Avoiding Credit Disaster by Letting Go

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**All data and charts are from the 2018 FIS Corporate Liquidity Market Study, "Modernization of Credit and Collections – From Legacy to Revolutionary"*

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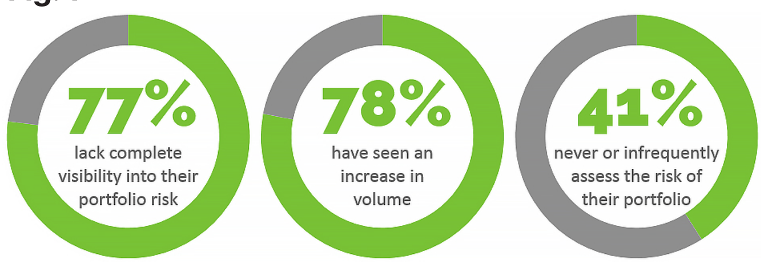
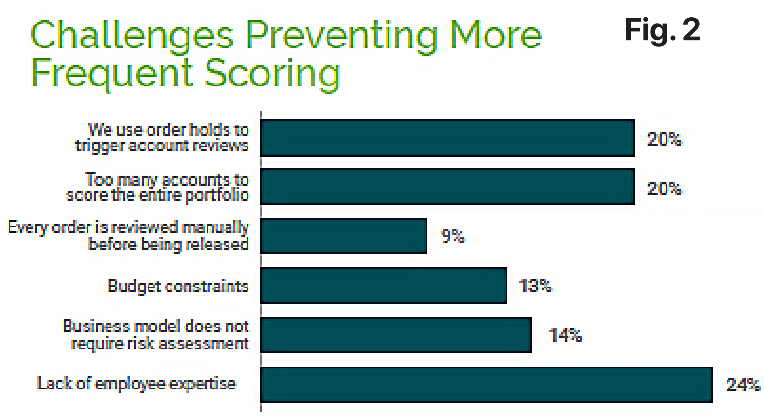
It sounds counter intuitive, however by letting go of the very tight stranglehold you have on your manual credit review processes, you will free yourselves from the inevitable account(s) slipping through your already overstretched fingers. The market has been flooded with claims of artificial intelligence (AI) and process automation to help reduce the strain on available resources over the last few years. There are a few key questions, which we will cover later, that you should consider when reviewing providers. AI and process automation are the key elements that can help you avoid a credit disaster; however, you must let go of outdated manual processes to take full advantage of what a modernized credit process can do for you.

Fig. 1



When asked what the major challenges corporations are facing today in the credit-to-cash arena (Figure 1), seventy-seven percent indicated they lack complete visibility into their portfolio risk. Additionally, seventy-eight percent have seen an increase in volume with the same or reduced staff supporting it. Even more frightening is that forty-one percent reported that they never or infrequently assess their portfolio risk. This is a disaster waiting to happen. It is not a matter of "if", it is a matter of "when".

Fig. 2



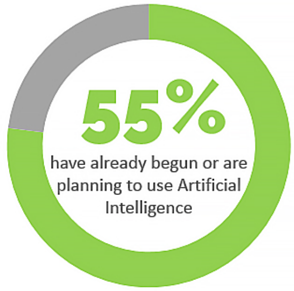
There are numerous factors (Figure 2) that prevent companies from being as diligent with their risk scoring as they believe they should be. These range from lack of expertise, too many accounts, to counterproductive processes such as using manual order holds to trigger individual account reviews.

All these very real, every day factors are setting teams up for a future disaster. Some companies only do business with very large, financially stable customers. This only masks the inefficient and improper risk mitigation practices. What happens when the business decides to begin selling down market to capture more spend from smaller customers? The volume of work will increase, and the unmitigated risk will continue to rise. Eventually, losses will be incurred, and the post-mortem will bring to light that losses could have been avoided if a proper review was conducted.

Additionally, those companies that manage multiple accounting systems have the pleasure of maintaining credit lines in different systems. Without a solution that can consolidate this data together, credit lines can be inadvertently extended well beyond the credit worthiness of the customer. This too is a circumstance that is rarely handled well until after a disaster strikes. Centralizing and managing credit lines in one place removes the accidental exposure and frees your team to focus on accurately analyzing accounts and setting appropriate credit lines.

Implementing a process that leverages AI and process automation gives you the power to foresee and prevent credit disasters from happening. Predictive risk is considered the best approach to preventing risk events from occurring. Fifty-five percent of companies (Figure 3) have already begun to use or explore the use of AI throughout their credit-to-cash process. These companies recognize the potential losses that could be incurred and have taken measures to modernize their processes to prevent them.

Fig. 3



AI leverages a combination of internal (i.e. payment history) and external factors (i.e. bureau data) to create a risk profile for each customer. Machine learning algorithms analyze these profiles to develop models that continuously improve over time as more corroborating data is gathered. As stated before, the market has been flooded with claims of AI. For something to truly possess AI, the engine that gathers and analyzes the data must then take positive action based on the data. The term positive action simply means that the AI engine uses the analyzed data to do something in your best interest. In this case, the positive action could be to automatically reduce the customer's credit limit, place an existing order on hold, or prioritize the customer for more immediate and strict collection efforts. When assessing partners for their ability to provide a solution with true AI, be sure to ask the following questions and make sure the responses line up with your expectations:

- Does your solution leverage AI to monitor credit risk? If yes, what information does your AI engine analyze?
- What action(s) does your solution take automatically based on the risk assessment, without manual intervention being required?
- Can you prove the success and accuracy of your models with a complimentary test against known outcomes?

These seem like simple and intuitive questions; however, providers will allow you to make spurious assumptions if you do not challenge their capabilities.
Process automation can also be introduced into your processes to help alleviate some of the growing volume of customers and transactions. Many companies have instituted a base minimum credit line so that they are willing to accept the risk without completing a full credit review. The size of this minimum varies from company to company. Process automation can also be leveraged to automatically route those credit assessments that are non-routine and require a more in-depth review. Important data elements can automatically be pulled from credit bureaus based on the level of due diligence required. Simple but time-consuming tasks can be completed automatically allowing your talented credit team to focus on actually assessing credit in more detail.

No one likes to suffer a credit disaster. Sadly, most of us have at least one that we can reference from our experience. When you think back to the contributing factors, more times than not, they point back to a lack of data, time, or resources. If only you could go back and institute the AI and process automation that you now know could have resolved all those obstacles. The good news is, you have the ability to prevent future disasters. All you have to do is let go of the manual stranglehold you have on your processes and let AI and process automation take you into a disaster-free future.

About the Author:

Keith Cowart *is a Product Marketing Manager in FIS' Corporate Liquidity - Receivables group which features the award-winning Credit-to-Collections product, GETPAID.*

He has over 20 years of professional experience in various accounting and finance leadership roles including Accounts Payable, G/L Accounting, as well as Credit and Collections in large global companies with shared service centers. Keith's focus has always been in continuous improvement and leveraging technology to automate processes and achieve extraordinary results.