Atradius Collections

Achieve accounts receivable excellence amid uncertainties

Credit Management Insights

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Collections in coronavirus times calls for consideration, conscientiousness, and cooperation across your shared service centre (SSC), global business services (GBS), or business process outsourcing (BPO).

With pressure eased around U.S.-China trade talks and a bottoming out of the global manufacturing rut, the year started out relatively positively. However, the COVID-19 pandemic has snuffed out nascent hopes of a recovery.

We forecast that the global GDP contracts 4.5% year-on-year, which makes this recession worse in magnitude than the 2009 Great Recession. The depth of the economic contraction varies per country depending on various factors.

First of all, the economic contraction is forecast to be highest in countries with longer and more stringent lockdown measures. These lockdowns prevent the production and consumption of products and services. On top of that, demand may fall as workers lose their income, and economic uncertainty increases the propensity to save.

Second, sectoral composition matters. Countries in Southern Europe are more exposed to the current crisis, as their economic activity highly depends on tourism and service activities restricted by the coronavirus outbreak.

On the other hand, countries in Northern Europe are generally expected to have lower contractions. They are less dependent on tourism and have fared better in containing new infections, with their economies seeming to adapt better to social distancing restrictions.

The United Kingdom stands out as the country in Northern Europe with the highest GDP contraction. The UK government initially steered for a policy of "herd immunity". However, the economy was forced into a stringent lockdown as it became apparent that the medical system couldn't cope with the country's high infection rate. What further complicates the situation is that the economy suffers from high Brexit uncertainty. The UK and the European Union are trying to work out a deal on a future political and trade relationship before the end of this year, but it's highly uncertain if this can be attained.

The recovery in 2021 is uncertain. It depends on the development and administration of a vaccine, or a state of the world in which the effects of social distancing on economic activities are largely overcome.

But the repercussions of COVID-19 are certain. We forecast that global corporate insolvencies increase by 26% in 2020 as the coronavirus pandemic pushes the world economy into recession.

Any part of the business ecosystems of your customers could experience and cause your customers to experience:

- Cash flow strains or insufficient liquidity
- Delayed payments or defaults on payments
- Their customers delaying or defaulting on payments to them
- Their businesses shut down
- Bankruptcy

The deterioration in the payment behaviour of your customers can be part of the pandemic's collateral damage, and it could have a crippling ripple effect on your company's cash flow. To minimise such risk, you will need to optimise accounts receivable and limit bad debt losses as much as possible.

Below are four accounts receivable best practices your SSC, GBS, or BPO can adopt in the time of COVID-19. Our perspectives are based on our analyses of comparable economic events and our industry expertise.

1. Get your collections priorities right by assessing COVID-19's impact on your AR portfolio

Governments and central banks across the world have taken measures to counteract the economic effects of COVID-19. These fiscal measures are aimed at providing companies breathing space after their liquidity position has come under pressure from a decline in revenues.

While effective in the short run, these measures are unlikely to prevent a rise in insolvencies in the longer term. Even if these packages cover costs incurred by companies, they won't cover persistent losses of profits. Capital owners of affected sectors will ultimately have no choice but to file for insolvency and reallocate their remaining capital to more promising sectors.

Therefore, it's important to identify accounts in your portfolio that may encounter liquidity problems due to COVID-19. By assessing and categorising your accounts, you can focus and tailor your collections strategies to the accounts that need them most.

The accounts receivable portfolio of each company is unique, but you can start with the basic three-tier system below and adapt it along the way.

"Good" accounts:

- The customers are in a strong financial position and pose almost no credit risk.
- COVID-19 has minimal or no effects on their sectors.
- The pandemic is unlikely to influence their payment behaviour.

"Fair" accounts:

- The customers are in a relatively good financial position and pose low credit risk.
- COVID-19 could affect their sectors negatively, both directly and indirectly.
- The pandemic could adversely influence their payment behaviour during and shortly after the outbreak.

"Poor" accounts:

- The customers are in a weak financial position and pose considerable credit risk.
- COVID-19 affects their sectors directly and severely.
- The pandemic threatens their solvency and could cause them to default on payments in the near future.

2. Maximise recoveries from impacted customers by renegotiating their payment terms

Most countries have made changes to their insolvency regimes to protect their companies from going bankrupt. These measures include temporary suspensions of insolvency applications (making them inadmissible) in bankruptcy courts, preventing creditors from starting an insolvency procedure, or raising the debt threshold for a bankruptcy notice.

Several countries, including Belgium, Italy, and Spain, have enacted laws that temporarily freeze insolvency proceedings or declare bankruptcies inadmissible. This means creditors aren't allowed to appeal in court for the bankruptcy of a customer who isn't able to honour their payment obligations. Other countries, such as Singapore and Australia, have increased the debt threshold for companies to be declared bankrupt.

With such uncertainties, you want to have your customers settle their debts without resorting to insolvency proceedings. As long as the renegotiated terms align with your company's credit policy, renegotiating with the customers carrying payment risk often gives you more chance of collections. The key is being diplomatic while being insistent on settlement terms.

You could consider:

Giving your customers incentives to encourage early payments, if possible.

Sometimes, small discounts are enough to speed up collections in economic hardship.

Providing your customers with short-term relief in exchange for prompt payments.

This could work for customers in temporary financial distress (i.e. "Fair" accounts). An example of short-term relief you can give is suspending interest and late fees.

Working out payment plans with your customers.

This could work for customers having cash flow problems or liquidity issues, and therefore, not being able to pay in full (i.e. "Poor" accounts). Accepting what can be collected in the short term through payment plans is better than having to write the accounts receivable off in the event that COVID-19 worsens the economic downturn.

3. Increase the efficiency and standardisation of your AR process regardless of turbulence

Governments are changing the insolvency framework to prevent a rise in insolvencies this early in the crisis. However, the measures are temporary, and in virtually all countries, the relaxation measures end in Q2 or Q3 of 2020. The fiscal packages related to the coronavirus crisis also weigh heavily on the government budget, which may threaten to become unsustainable if continued too long.

All major regions will be confronted with an increase in insolvencies eventually. Across countries, there is a wide range of insolvency projections, depending on the severity of the economic contraction and the insolvency elasticity - the percent responsiveness of insolvencies to a one percent GDP change. This varies across countries due to differences in economic structures and institutional factors, such as types of insolvency regimes.

On this rocky road, minor hiccups in your accounts receivable process can become inherent inefficiencies. Ironing them out would help your SSC, GBS, or BPO save precious time and working capital that your company needs to weather the storm.

Improvements you can make to your accounts receivable include:

Monitoring your accounts receivable with key metrics for maintaining liquidity.

Accounts receivable turnover ratio, days sales outstanding, and accounts receivable ageing amongst other metrics could be included in a regular report. These metrics will help you spot potential cash flow problems early, and see if your accounts receivable can meet your company's requirements of working capital and cash during the crisis.

Revising your accounts receivable policies and process, if necessary.

There might be changes in the method your company invoices your customers, the process that outstanding invoices are collected, and the way that transactions are recorded because of COVID-19. Relevant stakeholders should be informed accordingly so that they can monitor and implement the changes consistently.

Ensuring the accuracy of your customer master data.

Besides the initial changes, it isn't unusual to make further adjustments on an ad hoc basis during coronavirus times. What is essential is duly recording them in a central repository – any exceptions in your customers' contracts, any changes in their credit profiles, any standard and customised terms applied, and any collections efforts and agreements made.

This helps prevent unauthorised changes and increase the reliability of your customer master data. Proper records of all special arrangements also allow for invoices being sent without errors, collections being executed with the right approach, and disputes being handled in the right manner.

Stepping up your invoicing efforts.

It may be useful to check with your customers to see whether invoicing needs to be adjusted while the pandemic lasts. Invoices could be sent more or less often, they could be delivered by email instead of by post, or they could be adapted to the customers' new payment procedures.

Especially for invoices with large amounts, after they're sent, you could contact your customers to confirm whether they've received the invoices and whether everything's correct. Before the invoices are due, you could also remind your customers about the due dates.

Incorporating necessary modifications and proactive communication into your invoicing system could nip invoicing-related delays in the bud.

Offering payment methods that are easy for your customers to pay.

Also, you should make the payment process as frictionless as possible. You should take into account that your customers may lack staff dedicated to accounts payable or that their staff may work remotely through the outbreak.

Reminding your customers in time and in the right way.

Once your accounts receivable become outstanding, you might need to pick up the phone to remind your customers. Calling is often the quickest way to reach customers compared to sending reminders by post or email.

During the calls, you should note down what your customers say and what the next step is. Make sure to send the customers your notes after the calls as well. They will serve as proof if there are disputes in the future and as a point of reference for future calls if there is no progress in payment since your last call.

4. Keep control of your collections operation and pave the way to financial resilience for your organisation

We expect to see much higher bankruptcy figures in the second half of 2020. This forecast is based on the assumption of a gradual phasing out of the fiscal stimulus measures and the reopening of bankruptcy courts and proceedings.

For 2021, our forecast assumes that the global lockdown measures are gradually eased throughout the second half of 2020, resulting in a GDP recovery in all countries. This implies that monetary policy and fiscal policy can be gradually tightened in 2021. In some countries, there is an increase in the level of insolvencies coming from a delay of registrations caused by the temporary suspension of court proceedings in 2020.

The assumption that the pandemic will be successfully countered is important, but also very uncertain. This is due to the fact that starting in July, many countries started experiencing a renewed rise in COVID-19 cases. This may necessitate more stringent social distancing measures, which could change the outlook dramatically.

Figure 1 Insolvency outlook 2020

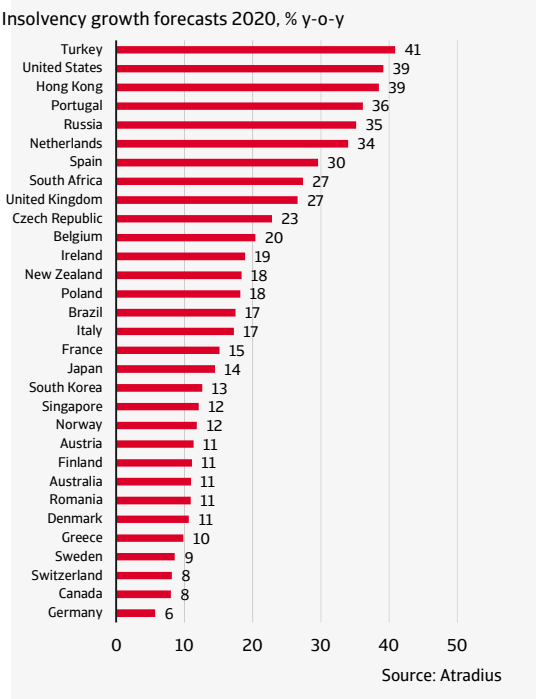
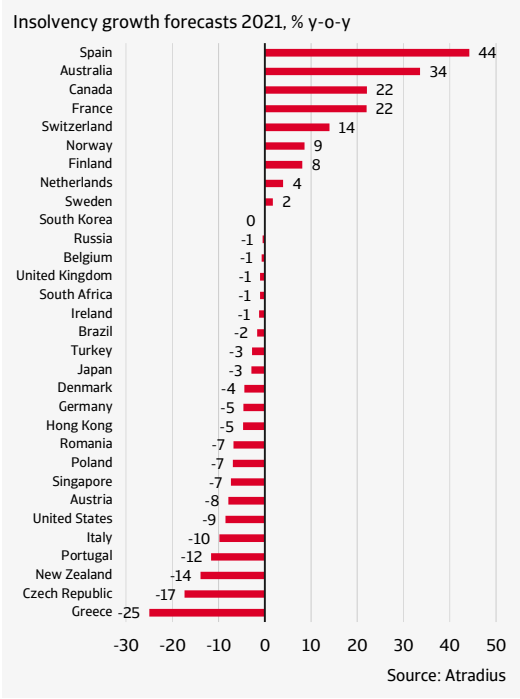


Figure 2 Insolvency outlook 2021



Depending on each company's circumstances regarding COVID-19, their collections staff at the SSC, GBS, or BPO may conduct only part of their collections activities, or have to suspend them all. If your company finds itself in this situation, to make sure that critical accounts receivable tasks are fulfilled, you may need to establish a strategic partnership with a collections agency where collections efficiency and capacity are assured.

Such a partner can help you:

- Adapt your collections approaches to the development of the pandemic and changes in your customers' circumstances.
- Accelerate your SSC's, GBS', or BPO's efforts to collect outstanding accounts receivable.
- Aid the execution of your company's contingency plans to minimise cash flow risks.

Accounts receivable are often the biggest asset on a company's balance sheet. By optimising collections according to the progress of COVID-19, you help enhance the much needed cash inflows that bring financial flexibility and resilience to your organisation during downturns.

Does COVID-19 impact your debt recovery?

Our Atradius Collections teams around the world have decades of experience in helping multinationals successfully manage and collect their accounts receivable.

We could support your SSC, GBS, or BPO in:

- Collecting your outstanding accounts receivable amicably (third-party collections)
- Managing part of or your entire accounts receivable portfolio (accounts receivable outsourcing)
- Covering other aspects of your collections and accounts receivable management

Please contact us to discuss ways we can help improve your accounts receivable.

Contact us

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