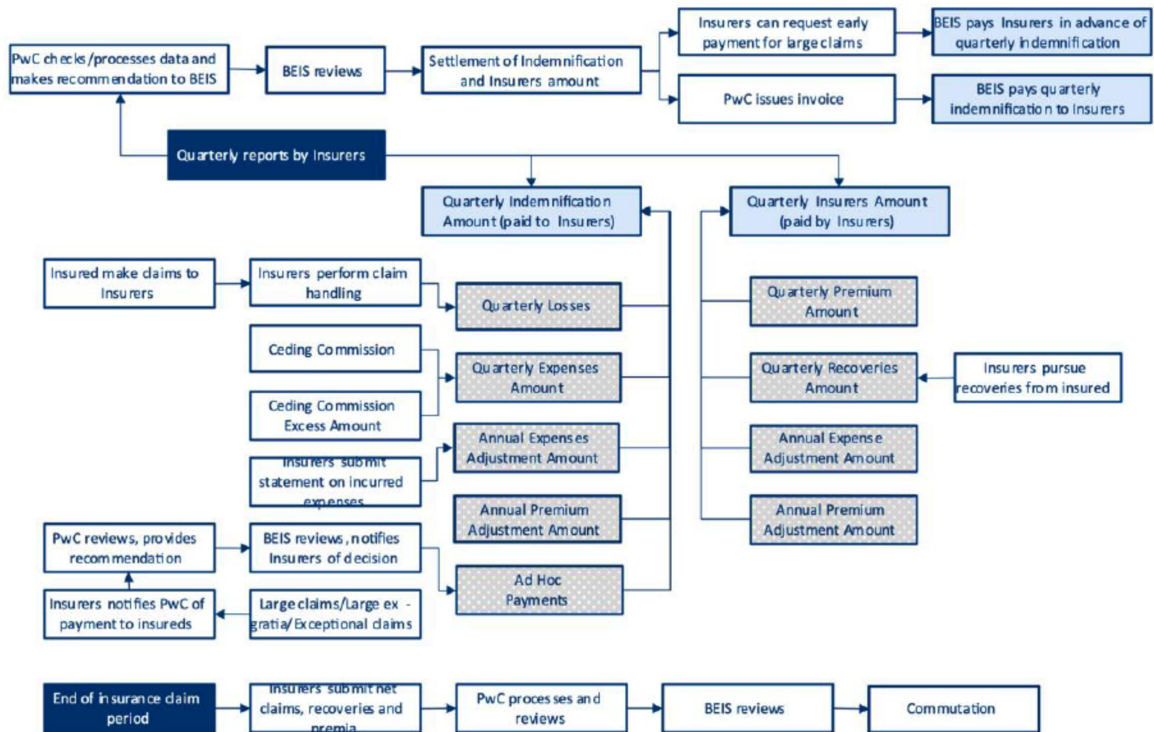
Scheme operation

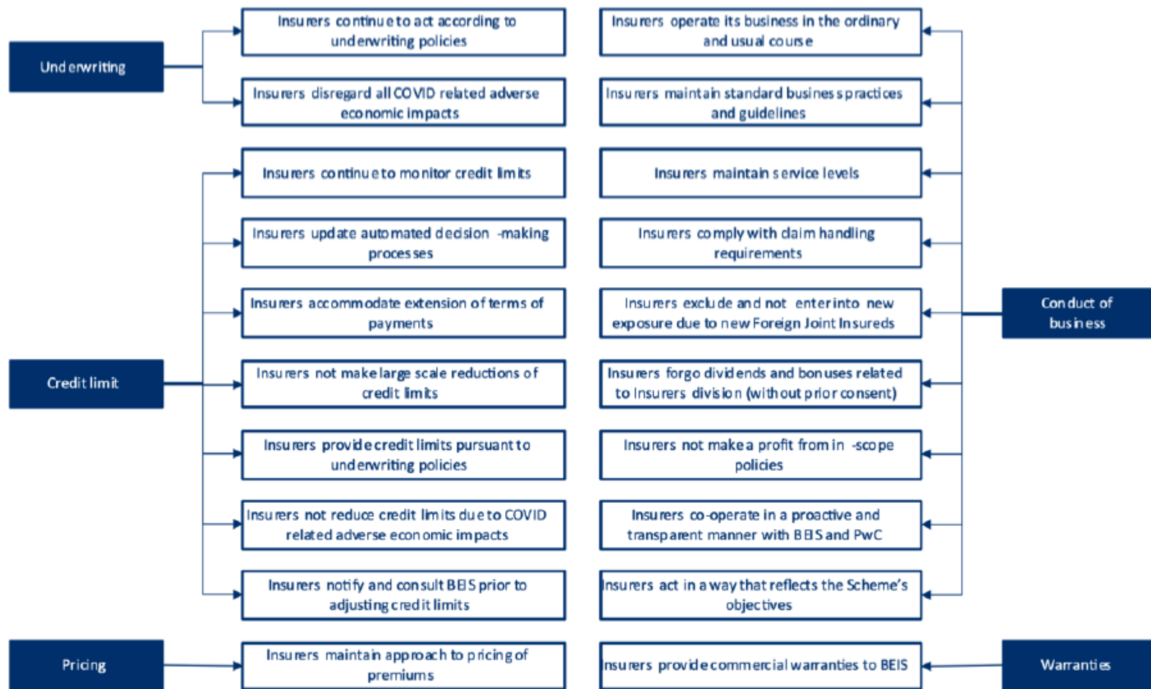
Data upload and checks

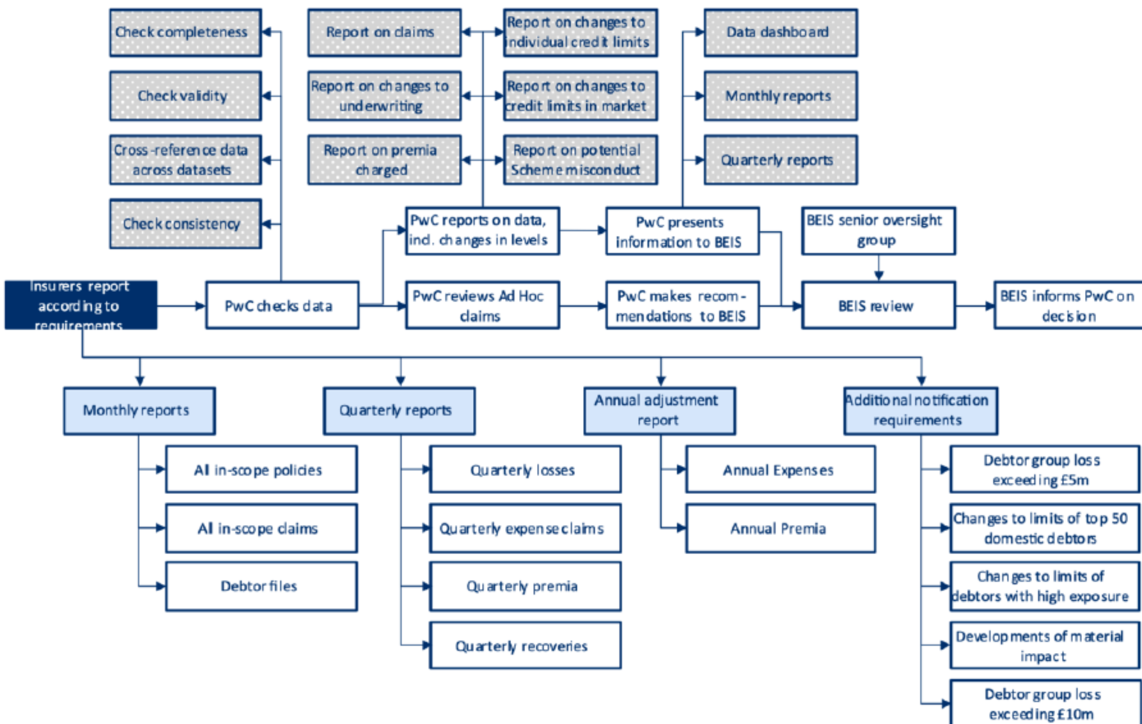


Scheme operation

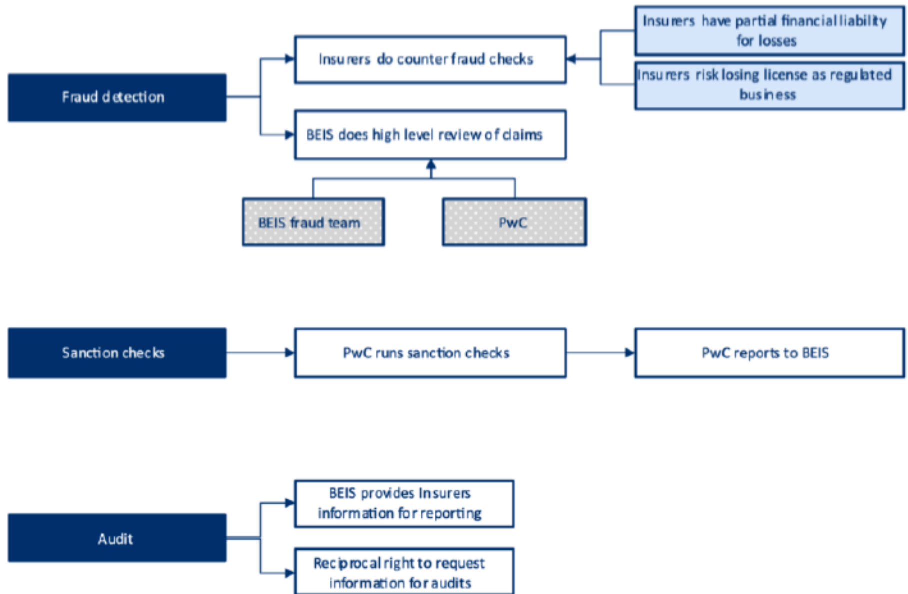
Insurance claims and payments



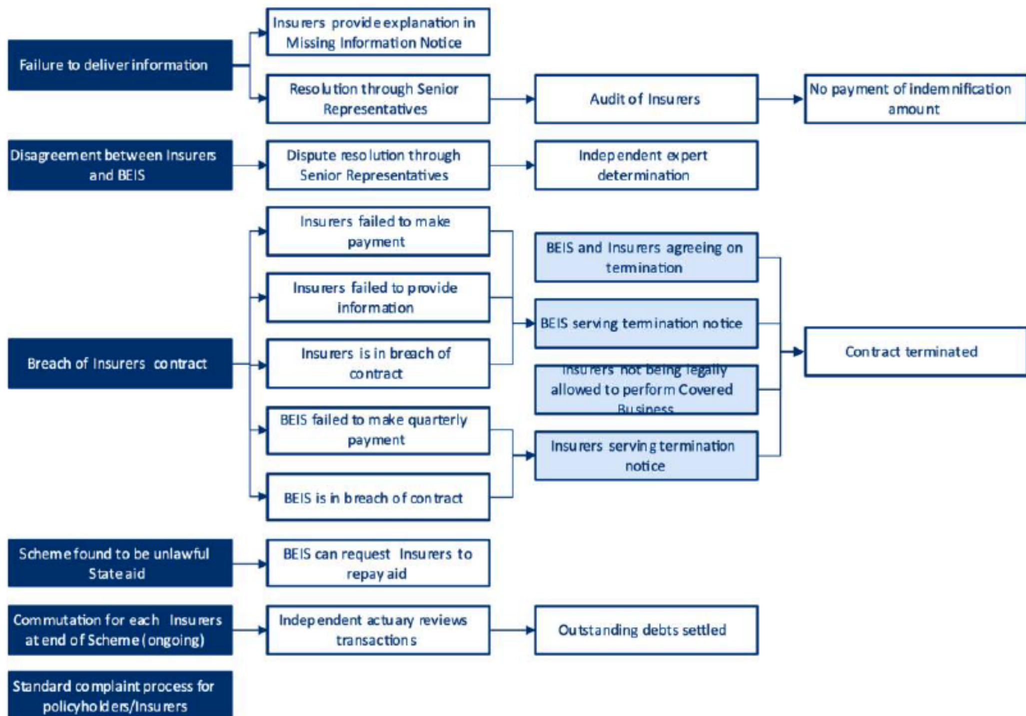

Scheme operation
Insurers policies and conduct of business
Underwriting
Credit limit
Pricing
Conduct of business
Warranties
Insurers continue to act according to underwriting policies
Insurers disregard all COVID related adverse economic impacts
Insurers continue to monitor credit limits
Insurers update automated decision -making processes
Insurers accommodate extension of terms of payments
Insurers not make large scale reductions of credit limits
Insurers provide credit limits pursuant to underwriting policies
Insurers not reduce credit limits due to COVID related adverse economic impacts
Insurers notify and consult BEIS prior to adjusting credit limits
Insurers maintain approach to pricing of premiums
Insurers operate its business in the ordinary and usual course
Insurers maintain standard business practices and guidelines
Insurers maintain service levels
Insurers comply with claim handling requirements
Insurers exclude and not enter into new exposure due to new Foreign Joint Insureds
Insurers forgo dividends and bonuses related to Insurers division (without prior consent)
Insurers not make a profit from in -scope policies
Insurers co-operate in a proactive and transparent manner with BEIS and PwC
Insurers act in a way that reflects the Scheme's objectives
Insurers provide commercial warranties to BEIS


Scheme monitoring
Reporting and monitoring
Check completeness
Check validity
Cross-reference data across datasets
Check consistency
Report on claims
Report on changes to underwriting
Report on premia charged
Report on changes to individual credit limits
Report on changes to credit limits in market
Report on potential Scheme misconduct
Data dashboard
Monthly reports
Quarterly reports
Insurers report according to requirements
PwC checks data
PwC reports on data, incl. changes in levels
PwC reviews Ad Hoc claims
PwC presents information to BEIS
PwC makes recom-mendations to BEIS
BEIS senior oversight group
BEIS review
BEIS informs PwC on decision
Monthly reports
All in-scope policies
All in-scope claims
Debtor files
Quarterly reports
Quarterly losses
Quarterly expense claims
Quarterly premia
Quarterly recoveries
Annual adjustment report
Annual Expenses
Annual Premia
Additional notification requirements
Debtor group loss exceeding £5m
Changes to limits of top 50 domestic debtors
Changes to limits of debtors with high exposure
Developments of material impact
Debtor group loss exceeding £10m

Scheme monitoring
Fraud detection, sanction checks and audit



Scheme monitoring
Disputes and contract termination

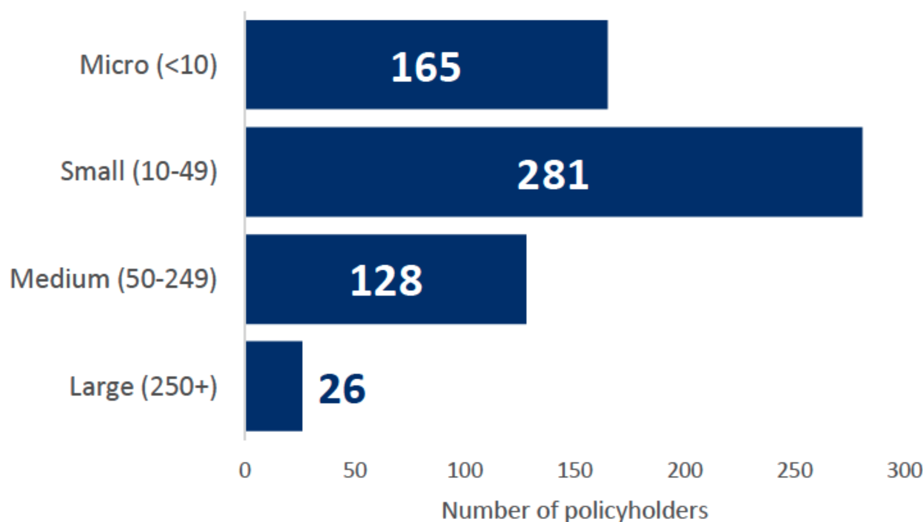


Annex 2 - Business characteristics of policyholders

This annex provides data on business characteristics of the 600 policyholders surveyed for the evaluation and compares these characteristics to data on the full population of policyholders provided.

Almost three quarters of surveyed policyholders were businesses of less than 50 employees, while fewer than 5% had 250 employees or more (Figure 23). These breakdowns are largely in line with the distribution of all benefiting policyholders based on the monitoring data. The main difference is that small businesses (10-49 employees) make up 37% of businesses in the monitoring data but almost 46% in the survey sample.

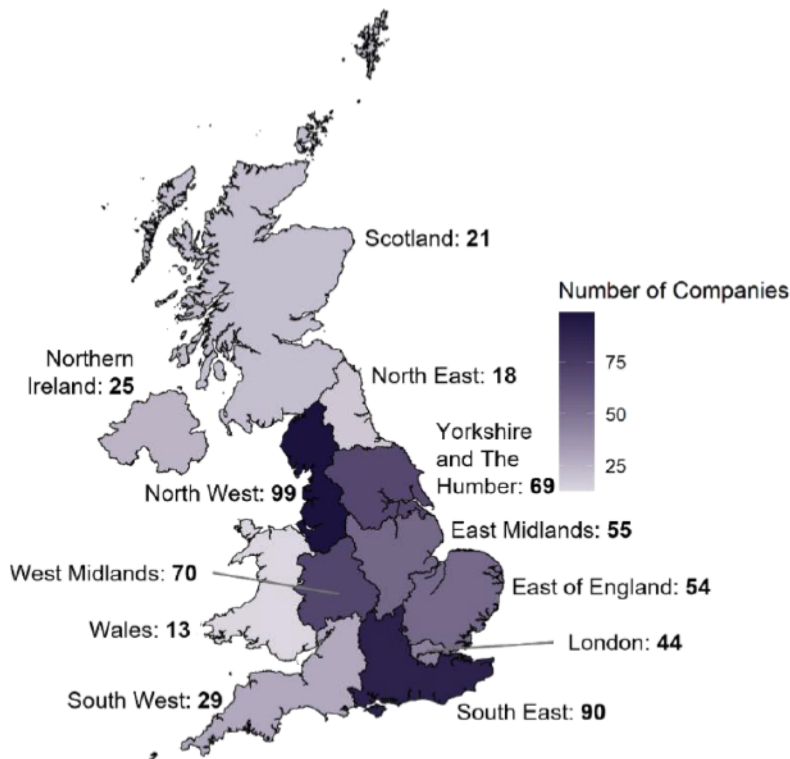
Figure 23: Surveyed policyholders by number of employees



Source: London Economics analysis of policyholder survey data

The largest shares of policyholders had headquarters located in the North West (17%) and the South East (15%) of England, with least representation from Wales (2%) and the North East of England (2%) (Figure 24). The survey sample represents the spread of regions from the full population in the monitoring data well, with no noticeable deviations in region shares from the population data.

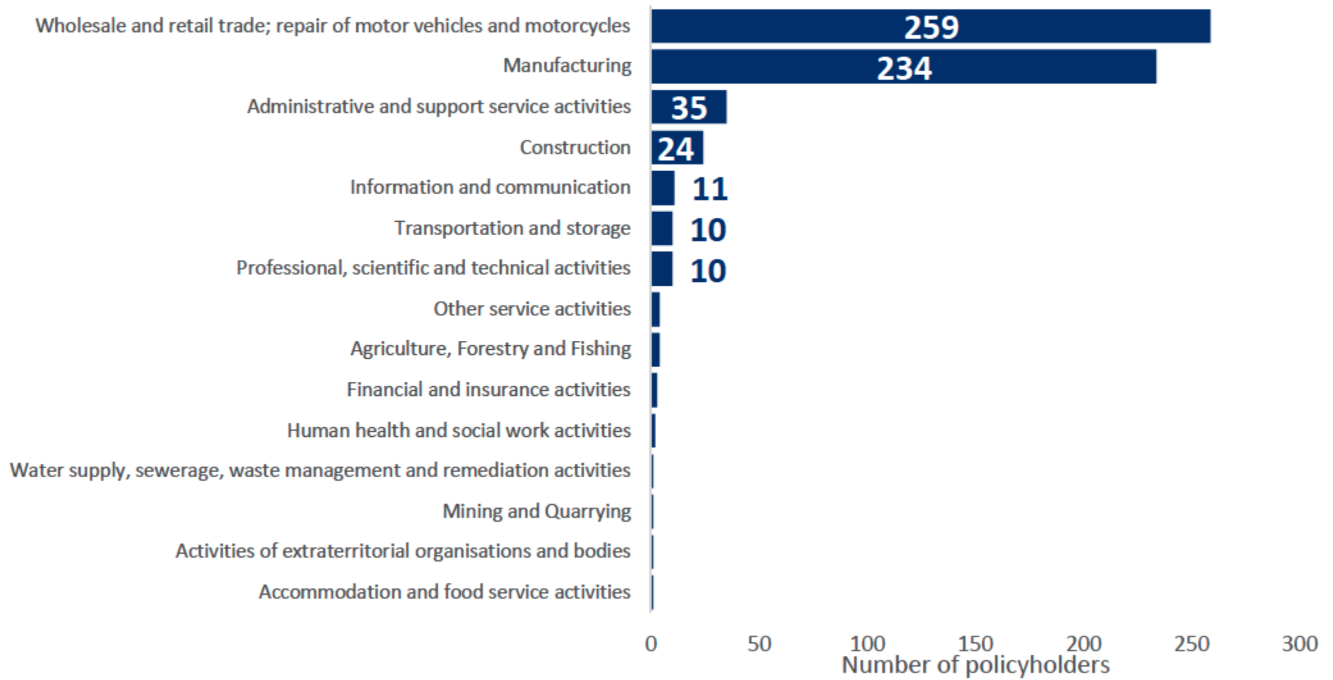
Figure 24: Surveyed policyholders by region



Source: London Economics analysis of policyholder survey data.

The two sectors most represented by surveyed policyholders are wholesale and retail trade (43%) and manufacturing (39%), which make up the vast majority of the supply chain businesses that are users of TCI (Figure 25). These two sectors are overrepresented in the survey sample, as each represent 30% of the population of policyholders in the monitoring data. Meanwhile, administrative support services make up 13% of policyholders in the monitoring data but only 6% in the survey sample.

Figure 25: Surveyed policyholders by sector



Source: London Economics analysis of policyholder survey data.

Annex 3 – Methodology of interim impact evaluation

Overview

This annex describes the methodological approach used to estimate the impact of the Trade Credit Reinsurance scheme that has been quantified:

- the direct impact of discontinued trade on GVA, and
- the indirect impact of discontinued trade on GVA (in the upstream supply chain)

Hypothetical scenario modelling

The impacts of the scheme were estimated using a hypothetical scenario modelling approach. The model estimates the additional impact on economic activity from March 2020 to June 2021 by considering the likely actions that insurers and policyholders would likely have taken in the absence of the intervention.

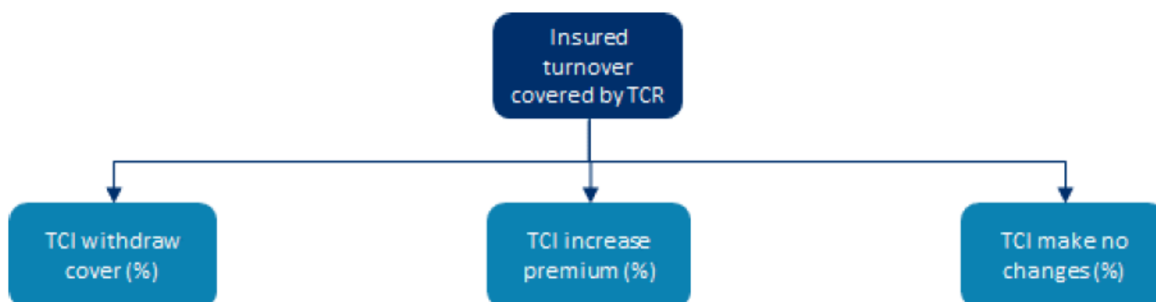
The reasoning behind the hypothetical modelling approach is set out in more detail in the main body of the report.

Insurers' likely actions in the absence of the TCR Scheme

In the absence of the TCR Scheme, insurers would likely have taken two main actions in order to reduce their risk exposure during the pandemic - withdrawing insurance cover and increasing premiums. Withdrawing cover and increasing premiums are mutually exclusive and will apply differently to different policyholders. For example, policyholders with a high-risk portfolio of trading partners might face a complete removal of insurance cover, while other policyholders might face a partial or no removal of cover. Increases in the premium can only apply to cover that is not withdrawn and might also not apply to all policies. As a result, the total cover underwritten by insurers can be split into three categories:

- Cover that is withdrawn by insurers
- Cover, for which the premiums are increased
- Cover that is unaffected by the COVID-19 pandemic

Figure 25: Modelling approach for insurers actions in absence of the scheme



Source: London Economics

The impact of withdrawing cover and increasing premiums are additive, as they are mutually exclusive and apply to different proportions of the insured turnover.

It has also been considered that insurers could have tightened their terms and conditions in response to the pandemic. The impact of this is not quantified because it is not likely to affect supplier's uptake of trade credit insurance.

The modelling approach to estimating the impact of a withdrawal of cover and an increase in premiums are presented separately in this annex.

Data underlying the modelling

The model parameters are derived from three main sources:

- Stakeholder consultations with five insurers,
- Policyholder survey with 600 benefitting businesses,
- Monitoring data provided by insurers.

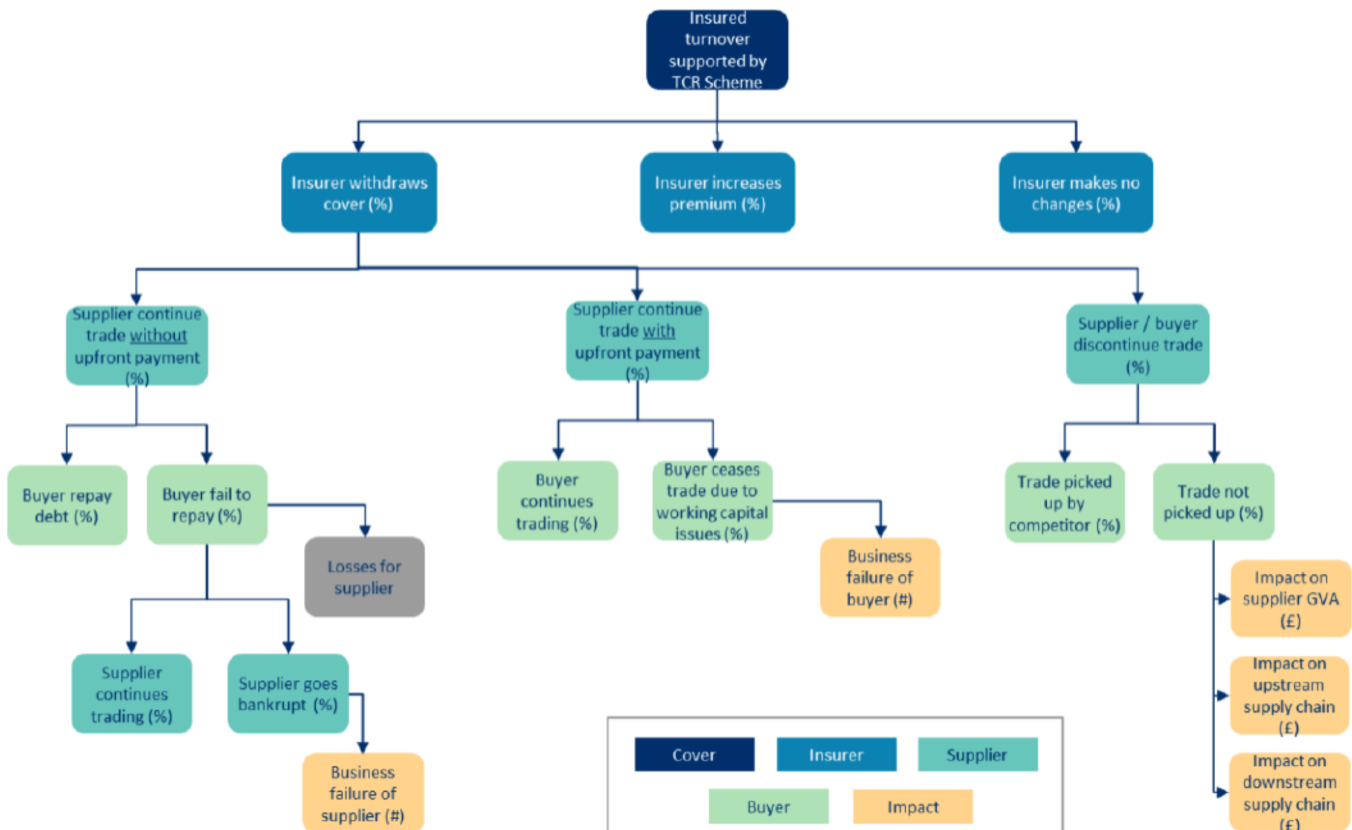
The parameters in the model relate to insurers' actions (i.e., whether, and to what extent, they would have withdrawn cover and/or increased premiums) are derived through interviews with insurers.

The parameters related to policyholders' actions are derived from a survey of a sample of 600 policyholders. Policyholders were questioned on what actions they would have taken in several hypothetical scenarios. The questions were designed to provide estimates that can feed into the impact modelling. To understand policyholders' likely action in response to a withdrawal of cover by insurers and to an increase in premiums, the sample was divided into two sub-samples of equal size. One sub-sample was asked hypothetical questions relating to the withdrawal of cover, while the other sub-sample was asked hypothetical questions on the increase in premiums. Since the likely actions of insurers was unknown at the time of the survey design, policyholders have been asked about different percentage decreases in cover and increases in premiums. The survey answers have been used to model the policyholders' likely actions in the model underlying the interim impact evaluation.

Estimating the impact of insurers withdrawing cover

Figure 26 provides an overview of the modelling structure to estimate the impact of insurers withdrawing cover in response to the pandemic and in the absence of the TCR Scheme. Each of the modelling steps is discussed in turn below.

Figure 26: Model structure for insurers withdrawing cover



Source: London Economics

Insured turnover supported by TCR Scheme

Trade credit insurance policies often include a credit limit, which is also often called 'cover', per policy or buyer. The credit limit specifies the amount of outstanding credit that insurers are willing to insure at any given point in time during the insurance period.

The total credit limit in place at any given time is estimated using the data submitted by insurers and processed by PwC. Each month insurers reported on the credit limit in place for each of their debtors. It was estimated (based on monitoring data from participating insurers) that an average of £122.6 billion of cover was in place at any given time during the scheme period (Figure 12).

In order to understand the impact of the scheme on the economy, it was necessary to convert total cover to suppliers' annual insured turnover. It is possible for a business to trade multiple times per year with a particular buyer, which means that the insured turnover can exceed the cover.

Based on a number of different sources, the ratio between insured turnover and cover is between 2 and 2.7 (Table 13). For the modelling a ratio of 2.5 has been assumed. This figure can be interpreted as suppliers trading around 2.5 times (up to the credit limit) with their buyers per year.

Table 13: Estimates for the ratio between insured turnover and cover

Source	Estimate of cover/insured turnover ratio
Insurer stakeholder consultations	2.5
Monitoring data (based on average insured turnover and average cover)	2.7
Policyholder survey (based on average insured turnover and average cover)	2.4
Policyholder survey (based on median ratio)	2

Source: London Economics' analysis of stakeholder consultations, Monitoring data and the policyholder survey

Based on the average cover of £122.6 billion and the ratio of 2.5, the annual insured turnover is estimated to be £306.5 billion. This figure is consistent with the annual insured turnover in 2019, which was reported to be around £367 billion for all British business underpinned by TCI (ABI, 2020). The discrepancy between these figures is likely due to the fact the ABI reports the total UK trade credit insurance industry, whereas the estimated annual insured turnover figure includes scheme participants only.

To account for the general economic downturn during the COVID-19 pandemic, the annual insured turnover has been transformed into monthly figures and a GDP adjustment has been applied.[79] Modelling the scheme's impact on a monthly basis also allows to account for changes in the insurers and suppliers' actions over time. This is necessary due to changing levels of uncertainty and market confidence throughout the pandemic.

Insurers' action in the absence of the TCR Scheme

Based on the stakeholder consultations with insurers, desk research and historical evidence, the model assumes that insurers would have withdrawn 30% of pre-pandemic cover after the introduction of the scheme (from March to June 2020). The amount of withdrawals would have reduced over time because of the increasing level of information on wider government interventions and the level of claims by insurers (Table 14). In the model, different parameters have been applied in different months.

A detailed discussion of the evidence underlying these parameters is presented in the main body of the report.

[79] These are ONS monthly GDP estimates.

Table 14: Modelling assumptions for the proportion of cover withdrawn by insurers

After the introduction to the scheme (March – June 2020)	After the introduction of other COVID support schemes (July - December 2020)	After the introduction to the scheme extension (January – June 2021)
30%	10%	10%

Source: London Economics analysis

Since the impact of the TCR Scheme is modelled based on the insured turnover, it is necessary to estimate the amount of insured turnover that is affected by the above-mentioned withdrawal of cover.

The policyholder survey collected estimates for the amount of insured turnover affected at different levels of insurance cover withdrawal (Table 15). Policyholders have been instructed to assume that the cover would have been removed from their buyers with the highest risk.[80]

Table 15: Insured turnover affected by withdrawal of cover

Cover withdrawn (%)	Insured turnover affected (%)	Sample size
10%	19%	30
30%	21%	28
50%	36%	43
70%	42%	76
100%	66%	78

Source: Policyholder survey

Insurers indicate in the stakeholder consultations that the cover would have been withdrawn by 10-30% during the scheme period. According to policyholders, a 10% withdrawal of cover would have affected 19% of insured turnover, while a 30% withdrawal of cover would have affected 21% of insured turnover.

[80] Half of the respondents in the policyholder survey were given the hypothetical scenario in which they were told to suppose that a proportion of their cover had been withdrawn. The respondents were asked 'What proportion of your turnover would have been affected by X% of your cover being withdrawn?' The percentage withdrawal of cover that was given in the question was randomly drawn from: 10%, 30%, 50%, 70% and 100%.

It is surprising and unlikely that a 10% and a 30% withdrawal of cover affects the same amount of insured turnover. But, it is possible that businesses have more frequent trade with some buyers that are assumed to be more risky. As a result, the ratio between cover and insured turnover would be higher for a smaller withdrawal of cover. This is in line with the fact that the ratio between cover and insured turnover consistently decreases with the amount of withdrawn cover.

Another caveat to note is the fact that several policyholders reported that less than 100% of their insured turnover was affected by 100% of their cover being withdrawn. By definition, a 100% withdrawal of cover affects 100% of insured turnover. This type of response suggests that some survey respondents might have struggled to estimate the relationship between cover and insured turnover on during a telephone interview.

For the modelling, it has been assumed that a 10% withdrawal of cover results in a 15% withdrawal of insured turnover and a 30% withdrawal of cover results in a 20% withdrawal of cover.

Suppliers’ actions in response to withdrawn cover

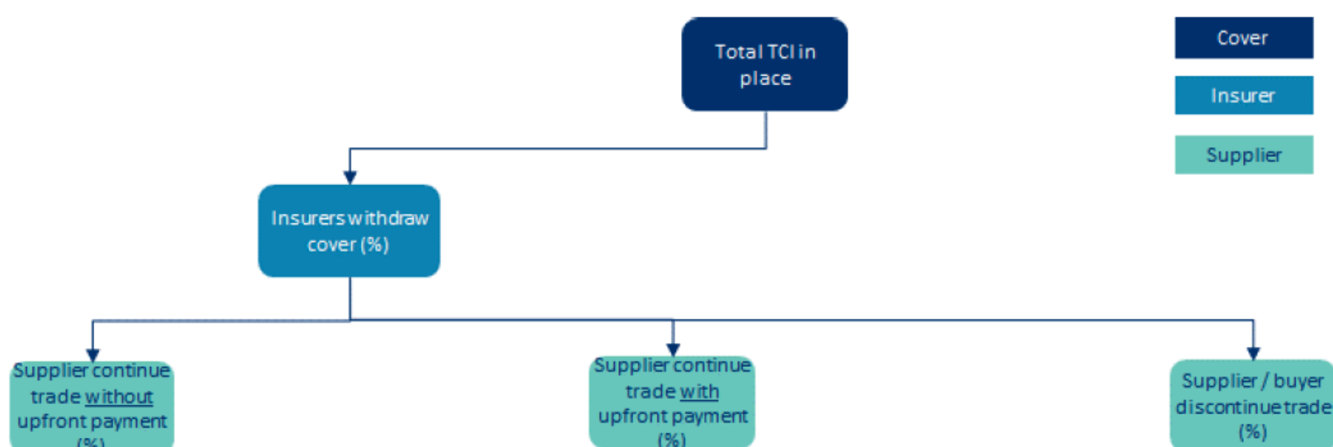
The next stage of the modelling looks at suppliers’ response to having a proportion of their cover withdrawn (Figure 27). After a proportion of their cover was withdrawn, some of the suppliers’ turnover would be uninsured. In response, suppliers could have chosen to:

a) discontinue a proportion of their now uninsured turnover due to the increased risk,

b) continue trading with upfront payments from the buyers, or

c) continue trading by granting buyers credit despite the lack of trade credit insurance.

Figure 27: Modelling structure for supplier's actions in response to withdrawn cover



Source: London Economics

After indicating the amount of insured turnover that would be affected by a 10/30/50/70/100% withdrawal of TCI cover, policyholders have been asked what proportion of the now uninsured

turnover they would have a) discontinued, b) continued with upfront payments, and c) continued without upfront payments.[81]

For the amount of trade with upfront payments, buyers have been asked to estimate the amount of trade that buyers would be willing and able to pay upfront for. The amount of discontinued trade therefore includes the amount of turnover that suppliers are unwilling to trade without trade credit insurance, a reduction in demand from buyers if they are asked to make upfront payments, or suppliers and buyers' decision to reduce trade due to a change in their market confidence due to the pandemic.

The estimates do not appear to have any particular pattern depending on the amount of insured turnover that would be affected by a withdrawal, but appear to vary randomly. For this reason, averages have been calculated across all respondents, regardless of the proportion of withdrawn cover/affected turnover (Table 16).

The survey results, thus, suggest that 11% of uninsured turnover would have been discontinued, while 48% of uninsured turnover would have been with upfront payments and 41% without upfront payments.

Table 16: Estimates for supplier's action following withdrawal of cover

Supplier's action	Proportion of uninsured turnover (%)
Discontinue trade	11%
Continue trade with upfront payments	48%
Continue trade without upfront payments	41%

Source: Policyholder survey

Direct impact of discontinued turnover on GVA

Discontinuing trade has a direct impact on the suppliers' economic activity.

To account for the fact that some (or all) of the discontinued trade might be picked up by competitors, a factor for the market displacement has been applied. On average, survey respondents estimated that 53% of their trade would have been picked up by competitors. This is consistent with previous studies' estimate of the adjustment for product market displacement.[82]

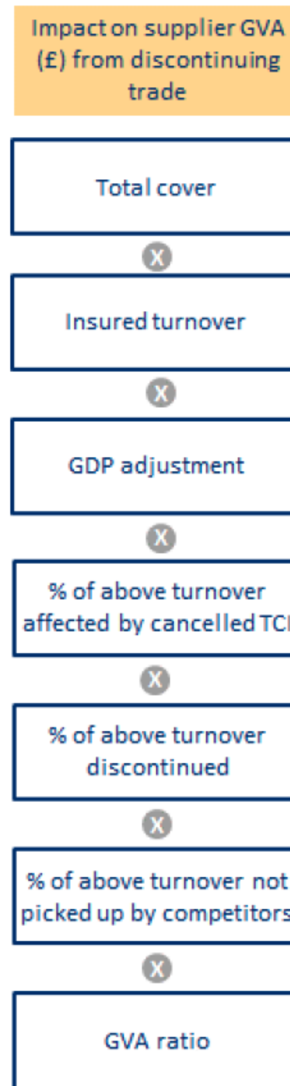
To estimate the impact on suppliers' gross value added (GVA), the GVA to turnover ratio for non-financial businesses from the ONS Annual Business Survey (2020) has been applied to

[81] In the policyholder survey, respondents were informed that their answers should add to 100%.
[82] London Economics (2017). Economic impact evaluation of the Enterprise Finance Guarantee (EFG) scheme.

the discontinued turnover that would not have been picked up by competitors. This value represents the direct impact of the TCR Scheme on suppliers' GVA.

Figure 29 summarises the calculation steps for the direct impact of discontinued trade on GVA.

Figure 29: Calculation steps for the direct impact of discontinued trade



Source: London Economics

Table 17: Estimates for the direct impact of discontinued trade

Modelling step	Estimates (Turnover / GVA)	Parameter
Total cover	£122.6 billion	
Insured annual turnover	£306.5 billion	x 2.5
Total insured turnover (over scheme period)	£383.1 billion	x 1.25
Total insured turnover after GDP adjustment	£349.6 billion	x monthly GDP adjustment
Insured turnover affected by TCI withdrawal	£55.5 billion	x 30% or 10% depending on month
Turnover discontinued by suppliers because of TCI withdrawal	£6.1 billion	x 11%
Turnover discontinued by suppliers that is not picked up by competitors	£2.9 billion	x 47%
GVA of discontinued turnover	£0.9 billion	x 32%

Source: London Economics

Note: The percentage of insured turnover affected by withdrawal TCI withdrawal is an average estimate across the whole scheme period.

Indirect impact of discontinued trade on GVA (in the upstream supply chain)

Suppliers discontinuing a proportion of their trade would not just affect their own GVA, but would also have had a wider impact on their upstream supply chain due to their reduced demand for the materials required in the production process. As a result of the reduced demand, businesses in the upstream supply chain would likely have been forced to reduce their production.

The indirect impact of discontinued trade on GVA in the upstream supply chain is calculated by multiplying the discontinued turnover that is not picked up by competitors times 1 minus the suppliers' GVA ratio.

To account for the likely case of imports being used in the upstream supply chain, an additional parameter has been applied in the model to estimate the gross value added by UK businesses. It has been assumed that 80% of the upstream GVA are attributable to the UK economy.[83]

Other (non-quantified) impacts

As part of the interim impact evaluation, additional impacts have been identified:

- Indirect impact of discontinued trade on GVA (in downstream supply chain)
- Indirect impact from non-participating insurers
- Indirect impact on business failure
- Indirect impact on access to finance

These impacts have not been quantified due to the lack of data. A qualitative discussion of each of these impacts has been included in the main body of the report.

[83] Due to lack of data, this is an assumption based on LE estimates.

Annex 4 – Types of monitoring data collected

This section provides an overview of the type of monitoring data that was submitted by participating insurers to the delivery partner. The types of data and list of variables are exemplary and not exhaustive.

Table 18: Example variables from monitoring data – Policy Table (monthly)

Variable names		
Policy ID	Group Company Cover	Insurer Maximum Liability (previously Policy Limit)
Type of Cover	Policyholder business SIC Code	Total Policy Exposure
Type of TCI product	Policyholder NACE Classification Code	Discretionary Credit Limit
Policyholder Name	Other sector/industrial classification code for policyholder	Type of Deductible
Policyholder Companies House Number	Policy Effective Start Date	Deductible Threshold
UK Tax Residency Confirmation	Policy Effective End Date	Non Qualifying Loss Threshold
IPT Paid on Policy Flag	Transaction Type	Aggregate First Loss (if applicable)
Pure export trade credit insurance policy Flag	Policyholder postcode (UK)	
Policyholder Legal Form	Cancellable or non-cancellable limit	

Source: BEIS

Table 19: Example variables from monitoring data – Premium Bordereau (quarterly)

Variable names		
Policy ID	Revised Premium (net of IPT)	Premium (net of IPT, gross of commission and reinsurance cost) amount ceded to Scheme
Policy Effective Start Date	Broker/Agent Commission Amount Rate	

Source: BEIS

Table 20: Example variables from monitoring data – Debtor (monthly)

Variable names		
Policy ID	Other Debtor Company Reference Number	Debtor Credit Rating
Individual Debtor ID	Debtor Country	Debtor Sanctions Check Performed Flag
Group Debtor ID	Debtor Postcode (only UK)	Approved Limit for Individual Debtor
Debtor Name	Debtor business SIC Code	Aggregate Group Debtor Credit Limit
Debtor Companies House Number	Debtor NACE Classification Code	Start date of cover for debtor Date of most recent amendment of debtor limit
Debtor DUNS number	Other sector/industrial classification code for debtor	Debtor Maximum Payment Terms

Source: BEIS

Table 21: Example variables from monitoring data – Claims submission (monthly and ad-hoc)

Variable names		
Claim ID	Loss Description	Allocated claims expense
Policy ID	Date Of Loss	Gross claim incurred amount excl. VAT, after percentage insurance/deductible applied, incl. claims expense, gross of reinsurance, gross of recoveries
Policy Effective Start Date	Claim status	Gross claim incurred amount excl. VAT, after percentage insurance/deductible applied, incl. claims expense, gross of reinsurance, net of recoveries
Individual Debtor ID	Recovery action commenced	Total ex-gratia amount
Notification date of loss	Gross claim incurred amount excl. VAT, before any percentage insurance/deductible/limit applied, excl. claims expense, gross of reinsurance, gross of recoveries	Gross claim paid-to-date excl. VAT, after percentage insurance/deductible applied, incl. claims expense, gross of reinsurance, net of recoveries
Claim reason/cause	Gross claim incurred amount excl. VAT, after percentage insurance/deductible/limit applied, excl. claims expense, gross of reinsurance, gross of recoveries	Allocated claims expense

Source: BEIS

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