

Credit risk management software for the receivables finance industry in the economic crisis

Scope of Credit Risk
Management Software



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Sophisticated credit risk management is key to protect banks and financial institutions from existential threats. Furthermore, the economy is waiting for a timely response to the need for liquidity and security of companies. Investments in credit risk management software are central to sustainably strengthening the competitive position in the economic crisis. Especially in the current situation it is clear that there are still media breaks in many areas that urgently need to be closed using business APIs for integrated digital workflows and the use of automatic decision engines. Software solutions are able to directly connecting different market participants across entire digital straight through processes.

SCOPE OF CREDIT RISK MANAGEMENT SOFTWARE

AUTOMATIC IDENTIFICATION OF FACTORING CUSTOMERS AND DEBTORS

Automatic identification and master data checks of factoring customers and debtors are carried out with access to reference data stocks of nationally leading credit agencies and trade credit insurance companies via an API gateway with worldwide partners. Automatic prevention of fraud can be achieved by checking incoming invoices.

CREDIT RISK CHECKS AND EARLY WARNINGS OF IMPENDING BAD DEBTS

Automatic combinations of credit risk information from credit agencies and trade credit insurers with the evaluation of own payment experiences and financial analyses, e.g. on liquidity and debt ratio, result in a complete picture of the credit risk. The effects of the crisis on the liquidity and creditworthiness of companies are simulated and forecasts of future financial developments are transparent. Carefully selected indicators and key figures flow into the early warning mechanism. Delays in payment and potential defaults are detected immediately. AI technology is provided within these solutions.

SECURE APPLICATION AND MONITORING OF TRADE CREDIT INSURANCE LIMITS

Risks must be reliably identified for limit requests in the databases of trade credit insurers. It is important to correctly assign the respective policy of the factoring company or the factoring recipient. The required limit amount is determined on the basis of the obligations. Clever systems recognize limit hierarchies in the dataset, especially with 1:n relationships of debtors and limits. Particularly in an economic crisis, the limit levels must be reviewed and adjusted if necessary.

Cancelable limit insurers will adjust future coverage. Reductions and cancellations of limits can be expected as well as conservative underwriting for new limit requests and non-renewals. However the big three trade credit insurers already increased overdue debt reporting requirements to support the insured.

Non-cancelable limit insurers force their insured companies to revise their credit management. The insured need to monitor risks and as soon as they are aware of reasonably expect losses, shipment need to be ceased. Furthermore, discretionary limits could to be cut.

FAST AND EFFICIENT ADAPTATION OF PROCESSES AND DECISION-MAKING MACHINES IN THE ECONOMIC CRISIS

In times of crisis, it is important to adjust your own credit risk policy and immediately set up the processes accordingly. Software solutions must take into account the respective national, current risk situation in the countries and industries and use it for workflow control and decision engines. Updated credit policies of factoring companies can be adapted very easily and quickly with modern workflow management systems (Business Process Model and Notation (BPMN)) and flexible decision engines (Decision Model and Notation (DMN) Engines). Fast reaction options are of particular importance in an economic crisis, because payment delays and defaults have a direct impact on the working capital of factoring companies.

INSTANTLY AVAILABLE PORTFOLIO ANALYSIS FOR RISK MITIGATION STRATEGIES

Immediately available portfolio analyses with a structuring of the credit risks according to debtors, industries and countries are the basis for risk mitigation strategies of the factoring companies against own bad debts.

RAPID SOFTWARE SUPPORT IN THE ECONOMIC CRISIS

Software providers offer the receivables finance industry a quick access to modern software solutions and special opportunities in the current crisis.

- ✓ Technologically, SaaS software products are available.
- ✓ In current projects, the software community start with a minimum viable product (MVP).

- ✓ Consequently, in the economic crisis the receivables finance industry would be able to react very quickly with efficient and effective credit risk management without straining own IT resources of banks and financial institutions.
- ✓ Strategically, banks and financial institutions can position themselves with sustainable solutions to gain higher market shares in the receivables finance market or to access new market segments, e.g. SME market.

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