Late payments high, insolvencies up year-on-year

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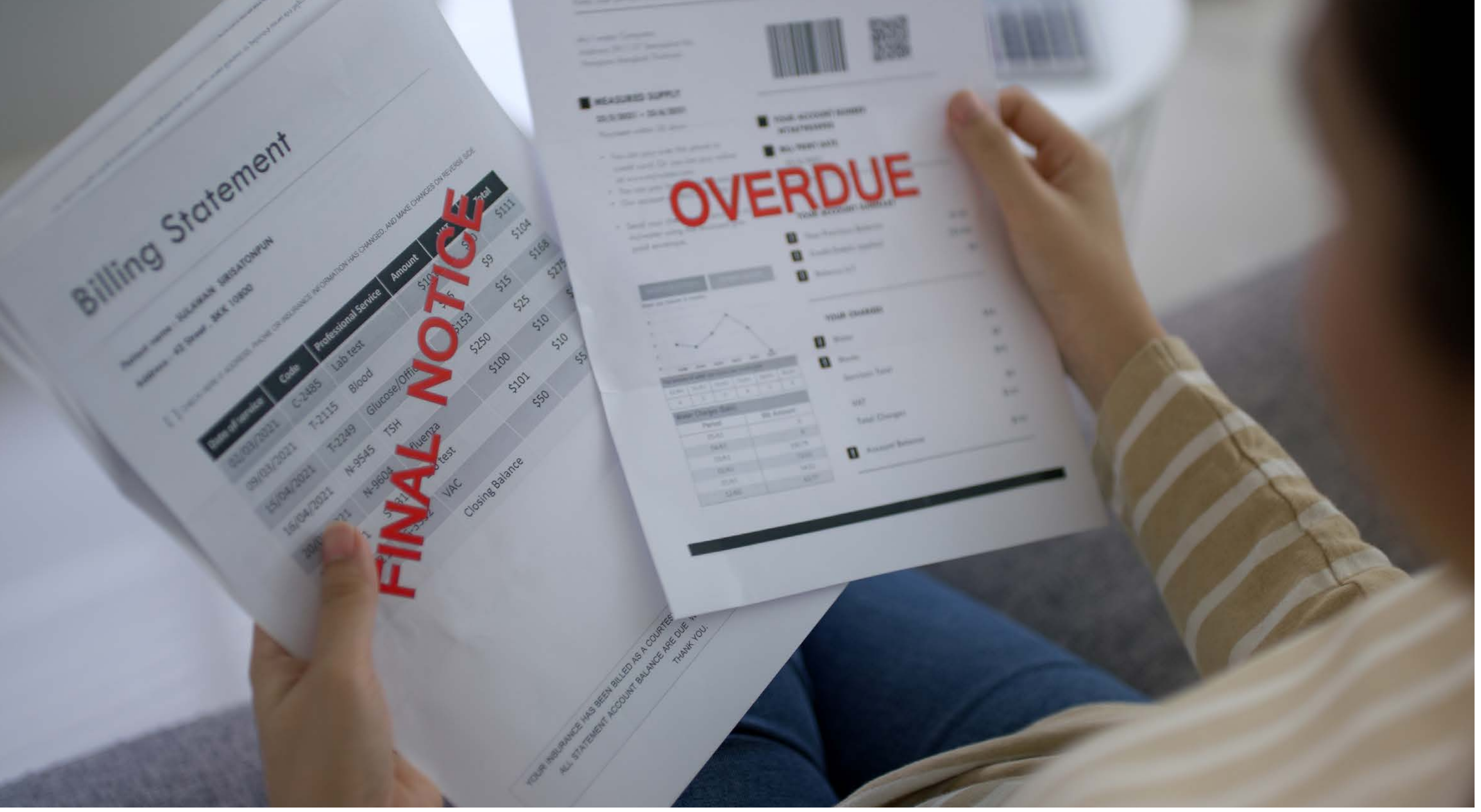

When cash flow is tight, late payments can cause big headaches for SMEs and larger companies alike. In serious cases, delayed payments can prevent your business from paying its bills, investing and growing. In a worst-case scenario, it could mean insolvency looms.

Small businesses struggling with late payments

Small and medium-sized enterprises (SMEs) are feeling the effects of late payments. In a Nerd Wallet survey, over half (55%) of respondents said they still have unpaid invoices from the previous tax year (2022/23).

Your customer might pay you late for various reasons, from economic challenges to poor management or disputes. If this is a one-off, it could be manageable. But if your customer frequently pays late or fails to make a payment, it might indicate something serious is happening – that the company is about to become insolvent.

At a glance: UK insolvency statistics

There were over 6000 insolvencies in England and Wales in the second quarter of 2023, a 7% increase on the first quarter. This was also a 17% increase on the second quarter of 2022.

Scotland and Northern Ireland also saw increases in Q2 versus Q1 2023.

For the first half of 2023, there were almost 13,000 insolvencies in the UK. England and Wales reported a 15% increase in insolvencies compared to the first half of 2022.

Registered company insolvencies in the UK (H1 2023)

	January	February	March	April	May	June
Region						
England & Wales	1671	1783	2457	1685	2552	2163
Scotland	109	81	104	114	97	113
Northern Ireland	14	9	12	8	11	14
United Kingdom	1794	1873	2573	1807	2660	2290

Source: gov.uk (Figures correct as of 1 August 2023)

Which sectors were worst hit?

The top five sectors worst hit by insolvencies in H1 2023 were:

1. Construction
2. Wholesale & Retail
3. Accommodation & Food Services
4. Professional; Scientific and Technical Activities
5. Administrative and Support Service Activities

Source: Credit Safe

Monitoring risk and taking decisive action

At Allianz Trade, we monitor risks and make crucial decisions to help our customers avoid disastrous consequences including insolvency. Below are some real-life insolvency case studies from the UK in 2023.

Case 1: Midlands-based construction firm enters administration

A Midlands-based construction services firm entered administration in July 2023. The decades-old business had a turnover of over £100m, and hundreds of employees. So, what went wrong?

Following Covid-19, the business experienced significant margin pressure due to rising raw material prices and supply chain disruption. Despite securing refinancing late last year, further inflationary pressures and failure to secure additional finance meant the business wasn't in a financial position to keep trading.

With several slow payments reported against the business in Q4 2022, concerns began rising. Further reports of slow payments in early-2023 coincided with a lack of response from the business to requests for up-to-date information.

As a result, the business was downgraded to distressed, with all remaining credit limits cancelled.

Case 2: Tile business makes dozens of staff redundant as administrators called in

In February, administrators were appointed by a Yorkshire-based retailer and trade supplier of ceramic tiles that operated out of nearly 100 stores across the UK. Over a dozen stores were closed immediately, and over 40 staff made redundant. The business and company assets were sold.

The business suffered heavily during the first Covid-19 lockdown and struggled to recover. It needed more funding than initially anticipated, and was experiencing increased pressure from creditors.

After being downgraded several times, cover was eventually withdrawn when the risk was deemed too high.

Case 3: Engineering firm in talks with administrator

A civil engineering firm based in the south of England and operating for over 40 years is in talks with a potential buyer after filing a notice of intention to appoint an administrator.

The business provides a range of civil engineering and environmental services with specialist expertise in highway maintenance.

Although the group filed profitable results, analysts became concerned when a loss-making division entered liquidation. The business refused requests for management accounts, which led to firm action on the grade in late-2021.

In cases where our judgement is to protect our customer's interests by withdrawing cover, we'll communicate the rationale and justification for reduction or cancellation along with the timeframe to all affected parties. This means we can help all involved manage the consequences in the best way possible.

Too big to fail? Don't be fooled!

No type or size of businesses nor sector is immune from insolvency. If you're trading directly with a failing business, or even indirectly with one in your supply chain, the insolvency domino effect is a real threat.

But remember: although late payment of commercial debts can disrupt your cash flow and lead to insolvency, being overly conservative with credit decisions can result in missed opportunities. So, you have to strike the right balance to maximise your bottom line.

Trade Credit Insurance: Giving you confidence in tomorrow

One way to protect your business against the risk of non-payment from a business customer due to insolvency is a comprehensive trade credit insurance (TCI) policy. TCI helps you find the balance between protection and growth by providing information on the creditworthiness of your customers and protecting your company against bad debt.

About Allianz Trade:

Allianz Trade is the global leader in trade credit insurance and a recognised specialist in the areas of surety, collections, structured trade credit and political risk.

When the unexpected arrives, our AA credit rating means we have the resources, to provide compensation to maintain your business. For more information, visit www.allianz-trade.co.uk.

Contact us:
If you'd like to find out more on how trade credit insurance can help you, call us today on +44(0)800 056 5452 or email info.uk@allianz-trade.com.

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