Mitigating tariff risk: *What trade creditors need to know*

By Sam Rodda*

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Tariff volatility is a constant reality and it's not going away anytime soon. Tariffs can change rapidly and without warning, creating ongoing uncertainty for trade creditors. The introduction, adjustment, or removal of tariffs can have a profound and immediate effect on supply chains, margins, and customers' financial stability. For credit professionals, staying ahead of tariff-related risk isn't just a best practice – it's business critical.

While tariffs are typically government-imposed taxes on imported goods, their implications extend far beyond the border. From delayed shipments and cost hikes to buyer insolvency and payment defaults, tariff shocks can pressure a trade creditor's exposure.

So, how can credit professionals navigate this landscape and protect their organisations?

According to ASIC, insolvencies surged by 43% in the first quarter of the 2024–25 financial year compared to the previous year. Construction, retail, and food sectors have been especially hard hit, driven by rising costs, tightening credit conditions, and ongoing global uncertainty. In this landscape, even reliable customers can become sudden risks – making proactive credit risk management more important than ever.

What short-term risk management actions can you take?

1. Assess exposure in the supply chain

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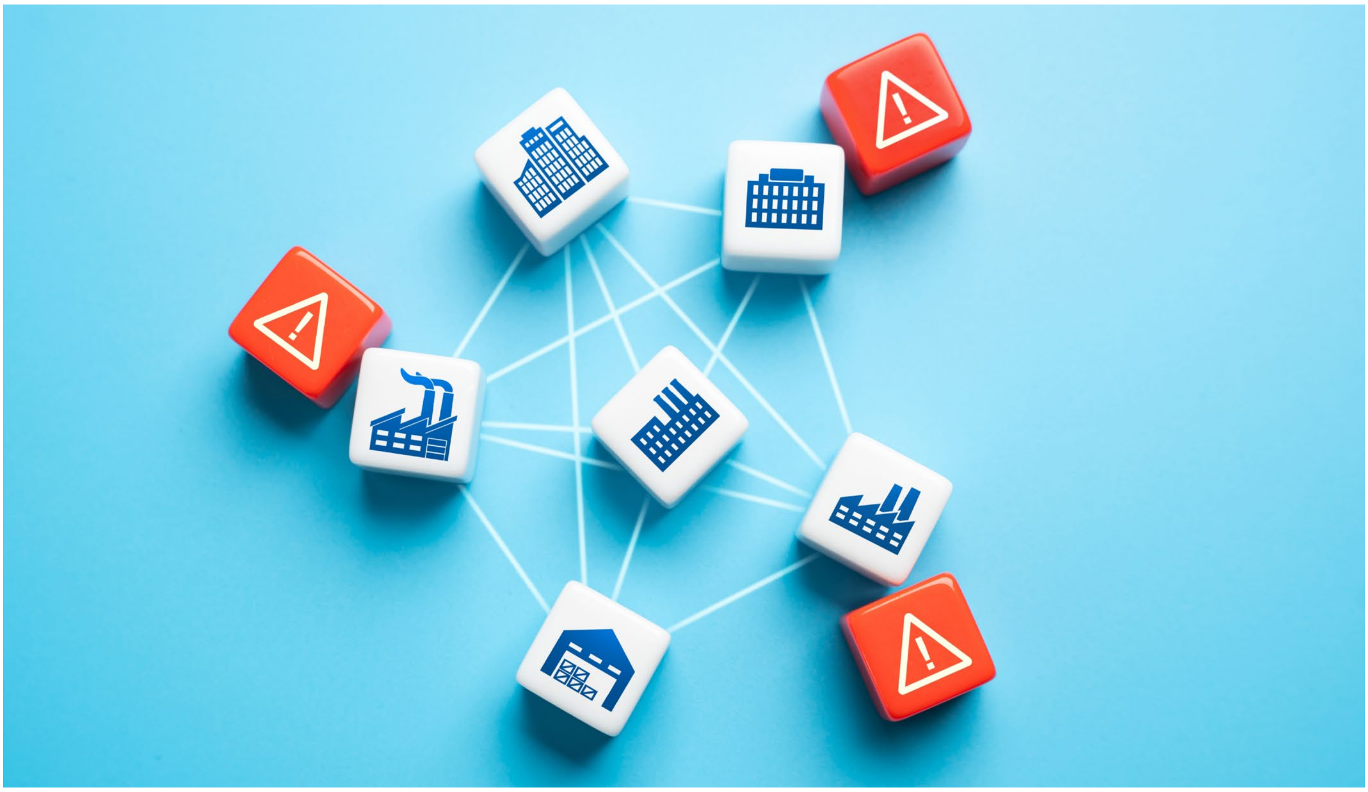

"Before you can manage the risk, you need to understand it. For trade creditors and executives managing global supply chains this means identifying customers whose operations depend on tariff-sensitive goods or services."

trade creditors and executives managing global supply chains this means identifying customers whose operations depend on tariff-sensitive goods or services. The following questions are a starting point to help you assess potential disruptions due to tariffs: Are they importing raw materials or finished goods recently becoming more expensive? Are their end customers scaling back due to tariff-related price increases?

These upstream and downstream considerations must be embedded into your credit assessment process. Ask the hard questions: Which of our customers operate in tariff-vulnerable sectors? How dependent are they on specific regions or trade relationships? What contingency plans do they have in place?

2. Understand how tariffs can impact payment risk

Tariff volatility does not impact profitability, but it destabilises cash flow and increases the likelihood of delayed payments or defaults. Creditors need to anticipate how rising input costs, reduced customer demand, or disrupted supply chains could impair their buyers' ability to meet payment terms.

This is where trade credit insurance can play a crucial role. A well-structured policy can help mitigate non-payment risk from economic hardship, geopolitical instability, or other tariff-driven disruptions. Regular policy reviews are essential to ensure you're covered for emerging risks and industry-specific exposures.

Beyond traditional protection, modern policies now serve as strategic tools. Insurers actively monitor customer creditworthiness, provide early warning signals, and support debt recovery. This transforms trade credit insurance into a dynamic enabler of secure growth. ▶

3. Stress-test your customer portfolio

Scenario modelling is a useful but underused tool in credit management. Building tariff-based scenarios into your credit risk analysis allows you to anticipate what might happen if tariffs were imposed (or lifted) on specific goods.

For example, If steel or aluminium tariffs were introduced on a key customer's input materials, how would that affect their margins? Could they absorb the cost or pass it on? How would this affect their ability to pay on time?

Proactively modelling these stress scenarios can help you set more appropriate credit limits, identify at-risk accounts, and flag potential supply chain bottlenecks before they happen.

4. Revisit your credit insurance and business interruption cover

While political risk insurance won't typically respond to tariff changes, trade credit insurance might – especially where tariff-driven financial instability leads to missed payments. Equally important is ensuring your business interruption insurance and contingent business interruption (CBI) cover reflect today's realities.

Tariff-induced disruptions – such as sharp cost increases, shipping delays, or abrupt changes in customer behaviour – can affect revenue and cash flow. Your declared values and policy limits must reflect the actual impact of these shifts, particularly in industries where replacement costs or inventory values are rising due to international trade issues.

5. Maintain strong communication with your customers

Don't underestimate the value of open, proactive dialogue in tariff uncertainty. Trade creditors should maintain regular contact with customers to understand how tariffs affect their operations,

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pricing, and sales outlook. Use these insights to adapt your credit terms, flag early warning signs, and offer support where appropriate.

When trade partners know you're paying attention – and are willing to collaborate – it can help preserve trust, improve payment performance, and reduce default risk even in harsh trading conditions.

Final Thoughts

Case in Point: One Lockton client specialising in custom plastic containers faced a significant loss when a key customer went insolvent before the invoice date. By working with Lockton, the client secured pre-shipment cover, including production costs. When the insolvency occurred, the policy paid out 90% of the loss – turning a near-disaster into a manageable event.

Tariff volatility is now a permanent feature of global trade. For trade creditors, the challenge is twofold: protecting your organisation from unexpected losses while helping your customers remain resilient.

This requires a thoughtful blend of traditional credit assessment, insurance risk management, and strategic forecasting. At Lockton, we work with credit managers to identify vulnerabilities and build protection strategies that withstand today's unpredictable trade environment.

Consider a professional review if you're unsure whether your current insurance program adequately reflects the risks posed by tariffs. The right strategy could make all the difference when the next disruption hits.

For insights or a complimentary insurance program review, contact the Lockton team.

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