CREDIT
CHANGES DIRECTION

doccredit

Scenario

The changing economic and financial scenario has highlighted the limitations of traditional methods, undermining the characteristics of the services offered. In particular, we have noted the traditional incompleteness of ERP systems, the relative accuracy of commercial monitoring systems, reduced activity by credit insurance firms (an extremely important sign of change) and a widespread need for assistance in this area. Until a few years ago, insolvencies represented 0.2 pro mille of all trading businesses. Although the scenario is not catastrophic, the probability of default has increased by several figures. In particular there is a need to fill the void left by the credit "specialists", the insurers, who 'stepped away' when the game became too risky.

Strategy

Credit management is strategically important now just as it has been in the past. Today, credit is a vital issue, given that the difficulties within the economic and financial system
are now appearing with a speed and variability never seen before. One of the less desirable aspects is of course credit risk, partly because it is hard to find someone willing to cover another person's risk of default. Those credit insurers who are still bold enough to offer this type of cover have considerably reduced their cover limits, and in most cases merely carry out monitoring activities. We no longer have a security blanket: everyone has to appeal to the market with their own creative abilities and find their own way, supported by the best possible administrative and financial organisation.

Risk

We must therefore face the challenge head-on, and design a new organisational scenario that helps us keep track of our money on a daily basis, and estimate how much cash we think will actually be received. Performing a corporate credit risk analysis means working with the historic information we already have, reorganising the day-to-day work of our credit controllers and, if necessary, using auxiliary services such as info providers, external collectors and credit insurers.

Risk studies

KF Economics (a K Finance Group company specialising in rating analysis) studies insolvency on an annual basis. Using a sample of insolvent companies with records dating back almost 10 years (one of the most comprehensive surveys on the market) it can estimate the probability of an individual company failing, with the same accuracy as the main rating agencies.

When performing its annual estimate of the new model, thanks to its skills in statistics and financial analysis, KF Economics can provide an accurate preliminary analysis of the variables, checking the reliability of its results against a huge sample of companies which have already been the subject of in-depth analysis by K Finance Group consultants. Currently, its rating model is structured into four sector-specific models (Industry, Construction, Commerce and Services), tailored to reflect the specific features of each macro sector. The model can produce evaluations for companies with detailed statutory accounts, or those with the simplified version (SMEs in many cases).

The model's main output is the specific possibility of a company's insolvency (expressed as a percentage), which is allocated to one of 7 rating classes characterised by the same risk. KF Economics' default probability analysis is now used by leading financial and industrial companies in order to evaluate complex credit insurance operations, and in the selection and monitoring of customers and suppliers. Apart from the probability of insolvency, the automatic financial performance analysis module produces a report that helps users to interpret the key events that can be deduced from the last four sets of financial statements.

The report reclassifies the income statement balance sheet, cash flow analysis and the trend in the key economic and financial indicators. An automatic analysis of the balance sheet is also performed, with the rating expressed in non-technical language.

The probability of default is a statistical measurement of the level of solvency that the company can expect to have over the next 24 months after the balance sheet date. It helps to focus attention, but cannot predict the actions that the customer will take in respect of its payment decisions.

The importance of the supplier, his temporary liquidity (or lack of) and the presence of any commercial disputes may have particular, short-term effects that are difficult to predict and can give rather unrealistic averages.

The mix of two methods gives a risk class for the company, resulting from the monitoring of its behaviour, external events, and any direct or indirect adverse circumstances which could increase or decrease the rating given. Obviously, there is no ready-made automation that allocates a risk class to a company: the probability of default, to which positive or negative factors are associated, takes place on the basis of an analysis of the organisation's fundamental behaviours, by assessing the outstanding payments and days of delay compared to the agreed terms.

This method, starting with the appropriate risk class and thanks to the continual, systematic pressure of the company for recovery, and a study of the customers' behaviour, has a positive effect on the collection rate, and on the knowledge of the dynamics that support it.

The probability of default and balance sheet analysis are the first and most immediate indicators of risk.
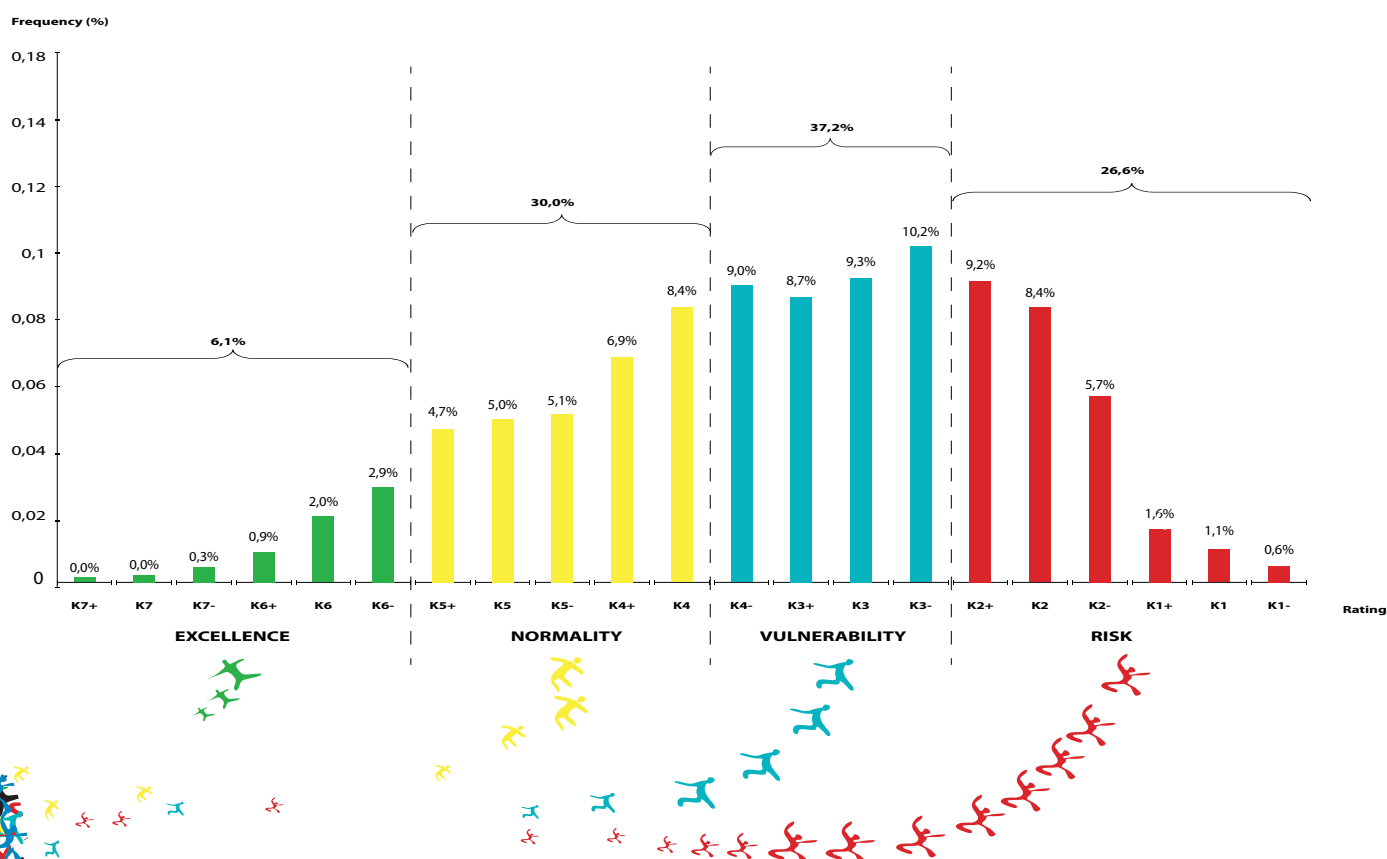
The data

Where to get information: the debtor database is the same, even for corporate groups.

Deadlines and payments, historic and current, also to help generate statistics on behaviour: of the company, to measure the payment terms allowed in its commercial policy, and the behaviour of the 'debtors', to measure the payment delays they have decided to adopt.

Company contacts. Who to contact: email, telephone, fax, times and dates. If this essential information is not already on the system, it can be input directly into DocCredit.

Credit agents. Individuals who assist the collectors, or collectors themselves: these details can also be defined on DocCredit.

Commercial credit. Maximum risk the client is willing to accept. If not already on the information system, this can be defined in DocCredit. A study of positive and negative peaks can help to highlight the seasonality of financial relations, and thus gives an accurate dimension to the historic risk.

ERP   INFOPROVIDER

Analysis

Overdue payments are segmented according to risk class, value, zone, collector and other criteria: any of the criteria used to study the overdue accounts can be used to give statistics for the others ... for example by choosing the value criterion you can then re-aggregate according to risk class...

Estimates of future collections… the age of payment receipts for a similar period (April of the previous year to April of the current year) is used to give an estimate of future collections on the basis of historic percentages.

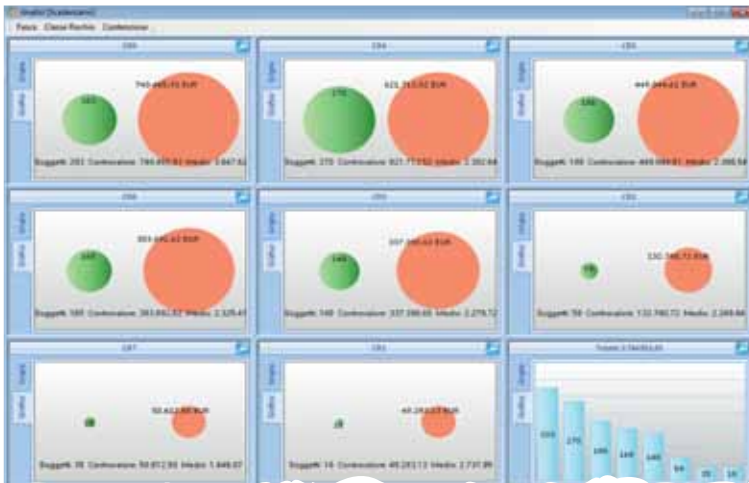Where are my accounts, and which businesses am I building my sales with?
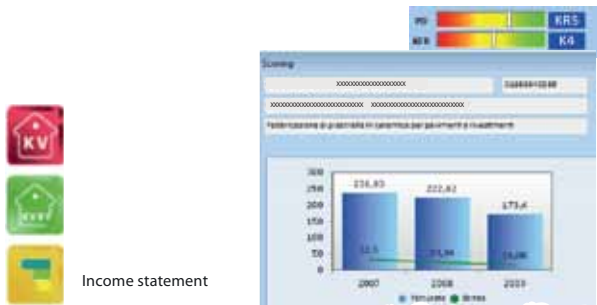
Income statement

Balance sheet

Indicators

Cash flows

Export

Analysis

Calculation of maximum risk and credit line, by studying the credit history, with the option of increasing or decreasing to reflect the risk class. The calculation will be adjusted to eliminate any peaks and troughs, very short-term uses of high amounts, and long periods of low or off-target use.

Company profile, containing all the details needed to understand and take action, either by company or for all group companies. Details include the available risk, ageing reports, information about overdue, expiring and "end of the road" accounts, reminders sent, pending disputes, age of payments, current credit and credit history, contact information and access to web services.

Payment history, performance, collection activities.

Collection

Tracks activities through to payment.

Automatic workflow, from the due date through to payment, chain of actions (fax, email, scheduled telephone calls).

Email	batch and manual scheduling
Fax	batch and manual scheduling
Postel	batch and manual scheduling
Telephone calls	diary and integrated Voip telephones
Visit	diary
Legal	transfer to debt recovery
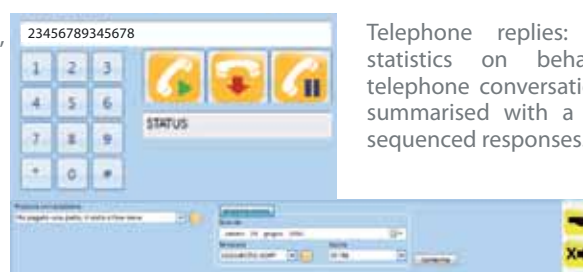
Telephone replies: to obtain statistics on behaviour, the telephone conversation must be summarised with a series of a sequenced responses.

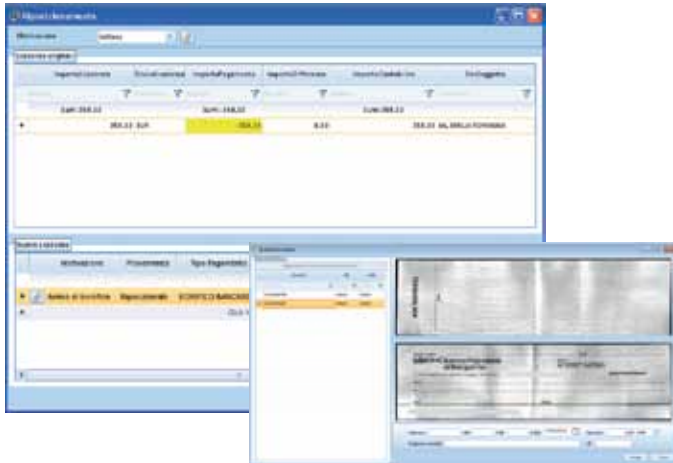Evidence of "end of the road" accounts: what is the next step?
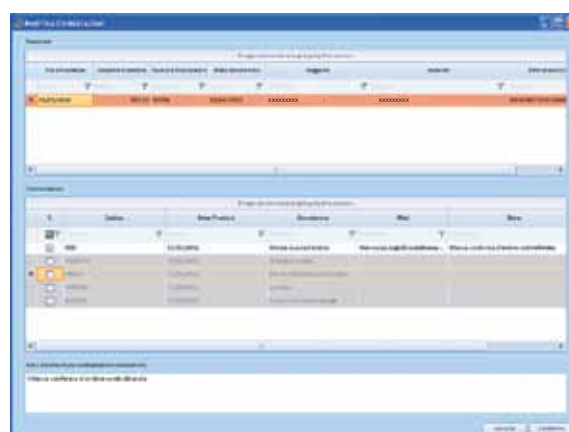
Commercial disputes involving the references and resolvers: the next steps are decided on the basis of the outcome.
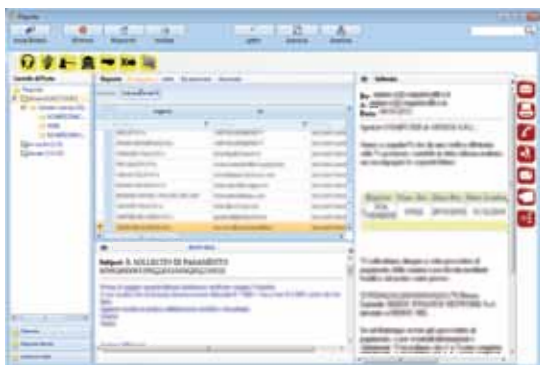
Collection

Payments are rescheduled by attaching the original documents, papers, advance and final notices, amended documents and pending transfers.
Scanner + ocr to register the documents and match the image to the new payment date.
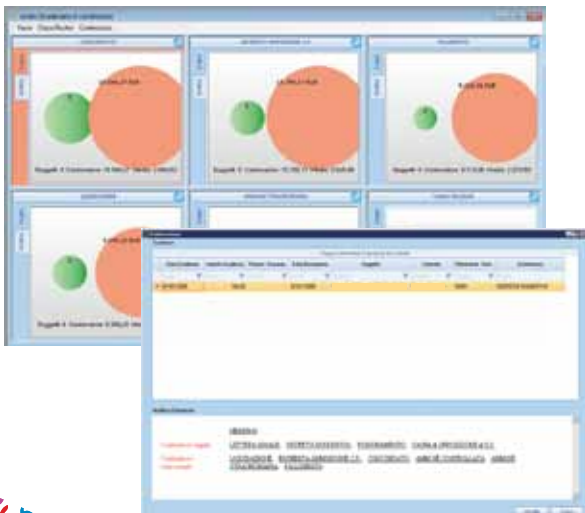
Diary: proposed reminders to be issued.
The actions are proposed by the workflow, and carried out manually: they are only concluded upon payment.

Activity history

Email client gathers the replies and matches them to the reminders, including any attachments.
Feedback of fax and email servers.

Web portal

To allow clients to view their own data:
list of payments, ageing reports, download documents, risk profile and risk class with PD and scoring.

For agents, to give them an instant snapshot of the companies they are dealing with, so that any reminder actions can be implemented immediately.

Legal debt recovery

Documents and correspondence are automatically transmitted to the legal adviser.
Online situation.
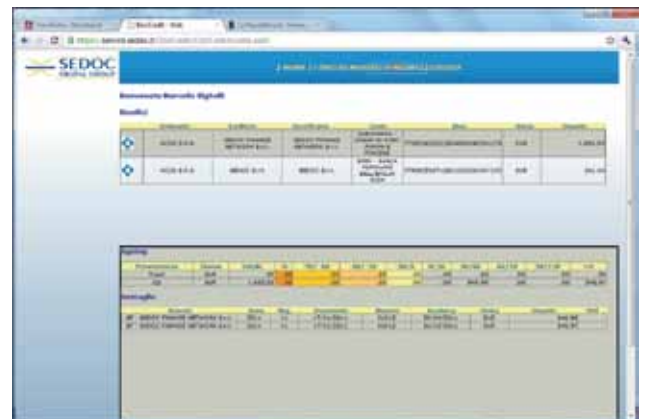
Operators

The users may be: Collectors, agents, inspectors…

Using filters, the operators can access to databases they are involved with, for which they perform the required activities.

This platform allows the formation of working groups controlling the same companies, whether to issue reminders or simply to analyse their performance.
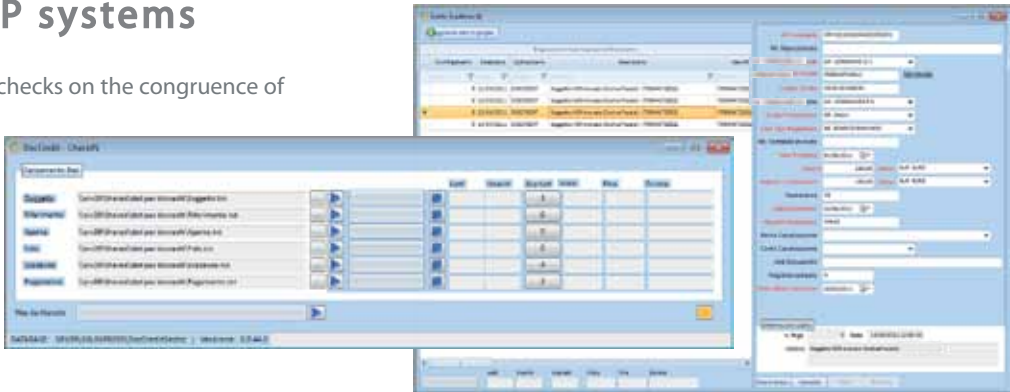
Integration of ERP systems

Web services, db tables, ascii files, checks on the congruence of incoming data.

Web services

DB tables

User services

Customised grids, multilingual, pre-configured dashboard, pre-set deadline filters, criteria on ageing, intervals and frequencies.

Technical services

Telephone	Integration of Voip phones and use of headphones
Fax	Fax Maker and/or Web, via QPNQWest
Email	Local email server
Postel	Via Credemtel SpA

Requirements

Client	
SO XP Professional, Vista, 7 Ram (min 2GB),	Video, minimum resolution 1280x800 Framework .NET 3.5
Server	
SO Windows Server 2003, Windows Server 2008 Ram, min. 4GB	Disk with at least 2GB of free disk space for server services and databases
Server software	
Framework .NET 3.5 installed SqlServer 2005/2008	Microsoft Internet Information Server (IIS) installed and configured to work with Framework .NET 3.5

1.500 treasury products installed
20 years' experience
50 consultants

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