Adapting to Change in Credit

The rise of COVID-19 has brought with it many firsts for individuals and companies. The Darwinian notion of "survival of the fittest" has been an important aspect of life over the past century and a half; however, applying this idea from English philosopher Herbert Spencer can be problematic. Perhaps changing the word "fittest" to "most prepared" or "most willing to adapt" better serves the business community. It's difficult to imagine and be prepared for a black swan event such as COVID-19, but businesses that are able to prepare and adapt through have a better chance at survival.

During a recent FCIB webinar, "Best Practices—The Effects of COVID-19 on Credit Management Processes," a panel of speakers reviewed the credit industry and some aspects of it that must be studied in order for businesses to survive during this uncertain time.

Among the top business priorities to consider are minimizing exposure, working remotely, technology and communication—both within the business and with customers. Volatility, uncertainty, complexity and ambiguity (VUCA) have turned the business world upside down in some cases. Dealing with this and being able to respond appropriately is difficult. One of the biggest impacts on the credit industry was what the webinar called the "working remotely experiment," which is a fair statement as many businesses have never explored this avenue of employment.

In India, not many companies allow work from home as an option due to a number of reasons, including bandwidth problems and the lack of interactions. "Credit and collections have to be on their toes to make sure you get paid and keep customers happy," one panelist said. One important aspect he brought up is that even though you are working from home, you are being productive—collecting cash, ensuring the team is on its toes collecting information, etc. Work hours have increased but credit professionals are able to be at home instead of dealing with long commutes to and from work. The moral and productivity of the team are also important.

One panelist told his team to take some personal time—go for walks and make lunches. His team even voted on the best lunch after they sent pictures in to compare. Finding a positive work-life balance can be challenging, especially with children around. But he was surprised how fast they were able to adopt to the new normal of working remotely. To keep moral high, they also focused on goals like ownership, accountability and trust with teammates.

In order to stay on top of business while working from home, changes had to be made. Technology played a big factor in allowing the work from home "experiment" to take place. A 24/7 call-in line was created to assist employees with software application issues, problems with their VPN, etc. This allowed employees to seamlessly perform work from anywhere. The No. 1 priority was to make sure everyone can do their job.

Communication has changed during the first half of 2020, turning more traditional meeting spaces into virtual ones. Technology like Zoom and Microsoft Teams is helping to make sure everyone is able to do their job and communicate with each other and with customers. Credit risk and collections have also needed to adapt during this time.

One panelist's process is designed in a way to have each credit risk step complement each other rather than hinder. The overall role of the credit department is to mitigate risk of loss and ensure cash collection on time to improve the company's cash flow. To do this, customer accounts that default on

payment are flagged, while "good customers" are given a longer leash. Interactions with customers have doubled as customer reach out more often. They are looking for credit line increases or more product to stock up on. So, it's a good idea to look at policies and procedures during VUCA times. Doing a deep dive into portfolios, understanding the different risks for the different industries and identifying customers based on risk is a good place to start.

Credit departments can manage credit risk by putting accounts in buckets such as significantly, moderately and minimally disrupted. Accounts in the significantly disrupted bucket were not really able to make money via operations and are in the high-risk category—they aren't paying on time and can be put on certain credit holds. Moderately disrupted customers are more likely to be given some collaboration to make sure they don't slip into the significantly disrupted category. These companies might see incentives such as discounts for paying on time or be sold products with a letter of credit or another security interest. Minimally disrupted customers are bigger service providers, but they are still looked at to make sure the business is not impacted negatively. The important thing is to continue collaborating with the sales team and those on the ground to make sure to get the most up-to-date information on customers.

-Michael Miller, managing editor