

## Trade Credit Risk: Which Sectors Are Most Vulnerable During the Virus Crisis?

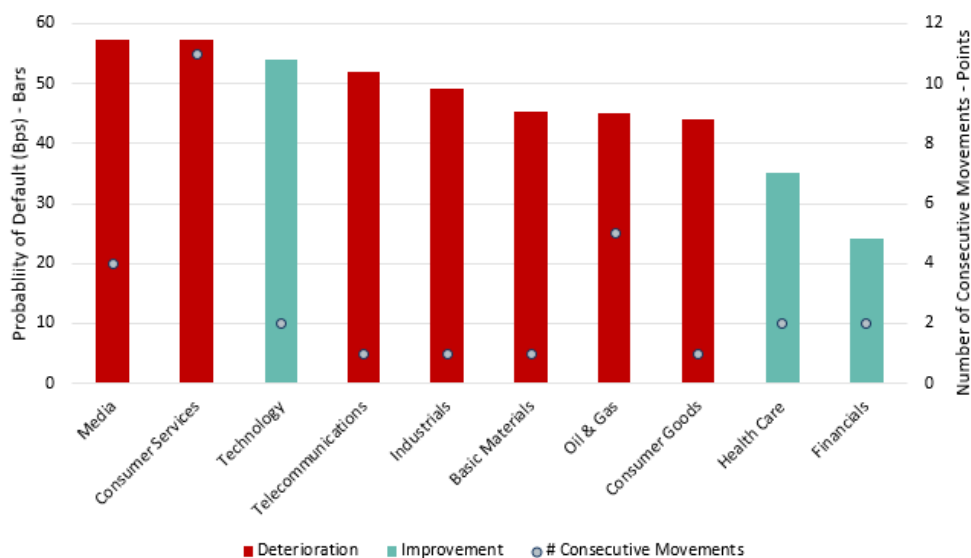
The Trade Credit Insurance market currently handles about \$2trn of revenue at risk annually. Most of this is focused on smaller companies that may be critical suppliers or buyers, but who also represent significant risks for operational or credit reasons. Some of these risks may arise from the supplier / buyer's own company profile (such as debt levels) or may be driven by their sector or geographic location.

The 48 members of the International Credit Insurance and Surety Association accounts for 95% of private credit insurance around the world, and about 75% of this is handled by three firms – Euler Hermes, Coface and Atradius. During this crisis, these firms will be increasingly selective about the risks that they can commercially accept, and will need to charge materially higher premiums<sup>1</sup>. Companies may have to do their own due diligence on their suppliers and buyers; effectively self-insuring.

Credit Benchmark can provide extensive credit estimates on single companies, based on the views of analysts across a large number of financial institutions. This data also gives insight into industry, sector and regional credit trends and comparisons.

The charts below depict the average probability of default and recent historical trend in credit quality for each of the major Industry Groups and Sectors in the global economy.

**Figure 1: Global Industry Level Credit Risk**



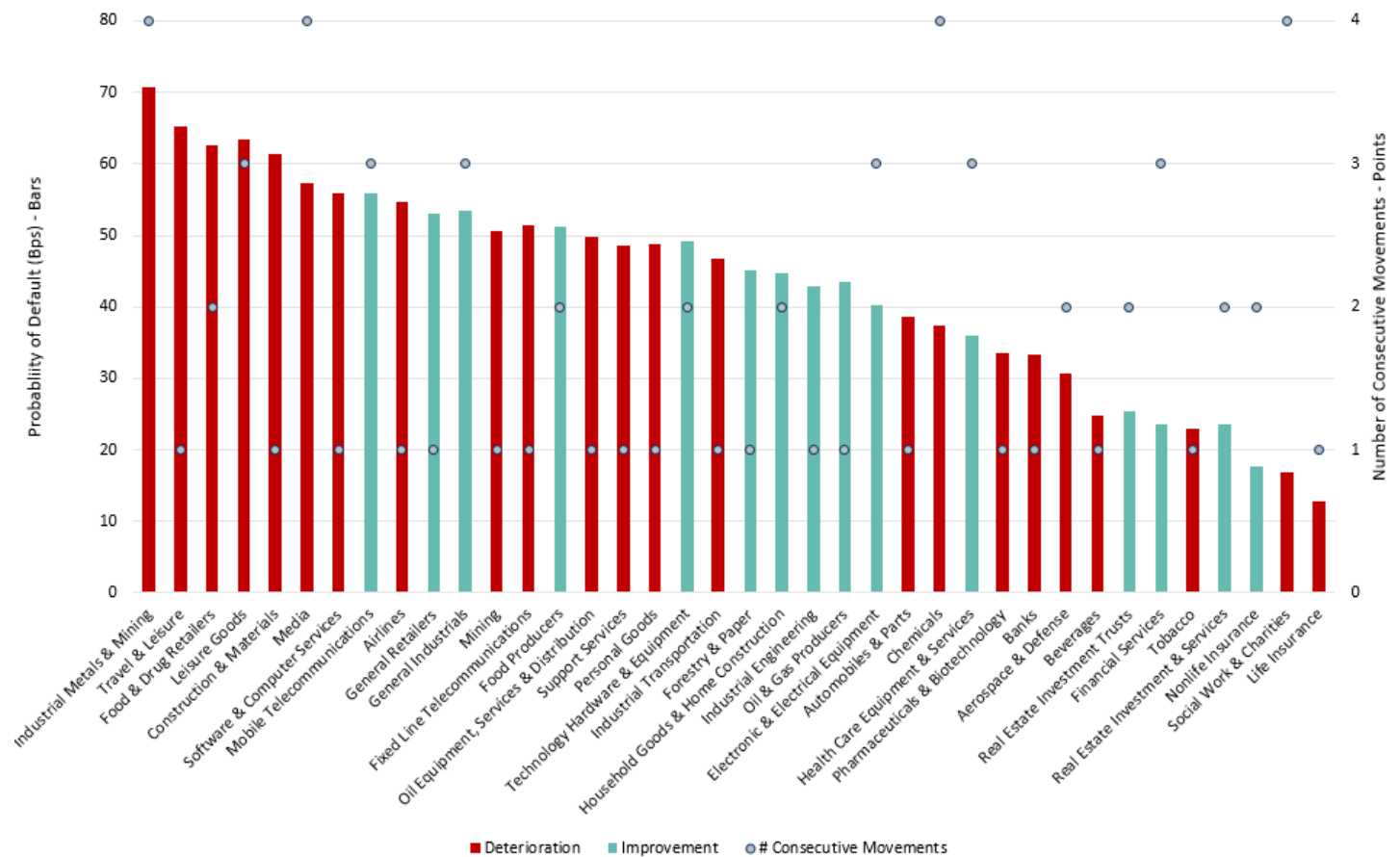
At the industry-level, Media, Consumer Services and Oil & Gas are among the most vulnerable. At the sector-level, the data shows that Industrial Metals & Mining, Travel & Leisure, Food & Drug Retailers, Leisure Goods and Media are in the weakest positions.

Figure 1 shows that 7 of the 10 industry sectors tracked by Credit Benchmark were experiencing credit quality deterioration heading into the coronavirus crisis. The Media industry has the highest overall probability of default, currently more than 57 basis points, and credit quality in the industry has been deteriorating for the last 4 months. Its current Credit Benchmark Consensus rating is **bb+**. The Consumer Services industry follows closely, with an overall probability of default of around 57 basis points and an 11-month trend of consecutive monthly deterioration in credit risk. Its Credit Benchmark Consensus rating is **bbb-**. The Oil & Gas industry is also showing significant signs of vulnerability, with an average probability of default of 45 basis points, following 5 months of deteriorating credit quality. The Credit Benchmark Consensus rating for the Oil & Gas industry is **bbb-**.

<sup>1</sup> Trade credit pricing varies considerably depending on the circumstances, but the usual range is 10 – 30 bps for about one year of cover. For certain risks, the pricing can be much higher – 100 bps or more. In the current environment, if trade credit is still available, the pricing will be significantly higher.

Figure 2 shows the global sector level data.

**Figure 2: Global Sector Level Corporate Credit Risk**



Of the 39 sectors that make up these industries, 24 have seen overall credit deterioration and 14 have seen improvement. Credit risk is highest for the Industrial Metals & Mining, which has an average probability of default of 71 basis points and has been deteriorating for 4 consecutive months. The Credit Benchmark Consensus rating for the sector is **bb+**. The Travel & Leisure sector follows, with an average probability of default of 65 basis points. This is the second month in a row of credit quality deterioration in the sector, which has a Credit Benchmark Consensus rating of **bb+**.

Monthly updates to these charts are available to subscribers, along with geographic breakdowns. Single name consensus ratings are also available for more than 45,000 borrowers.

### About Credit Benchmark Consensus (CBC)

The Credit Benchmark Consensus (CBC) Rating is a 21-category scale explicitly linked to probability of default estimates sourced from major financial institutions. The letter grades range from aaa to d.

### About Credit Benchmark

Credit Benchmark brings together internal credit risk views from 40+ of the world's leading financial institutions. The contributions are anonymized, aggregated, and published in the form of entity-level consensus ratings and aggregate analytics to provide an independent, real-world perspective of risk. Consensus ratings are available for 50,000+ financials, corporate, funds, and sovereign entities globally across emerging and developed markets, and 75% of the entities covered are otherwise unrated.

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