Working Remotely in the U.S.
By Tom Diana, Communications Manager
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Introduction
Throughout the year, CRF has been investigating the utilization of remote workers in the Credit Risk and Accounts Receivable Management community as that compares to national statistics from all industries in general. Eight million US workers are considered "Remote" employees, a growing number and employment strategy fueled by the potential benefits to both employers and employees. Reduced office costs, increased worker productivity, better work-life balance and other advantages could likely drive growth of this employment option. But there are many other considerations!

The balance of this article will be a compilation of overarching commentary on the increasing remote workforce, and then compare and contrast that to the results of the June 2019 CRF Survey about how it specifically applies to credit risk management. Let's start with the definition:

"Remote" Working refers to employees working from their homes or other locations outside of the business office.

Size of the Remote Workforce in the US
According to the CRF Survey, two-thirds of respondents’ firms offer a remote working option. Of those who don’t currently offer it, 80% indicated that it is under consideration. The survey result of two-thirds is a far greater number than US Census data at 5.2%, suggesting that the processes and responsibilities of credit risk and accounts receivable management jobs are more conducive to an alternative work option.

Most recent studies on remote workforces report substantial growth in this area over the last several years. For example, a flexjobs.com article stated that remote work has increased by 44% in the US over the last five years.

Working remotely is not a new concept but one that has been accepted more in recent years. Forty-three percent of survey respondents’ firms began offering a remote work option within the last 2 years, a smaller portion (22%) in the past 2 – 5 years, and the balance of firms (35%) have had an imbedded program in place for more than 5 years (Figure 1).

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Location and Schedule of Remote Workers

According to the CRF Survey, most remote employees work from home (98%), with a smaller percentage stating they work from more than one remote location (Figure 2).

To determine how often employees worked remotely, the CRF Survey posed the question: “Are your Remote Workers strictly that or do they sometimes work in a business office?” As Figure 3 shows, most respondents split their time between in-office and their remote location.

Work schedules of remote employees varied, as shown in Figure 4, revealing 60% work the same hours as office staff, 27% are assigned specific hours and 13% choose their own hours as long as they complete their tasks.
Technologies Required for a Remote Workforce

Improvements in computers, remote videoconferencing software, high speed Internet, cloud computing and other technologies have paved the way for the growth of remote working. CRF Survey respondents were asked to select the technologies they use for their remote work (Figure 5).

![Figure 5](image)

In addition to equipment and hardware, there are a wide variety of software programs designed to facilitate communication between remote workers and company offices. Here are links to a few:

- **5Five** – designed for employee/employer collaboration and remote workforce development.
- **Officevibe** – designed to enhance employee/employer collaboration, employee development and security.
- **Slack** – another collaboration tool.
- **Zoom** – a full-featured video conferencing tool.
- **Google Drive** – a cloud-based, file management system for personal and business use.
- **Zapier** - workflow automation for business.
- **World Time Buddy** - time converter for distributed teams in different time zones.

The CRF Survey respondents said overwhelmingly (88%) that they are “satisfied with the technology used by (their) remote workforce as much as the technology available in their offices.” This is not surprising since technology has greatly evolved over the last several years. Most survey respondents (77%) have also implemented policies and procedures to ensure that there is adequate communication between remote and in-office staff.

Security Issues when Working Remotely

Cybersecurity requires the proper hardware and software, as well as a vigilant IT department. A remote workforce increases the potential opportunity for hackers to infiltrate company networks, so employees must be properly trained to exercise the best practices in safely maintaining desktops and laptops connected to their company networks. An article on Forbes.com entitled “How to Employ a Secure Workforce” published on May 1, 2019 noted some important steps to maintain network security, specifically for remote workers.

Workspaces and Safety Concerns

It is important that certain requirements are established for meeting minimum safety standards in all home offices to reduce the possibility of home office accidents. The OSHA (Occupational Safety and Health Administration) website states: “OSHA will not conduct inspections of employees’ home offices. OSHA will not hold employers liable for employees’ home offices and does not expect employers to inspect the home offices of their employees.” OSHA does, however, require employers to report work-related injuries and illnesses, even for their remote employees. For more about home office safety and OSHA, see the article “Unique Employment Law Challenges for the Expanding Remote Workforce” by the law firm of Kelley Drye & Warren LLP – Located in this issue of the CRF News.

Data Security

When remote employees have access to customer and other personal identification information, it presents an additional challenge. There are legal requirements imposed on companies to safeguard such data, so it’s important to implement policies and oversight regarding data storage for your remote workforce. For example, best practices would mandate that only company-provided laptops can be used to store any confidential data and that these laptops must be secured with strong passwords and never left unattended. Also, two-factor authentication should be required to enter secured websites.

Another example is payments by credit card which must be done in a PCI compliant environment. This is best accomplished by the remote employee directing customers to a secure payment portal. This also ensures the remote worker does not have access to credit card information. Additionally, any notes related to credit decisions should be maintained on a secured company network and not at the remote worker’s home office. Credit decisioning discussions or data transfers between remote and in-office staff should be done on secured networks or cell phones dedicated only for company business. For more about data security, see the article “Unique Employment Law Challenges for the Expanding Remote Workforce” by the law firm of Kelley Drye & Warren LLP – Located in this issue of the CRF News.

The CRF Survey revealed that only 23% of employers require their workers to have a designated workspace that is safe, secure and up to OSHA/PCI standards. As for home office standards, 53% of CRF Survey respondents said remote home offices are set up by a team member who is responsible for establishing standards and 18% said home offices are audited for compliance to company standards.
Other Federal, State and Local Requirements

Compliance with other Federal, State and Local Laws and Regulations are especially challenging for companies who employ remote workers in other states, leaving Human Resources departments to untangle federal and state employment laws. In addition, some municipalities require permits for a home office which further complicates oversight matters. For more about the federal, state and local legal issues facing those who employ remote workers, see the article “Legal and Practical Considerations for Remote Employees” by the law firm Lowenstein Sandler LLP – Located in this issue of the CRF News.

Communicating with Remote Workers

Working by oneself at a desk in a home office can often lead to a sense of isolation or disconnect from the office. The best way to reduce this phenomenon is through frequent communications between remote workers and their in-office supervisors and fellow employees. For those who work exclusively remotely, frequent communications not only help keep that employee on track with their assignments, but also provides a sense of belonging to the Team. For the majority of remote workers who come into the office weekly or occasionally, team-building activities in the office can help to further solidify a sense of community between remote and in-office employees. Companies should try to schedule special events at times when all or most of their remote workers will be in the office.

As can be seen in Figure 6, the CRF Survey found that most companies utilize several methods to foster remote workforce team-building with 80% holding occasional or regularly scheduled on-site meetings. Webcasts or Skype meetings were also very popular, followed closely behind by scheduled phone conversations with management and distribution of company newsletters or other communications about company and employee matters.

Management/Supervision of Remote Employees

Monitoring remote workers presents greater challenges than supervising in-office workers. However, with the right technology, policies and oversight, they can be effectively managed to be as productive as their in-office colleagues. The CRF Survey respondents, by a large majority of 80%, indicated that they “have adequate oversight of their Remote Workforce.” Despite that positive metric, however, only 37% said they use performance metrics to measure the quality and quality of outputs, and only 28% have a manual or electronically recorded log of their activities. In addition, only 32% of survey respondents said their organization has a formal Remote Work Agreement that employees are required to sign.

The fact that many remote workers in the credit risk and accounts receivable management community perform the same duties that they would if they worked in the office may have influenced the survey respondents’ approach to training. On the question of whether the respondents have developed a training regimen for remote workers that teaches them how to make the best use of their time, only 2% said they did. An article in Inc.com entitled, “The Future of Remote Work Is Happening Now. Here’s How to Make It Work for You” stated that, “…57 percent of companies have no remote work policies,” which again aligns with the CRF survey results.

An article by TechRepublic, “The 10 Rules Found in Every Good Remote Work Policy” offers suggestions on provisions to include such as response time deadlines, how to address technical problems, security requirements and more.

Company Resources Required by Remote Employees

Most of the CRF Survey respondents (83%) said they did not receive any allowance to operate remotely, and only 11% said their company paid for all of their requirements. A few (2%) said their firms provide a specified cash payment to cover their remote employees’ requirements, which was limited to $2,000 or less, and the rest don’t provide any allowances at all.

Productivity of the Remote Workforce

Employing remote workers can be a win-win for both the company and its employees. An article on Forbes.com, “4 Reasons Why A Remote Workforce Is Better For Business,” asserts that remote workers are more productive because, “Remote teams get more done in less time allowing them to start new projects, spend more time doing what’s working, and ultimately improve your bottom line.” The reason for this, the article contends, is because they don’t need to commute to work, can finish their work on their own time, they can take breaks when they need to, their schedules are more flexible, and they are self-motivated.

Benefits of Working Remotely

When asked about the greatest benefits of adopting a remote workforce, Figure 7 (on next page) shows most companies recognize improvement in morale and retention, as well as less absenteeism and higher productivity.
Work Quality of Remote Workers

The best measure of how the survey respondents view the performance of their remote workers was from the direct question, “How satisfied are you with the performance of your Remote Workforce?” The majority (60%) indicated they were “very satisfied” and only 2% said they were “somewhat dissatisfied,” with no respondents indicating they were “very dissatisfied” (Figure 8). Even a neutral response (18%) may be viewed as a positive if other advantages such as lower costs and better employee retention are realized.

When comparing quality of work both before and after implementing a Remote Workforce Program, more than one-third of survey respondents (39%) selected “much better since they started working remotely,” and only 2% said their quality of work was worse.

Potential Downside of a Remote Workforce

Attempting to learn what survey respondents view as the negative consequences of a remote workforce, the CRF Survey asked the question “What are the greatest drawbacks your organization has realized from adopting a Remote Working option?” While this question had the lowest response rate, it was no surprise that about one-third cited cyber security as the biggest challenge.

The Future of Remote Work

As technology continues to improve, it is likely that many companies will employ remote workforces to a greater extent now that there is a robust infrastructure in place, and advancements will likely further this trend. An article on fastcompany.com, “5 Predictions for the Future of Remote Working Tools” states, “…we’re quickly approaching a future

Conclusion

Despite the challenges associated with an off-site workforce, most CRF Survey respondents are satisfied with their productivity and view it as a win for both the company and their remote employees. Remote workers can present challenges relating to their supervision and cyber/data security, however, the technology, reinforced by proper training, is currently available to successfully address those and other issues. New developments in technology that facilitate remote worker management suggest that this type of employment will continue to gain popularity. CRF will remain focused on this topic and report on trends as they develop.

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Legal and Practical Considerations for Remote Employees

By: Julie L. Werner, Esq and Lauren M. Hollender, Esq
Lowenstein Sandler LLP

It has become increasingly common for employers to offer remote work arrangements to employees who work from home in states outside of the state where the employer’s offices are located. These arrangements can be beneficial to both employees and businesses alike. Employees get additional flexibility and save the time and money associated with commuting. Employers expand their available talent pool while saving money on office space and supplies. New technology has made it possible for employees to work from home without sacrificing productivity and accessibility. However, prior to hiring remote workers, there are various legal and practical implications that employers should consider.

Privacy and Security

Employees may have access to a wide range of sensitive information such as financial data, proprietary information, employee names, addresses and compensation, confidential communications between employees or between employees and customers. Sensitive information is constantly being exchanged over wireless networks, which can expose a company to unwanted vulnerability. Are the employee’s home files and equipment secure? Are all computer and mobile devices password-protected and are those passwords required to be changed regularly? Is the employee’s wireless Internet connection safe from unauthorized persons? Remote employees should be reminded of any company policies regarding confidential information and of their obligation to protect that information and secure it properly. A company should enlist its information technology (IT) department’s support to coordinate remote employees’ use of appropriate malware and a third-party virtual private network (VPN). Staff training on privacy and cyber security subjects, including phishing, ransomware and social engineering methods designed to trick email recipients into serving unknowingly as entry points into a company’s information and data system, should not be overlooked.

Non-compete Enforcement

The enforcement of a covenant against competition is a state specific matter. A hodge-podge of laws exists around the country which imposes different obligations upon employers seeking to restrict employees from working for a competitor upon the conclusion of their employment. For example, with very limited exceptions, California prohibits the enforcement of noncompetes upon employees at all, while New York courts generally will enforce a noncompete against an employee if the employer can show that the restrictions are reasonably necessary to safeguard a legitimate protectable interest and that the employer will suffer irreparable harm absent enforcement. States like Massachusetts, Washington, and Oregon require certain information be provided at the outset of employment and potentially that “garden leave” while still remaining on the payroll be paid upon termination for a noncompete to be enforced. The net result of these varying laws is that two sales representatives, for example, working remotely from their respective homes and covering different territories may have different post-employment legal obligations to their employer.

Classification of Remote Workers

Frequently, employers wish to classify remote workers as independent contractors to reduce payroll taxes and other labor costs. However, an employer should not mistakenly assume a remote worker is an independent contractor simply based upon the worker’s autonomy or the fact that the employee works out of state. An employer’s lack of control over a remote worker’s daily activities is generally only one of many factors that a court will consider when determining a worker’s status as an employee or independent contractor. Rather, courts look at the economic realities of the relationship and also may consider the extent to which the services rendered are an integral part of the employee’s business and the amount of initiative or judgment the worker routinely exercises. There is no single test to evaluate independent contractor status for all purposes and compliance is often complicated by the fact that different tests may apply under federal and state law.

Wage and Hour Issues

Employers with remote workers in multiple states need to ensure they are paying employees in accordance with both federal and applicable state laws.

The federal Fair Labor Standards Act (“FLSA”) requires employers to pay employees for all hours worked and to keep accurate information regarding hours worked. FLSA applies to “work performed away from the premises or the job site, or even at home” and requires employers to count the time as hours worked “[i]f the employer knows or has reason to believe that the work is being performed.” It is often difficult to know how many hours remote employees are working. This is not a problem when the employees are exempt salaried employees; however, companies must be careful to track hours for their non-exempt hourly employees and to pay overtime (1.5 times the regular rate of pay) for all hours worked above forty (40) hours in a given workweek. Employers are advised to implement and enforce policies
that require employees to record all hours worked and to prohibit unrecorded work time. Further, employees should be required to obtain authorization from a supervisor before working overtime.

State law may vary when it comes to overtime pay obligations and exceed federal requirements. For example, in California employers are required to pay overtime to employees who work more than eight (8) hours in a single day and for the first eight hours worked on the seventh consecutive day of work in a workweek. California further requires double time payments to employees who work over 12 hours in any workday or more than eight hours on the seventh consecutive day of work in a workweek.

State and local law may also vary when it comes to minimum wage requirements, permissible payroll deductions, the information that must appear on paystubs, payday frequency requirements, whether unused accrued vacation must be paid out upon termination of employment and pay rules as they relate to the timing of payment of final wages. An employer should check with its payroll department or payroll service to ensure compliance.

**Withholdings for State Income Tax, Disability, and Paid Family Leave Insurance and Foreign Registration Requirements**

Income taxes vary by state, with some states like Florida and Texas (among others) not requiring them. The general rule for withholding state income tax (known as the “physical presence rule”) is for employers to withhold income tax according to the location where the work was performed. However, in some states, the law differs, and remote employees are subject to income tax in both the state in which they reside as well as the state in which the employer operates. The analysis can become further complicated in the case of remote workers who split their work time between home and office in two different states. Determining whether deductions are required for remote employees for temporary disability and paid family leave insurance benefits (where state mandated) can also prove tricky. California, Hawaii, New Jersey, New York and Rhode Island have state-mandated disability insurance requirements. The number of states requiring paid family leave insurance is also on the rise.

Hiring remote workers may necessitate registering to do business in a state other than the state in which the company was incorporated/formed (referred to as a “foreign” state). A company that has filing obligations in a state in which it does not have a physical presence may need to hire a registered agent (i.e., an authorized third party located within the state designated to receive correspondence on the company’s behalf) and to file annual reports. Some municipalities require workers who work at home obtain a home occupation permit.

An employer must have a clear understanding of its tax, withholding, and business registration obligations with respect to remote employees.

**Communication and Oversight**

An employer needs to effectively communicate with remote employees regarding work assignments, deadlines, and the employee’s job performance. It is advisable to create a regular schedule of meeting or check-in dates to ensure that any problems from either the employer’s or employee’s perspective are addressed as early as possible. Companies often overlook supervision of remote employees. This can become particularly problematic when the company seeks to fire the employee and there is insufficient documentation or evidence of communications relating to deficient job performance.

**Training and Required Notices/Postings**

Employers should not forget remote employees when it comes to legally mandated training or required job notices. Several states or localities now require that employees receive annual or bi-annual sexual harassment training. Various federal, state and local laws require certain job postings in the workplace (e.g., postings related to wage and hour laws, anti-discrimination provisions, and laws prohibiting sexual harassment). In many cases, these requirements can be satisfied by providing notice via email or within an employee handbook. However, some notices must appear in a required format or in additional languages. It is important to ensure these requirements are met for remote workers.

**Business Property and Reimbursement of Business Expenses**

Upon hire, an employer should be clear as to who will pay for office equipment and supplies and should specify in writing what equipment or property belongs to the employer. Does the company supply company-issued smartphones or computers? What happens if company property is lost, stolen or damaged – who is responsible for paying for the loss? What items are employees required to return upon termination of employment? Answers to these questions should be stated in writing. When issuing devices or equipment to employees, the employee should sign an acknowledgment of receipt, affirm they are responsible for safeguarding the items against damage or theft, and specify who is responsible for the cost of maintaining or replacing damaged equipment.

**Discrimination Concerns**

Remote employees who perform the same work as on-site employees are arguably entitled to be treated the same when it comes to the terms and conditions of employment. Companies should ensure that remote workers are being exposed to the same opportunities for training, mentoring, and advancement as others to avoid claims of discrimination. Equal pay laws require that employees who are performing the same work be paid the same. Concerns of disparate treatment may arise if, as is often the case, the company’s remote workforce is primarily comprised of women caring for children at home or disabled employees who have requested to work from home to accommodate their disability.
In addition, an employer who offers remote working opportunities to some employees, must be careful to offer those opportunities fairly to all. For example, an employer who offers remote work access to working mothers should offer the same to similarly situated working fathers or risk allegations of unlawful discrimination.

Earlier this summer, the New Jersey Appellate Division held that an employee who lived and worked in Illinois could still sue his employer under the New Jersey anti-discrimination law. The court held that because the job promotion that the employee sought was in New Jersey, and because the company’s decision-makers were in New Jersey, the Illinois-based employee could avail himself of the expansive reach of New Jersey’s anti-discrimination law.

FMLA and State Law Eligibility

Employers must be careful to ensure that eligible remote employees be permitted to take any required leave under the federal Family and Medical Leave Act and applicable state law. The FMLA regulations state that an eligible employee under the FMLA must be “employed at a worksite where 50 or more employees are employed by the employer within 75 miles of that worksite.” Some employers incorrectly believe that remote employees are not eligible for FMLA leave when they work from home or a site that is not within a 75-mile radius of 49 other company employees. However, according to the regulations, an employee's personal residence is not a “worksite.” Rather, an employee’s worksite “is the office to which the employee reports and from which assignments are made.” For employees with no fixed worksite, the worksite is the site to which they report and from where they receive their work assignments. So, for example, the lone Massachusetts employee who works from her home, but who receives all of her work assignments from her supervisor in New York where the company employs more than 50 employees, may be eligible for FMLA leave. State leave laws may impose additional leave obligations upon employers. Analysis of both federal and state law is required.

Health and Safety Concerns

Employers are still required to comply with health and safety laws when it comes to remote workers. Before authorizing an employee to work from home, an employer should make sure it is a safe environment and one conducive to getting the job done, free from significant distractions. Most states require employers have workers’ compensation coverage for employees that provides coverage for work-related injuries. To avoid dispute as to what is or is not a work-related injury, it is advisable to define in advance a remote employee’s normal work hours and designate a particular area of an employee’s home as his or her home office.

Conclusion

Remote workers can be an integral part of a company’s workforce. As companies place greater reliance upon these workers, it is imperative that they be proactive in considering the many practical and legal issues associated with hiring remote employees.

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When employers talk about the remote workforce in today’s market, they mean more than just employees telecommuting from their home offices. They’re also referring to the many options employees and workers can utilize to complete their jobs with minimum or no time having to be spent in a traditional office. This includes workers in the oft-cited “gig economy” providing services to companies such as Uber and Doordash, among others, to other employees where their job requires them to be constantly on the road at site visits or clients meetings, rarely stepping foot inside their own office.

Of these various type of remote workers, those telecommuting or providing work from a home office are becoming increasingly common in today’s workforce. In fact, according to the U.S. Department of Labor, close to 23% of full-time employees performed on average close to 3 hours of work from home in 2018. 1 This percentage has remained steady in recent years, meaning nearly a quarter of employees in the workforce are performing some of their duties at their home, away from the office, and outside the safeguards that a traditional office provides.

This is not to say employers don’t benefit from the advantages of remote workers. In fact, the opposite is true: a remote workforce provides flexibility and a lower cost structure to an employer. Less reliance on traditional offices allows employers to reduce square footage and reduce overhead. Without the constraint of geographical requirements, employers can search for talent wherever it may be, opening up a new pool of employees they may never have considered. Flexibility for employees can boost morale and provide employees with a sense of autonomy in their job and may reduce turnover.

However, the flip side of the remote workforce coin is the challenges in workforce management when employees are decentralized and spread across so many different locations. Employers won’t be forgiven for focusing on the most pressing of these issues, such as proper classification of an employee under the overtime laws, ensuring that employees are properly recording their time for pay purposes, and how to best guarantee that employees are meeting their job obligations and performing in a satisfactory manner while being away from the watchful eye of their supervisor.

But some other, less obvious issues that employers need to consider have the same level of ramifications. This includes health and workforce safety issues for those working outside their office, how to best secure and safeguard confidential information for employees who are constantly on the go, and what laws apply to these remote employees. While the law is largely unsettled in these areas, we attempt to provide some guidance on how to navigate these new challenges.

**Health and Workplace Safety Requirements**

Employers are well-versed with the requirements in providing employees with a safe workplace. This includes complying with the standards of the Occupational Safety and Health Act, enacting policies to educate employees on how to make the workplace safe for themselves and others, and providing workers’ compensation insurance for employees who get hurt on the job. But how do these standards work for employees who aren’t in the office, who maintain a home office, or who may not have ready access to their supervisors to report these conditions?

**OSHA Requirements for the Remote Workforce**

An employer’s primary responsibilities under the Occupational Safety and Health Act are essentially two-fold: (1) provide a safe place of employment up to federal regulations and standards; and (2) track and report all work-related injuries and illnesses. But how does an employer accomplish these goals for employees who are sitting in a home office 500 miles away from headquarters?

Fortunately, the Occupational Safety and Health Administration (“OSHA”) has provided guidance regarding its stance on home-based worksites. 2 While this guidance is nearly 20 years old, and may not account for some of the nuances the remote workforce presents now, it is helpful to see how OSHA views these issues.

OSHA breaks down its guidance into two separate sections: (1) home-based worksites, which are areas of an employee’s personal residence where the employee performs work; and (2) home offices, which are office work activities in a home-based worksite. Regarding home offices, OSHA will not conduct inspections, nor will they hold employers liable for an employee’s own home office. However, if an employee’s home-based work extends beyond just office work (for example, manufacturing work), then employers are still responsible for “hazards caused by materials, equipment, or work processed which the employer provides or requires to be used” in the home.

However, if an employer is required to keep records of work-related injuries and illnesses under the law, they will still have to do so for employees in home offices and home-based worksites. Illness or injuries are considered work-related if

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1  https://www.bls.gov/news.release/atus.t06.htm
2  https://www.osha.gov/enforcement/directives/cpl-02-00-125
they occur while the employee is performing work, or if they are performing an act that is directly related to work rather than the general home environment setting. So even if an employee is not on the premises — employers still need to account for them in their OSHA reporting requirements.

Workers’ Compensation Requirements

While workers’ compensation requirements vary from state to state, generally employers have to provide workers’ compensation insurance to all employees to cover injuries that occur during the course of an employees’ performance of their job. Similar to the OSHA reporting standards, a covered injury is one that occurs due to the employee’s performance of tasks related to their job. This means that an injury outside of the scope of the job (for example, an employee trips and falls watering their plants while on a break in the middle of the day) may not be covered. However, with such little case law considering this issue, it is difficult to determine how workers’ compensation courts will decide on these issues from state to state.

How Can an Employer Navigate These Issues?

First, the employer needs to establish written policies addressing workplace safety that they must administer to all remote workers. These policies will explain the employer’s expectations for workplace safety at home-based worksites, reporting procedures for workplace illnesses and injuries, and may even provide employees with resources to ensure they are operating their worksites safely. Employers can also provide training (either remote or in-person) on these workplace standards and require all remote employees to complete the training.

Second, employers need to establish an easy to use reporting system for remote employees to report workplace illnesses and injuries. This can be something as simple as emailing or calling a supervisor, to something more formal such as an online form or remote reporting website. It’s important to note this reporting procedure is meant for both OSHA purposes and workers’ compensation purposes.

Confidentiality and Data Privacy Concerns

Data confidentiality should be at the forefront of any employer’s remote workforce agenda. Whether we are discussing confidentiality of customer or business partner information that must be protected due to contractual obligations, information such as personal health information that must be protected by law, or employer trade secrets or other sensitive information that an employer wants to keep out of the hands of its competitor, remote workers represent a unique challenge in safeguarding this information. That is because every time an employee leaves the office with the information, the possibility of it being improperly distributed significantly increases.

To mitigate these risks, employers can implement a number of safeguards, a combination of which will be useful in enforcing these confidentiality concerns.

First and foremost, employers need to have on file policies and procedures regarding the type of confidential information employees will have access to, and how employees are expected to keep that confidential information private. This policy should be distributed to all employees at the beginning of their employment, and on an annual basis as a reminder of their obligations. Employers may also consider training for employees on these confidentiality issues, especially when employees have to handle confidential information protected by law (such as information protected by the Health Insurance Portability and Accountability Act).

Second, employers should work to limit access of confidential information within the company to only those employees who actually need access to the information. For example, those outside the research and development department don’t generally need to be aware of the employer’s trade secrets. Those outside the sales department don’t need to be aware of the employer’s sales and pricing strategies. While this approach should not be taken to such an extreme as to inhibit the flow of information to help the employer conduct its business, limiting the pool of employees who have access to the confidential information will reduce the possibility of improper disclosure.

Third, employers should put into place procedures for all remote employees to access and maintain confidential information. For example, remote workers should only access the employer’s network by use of an approved, encrypted virtual private network (“VPN”). Employees should be prohibited from saving or storing confidential information on their personal computers or other devices outside of the VPN. Aside from electronic information, if a remote employee must take confidential information home in the form of hard copy documents, they must be secured at all times when out of the office. This may include the use of locked filing cabinets or other measures, and a strict prohibition against employees leaving files in their vehicles or some other unsecured location. The employer should also institute a tracking system when employees remove hard copy documents, such as tracking when the information was taken, what type of information was taken, and when it was returned. Violation of these rules should result in discipline for the offending employee.

Finally, all employees who handle confidential information should sign confidentiality agreements at the outset of their employment. These agreements should clearly define the confidential information the employee will be handling and strictly prohibit the unauthorized disclosure of such information to third parties. It should also provide for a legal mechanism to enforce the agreement in the event an employee does disclose the information, such as the ability of the employer to seek an injunction.

It is paramount for an employer to implement these safeguards and procedures to protect confidential information as these safeguards will be Exhibit A in any litigation regarding confidential information. In the event of an unauthorized disclosure, courts will undoubtedly look at these procedures to see how seriously an employer took their obligation to secure confidential information. In the instance of disclosure of legally protected information, such as personal health information, implementing safeguards will be the difference between a large administrative fine and a potentially reduced penalty. On the other hand, in an action to enforce a confidentiality agreement to stop the disclosure

3 29 C.F.R § 1904.5(b)(7)
of trade secrets, or even a non-competition provision, strong safeguards can be the difference between a court issuing an injunction or declining to do so.

**Applying Employment Laws to Remote Workers**

The myriad federal, state, and local employment laws are enough to give a headache to even the most seasoned human resources professionals. Now, add into the mix remote employees occupying worksites well beyond the borders of any company office, and it only becomes more complicated. Human resources offices must keep a close eye on the states and municipalities where all of its remote workers are located and adjust accordingly, and must also assess how these remote workers are treated under applicable federal laws as well.

The best example of a federal law affecting a remote worker differently than employees in a central location is the Family and Medical Leave Act ("FMLA"). The FMLA covers employees who work in a location that has 50 employees within a 75 mile radius. So if you are an employer with your main headquarters in Florida and 100 employees in the main office, all of those employees will be covered by FMLA. However, what about your one west coast sales representative who lives and works out of their home in San Francisco? Will that employee be eligible for FMLA leave? No – they will not, since they are only one employee in a remote location. It is important for the employer to draw this distinction and explain to that sales representative that they aren’t necessarily entitled to which could cause a problem down the road.

On the other hand, human resources professionals also need to be vigilante to provide remote employees with benefits under state and local law that may not be provided to a majority of the employer’s workforce. To keep with our example of the Florida employer and a sales representative working in San Francisco, those 100 Florida-based employees aren’t entitled to any paid sick leave. However, the employee working in San Francisco is entitled to sick leave under San Francisco’s Paid Sick Leave Ordinance. The employer will then need to track sick leave for this individual employee even if they do not provide sick leave for any other employees.

The same question arises not just for laws providing entitlements to employees, but also those laws protecting employees. Moving back again to our Florida employer, in addition to its San Francisco sales representative, they also want to hire a remote sales representative in New York City. However, seeing as they have never hired an employee in New York City, they want to ask prospective applicants their current salary to get an idea of the market. Unfortunately for this employer, they won’t be able to do that. Even though the employer sits in Florida, where there is no salary history ban on the books, by hiring someone in New York City the employer now needs to abide by New York City employment laws. This includes the recently enacted salary history ban. The Florida-based employer will run afoul of a law in place nearly a thousand miles away by asking this question, which means it will have to train the Florida-based employees interviewing applicants to comply with this New York City law.

**Conclusion**

There is no doubt that the remote workforce is here to stay. Employers and employees should be eager to reap the benefits of this arrangement. But as with everything in the employment world, employers need to be careful not to let their guard down when it comes to their remote workforce. Employers need to take a big picture approach to determine the objectives they want to achieve by using a remote workforce, the legal obligations the employer must adhere to with respect to these employees, and best practices for ensuring the remote workforce relationship runs smoothly. In doing so, employers can turn their remote workforces into an invaluable business asset.

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Sales is from Mars and Credit is from Venus: How AI Enables a Strategic Partnership Between Sales & Credit to Boost Sales and Improve Collections

By: Bill Weiss
Vice President, Business Development – Credit & Collections
HighRadius

Overview: Nearly every business experiences a certain level of strain between the sales and credit teams. This conflict happens for a variety of reasons, but it often has to do with poor communication, and most importantly, differences in goals. When this happens, the collateral damage is unanticipated blocked orders that impact customer satisfaction. Instead of being reactive, Artificial Intelligence (AI) predicts the likelihood of an order being blocked based on history. With predictive insight, the credit team can proactively trigger a series of automated actions to obtain a payment, or a commitment from the customer, and release credit. The insight from Machine Learning improves the credit management process, changing it from reactive to predictive.

Sales & Credit Departments: Friends or Foes
Accounts Receivable (A/R) teams and credit teams are generally responsible for ensuring and enabling transactions. However, this also means that these teams have to keep an eye on each and every transaction - something that is a non-value-added activity that has minimal (or no) impact on the bottom line.

Nearly every business experiences a certain level of strain between the sales and credit teams. This conflict happens for a variety of reasons, but it often has to do with poor communication, differences in goals, and a lack of training.

A primary source of conflict between the sales and credit team members is how they think about a sale. Sales teams are often trained to think in terms of the number of sales. Its goals are often number-based, and they are rewarded with commissions, so it makes sense that the sales team is driven to get as many transactions as possible.

The credit management team has a completely different perspective. Its main goal is the quality of sale; before extending credit, the credit department must decide whether customers are a good risk and whether they will be reliable payers over time. Credit managers have the final say about whether a customer will be allowed to purchase on an invoice or credit basis.

The major fallout of this conflict is blocked orders. The sales team can’t start selling until the credit team completes the new application review. The sales team has to chase the credit team daily to release the orders. The general perception is that the credit team does not directly help in increasing sales, and instead acts as a blocker.

Customer satisfaction is the first major casualty if orders are blocked, because no proactive action was taken to handle it before the fact. Maintaining a high frequency of periodic credit reviews is one way to tackle the issue, but more often than not, the credit team reviews and releases orders manually one-by-one.

Recent years have seen Artificial Intelligence (AI) transforming credit and finance teams. They have revised their focus from mere transaction-management to enhancing the customer experience and satisfaction.

Reality of the Credit Department: Manually Intensive Credit Management
For most organizations, the entire process of credit management is manually driven, or at best, partially automated in bits and pieces. In this manually intensive credit review process, small customer accounts are neglected, and significant time is wasted both downloading and aggregating credit reports, and also extracting data from an ERP. But then again, the amount of to-and-fro required to get approvals on credit limit revisions delays the entire process.

Figure 1 illustrates the credit review process with its multiple, manual touchpoints. This leads to friction between the sales and credit teams with the customer being the victim of blocked orders.
When handled manually and in a reactive way, a blocked order release requires credit management, collections and cash application teams to work in tandem. There are multiple interchanges of information between the teams that result in a considerable amount of wasted time and resources. Figure 2 below illustrates the manual blocked order management that ultimately causes sales to be delayed as the A/R and credit teams take time to manually release the order. The issue is compounded when the orders are released based on verbal and unreliable information.

One way to speed up the periodic credit review process is to automate a few of the individual sub-processes. Though few of the sub-processes can be automated, processes like fixing a suitable date for credit review and reviews for large, key accounts are manually driven. However, this still doesn't solve the issue of small customers being neglected. The A/R and credit teams are left blindside if the credit rating drops for any account (except large customers), leading to blocked orders and uncollectible receivables. Not only does this negatively affect sales, but customer satisfaction takes a hit in this situation as well.

Way Forward for Credit Teams to Become Strategic Partners for Sales

What if sales and credit teams could harmoniously coexist? What if the credit team could predict orders which would most likely get blocked? What if they could proactively get in touch with other stakeholders to see the whole picture and notify the customer beforehand? What if sales could go about their business without ever encountering a blocked order again? With predictive insight, the credit team can proactively trigger a series of automated actions to obtain a payment, or a commitment from the customer, and then release credit. The insight would improve the credit management process, changing it from reactive to predictive.

Artificial Intelligence for Credit Reviews and Blocked Order Prediction

The next step in getting insights for proactive action is to embrace AI. AI finds application in proactive credit reviews as it can process both large sets of structured and unstructured data. As illustrated in Figure 3, an AI-enabled system considers both internal and external factors to get a micro- and macro-economic view of a customer account, and then automatically set the credit review period triggering credit reviews for troubled accounts. This lets the credit team know about a stressed account even before an incident happens, allowing the A/R, credit and sales teams to work in tandem to drive recovery and collections from the identified at-risk accounts.
AI goes a step further to automate the entire credit review process and predicts, with a certain level of confidence, the probability of an order getting blocked. There are many Machine Learning algorithms to predict blocked orders, but one of the most reliable ones learns algorithms such as regression and classification, which rely on Decision Trees and Random Forest methods. This algorithm is specifically suited for the prediction of blocked orders, as it can achieve high classification performance with a set of decision trees that grow using randomly selected subspaces of data. The collections and cash application teams can then proactively ensure that orders are not blocked that should not be. Figure 4 illustrates the AI enabled credit review process that predicts and prevents blocked orders.

This enables sales teams to start selling faster to new customers and support building customer relationships. Under the hood, Machine Learning recommends which customers to go after for more sales without increasing the risk, and helps sales identify customers that improve the cash flow. The benefits are multi-fold since it leads to:

- Improved top line as sales orders are no longer blocked
- Improved customer satisfaction
- Better credit risk management
- The team can focus on critical customers

attributes that are used for order prediction can be:

- Holidays (whether a day is a holiday or not) (country-wise)
- Day of the week
- Day of the month
- Last peak amount (any amount that is greater than 66.7% of the highest peak is considered a peak)
- Number of business days from the last peak
- Last 7 days Variance in order amount (excluding holidays and including zero/No orders)
- Last 7 days Mean in order amount (excluding holidays and including zero/No orders)

These blocked order predictions and recommended temporary credit limits are key in helping to transform the credit team from anti-sales to pro-sales.

**Defining an AI Strategy to Create Synergy between Credit & Sales**

An organization's AI strategy should not be overly clouded by technology. They should understand that AI is not just a pack of algorithms that can be developed or bought off-the-shelf. It's used to accelerate the process of enhancing existing applications and processes. Even before getting into the details of the technology, companies should determine two important aspects.

First, organizations need to come prepared with an in-depth understanding of the problem, as well as the scope of the
problem they are trying to solve. Too often, organizations approach these projects more preoccupied with the technology they use than the problem they’re trying to solve. Tackling projects with a technology-first mindset almost always leads to cost overruns, wasted time and energy, and even new problems born from mismanagement or mishandling of the newly implemented, but likely wrong technology. The fact is, AI and Machine Learning algorithms today are a dime a dozen and are widely open sourced from computing giants like Google and Facebook. New problems tend to warrant new technologies, but most problems are not new. AI buyers need to let their problem dictate the AI model they implement, not the other way around.

Second, the key to defining one’s optimal AI solution is determining the available training data capable of informing one’s chosen AI model. Typically, the higher the volume and variety of training data, the more robust the AI implementation. But in addition to making sure the necessary data is available and that there is enough of it, it’s also incumbent on organizations to ensure that their data is appropriately labelled and tagged in order to yield the best outcome.

In the end, creating the right synergy between the sales and credit teams is critical for driving sales and improving customer satisfaction. The right AI strategy can and should improve the rapport between sales and credit to increase revenue, build solid relationships between the A/R and sales teams, reinforce customer relationships and reduce dissatisfaction from improper credit management or blocked orders.

About the author:
Bill Weiss is Vice President of Business Development - Credit & Collections at HighRadius, specializing in strategic partnerships within the Credit & Collections industries.
Mr. Weiss has acquired experience in credit risk and accounts receivable management in several organizations, including co-founding The CreditExchange, one of the first B2B online trade credit bureaus and starting/heading his own consulting firm.

BUDGET TIME - PLEASE REMEMBER CRF

With the unofficial end of summer comes the start of the unofficial time for budgeting within most corporations. That typically includes a review of year-end projections and thoughts on costs for BAU (business as usual) for the following or upcoming year.

In that regard, The Credit Research Foundation is hoping we are very much in your plans for 2020!!! Like all businesses, costs of operation at CRF continue to increase. However, thanks to the support of our community, and specifically our Platinum Partners and Friends of the Foundation – membership prices will Remain the Same for 2020!

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Global markets remain on edge with trade-related conflicts making the headlines on a daily basis. In the first three quarters of 2018, trade restrictions were placed on 12% of US imports, while 8% of US exports were hit by retaliatory measures. A majority of economists polled by Reuters expect a downturn in the US economy due to the recent rise in trade tensions with China. Rating agencies expect similar developments on a global scale. Morgan Stanley chief economist, Chetan Ahya, stated in a recent note to investors that the risk of further escalation is high and the global outlook is decidedly skewed to the downside. Morgan Stanley expects the global economy to enter a recession in three quarters.

According to the Country & Sector Risk Handbook 2019 by international credit insurer Coface, growth in the US is already slowing down. Business profit margins will continue to be affected by higher input costs related to customs duties imposed on a wide range of products, including steel and aluminum. As the Federal Reserve is expected to continue to tighten monetary policy, credit will also become more expensive. However, household consumption is expected to remain stable, due to the ongoing decline in the unemployment rate.

The business environment on the other hand will most likely be less favorable in the near future, given a slowdown in the main partner economies. Western Europe in particular is showing signs of weakness – the number of business insolvencies stopped falling in this region in 2018.

Based on the anticipated insolvencies, observed payment periods, financial result forecasts, and payment experience per sector in the US, agriculture and food, automotive, construction, and retail are at risk, and textile and clothing are at an even higher risk. The automotive and construction sectors are particularly affected. On the demand side, this risk is due to more expensive credit, resulting from higher interest rates. On the supply side, this risk is due to rising metal input costs caused by protectionism.

In times of volatile markets and uncertain prospects, credit managers are faced more than ever with the task of knowing their customers’ financial situations down to the last detail in order to avert damage. Economic turmoil, sector-specific risks and rising numbers of insolvencies and bad debt all need to be taken into account when estimating credit scorings and the overall portfolio risk exposure. As a credit manager you have to be aware of the business environment your customers operate in, and to which extent certain economic and political developments might affect them and their ability to pay. To anticipate and determine customer-related risks and to protect your business within the economic climate of 2020 and beyond, your credit management team should consider the following five measures.

1. **Leverage real-time data integration and hyper-connectivity**

Real-time data is essential for credit managers, especially in times of rising insolvencies. It is important to detect defaults as soon as possible, ideally ahead of time. However, many organizations are not up to the challenge. A recent Dun & Bradstreet survey in the US and UK reveals that one in five businesses lose revenue and customers due to incomplete data. To gather, manage, analyze, and interpret both internal and external data efficiently and correctly, customer-related information must be integrated. To achieve this, the system must have the capacity to automatically retrieve credit rating data in real-time. Hyper-connected solutions integrate credit ratings directly into the credit scoring algorithm. Monitoring functions immediately notify credit managers about any status change. Also, credit insurance processing, which is especially relevant for international business operations, can be connected to the customer database. This way, you have sufficient visibility regarding customer risk exposure.

2. **Conduct customer compliance checks**

Today onboarding a customer not only requires estimating their solvency. It requires rigorous background checks and anomaly screenings to ensure the integrity of your business network. Businesses need to check their customers against terrorist and embargo lists to ensure the customers aren’t engaged in money laundering or have been identified as politically exposed persons (PEP). To ensure business integrity, you need to protect yourself with compliant processes, standards and codes of conduct. True business integrity can only be achieved through a combination of improvements across the business, IT and company culture – something that many businesses aspire to but find difficult to achieve. However, in today’s business environment no organization can afford to neglect the risk of compliance, corruption and crime.

3. **Emphasize experience**

The concept of the experience economy defines that the experience actually is the product. Digital technologies like apps, websites, and social media offer new possibilities for creating a valuable customer experience. Today, users are not merely looking for high-quality goods and services – they expect a unique experience and select brands that fulfill these expectations. Understanding the customers’ needs and their feelings about a product or a company can make or break an enterprise. Luckily, technological innovation has opened up new possibilities for learning, measuring and analyzing customer sentiments on a large scale. For credit management and O2C in general, this makes it possible to create a positive customer experience during onboarding
as well as during billing, collections and especially dispute management. Technology can also ensure a high quality of communication and processing at every touch point throughout the credit and receivables-related customer journey. If not only your product or service, but also your engagement satisfies your customer, they will be more likely to continue to do business with you in the future.

4. **Leverage intelligent automation**

Credit management cannot operate on a manual basis in today’s digital business environment. This holds especially true if credit management is expected to deliver solid and reliable credit decisions in a short amount of time. Credit managers require solutions with intelligent automation if they are expected to cover all of credit management’s operations in a best-practice manner. Capabilities needed include an automated determination of credit limit, credit score and risk category, as well as an efficient approval procedure. Process-based templates ensure standards and consistency during the credit limit application and approval processing. It also makes sense to have an integrated correspondence function to optimize collaboration between key account managers and departments. They also need task management capabilities to help prioritize urgent activities on a daily basis. Common issues such as locked sales orders can be resolved much faster if the credit management process is automated and more transparent due to the availability of information in one central credit tool.

5. **Think about services**

Specialized services for finance operations continue to grow in popularity as they enable businesses to move back-office activities to special service providers. Receivables can be easily managed as a service by outsourcing the process of matching incoming customer payments against open items and attributing remittance advice to payments too. Collection efforts take up a lot of time. Instead of conducting these yourself, collections experts can do the work for you. Even credit scorings could be conducted as a service. By leveraging “as a service” approaches, you are able to connect to new banks or support new payment formats immediately, without engaging in lengthy implementation cycles. This will free up highly skilled resources within your finance team from doing low value, repetitive, administrative work.

Overall, optimizing processes while leveraging services and technology can help you to ensure profitable and stable sales, even in an environment of economic downturn. A smart mix of best practices, services and automation will determine the success of your credit management. How to weigh the different possibilities and which measures to choose of course lies within your own discretion. This depends on the processes within your company and your overall business and risk strategy. However, as the long-year period of global growth and economic stability could come to an end in the near future, it is better to take the right measures sooner rather than later.

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**About Serrala:**

*Serrala* is a global B2B fintech software company that works to optimize the Universe of Payments as it adds efficient cash visibility and secure financial processes within all inbound and outbound payments for organizations.
You Want Me to Give a Proxy to Who?

By. Kenneth A. Rosen, Esq
Lowenstein Sandler LLP

*The views expressed herein are solely those of the author and not necessary those of Lowenstein Sandler LLP or of any attorney at Lowenstein Sandler LLP.

My first job was working for the United States Trustee (“UST”) for the Southern District of New York. The UST program came about with the amendments to the Bankruptcy Code in 1979. Congress decided that administrative functions – such as appointing examiners, creditors’ committees and trustees – should be performed by an independent party rather than by the presiding Bankruptcy Judge. As a financial analyst and attorney for the UST, we oversaw cases where no one else would have done it, we assured compliance with the Bankruptcy Code and with the Federal Rules of Bankruptcy Procedure and we made appointments that were in the best interests of creditors as well as debtors. Congress was smart to implement the UST program.

Representing creditors’ committees in Chapter 11 cases is a big business. There can be a lot of fees earned by attorneys, financial advisors, investment bankers, appraisers, claims agents and disbursing agents representing a creditors’ committee. If creditors do not watch over the fees charged and, as a result there is less money to pay a dividend, the creditors only have themselves to blame.

How do creditors’ committees get appointed? When a debtor commences a Chapter 11 case it submits a list of its 20 largest general unsecured creditors. The list is supposed to exclude insiders, related parties and creditors whose claims have priority status. The UST uses that list to solicit interest in serving on an official creditors’ committee. Each of the UST districts handles solicitation and appointments differently. Some hold an in-person meeting of the interested creditors. Some do everything by mail without a meeting. Some may organize committees by conference call. At some in-person meetings the creditors and the professionals seeking to be retained by the committee are all in the same room. In other venues, creditors are in a different room than the professionals who are seeking to be engaged.

In appointing the committee, the UST may consider such factors as who will add value to the case as a committee member, who has the time and willingness to serve as an effective committee member, whether the creditors are competitors and whether the creditors add diversity to the committee. For example, the UST would not want seven shoe manufacturers on a seven-person committee in a sporting goods retailer Chapter 11 case even if the seven shoe manufacturers had the seven largest claims. The UST has much discretion. I have never seen that discretion used arbitrarily or capriciously.

The process of selecting professionals by a creditors’ committee is a democratic vote. One person, one vote. The size of the creditor’s claim does not matter. A small claim may be more important to a small creditor than a large claim is to a large creditor. The committee, once formed, decides which professionals to interview to represent the committee and then votes based [supposedly] on who will do the best job of protecting the interests of the creditors. Each professional interviewed is invited to explain their understanding of the issues, what would be their case strategy and how the value that they will add to the creditors’ recovery will be greater than the fees charged by the professional. The professionals selected to represent the committee very much can impact the outcome of the case. Among other things, different professionals have different levels of industry expertise and industry contacts.

In many instances, bankruptcy petitions are filed in Bankruptcy Courts far away from the real home base of the debtor. And, if the UST has called an in-person meeting to appoint a creditors’ committee, creditors may be far away from the location of the committee formation meeting. Therefore, travel expenses and travel time can make seeking a seat on the committee an expensive proposition.

It now has become common for people to “cold call” creditors and offer to help get them onto the creditors’ committee. The caller offers to get a proxyholder to attend the meeting for the creditor on a “courtesy” basis. The proxyholder attends the committee formation meeting; but the actual creditor may not understand the risk of giving a proxy to someone that it does not really know. I am not talking about the situation where a creditor simply cannot travel and asks its known, regular legal counsel to attend the meeting.

Behind the scenes there may be several things agreed to or unsaid when giving a proxy. Examples are who the proxyholder will vote for as committee counsel, who the proxyholder will vote for as a financial advisor to the committee, whether preferences will be pursued and who will serve as litigation or liquidation trustee. The proxyholder is not simply enabling the creditor to become a committee member. The proxyholder also will vote for counsel and for financial advisor. Giving a proxy is very far from a ministerial act. Who serves as counsel, who serves as financial advisor, which candidate has the best understanding of the industry, which candidate has the best strategy for increasing the dividend for unsecured creditors - are decisions that really affect the outcome of the case. That power should not be given away lightly. In addition, counsel and financial advisors to a creditors’ committee can, under certain circumstances,
expose committee members to liability. So, the creditor has even more at stake in choosing a professional to support.

When a creditor is cold called, the first question to be asked of the caller should be, “Where did you get my name from?” Most likely the creditor’s contact information was on the “top 20” creditors list which is filed with the Bankruptcy Court. If this is the case, then you know that it is a “cold call.” If the caller identifies someone else as the referral source (such as someone else in the industry), stop the call and speak to the referral source before continuing the conversation with the cold caller. If the caller offers to find a proxyholder for you - especially for free - you have confirmed that the real agenda is to seize control of your voting power. People rarely do things for free anymore!

No one respects the UST program more than I do. However, the UST’s control over cold calling creditors and over the solicitation of proxies has become lax in many jurisdictions. Cold calling for proxies has become akin to “dialing for dollars.” The process whereby members of a creditors’ committee make fully informed choices in a completely transparent process - which is so critical to the proper functioning of the system of reorganization in Chapter 11 - has become severely distorted. One way to assist the UST in performing its important duties is for creditors to “just say no” when they are cold called. If your claim is important to you, you should know how to find a representative on your own to attend the committee formation meeting who truly has your interests at heart. It’s really not that hard.

About the author:
Ken Rosman, Esq is Partner, Chair, Bankruptcy, Financial Reorganization & Creditors’ Rights of Lowenstein Sandler. Mr. Rosman advises on the full spectrum of restructuring solutions, including Chapter 11 reorganizations, out-of-court workouts, financial restructurings, and litigation.

In his spare time, Mr. Rosen serves on several philanthropy and nonprofit boards primarily devoted to health care and education.
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How a Dashboard A/R Management System Made Big Improvements in One Global Freight Brokerage’s Bottom Line

By: Andrea Rogers, Vice President
    Jeff Jones, Vice President
    Ansonia Credit Data

The Background
A top freight brokerage with its own fleet, warehousing and distribution facilities recently celebrated its 20th anniversary. Though not an old company, it moved quickly from serving regional locations to providing the world with some of the most comprehensive logistics solutions in the industry. This has earned it broad recognition, including multiple business awards and top-50 listings. The road’s been smooth-going, right?

Not so fast.

“A.J.,” the company’s director of finance, said that until recently, Accounts Receivable management remained a challenge. “As we grow and extend more credit in this economy we have to be risk-averse, always,” he said, adding that although the company took appropriate steps to minimize days-to-pay, it still struggled with the problem of high balances of 90 days or more.

The Challenge
At the heart of the company’s value proposition is an elevated customer service culture that focuses on teamwork, continuous improvement and results. For its sales and AR teams, that meant adopting new strategies both for creating new customer accounts and extending credit limits for existing ones. The question was, how to accomplish this while guarding against bad credit risk decisions?

“Our industry requires us to make quick decisions and not waste time running a credit report and waiting on an application, reviews and financial information,” A.J. said. “We’d literally find ourselves having to compare, side by side, an old credit report with the new report so that we could drill in and see what changed. It was a pain.”

On the back end, the company faced a drain on resources due to chasing down slow-paying accounts and trying to manage the potential for bad debt write-offs and loss. The challenge became how to reduce credit and collection costs while still providing a quality account experience and timely results for customers?

The company is committed to continuously improving ways to help their customers grow and succeed, after all. That’s when A.J. realized that finding an easy-to-use and elegant dashboard A/R management system was the ideal solution for meeting – and exceeding – customer expectations by eliminating the tedious task of manually sifting through data. A.J. found such a vendor-provided system that soon proved to be the ultimate AR tool for automating the company’s credit risk evaluation process and quickly prioritizing their portfolio. In so doing, the company has been able to make more informed credit decisions while collecting money faster, lowering bad debt and streamlining cash flow.

The Results
After only nine months of moving to Dashboard, A.J. showed his team’s significant progress to the company’s
president and chief financial officer. “I had the confidence to tell them we’re looking good,” he said. “I showed them our total AR profile by risk and how we’ve worked with that distribution to reduce high-risk accounts.”

The result was a 90-day balance that had dropped by more than half, from higher than the industry average at 9% to nearly even with the average at 4.3%.

A.J. finds Dashboard to be broadly useful, including in two key areas:

- **Risk distribution.** After sending company data to the vendor, A.J. checks the dashboard each week for a snapshot of the company’s entire AR portfolio. “This helps identify high-risk accounts,” he said. “I focus on accounts that had days-to-pay issues during the previous week to see if what I’m hearing correlates with what my vendor and the overall industry are reporting.” He added that this improves his discussions with his AR specialists, as well as supports his analysis of the company’s total AR profile by risk and the steps taken to reduce exposure when meeting with the president and CFO.

- **Account search.** A.J. uses the Dashboard with his credit department on a daily basis to perform risk assessments that help determine whether to grant immediate temporary credit extensions. “I take a deep dive into a customer’s details through an Account Search feature, looking at their payment history with us, as well as within our industry and overall,” he explained. “This gives me the confidence to extend or deny credit or, if necessary, request further information such as updated financial statements.”

For example, a customer with a good score for the nine months since coming onboard approached the company for a higher credit limit. However, a quick check using the risk score on the Dashboard which surfaces largely hidden negative credit trends, showed they had gone from medium to high risk proprietary. This alerted the company to act quickly before trailing indicators such as days-to-pay began to deteriorate. “Instances like these tell us we need to pump the brakes and ask more questions,” A.J. said. “The positive result has been that our days-to-pay balances have shifted to more low-risk accounts in our portfolio’s risk distribution.”

Modern transportation is extremely costly and savings are everything. Moving forward, A.J. said he plans to regularly explore the Dashboard’s features to better prioritize collections and help turn payables into cash more quickly. “Before we had this dashboard, I relied on clunky internal reporting methods without the benefit of data from within and outside the industry,” A.J. said. “The dashboard is a standout tool in today’s age of on-demand data and key performance indicators. It’s an amazing tool.”

**Some of A.J.’s Other Favorite Dashboard Capabilities**

- **Miscellaneous queries.** “Pays Me Slower Than Others,” “High Risk Priority” and the “Quick Grab” options located at the bottom of the dashboard help the company find accounts that may have been off its radar. These then can be steered to AR specialists for further monitoring.

- **Cash flow management.** Freight brokerage firms often function on low margins, particularly when they spend money to provide a service and must wait to get paid. By directing much of its receivables to lower-risk customers, the company can minimize risk by keeping as few dollars in the red as possible.

- **Unutilized limit management.** The dashboard helps the company to identify accounts that are high risk and also with an excess of open credit so that it can reduce their unutilized limit. In cases of high credit limits and low balances, the dashboard helps to avoid additional sales being made without prior credit approval.

- **Comparative performance.** The company has a brokerage division and an asset-based carrier division, and each require unique decision-making strategies. The dashboard’s capabilities include allowing them to be viewed separately for purposes of comparing the performance of each with other divisions, the rest of the industry and other industries.

**What the Dashboard Means for You**

- **Account search.** View customer details, including risk category, recent balance activity, links to credit reports purchased in the last year and get an Account Detail Report.

- **Portfolio summary and highlights.** See largest account exposures with account level drill-down capability.
• **Risk distribution.** View AR portfolios broken down by high, medium and low-risk categories.

• **Industry and payment trends.** Make easy comparisons between a customer account’s performance versus that of all other companies in the database, both within and outside your industry.

• **Multiple account queries.** Streamline credit reviews, prioritize collections and improve cash flow with these query features designed by industry experts.

• **Expandable sections.** Click on any section to drill into account-level details, then sort and export to prioritize credit reviews and collection efforts.

Various Dashboard A/R Management Systems are available from service providers. Explore several of them to determine which one offers the features best suited to the payment and cash flow requirements of your business. A product that is well-suited to your operations can confer significant benefits in providing relevant, easy to produce and timely data needed to streamline and optimize your Accounts Receivable Management.

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**About the authors:**

**Andrea Rogers,** is a Vice President, Strategy and Business Development of Ansonia Credit Data. She has over 20 years in the accounts receivable factoring industry which relies heavily on credit reports containing accurate payment data.

**Jeff Jones,** is a Vice President of Ansonia Credit Data. He has over 25 years of delivering credit and collections solutions to the transportation industry.

Ansonia Credit Data is a next generation business trade credit reporting service offering credit reports as well as accounts receivable portfolio analytics technology.
Overview:

- Historically, business cycles have come to an end because of a significant vulnerability in the private economy.
- This time, the predominant threat to the business cycle is poor economic policy, the most obvious being President Trump's trade war with China.
- The Fed will be instrumental to whether the economy is able to navigate through the next year without a recession.

The business cycle is at a critical juncture. Recession risks are as high as they have been since the record long economic expansion began over a decade ago. Indeed, a growing list of major global economies are already flirting with downturns. They include Germany, Italy and the U.K. in Europe, Brazil and Mexico in Latin America, and Japan, Korea and Singapore in Asia.

Here in the U.S., manufacturing and agriculture are arguably in recession. Industrial production is flagging, as are farm incomes. The transportation and distribution industries are also struggling since they move much of what factories and farmers produce. Combined, these activities account for no more than one-fifth of the nation’s GDP, but as long as they are contracting the broader economy will remain vulnerable to anything else that may go wrong.

Investor anxiety

Investors are anxious that something will. Based on a handful of financial indicators that in times past have been prescient barometers of future recession, there is an almost two-thirds probability of recession by the middle of next year.

The indicators include two measures of the shape of the Treasury yield curve, stock market volatility, credit spreads and the difference between the federal funds rate and the equilibrium funds rate—that rate consistent with a neutral monetary policy. Recession probabilities are lower after adjusting the yield curve measures to account for potential biases related to global quantitative easing and other factors. Even so, in past cycles when probabilities got as high, recessions ensued.

Poor policy

Historically, business cycles have come to an end because of a significant vulnerability in the private economy. Defaulting subprime mortgages were the proximate cause of the financial crisis; the bursting of the technology-stock bubble was at the heart of the post-Y2K recession; and the meltdown of the savings & loan industry was the problem resulting in the early-1990s downturn. Excessive leverage, speculation and overvalued asset markets, overbuilt real estate markets, and overladen inventories have been central to every recession since World War II.

This time, the predominant threat to the business cycle is poor economic policy, the most obvious being President Trump's trade war with China. Geopolitics are also unusually unsettled, from the possibility of a no-deal Brexit to heated political unrest in Hong Kong to mounting conflict in the Middle East that could disrupt global oil supply. Whether this expansion continues for very long depends on how these events play out, and how the Federal Reserve and other global central banks respond.

President Trump has recently dialed back the rhetoric in his trade war with China, and negotiations appear set to resume in coming weeks. This has buoyed global stock markets, as widespread expectations, including ours, are that the president will soon come to terms with China. Not that this means the higher tariffs he has imposed on Chinese goods will come off or that there will be substantive changes to Chinese behavior around trade, access to their markets, or protection of intellectual property. But it does mean there won’t be an escalation in the trade war. And while uncertainty will weigh on business investment and hiring—and thus the economy’s growth—recession will remain at bay.

Of course we have been at this same place more than once in the past year only to see the negotiations break down and the president double down on his tariffs and threaten other retaliation. If the same happens this time, investors are sure to lose faith, and financial markets will be roiled along with the economic expansion.
No-deal Brexit

Brexit is another existential threat to the economic expansion. Given the political chaos in the U.K., there is no handicapping how it will play out. Yet we must, and our baseline scenario holds that the British will continue to kick the can down the road on a Brexit decision, ultimately deciding not to leave the European Union. The new British prime minister, Boris Johnson, will thus be cornered into moving the drop-dead date for a Brexit decision from the current end of October to the end of next January. There may be new elections between now and then, but that also won’t determine a path forward. The deadline will be pushed further into the future, and while the cloud of uncertainty will remain thick and the British economy diminished as a result, Brexit will not be the catalyst for the next recession. But it isn’t difficult to construct other darker scenarios, in which the British leave the EU without a deal. In a no-deal scenario, trade between the U.K. and EU would revert to rules governed by the World Trade Organization. Border controls will be necessary, tariffs will increase, and regulations and standards will ultimately diverge. The supply chain between the U.K. and the EU would be badly broken, regulatory arrangements that govern many aspects of everyday life, from medicines to driver licenses, would break down, and financial institutions would be unsure how to operate.

A no-deal Brexit would be a body blow to the European economy, particularly if it reignites populist anti-EU sentiment throughout the Continent.

It probably wouldn’t by itself be sufficient to push the rest of the global economy, including the U.S., into recession, but that would only be because global central banks, led by the Federal Reserve, would be slashing interest rates.

Negative rates

The Fed will be instrumental to whether the economy is able to navigate through the next year without suffering a recession. It is already on the case and appears set to deliver the full percentage point in easing that futures markets currently anticipate through early next year. This will provide much needed support to the economy. Based on simulations of our global model, the lower rates will boost real GDP by half a percentage point by the end of 2020 and by a full point by the end of 2021.

This is just enough to forestall a recession under our baseline assumptions regarding the trade war and the geopolitical threats.

However, if President Trump escalates his trade war or there is a no-deal Brexit or any of a number of other geopolitical hotspots boils over, the Fed will be overwhelmed. It will quickly be back to dealing with the zero lower bound, a resumption of quantitative easing, and possibly even negative interest rates. With the federal funds rate and 10-year Treasury yields already hovering around 2%, any of these shocks would likely quickly push rates negative. For context, in typical recessions the Fed lowers short-term rates by close to 5 percentage points.

Even if the Fed wanted to respect the zero lower bound on the federal funds rate, it probably couldn’t, since the yield curve would deeply invert as long rates turned more negative. Foreign capital would pour into the U.S., because rates would likely go even more negative in Europe and Japan. Negative rates would be hard on the financial system’s profitability, but an inverted yield curve with short rates pinned at the zero lower bound would be untenable for the system, further undermining the availability of credit and the economy.

Signal of dysfunction

And if the experience with negative rates in Europe and Japan is any guide, they will do little to support the economy. There is mounting evidence that negative rates undermine investor and business confidence since they signal how dysfunctional the economy is. Moreover, negative rates in the U.S. would have serious implications for the huge shadow financial system that provides about half the nation’s credit. The non-depository institutions that make up this
system rely on lines of credit from large banks and short-term funding markets for the liquidity they need to support their lending activities. It is unclear what would happen to this liquidity in a world of negative rates.

To be clear, recession is not imminent, at least not in the United States. Although growth has throttled way down from last year, the American economy is close to its 2% GDP growth potential. Underlying job growth—abstracting from the near-term vagaries and upcoming revisions to the jobs data—is likely near 100,000 per month. At this pace, unemployment will remain stable; at less than 4%, it hasn’t budged in nearly a year. However, if growth slows any further, which it will if the president can’t figure out a way to stand down on his trade war with China or the geopolitical situation goes any further off the rails, unemployment will begin to rise. Once that happens, recession will be upon us.

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Cash Flow: Artificial Intelligence Across Credit-to-Cash for Remarkable Results

By: Keith Cowart
Product Manager, Corporate Liquidity Receivables Group
FIS

Artificial Intelligence (AI) is a hot topic these days, especially in the collections arena. But what constitutes AI and is it really beneficial? What about teams that are highly functioning without using AI? The short answer is, yes, it is beneficial - even for those teams that are performing well. Everyone that is leveraging credit terms, is capable of improving results.

Let’s start with a simple understanding of what constitutes AI. AI is the machine’s ability to learn and adapt without human intervention to continue to improve and obtain optimal results. This is a fairly vague statement, but it contains some key elements for defining AI. First, the machine’s ability to learn indicates that the machine can monitor key data, actions or processes and ultimately understand what makes it good or bad. Second, the machine can take action without a human telling it to take that action. Now this can be a little scary for people - trusting that a machine is automatically taking the appropriate action, especially when it relates to customer relationships and satisfaction. An alternative step to taking action automatically is for the AI engine to suggest changes to a user. Lastly, the machine must continuously improve. This statement indicates that there is not just one correct answer, but many combinations of answers. Things change over time and so the AI engine must adapt to continue to achieve optimal results.

Given that AI is a relatively new approach to solving an old problem of an ever-changing environment, people are understandably hesitant to trust the machine making decisions on its own. Of course, movies are making matters worse by showing the worst-case scenarios of AI running wild. The reality is that AI can monitor more data than any individual or team to make accurate decisions within seconds.

Leveraging AI across the full credit-to-cash cycle affords greater combined benefits than simply applying it in one or even a few areas. For simplicities sake, let’s look at each area individually. Ask any Credit Manager how they view their world; they will tell you it is a combination of science and art. Loosely translated, there are so many potential data elements involved in assessing appropriate credit risk, one standard formula just does not provide enough information to make a sound decision. They may use a basic set of standard scores to give them a level of comfort, but they cannot possibly review all data elements for each customer to truly mitigate risk. This is where AI can assist by automatically collecting all the necessary data. Just think how much time is wasted by team members simply pulling the data to be reviewed. So much so that some companies have “outsourced” the pulling of the data to low cost countries or operating units. The issue with this approach however is the delays in the process that are introduced by adding in more handoffs and potential failure points. AI, by contrast, is able to collect and assess the internal and external data sources within seconds, and then analyze them to determine the level of risk. AI can then use the analysis to automatically assign a credit line or move the request into a workflow for additional review based upon the risk tolerance parameters programmed into the process. This provides more information for making risk decisions, speeds up the review process, and frees resources to focus on more value-added tasks.

Believe it or not, AI has been used in the collections area for many years. It just wasn’t marketed as AI when it first appeared. Using a collections risk score (not to be confused with credit risk), companies have been able to rely on AI to adjust strategies and collection strategies based upon the results of its analysis.

Let’s take a step back and review the evolution of collections over time. It started with companies using invoice value and age as the determining factor of how to prioritize accounts. This created a very cyclical return on results. One-month results look great because a large invoice was collected at the end of the month. However, the next month(s) didn’t look so great because the large invoice was collected by neglecting countless smaller invoices. These invoices add up over time and become increasingly more difficult to collect as they age. The alarming statistic from an FIS 2018 Market Survey was that over a third of companies are still using this outdated method. The next step in evolution was the introduction of strategies. These helped standardize the collections approach, spreading the focus equally among invoices. While results significantly improved with the introduction of strategies, they tended to plateau. Teams were left searching for how to capture incremental improvements to improve cash flow. This is why AI was introduced. By looking at internal and external data sources, such as payment history and trade credit bureaus, an AI engine can predict the likelihood of a customer becoming delinquent 60 days in the future. Using that predictive view of accounts, the AI engine can assign a more granular risk profile and automatically adjust the strategies used for each customer and the prioritization of those accounts to prevent them from becoming delinquent. Introducing the AI engine provides a dynamic process of continual improvements.

AI in the dispute and deduction processes helps identify and assign reason codes or categories for root
cause reporting, allowing for prevention measures to be implemented. Additionally, the AI engine can automatically approve the disputes and deductions based on predefined criteria, or automatically route them for resolution through advanced workflows. This accelerates the resolution cycle time and increases overall cash flow improvement. Generally, deductions are identified during the cash application process. Leveraging AI during cash application increases the first pass hit rate of auto-applying payments to invoices. New breakthroughs in the AI and machine learning arenas have allowed for solutions to leverage Intelligent Document and Data Recognition (IDDR), where the AI engine recognizes the document format/type and digitally reads the remittance layout and instructions for applying payments. Optical Character Recognition (OCR) is still an important part of any cash application solution. However, with IDDR, solutions can more accurately identify remittance details and automatically process them.

Another new breakthrough in machine learning involves Accelerated Machine Learning (AML). Most machine learning methods involve a long ramp-up period as the AI engine monitors examples and builds the confidence level before it begins applying what it learned. This can take weeks, months, and sometimes years. With AML, the AI engine improves hit rates more quickly by monitoring how a user resolves an exception. The AI engine learns where the information used was located on the remittance and thereby learns how to apply future payments from that customer. With the AI engine learning the posting procedures after one example of exception processing, the ramp-up period is virtually eliminated. By taking advantage of the advances in AI and machine learning, companies are reducing the backlog of unapplied payments, which benefits all upstream processes (credit lines relieved timely, collection queues updated in real-time, disputes resolved quicker) and creates more time for resources to focus on activities that drive cash flow.

Implementing AI in any area will improve results if implemented correctly. However, implementing AI across the credit-to-cash cycle will increase cash flow and help your team uncover the incremental improvements that are sustainable over the long term.

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**About the author:**

Keith Cowart is a Senior 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.
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CRF Forum & EXPO
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Thank You!

To our Presenters at the August Forum & EXPO in Seattle

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Bradley Niedzielski, Partner and Kirti Parakh, Audit & Assurance Sr. Mgr, Deloitte

Blockchain
Rafael Zahralddin-Aravena Esq, Shareholder, Director, Chair, Commercial Bankruptcy & Restructuring Practice and Eric Sutty Esq, Shareholder Elliott Greenleaf

Payment Process Update
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The New Dynamics of Customer Deductions and What to Know About Supplier Agreements
Kenneth Green, Co-Chairman and Kathleen Rotondo, Senior VP, IAB Solutions LLC

Economic Update
William Strauss, Senior Economist & Economic Advisor Federal Reserve Bank of Chicago
Technology in the Credit Industry: Overview

By: Josh Russell
Web Technologist
Business Credit Reports

The credit industry has come a long way. From the early days of nothing more than a verbal agreement or character reference, to hand-written reports, and now there are digital reports and visual dashboards of information that help credit managers process deals faster and more efficiently than ever before. The evolution of technology and computerization forever altered the credit industry and helped establish the industry as we know it today.

The History
Credit, as a concept, has existed for thousands of years, dating as far back as 1754 BC with the Code of Hammurabi establishing maximum interest rates on loans. Credit reporting, however, originated in England in the early 1800s with a group of English tailors who started to share information to keep track of delinquent customers. In 1826, the Manchester Guardian Society started printing monthly credit newsletters to raise awareness of citizens that did not pay their bill. In 1841, The Mercantile Agency was founded by Lewis Tappan in New York City to establish a source of reliable, consistent and objective credit information on businesses. This was one of the first organizations created to supply business credit information to customers. Business information was gathered in much the same way as consumer information and the bureaus would employ reporters to manually review physical records, local registries, and perform interviews with business officials, partners and known references. A few years later, in 1849, the John. M. Bradstreet Company was founded as a competitor. Shortly after, they released the first published book of commercial credit ratings, and the concept of credit ratings rapidly spread across the country.

As America grew, creditors continued to keep track of their customers' payment habits. They would work together to stay informed of any customers considered to be delinquent by any other creditor. These “bureaus” of creditors would generally focus on one type of creditor: banks, finance companies, or retailers. Some commercial credit bureaus followed suit and became industry specific, covering such industries as iron or steel manufacturing. The bureaus would create and populate credit files on their customers by looking in newspapers and listening to local gossip for any information they could find, such as: names, addresses, loan information, arrest records, promotions, marriages, deaths, etc. This information would be recorded on paper and then made available to the group. Requests from creditors within the bureaus to see a credit file or report would be logged as an inquiry to show that there was a request for credit, who it was requested from and when.

By the mid-1900s, credit had flourished both for business and consumer use. Technology had rapidly evolved, more luxury and big-ticket items were available, and credit was the solution for the average American family. By 1960, it was estimated that there were over 1,500 independent, local credit bureaus across the country issuing 60 million credit reports per year using just 3-by-5 index cards, postage meters and mail, and the telephone. Companies would call the credit bureau and wait while someone retrieved the person’s index card to relay the information to them. Transportation and communication technologies were advancing rapidly, and information could be quickly shared across state and country borders. The technological advances in data processing led to the creation of the Dun & Bradstreet Data Universal Numbering System (DUNS) in 1963 to uniquely identify businesses, and this system is still in use today.

Around this time, computer technology was evolving, but it was still a work in progress. In 1964, the Association of Credit Bureaus in the United States conducted the first studies into the application of computer technologies with credit reporting. Through this, we started to see the standardization of credit applications to help standardize the data collected and used for credit purposes. Also around this time, IBM’s advances in computing technology had greatly increased the speed at which data was collected and processed, making it easier, faster, and cheaper to access and store. Credit data started being transferred from the traditional method of paper and index cards to electronic databases and computer storage.

IBM continued to push the technological boundaries and commercially released the “floppy” disk in 1971, making digital information physically portable. For the first time, you could save and physically transfer information from computer to computer as needed. The floppy disk was revised in 1976 by Alan Shugart and team to the common 5 ½-inch size for personal computers that could store 110 kilobytes of data. During this same time, scientists at Massachusetts Institute of Technology (M.I.T.) were working to develop a global network of computers that could talk to each other. This would lead to a successful proof of concept known as the ARPAnet, which delivered its first message from a computer in a research lab at the University of California, Los Angeles (UCLA) to a computer at Stanford University. The ARPAnet was the first step in the development of the Internet.

In 1971, the Fair Credit Reporting Act was passed to regulate the collection of and protect access to consumer information. The act changed the type of information that was gathered by creditors to be centered around verifiable, credit-related information such as payment behavior, defaults, delinquencies, etc., regardless of whether it was positive or negative.

The technological revolution of the credit industry continued through the 70s. In 1973, Robert Metcalfe at the Xerox Palo Alto Research Center drafted a memo describing a system of communication between computer workstations and printers – this was the start of Ethernet, the first high-speed local area
network technology. Internal storage had also evolved from numerous, massive vacuum tubes to small, and significantly more powerful, semiconductors and microprocessor chips.

By the mid 1970s, computers and databases became more accessible and were being adopted by more businesses in the credit industry. Those that chose to adopt this new and expensive technology had a major advantage over those that chose not to or couldn’t afford to. During this time, a revolutionary relational database model had been proposed by Edgar Codd in his article “A Relational Model of Data for Large Shared Data Banks”. This relational database model changed the thinking behind databases. Until then, a database was nothing more than a way to organize and store data. The concept of a relational database would allow for users to quickly and easily query the database for specific information using statements containing logical operators. IBM developed a prototype relational database management system named System R in 1974 using a new domain-specific language called SQL (Structured Query Language). SQL was one of the first commercial languages to utilize the relational model proposed by Codd.

In 1979, Relational Software Inc (now Oracle) released Oracle V2, the first commercially available SQL-based relational database management system. Relational Software Inc followed this up in 1983 with Oracle V3 which was written in C (type of computer code) and the first relational database management system to run on mainframes, minicomputers, and personal computers. This accessibility to big data sets and the advent of the Internet to send files and data back and forth further reduced the costs associated with gathering, storing, and accessing credit information. Now, offices on opposite sides of the country could quickly access the same database of credit information using a personal computer; gone were the days of having to wait for it to come via mail or be delivered verbally over the phone. The high costs to move to electronic storage and transmission compelled smaller and manual credit operations, which could no longer compete, to sell their files and exit the industry. This opportunity to absorb the smaller regional agencies is what shaped the big credit bureaus that we know today.

In August of 1991, the World Wide Web, a network of HTML documents linked together by hyperlinks and what most people think of as the internet, went live to the world. In 1993, the European Organization for Nuclear Research (CERN) announced that the World Wide Web was free for everyone to use and develop. Shortly after, in 1995, Congress announced that commercial restrictions were lifted. From that moment forward, businesses rapidly adopted the use of the Web and Internet by establishing web sites to sell directly to consumers. Since then, the Internet, the internet of things (all devices with Internet connections), and technology in general has grown leaps and bounds with over 3 billion people and 20+ billion devices now connected to the internet worldwide.

What does all this mean for the credit industry?
The credit industry now has access to an infinite amount of information. Credit bureaus these days are tied to the data universe and can access data of all kinds, not just credit information. These data, being generated by online activity, is pouring in at an incomprehensible rate, causing the data universe to double in size every two years. To put this into perspective, it is estimated that in 2020 there will be over 44 trillion gigabytes of data in the data universe.

To help process and make sense of this “big data”, there has been a large increase in the development of artificial intelligence, neural networks, and machine learning:

- Artificial intelligence, which is the idea of machines that respond and “think” in the same manner as humans do, is in use in the credit industry to help improve decisioning systems to better mimic a true human credit analyst.
- Machine learning, a subset of artificial intelligence, is the ability for the machine algorithm to train itself over time by exposure to data and following set classification and labeled parameters. By applying machine learning to payment performance over time, it is possible to make more accurate and dynamic predictions of future payment behavior.
- Neural networks, which is similar to machine learning, is what most people think of when they hear “artificial intelligence”. Neural networks replicate the way humans learn, enabling the processing of raw, unstructured and often abstract data for new insights, and are being used for advanced, human-like processing and scoring of credit applications and reports.

With all this technology working together, there has been a major movement towards trended data. Trended data, which is the analysis of the direction, velocity, tipping points and magnitude of changes across a dataset, is used with past performance indicators to try to predict future behavior. Trending data models have seen up to a 20% improvement in predictive performance over snapshot data models. Trended data is already a major component of most credit reports and files, and with increased performance will allow creditors to identify issues and patterns in payment performance to better manage risk.

There has also been a big push for credit data sets to be available through modern application programming interfaces (API). API connections make it easier for developers to access and use technologies and data held or owned by other organizations. Through API connections to the holders of the data, companies can access that data and pull it through into their own applications. This power has led to many innovative ideas and product solutions for the credit industry. With API connections, it is possible to bring in multiple sources, leading to the concept of blended credit data. Blended credit data combines credit data from multiple sources and analyzes all of it at once for more powerful and comprehensive insights. This concept takes the place of the previously popular and now dated waterfall methods of credit analysis, where you pull a report from each bureau and analyze it individually. The visualization of data pulled through an API connection has also become a massive industry itself, with emphasis on customizable dashboards of visual components, such as graphs, pie charts, etc., and customized automatic decisioning systems.

The future of credit is one intricately tied together with technology. As technology continues to advance and become “smarter”, we will continue to see new and innovative ways of processing, analyzing, and visualizing data for credit.
purposes. New insights and patterns will be detected that, to the human eye, would be imperceptible and will provide more accurate predictions of payment performance to identify red flags and problem cases immediately. The stage is set for a fully automated credit industry, one where an applicant can fill out an application, have their report pulled by an automated system, and passed to a decisioning system for human-like scoring – all within an instant, and with extreme accuracy. Some companies have already pursued this model, and even offer full solutions for small businesses to quickly and affordably automate their credit processes through online credit applications, automated report pulling, and automated decisioning. These advances will lead to the approval of more qualified deals and a more efficient and secure risk management process for creditors; and it is only going to get better and faster from here.

About the author:
Josh Russell is a Web Technologist at BCR. His areas of responsibility include improving BCR’s web presence through SEO (search engine optimization) and expanding their marketing efforts. He maintains BCR’s public website.

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Platinum Partner Updates

The Commercial Collection Agencies of America announced the appointment of Ms. Meg Scotty to its independent Standards Board. Ms. Scotty was instrumental in forming Commercial Collection Agencies of America in 2014 and served as its President from 2014-2018.

Gary Norcross, Chairman, President and CEO of FIS, announced in August 2019 the closure of its $43bn acquisition deal with global payments leader Worldpay, a transaction aimed at bolstering its global technology leadership position.

Chris Caparon has been elected to the ICTF Board of Directors. A formal announcement will be made at the 10th Annual Global Trade Symposium in Ft. Lauderdale, FL November 17-19, 2019.

Serrala announced that on September 25, 2019, they were presented with the award for “Best White Label System Provider – Non-Bank 2019” for its BCrest solutions. The award presentation took place at a pre-event to the Sibos Conference in London, a major financial service event, and was hosted by Global Finance Magazine.
This group of attorney firms, in addition to their intellectual contributions, has stepped forward to offer financial support to the Foundation, for which CRF and its members are very grateful.
The Credit Research Foundation is very fortunate to receive support from our Platinum Partners. Their contributions and collaborative efforts help the Foundation maintain activities at the level at which our members have become accustomed.

While these firms and the services they provide are very familiar to our members, you can learn more about them by clicking HERE.