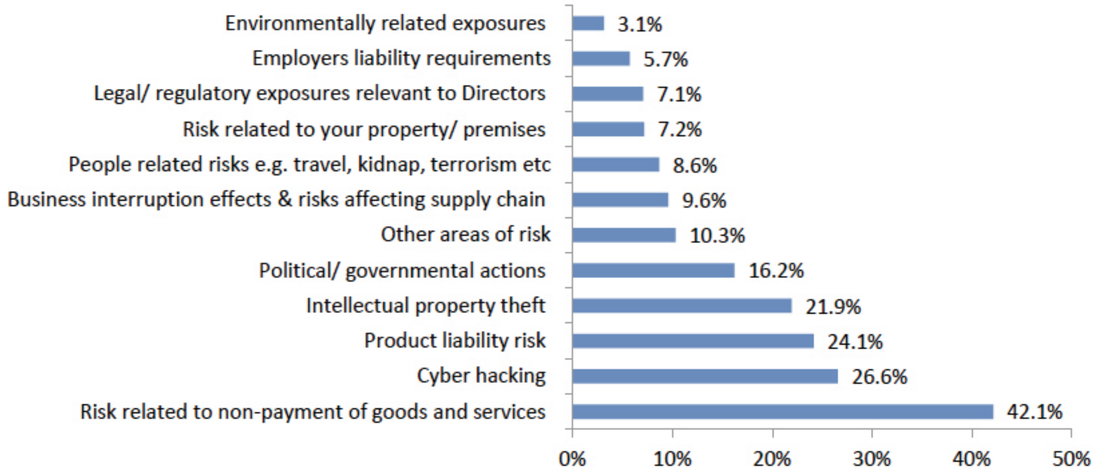
AIG

Increased role of technology in credit management

Client needs in trade credit insurance (TCI) are changing rapidly, driven by a global risk environment where perils and hazards have multiplied over the past decade. Illustrating the exporting outlook, the fear of non-payment for goods and services supplied to overseas clients was overwhelmingly the most common risk concern in the International Trade Survey 2014, sponsored by AIG. Forty-two percent of respondents picked this as among their top three areas of risk relevant for exports.

Which 3 of the following areas of risk relevant for exporters covered by insurance cause your business the greatest concern?



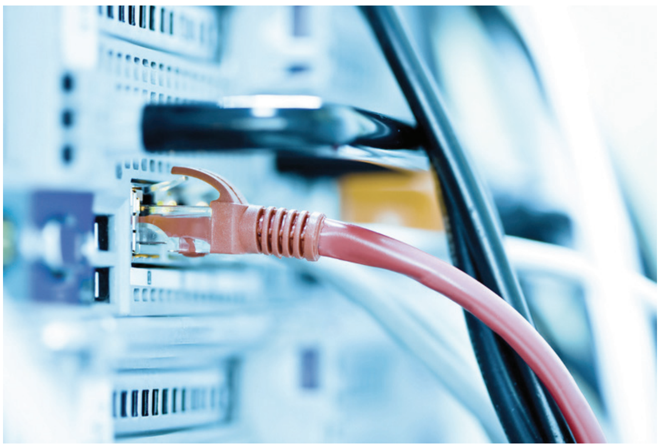
International Trade Survey 2014

Corroboration that some very abundant payments dangers pervade trade markets came in a May 2014 report from Intrum Justitia, stating that €360 billion of annual debt is written off by European companies due to late or non-payment of bills, up from €350 billion the previous year.

Multinational corporates have understandably lifted their focus on how to most effectively appraise, dissect and mitigate their risk, says Stuart Lawson, Managing Director of Aon Trade Credit UK. “We are definitely at the beginning of a sea change in how multinational businesses identify, quantify and manage risk exposures, which is reflected in the number of enquiries we are currently seeing in respect of both receivables and supply chains.” Aon is seeing “a deep dive from multinationals into the quality of the cover, where they want to know if it protects against all eventualities, and whether they need to tweak the policies or their business management practices,” says Lawson.

An ongoing response to these trends in the TCI market-place has involved the emergence of products that embed a strong credit management function into the heart of an insured’s credit risk strategy, by using state-of-the-art technology. This is allowing TCI providers to face the challenges by using specialist software to align their products with client requirements in new ways, hinging principally on trading and risk information.

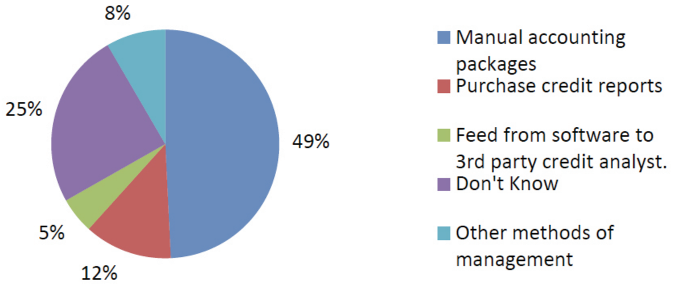
“The challenges for us are complex, as technology has accelerated, but that provides opportunities for our industry. In particular we now have software products that can analyse risk in deep detail and then share those insights with our partners in the corporate, banking and broking worlds,” points out Will Clark, Head of Trade Credit at AIG in the UK. “Credit insurers are helping to establish a type of risk management built around insight and control as well as someone else’s participation in your risk.”



A growing number of market-leading TCI products now offer far more than the simple sale of credit insurance protection, according to Lawson. “Risk protection will always be a core driver behind the use of credit insurance. But another, which is becoming just as important, is in enabling insureds to really take ownership of building a robust credit management function as a core stratagem, complemented by a strong IT platform/ERM tool and, of course, trade credit insurance. Without doubt, more large companies are seeing the benefit of this approach, and the message seems to be percolating down to the SME sector.”

Far more needs to be done to spread the word. Some telling statistics came to light in the AIG survey, which revealed that only 12% of the 3,000 or so respondents purchase credit reports on their buyers, to manage their payment credit risks. Just 5% deploy a feed from their software to a third party credit analyst. By contrast, just under 50% used manual accounting packages, with such usage rising as company size decreased. (Figure 1)

Figure 1. Which one of the following ways do you use to manage your payment credit risk?



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Also pertinent was that, of those respondents who used other methods or were unsure, 30% felt that it would be ‘very helpful’ or ‘quite helpful’ if they were able to access a web-based credit management tool to help them manage their accounts receivable.

Technology leap

One IT company helping to insert these types of tools into the TCI industry’s leading edge offerings is Aronova, whose Limit Manager software underpins AIG’s Trade + policy for middle market companies.

“The technology from Aronova, as well as a few other providers, connects with the client’s accounting package and links into the client’s ledger. It draws out the data, and digs into the real-time trading history and payment experience to automatically calculate credit limits within a very high level of discretion,” explains Richard Talboys, Executive Director Willis Ltd, Financial Solutions, Political & Trade Credit Risks. “This then underpins an excess of loss trade credit insurance cover which can provide non-cancellable limits at the top end”

The technology enables the insured client to automate but stay in control of much of the buyer analysis, rather than outsource it as they would do with a traditional TCI product and also generates automatic alerts on overdues, so that client compliance with policy requirements is easy to maintain.

“The software even works out the costs of any delayed payments and the costs of funding, with the overall effect that once companies can easily see the impact of slow payment it encourages them to work harder on cash collection,” says Talboys.

Looking ahead, the possibilities for credit insurers to redefine the industry by leveraging technology will only increase in tandem with the proliferation of electronic data, the perpetual rise of real-time digital connectivity and the ability of software to manage credit limits by interpreting the data traffic. Greater capacity to anticipate business failures, or to adjust risk pricing downwards in real time as products fly especially fast from shelves are very real possibilities, as databases accumulate more knowledge of business logistics, sales and payments, and credit management continues its evolution from an art to a science.

“Life has changed exponentially over the past 100 years, whereas there has been relatively little innovation in our industry during this period,” says Clark. “That has all changed now. Trade credit insurance services to customers are steadily being reinvented, with data at the heart of every new move.”

The International Trade Survey 2014 was sponsored by AIG, supported by The Institute of Export and undertaken by Trade & Export Finance Limited. Just under 3,000 UK-based companies, with turnover from less than a million to more than £100m, were canvassed, to investigate the current issues that have an impact on the ability of exporters and importers to trade in global markets.