E~CREDIT NEWS

September 2022 Your Associations Newsletter

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"How To Improve Collection Performance Starting Immediately"

September 13, 2022

9:00 a.m. – 10:00 a.m. CT

Presenter: Michael Dennis, is a consultant with more than 20 years of experience as a credit manager working from companies including McKesson & Black & Decker.

If there was an "EASY" button for improving collection performance in your company, this program is that button.

In this interactive & fast-paced program, we will examine at least FIFTY ways that you can improve your collection performance starting today …

- without increasing your workload
- without an investment in new software or hardware, and
- without significantly disrupting the activities of the credit department

Meeting Details Here

Joining an Industry Credit Group sponsored by an The Association or any of the other entities that run (professionally) Industry Credit Groups in America is, in my opinion, one of the easiest decisions in the history of easy credit decisions.

Perhaps an illustration would help. Let's assume these facts:

- Total costs including travel for Industry Credit Group membership is $5,000
- Your average bad debt loss is $20,000
- As a result of your Group Membership, you avoid one (and only one) of these losses each year, and
- Avoiding this single $20,000 loss is the only benefit of Group Membership (Hint: it won't / cannot be the only benefit)

Assuming these facts to be true, then your Return on Investment is 400%. In my 30 years of experience, the ROI on Industry Group Membership was always much, much higher than 400%.

If your company is not a member of at least one industry credit group, you owe it to yourself & your employer to investigate joining an Industry Credit Group. It really is an easy decision.

Verbiage provided by Michael Dennis

Contact The Association for more details

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BCMA Fox Valley Location
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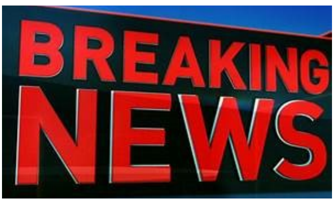

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FAULT LINES IN FINANCE

Is Geopolitics on Your Credit Risk Radar?

By: Johannes Schmidt, SME Expert AR Automation, Serrala

Abstract

The world is shifting – from a global pandemic to a full-blown military conflict in Europe that questions the international order we've known since World War 2. Both phenomena have greatly impacted businesses worldwide in their own way: Uprooting our assumptions, contributing to inflation, & disrupting supply chains. The shift is also impacting the world of corporate financing & liquidity. High prices on the one hand & tightening monetary policy on the other, are increasing the risk for customer payment default & higher DSO.

When political & economic instability meet the office of the credit & risk manager, they need to be ready to navigate the fault lines in finance. In this article, we will explore how current geopolitical escalations, supply chain disruptions & inflation impact corporate finance & what credit & risk managers can do to control the impact on their business.

From Invasion to Inflation – Making Sense of the Current Multifaceted Risk Landscape

In a highly dynamic world economy with fluctuating risk, credit & risk managers must factor in all kinds of market volatilities, while also processing credit limit applications for individual customers. They have to determine how this volatility could possibly affect their organizations' customer debt portfolio & financial stability & analyze the available data to control the impact of these interconnected risk factors. How effectively they perform their analysis will determine the success of their organization as a whole in uncertain times. To estimate how current market instabilities pose risk for corporate finance, we want to look closer at sanctions, supply chain disruptions & inflation, & how they influence each other.

Sanctions & Trade Volatility

Geopolitics is back – & it is affecting trade & markets globally. After the recent Russian invasion of Ukraine, Western countries initiated a series of economic & financial sanctions. These sanctions include: A ban on secondary trade in Russian government bonds, limits on key Russian banks, prohibiting the export of critical technology to Russia, & freezing the assets of Russians oligarchs. The list of sanctions is growing longer by the day & by now, sanctions against the Central Bank of Russia (CBR) have become a central focus area. It is now nearly impossible for the CBR to obtain access to its foreign reserves, of which a sizable share is held in other countries & currencies – mostly dollars, euros & pounds.

This makes Russia's currency (the ruble) vulnerable to collapse, which could trigger a run on their domestic banks.

For now, the sanctions deliberately try to carve-out energy-related transactions, hoping to avoid further swings in energy prices & keeping oil & gas flowing from Russia to the West – although bans are being discussed even here. Nevertheless, the prices of oil & natural gas have increased further, staying in line with "safe" currencies, like the US dollar which rose in value. Financial markets have reacted harshly to the military attack, & it is possible that there will be further international fallout due to further sanctions & counter-sanctions. To date, S&P has downgraded Russian sovereign debt to junk status. Equity trading is suspended on the Moscow Exchange & capital control has been implemented, meaning that Russians are unable to send money abroad & cannot service debt that is held in foreign currency. On top of that, most Russian banks lost access to the financial messaging system SWIFT, which is essential for international trade & currency movements across borders. It is questionable whether Russian banks & businesses will be able to fulfill their obligations, or if they will default on their debt. Even though trade between the US & Russia, for example, is rather low compared to other countries & markets, oil imports from Russia & affected supply chains will likely result in new price hikes, which could pose risk for global corporates as well.

The Disruptions of Global Supply Chains

The pandemic has already put supply chains under extreme strain due to the initial collapse & subsequent surge in consumer demand. This triggered a significant scarcity of different manufacturing components, followed by order backlogs, delays in shipping & delivery, & rising costs for transportation & consumer goods. The US & EU are currently the most exposed to supply chain risk, according to the Statista Supply Chain Index, yet all regions are affected. This makes clear that the level of disruption globally remains high. The Supply Chain Vulnerability Index by GlobalData even identifies the US as the nation most vulnerable to supply chain instability worldwide. According to global credit insurer Euler Hermes, global disruptions will most likely remain high throughout 2022.

The dramatic disruption caused by the pandemic goes hand in hand with a greater paradigm shift in supply chain management: In the past, government policies were focused purely on measures that facilitate trade, but lately there has been a surge in protectionism. Systemic confrontations between western democracies & powerful authoritarian polities in the East (China & Russia) are on the rise, & they can unpredictably impact trade & business reliability. Cost – shipping items as cheaply as possible – is not the only concern for businesses anymore. Other considerations are increasingly coming into play. & it is uncertain how technology – digital transformation, automation, artificial intelligence & robotics – will change logistic management in the future.

Skyrocketing Inflation & Tightening Monetary Policy

Currently, we see geopolitical tensions taking the form of military conflicts & sanctions that will possibly result in shortages of certain goods. When these tensions come together with a still fluctuating demand that impacts supply chains as well, it will drive up prices & create levels of inflation we have not seen in the US in the last 40 years. By December 2021 US inflation, as measured by the US consumer price index (CPI), had reached an all-time high of 7.0% (up by 5.6 percentage points since January 2021) – with 2.2 percentage points stemming from energy inflation, making up around one-third of the United States headline inflation in that month.

Global credit insurer Euler Hermes estimates that inflation will remain above 2% until late 2023. If commodity prices, wages & interest rates keep rising, specific sectoral risk could increase as well in industries such as construction, power, metals & transport. Food manufacturing, chemicals & automotive would also be at risk because of their reliance on metal & other raw material components. As the central banks raise interest rates, this will translate into gradually increased financing costs for corporates, which could possibly lead to liquidity & profitability crunches, depending on the organizations' debt structure & interest expenses.

Looking ahead, the current escalation between Russia, Ukraine & the West can further exacerbate inflationary pressure due to another surge in energy prices & disrupted supply chains for energy, food & critical minerals.

Controlling the Impact: What Credit & Risk Managers Can Do
As laid out above in detail, geopolitical tensions, supply chain disruptions & inflation are interconnected & strongly influence one another. Next to refinancing problems, corporate cash flow risks will come from late payments or defaults in their debt portfolio due to customers who are affected by these instabilities. Just like the pandemic before, all of these factors will destabilize the global economy & trigger uncertainty & supply chain disruptions due to trade restrictions & shortages. Further, hikes of inflation will threaten businesses that have nothing to do, for instance, with the war in Ukraine. The biggest risk will be for companies that experience severe supply chain disruptions or that cannot afford the rising prices for raw materials or other goods. These companies will be at risk of insolvency – or at least will be more likely to default on their payment obligations to their suppliers. Every credit & risk manager needs to keep this in mind. Even if you deem your business to be safe because you are not affected by sanctions or because you can absorb the effect of inflation, your customers might be in a much different position. Their supply chains could be breaking down, or they might feel the impact of sanction-related compliance risk. Some customers might even have to suspend payments to their business partners altogether because of liquidity squeezes.

Therefore, credit managers need to make sure, on a daily basis, that the customer's credit limit is still in line with the actual default risk & check whether new data or developments suggest otherwise. Risk managers will need to evaluate how financial, sectoral, economical & political risks will affect their business on different levels. Compliance managers, on the other hand, will have to make sure that all business relations are in line with corporate compliance policies, by rigorously screening & analyzing their clients & business partners. They will need to regularly ensure that no one is phased by the latest round of sanctions or other punitive measures, especially in a dynamic situation like we have right now. So, what can experts in credit & risk management do to weather the storm?

FAULT LINES IN FINANCE (CONTINUED)

Secure Your Receivables with Credit Insurances

Aside from regular credit & compliance due diligence practices, a strong trade credit insurance is a very effective instrument to mitigate trade & cash flow risk. Credit insurances compensate you in case of payment default & bad debt. This insurance improves the ratio of corporate working capital ratio & financial stability, reducing cash flow volatility & improving your position towards finance institutes & shareholders. How does this work? Generally speaking, the credit insurer analyzes the creditworthiness & financial strength of your insurable customer portfolio. They are assigned certain credit limits which make up the indemnifiable amount in case of default. Your credit risk is covered to a certain limit, which allows you to continue to safely carry on trading with your customers. In addition, credit insurers provide you with solvency & financial stability data, which can help you adjust your credit decisions – a truly valuable service in times of high economic & financial volatility.

Factoring Insurance for Receivables

Another option to avoid debt default is to put up an agreement with a third-party company to obtain your receivables – namely factoring insurance for receivables. This can be set up for selected positions in your debt portfolio & isolated instances or be done on an ongoing basis. The idea is simple: A factoring institute will purchase your receivables, usually at a reduced amount of the invoices' face value, enabling you to outsource your credit risk. The cash is provided in advance, typically ranging from 70% to 90% of the receivables' original value. Once the debt is collected by the factoring institute, the factor returns the balance, excluding their service fee. These fees can range from 1% to 10%, depending on various components. Factoring provides your company with immediate liquidity, while the factoring institute assumes full risk of loss within an agreed limit. It offers effective protection against payment defaults, which can add security in times of high trade & market instability.

Process Agility & Deep Automation

Whether you are managing credit insurances or doing factoring, compliance screening or regular credit due diligence using manual processes will make it difficult for your business to react to market risk in real-time. Your processes will need to be agile & up-to-speed to be able to perform effectively in unstable market conditions. Your processes should be standardized as much as possible, so that tasks are done the same way across the entire organization. Standardization leads to better quality, comparability & auditability. It also makes credit & risk decisions more effective on a global scale. It avoids *ad-hoc* decision-making & ensures that credit limits & risk control measures are based on a coherent corporate policy that every credit & risk manager can follow.

Even a highly standardized process, however, will not serve you well if there are external shocks & your processes remain completely manual. Process agility can only be achieved by implementing a certain level of automation. Once automation is in place, you can focus on data analysis, insight & informed decision-making rather than, for instance, calculating a risk score by manually copy-pasting data from credit insurers, compliance list providers or credit reference agencies into Excel spreadsheets. These back-office processes need to run smoothly & automatically so you can retrieve information with the click of a button

FAULT LINES IN FINANCE (CONTINUED)

when you need it. Luckily, technologies such as robotic process automation (RPA) can easily automate a majority of rule-based processes (e.g., credit data sourcing). Artificial intelligence (AI) & machine learning (ML) can make decision-making even more accurate & precise. These technologies can factor in past experience & historic data to deliver greater insights & predict potential developments. All of this helps you focus on what is really important & allows quick reaction to changing risk landscapes.

Get Your Data on Point with a Single Source of Truth

Information is of the essence in a dynamic & quickly changing risk environment. You need real-time information on what is happening. For credit managers, this means broadening the scope of the data that is reviewed. You will need both internal data, such as payment history, behavior & experience information, as well as external data from credit rating agencies. Integrate financial analysis, credit insurances, credit securities & collateral management into your decision-making process as well. Ensure that your risk & compliance managers have real-time access to blacklists & sanction lists to identify politically exposed persons (PEP).

With more manual process being automated, such as data sourcing, we see credit & risk managers becoming true data scientists. They will be able to pull a broad range of business information from different sources to gain an accurate picture of possible risk. Centralized solutions will enable global organizations to provide every user with access to the same information throughout the organization. This will make collaboration much easier for global teams if they have a centralized system for credit & risk data evaluation. Centralization is also necessary to ensure the same level of quality in credit decisions throughout the organization.

A centralized credit & risk management system enables companies to manage global portfolios, monitor credit & compliance risk, & respond quickly in case of status changes. It is also ensuring that organizations have the time & information they need to mitigate risk & align internal communications.

Conclusion

Risk, in all its dimensions, can be very unpredictable. From the pandemic that began in 2020 & the supply chain interruptions it triggered, to the recent inflation rate hikes & the impact of international political destabilization on trade & markets – credit & risk managers need to be prepared to manage risk during turbulent times. Even if your company does not hold Russian government bonds, conduct business with Russian banks or have Russian or Belarusian customers – your customers might. Your customer supply chains might be affected by sanctions or higher oil & gas prices. Shares of a company in your customer portfolio might be held by a Russian oligarch. & even if that is not the case, inflation caused by supply chain disruptions can cause problems in your debt portfolio if your customers are unable to pay, while tightening monetary policies can negatively impact your company's ability to re-finance. In summary: Your liquidity could be reduced, & your own financial stability could be endangered.

Credit managers need to keep an eye on the big picture to estimate how market trends could impact their business. Navigating in a

FAULT LINES IN FINANCE (CONTINUED)

multifaceted risk environment that can change significantly depending on markets, regions & verticals, shows the complexity that global credit & risk managers face today. The steps they take to make sense out of vast volumes of data & detect the fault lines in finance will determine how successful credit & risk managers will be in preventing disaster by keeping the daily business flowing & by controlling risk. Processes, enabled by technology, are more agile & resilient, which can help credit & risk managers react quickly to changing risk landscapes. With the right tools, data & process design, they can analyze individual customer risk profiles & process limit applications quickly to support profitable sales & protect their business.

About the Author

Johannes Schmidt is a subject-matter expert on AR Automation at Serrala. He has several years of experience in researching & analyzing market developments & technology trends & presenting them in articles & thought leadership pieces. Areas of expertise include the entire receivables management lifecycle, including credit management, invoicing, & billing, collections, & disputes, as well as cash application.

As originally re-published in the Credit Research Foundation 1Q 2022 Credit & Financial Management Review

Credit Research Foundation

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ICE

INTERNATIONAL CREDIT EXECUTIVES

SEP
28

KIDNAP, RANSOM & DATA THEFT

by International Credit Executives - WI

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Tickets

$65 - $95

Keeping yourself and your company's secrets safe while abroad

About this event

KIDNAP, RANSOM & DATA THEFT: Keeping yourself and your company's secrets safe while abroad

Senior Management and International Sales will benefit from this program.

AGENDA:

8:30 AM - 9:00 AM: Registration

9:00 AM – 11:00 AM: Speaker Presentation and Q&A

11:00 AM - 12:00 PM: Lunch and Networking

12:30 PM Optional 18 holes of Golf. $65 with a cart.

Date and time

Wed, September 28, 2022
8:30 AM – 12:00 PM CDT

Location

River Club of Mequon
12400 North Ville Du Parc Drive
Mequon, WI 53092
View map

Refund policy

Contact the organizer to request a refund.
Eventbrite's fee is nonrefundable.

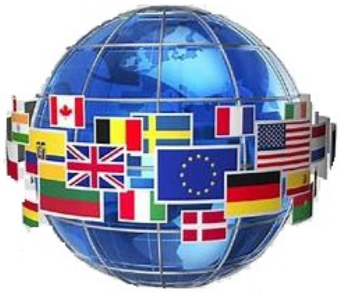
Cost of Admission: ICE members: $65.00; Non-Members: $95.00

MEET YOUR SPEAKERS:

Daniel Schultz is an Assistant Vice President at Chubb Insurance & is the Chicago & Milwaukee Branch Manager for Financial Lines. Dan specializes in Crime Coverage, Kidnap/Ransom & Extortion & Workplace Violence, Director & Officers Liability, Employment Practice Liability, Fiduciary Liability, insurance solutions for both Private & Not-For-Profit organizations. He holds a B.A. in Business Administration from Lewis University in Romeoville, Illinois.

Supervisory Special Agent (SSA) Amanda O. Knutson leads the Cyber Task Force at the FBI Milwaukee Field Office. SSA Knutson has over twelve years of Cyber experience with the FBI and has served at the Los Angeles Field Office, Headquarters = Cyber Division, and the Milwaukee Field Office, SSA Knutson holds a Bachelor of Science degree in biology and worked in the pharmaceutical industry focused on biological quality assurance prior to joining the FBI.

Joshua M. Ackerman is a Senior Operations Officer at the Ackerman Group. Prior to joining AG in 2016, Ackerman served in the US Navy, working primarily in Naval Security Forces, He received training in numerous naval force protection fields, including maritime antiterrorism, in-port threat detection, special reaction force team & active shooter situations. He deployed to the Persian Gulf in August 2014 & conducted force protection operations in Singapore, the United Arab Emirates & Bahrain. Prior to his service, Ackerman attended the University of Colorado at Boulder, graduating in 2011 with a B-A, in Political Science. Since joining A, he has conducted investigations, performed commercial & residential security audits, conducted security seminars for multinational corporations, res ponded to extortions & threat cases throughout Latin America & managed executive protection teams. He has served extended assignments in Mexico, Central America & Colombia; Ackerman is based at AG's Fort Lauderdale office & is conversant in Spanish.



INTERNATIONAL SERVICES

There are many benefits derived from ICE membership:

Network with your peers to find solutions to common problems & use our mentor resources to provide expert help with specific issues.

We have support – administrative, collections, credit reporting, adjustments, & research – available through the local WCA office & its affiliates. In addition, our members include many prestigious manufacturers, banks, forwarders, brokers, as well as the U.S. Department of Commerce & Wisconsin Economic Development Corporation.

Our meetings, held every other month at various locations around the state, feature world class presenters of educational, cultural, & sometimes humorous topics of interest. We often include member presentations of “World Region Reviews” & round table open discussions of questions generated by our members.

Recent sessions sponsored by ICE have included letters of credit & a full array of export documentation issues, export insurance, foreign exchange & loss prevention. Analyses have targeted crises & their impact on Mexico & Latin America, China & the Pac Rim, & Eastern Europe. We’ve also looked at the opportunities for doing business in the more risky markets. In addition, as an ICE member, you will have access through our web site to the presentations from previous meetings, valuable links to our highly recommended informational resources, results of member surveys, & our most valuable asset – our members & their expertise via our membership roster. For further information regarding ICE, or to send us your comments, please contact Waynec@wcacredit.org or call 262-289-1224. Below is a link for ICE Membership if your interested.

ICE MEMBERSHIP APPLICATION

UPCOMING INDUSTRY CREDIT GROUP MEETINGS

SEPTEMBER 9, 2022
Electrical Suppliers Industry Credit Group
Delafield WI

SEPTEMBER 13, 2022
Fine Paper/Graphic Arts Industry Credit Group
Teleconference Call
Regional Paper & Packaging Industry Credit Group
Teleconference Call

SEPTEMBER 14, 2022
Plumbing & Heating Industry Credit Group
TBD
Iowa Plumbing Heating Electrical & Construction Industry Credit Group
Teleconference Call

SEPTEMBER 15, 2022
Metals & Industrial Suppliers Credit Group
Wauwatosa, WI

SEPTEMBER 16, 2022
IL Fine Paper Industry Credit Group
TBD

SEPTEMBER 19, 2022
Western Electrical Suppliers Industry Credit Group
Madison, WI

SEPTEMBER 20, 2022
Building & Construction Materials Credit Group
Milwaukee, WI

SEPTEMBER 21, 2022
Minnesota Electrical Suppliers Credit Group
Brooklyn MN
Food Service Supply Hospitality Industry Credit Group
TBD

SEPTEMBER 22, 2022
Construction Industries Credit Group
Appleton, WI

No Meeting this month
Minnesota Fine Paper Credit Group

Education Events

September 13 Webinar
How to Improve Collection Performance Starting Immediately

September 21-23 Event
CreditScape Conference

September 28th ICE Program
Kidnap, Ransom & Data Theft

November 9 Webinar
The Small Business Reorganization Act: What Creditors Need to Know

December 14 Webinar
20 Things Every Credit Pro Needs to Know About Letters of Credit

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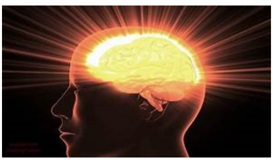

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Patty Hughes X227
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