

LOGICAL IN LOGISTICS NEWS



NOVEL CORONAVIRUS (COVID-19) & CREDIT MANAGEMENT

As each day passes, it is becoming very clear that hardly any industry around the globe will be spared from the impact of COVID-19. As global lockdowns wreak financial havoc on businesses of all sizes, those heavily indebted and/or unprofitable businesses are susceptible to bad performance during this period and possibly will not survive, despite government intervention including support such as tax breaks, loans and/or cash handouts.

From all reports, the hardest hit regions are Western Europe and Asia.

These events sound an ominous warning for those businesses within the logistics industry as many of their trading partners are from Western Europe & Asia.

We know that many logistics operators offer generous credit terms to their customers, including upfront payments of disbursements such as GST and Duties on their customer's behalf. Over the last couple of years, logistics businesses have expressed the challenges of collecting these outstandings within credit terms.

It is against this background that tough decisions will need to be made over the coming weeks and, possibly, months as logistics businesses attempt to juggle the competing priorities of ensuring they get paid while still protecting and nurturing their ongoing trading relationships.

There are many Australian businesses who believe Australia is already in a recession, making the sentiment and outlook seem far from positive, potentially causing collections to be even more challenging.

Continuing cash flow is vital for any business to survive, particularly those within the logistics industry who have much desired capital tied up in receivables.



JAMES COTIS

Principal at Logical Insurance Brokers

There are steps which can be taken to manage and perhaps reduce this financial risk, including:

- Keeping up customer contact. The preference would be to meet face to face, however, this probably isn't possible with COVID-19 lockdowns in place. Therefore, telephone calls & remote conferencing technologies may offer some continuity in that regard. During these discussions ask about your customer's current situation and their plans for coping;
- Periodically conduct credit reviews. Consider the largest customer(s) exposures and review those customers' ability to pay;
- Monitor your customers for adverse information. Include a further financial risk management layer with an outsourced monitoring tool (see below for more information about a tool we can offer);
- Review security interest/arrangements with your customers, including any personal guarantees have been granted for goods that are, or could be, registered on the Personal Property Securities Register (PPSR) and any contractual Special & General Liens. This would include a review of your STCs, which should contain relevant PPSR and Special & General Lien clauses;
- Pay attention to potentially worrying 'industry talk' about customers & suppliers. Where you think it's credible, take steps to investigate and, if necessary, act so the best-informed decision can be made for your business in a timely manner;
- Anticipate & prepare for increased insolvencies, particularly in industries hit hard by COVID-19.

Those logistics businesses who have Trade Credit Insurance should expect the market to tighten and their customer's current credit limits to be carefully reviewed by insurers. You should also be aware that any changed circumstances should be reported to insurers immediately, including:

- any increase in payment terms/arrangements by customers;
- any requests by customers for "short term" credit limit extensions;
- any problem customer accounts where they are close to (or have exceeded) credit terms.

We would always encourage logistics businesses to arrange adequate Trade Credit Insurance, however, we understand that not all businesses may be able to do so for all sorts of reasons.

In those instances and to assist the logistics industry, we have arranged with specialist Trade Credit Insurance provider, Coface, to utilise their Credit Opinion service, which accesses Coface's global expertise. For a modest cost per customer, logistics' businesses will be provided with an evaluation of a customer's credit worthiness, which includes an ongoing monitoring service for one year which can be renewed annually. This provides an additional layer of ongoing confidence about a customer's financial position.

To find out more about this service, please refer to our dedicated web page by clicking here: [Trade Credit Insurance for the Logistics Industry](#).

Who we are:

James and the team at Logical Insurance Brokers provide specialist risk management and insurance solutions to the logistics industry. Logical is delighted to be associated with the Freight and Trade Alliance (FTA) and is proud to be their appointed insurance adviser since its inception in 2012. James is also a regular presenter at FTA professional development events.

If you would like more information about how a carefully constructed insurance program and business continuity plans can help protect your business, please feel free to contact James on 02 9328-3322, email jamesc@FTAlliance.com.au or visit the Logical Insurance Brokers website at www.logicalinsurance.com.au/logistics.

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