

Carillion Collapse – A Sobering Reminder to Contractors

Last month's announcement of the UK's second largest builder collapsing has sent shockwaves throughout the industry world wide, not just in the UK.

Carillion was forced into liquidation after losing money on a series of contracts, racking up around \$US1.35 billion in debt along the way. At the time they were engaged in over 450 UK and overseas Government projects.

Estimates on the losses being incurred by Surety and Trade Credit Insurers is A\$1Billion.

According to analysts, Carillion's insolvency was likely caused by a combination of rapid expansion and underbidding for contracts that have had low margins since the financial crisis. Delay in project completion caused by significant engineering problems was also instrumental in their demise.



Their bankruptcy threatens more than 19,000 jobs in Britain, as well as the solvency of hundreds of subcontractors and smaller businesses. Reports indicate that up to 30,000 businesses 'down the line' may be affected.

This incident is a sobering reminder to everyone in our industry, but particularly for contractors who are generating a large percentage of their income from one particular principal. Just because a company has a high turnover doesn't necessarily mean that it can't fail. Unfortunately over the past five years we've seen several building companies within Australia succumb to mounting debt, including Kell & Rigby, Reed Constructions, National Buildplan, Walton Constructions, Tagara Constructions, Home Australia Group, and others.

These collapses highlight the importance of businesses protecting their 'accounts receivable'. Whilst most prudent companies already have robust credit management practices in place, the sudden collapse of a key principal, supplier or customer could leave your business in a delicate financial position.

Trade Credit Insurance (TC) is one mechanism you can use to protect your accounts receivable. Strategically it can also act as an important tool to help strengthen credit control by understanding more about the credit worthiness of your debtors. Meanwhile, having a TC policy in place can assist in accessing funding from institutions who are more likely to acknowledge the strength of your accounts receivable if supported by a TC policy.

For specialist advice and information about Trade Credit and other construction related insurance, please contact **MBA Insurance Services** on 1800 150 888.