Proactive Risk Prevention: 5 Things Credit Managers Should Consider for 2020

By: David Popper, Solution Architect
Serrala

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

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 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 fulfil 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

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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.

About the author:

David Popper *is a Solutions Architect for the Serrala FS² Credit and FS² Collections suite. He has extensive credit and collections experience at all levels.*

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.*

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