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

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As originally published in the Credit Research Foundation 3Q 2019 CRF News

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 to 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.

About the author:

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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.