BIIA News from the Credit Management Profession

BIIA's managing director recently attended ***FCIB's Annual International Credit Management Conference in Vienna, Austria.*** The main theme of the conference was about measuring and managing risk as a source for competitive advantage. Notwithstanding the current precarious risk environment most credit transactions are still conducted on open credit (80% – 90%). Existing lines of credit appear not to be impacted. Suppliers of supply chain financing report further growth, however payment trends and delays are beginning to creep back to previous recession levels.

Of concern appears to be the absence of reliable bank information to determine the impact of availability of bank credit in solvency of a company. As we know too well, banks operate closed user groups and seldom share that information with firms granting open trade credit.

An interesting discussion ensued about the usefulness of benchmarking tools concerning payment terms and payment delays. Some credit managers believed that benchmarking is a useful tool in risk assessment, nevertheless when taking a poll they represented a small minority amongst attendees. Attendees from the information industry felt that rating agencies provided benchmarks on predictive defaults, and credit information companies are developing trade information services based on industry verticals. If these services were seen as not effective, credit managers and their association should provide specific information of what is needed. It was generally acknowledged that information sharing was useful but there appeared to be a reluctance to participate due to a number of factors: Lack of clear definitions of benchmarks (payment terms – delays etc.). Reluctance to disclose details on customer relationships – fearing potential antitrust implications (information companies could provide a safe harbor for sharing payment information). BIIA believes the discussion should be taken up on the association level to determine the specific needs of credit granting community in regards to benchmarks.

One credit manager pointed out that there was hardly any research available on the role of trade credit in national economies in contrast to available data on consumer credit.

Is Credit management an Art or a Science?

- Historically there was a tendency to regard the credit management profession to be an art rather than a science. However times have changed.
- Science has taken over as automated credit decision and monitoring systems have become the norm. In some companies 75% - 80% of decisions are automated. This leaves credit management with the task to set the parameters for decision systems and to deal with credit by exception. The credit management function therefore can no longer be considered an art, but has become a highly professional, more science oriented function.

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- The credit management function can no longer be seen in isolation in a company's organizational hierarchy. It is a function that balances opportunity (sales) and risk (open credit) and in many ways is now considered a vital support function for marketing and sales. In some instances the credit functions is already an integral part of the marketing and sales organization.

Concerning Asia in general and China in particular it was said that Asia's lack of credit management expertise necessitates tapping people with banking background. On China: Due to an imperfect and biased legal system (in favor of local parties) the importance of accurate documentation and order confirmation is paramount. When advance payment is required it should be at a level to cover cost!

Source: BIIA October 18, 2011

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