3 STRATEGIES TO MITIGATE PAYMENT RISK POST COVID-19

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EULER HERMES

PAYMENT RISK

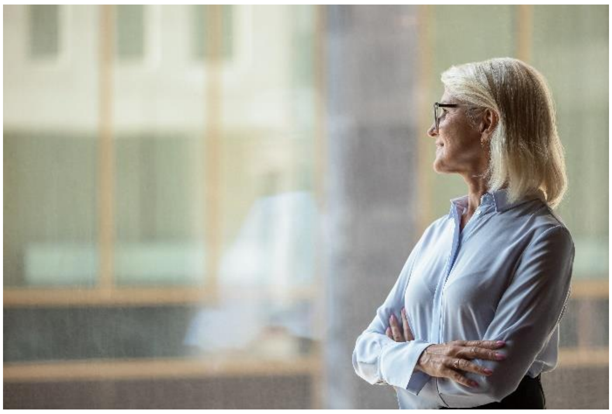
Learn how CFOs plan to offset non-payment and protect their business both now and after the Covid-19 pandemic.

As most CFOs would likely agree, an efficient and frictionless finance function is built on a combination of multiple factors including leadership, technology, processes, talent, expertise and communication. Operating at an optimal level means that when challenges arise, the finance function has more capacity to handle them effectively.

Those challenges may be 'everyday' issues, such as client insolvencies and supply chain problems, or as has been seen in recent months, 'black swan' events such as the Covid-19 pandemic.

Although Covid-19 has changed the world as we know it, many of the business-as-usual challenges have remained the same, but have been exacerbated. And while they may have been made worse in the short-term, they will still be present once the pandemic has retreated.

Our 2020 survey *The Finance Leader of Tomorrow*, shines a light on some of the challenges the finance function faces and reveals which are the biggest concerns.

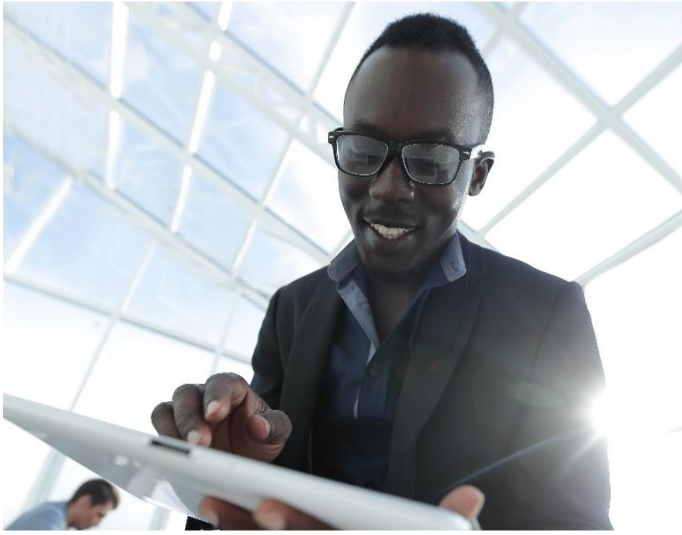


PAYMENT RISK PRESENTS THE BIGGEST THREAT

While the survey was originally conducted prior to Covid-19, we re-surveyed participants in May 2020 to see if their views had changed in light of the pandemic. On both occasions, responses show that payment delays from clients are by far the most pressing item on finance leaders' agendas – ahead of other concerns such as cyber attacks and a decrease in sales volume.

- Before Covid-19, 47% of respondents – across businesses of all sizes – identified payment delays as a risk that had impacted on their business in the previous year. When asked again in May which risks had had an impact over the previous two months, the figure for payment delays rose to 65%, making it the top concern both times.
- Similarly, prior to Covid-19, 44% reported that payment incidents were a common occurrence. After the crisis began, the situation intensified, with one in ten having experienced multiple incidents a day in the two months prior to May, and 65% having done so at least weekly.
- Confidence in dealing with non-payment also took a hit. Before the outbreak, only 44% of businesses said they felt 'fully prepared' to deal with payment incidents. Since the pandemic began, that has fallen to 31%.

While all of these figures are understandable, businesses can't simply stop, restructure and start again, they need to operate fluidly in order to deal with the new normal. As part of the survey report, we asked CFOs how businesses can respond to payment risks. Three key areas stood out above all.



STRATEGY 1: CFOs SHOULD IMPLEMENT RIGOROUS ONBOARDING CREDIT CHECKS

While CFOs often have a wide-ranging agenda, it's vital to ensure that there remains a clear focus on the basics: being paid on time and protecting cash flow. While action can be taken to deal with non-payment issues as they arise, it has arguably never been more important to ensure that work is done in advance to mitigate risk.

While this involves planning for specific scenarios and proactive cash management, it's critical to put into place (or reinforce) measures that help reduce risk at the customer on-boarding stage. In other words, make sure your due diligence is absolutely robust before you take a client on board. Some practical steps could include:

- Run a credit check: you can run a check on a client, a business or its principals, which will give you an indication of the creditworthiness of a person or business. This should only be a starting point however, in case details aren't entirely up to date.
- Check credit references: if a potential new client has offered credit references, then ensure that you examine them thoroughly, in case they aren't legitimate.
- Insolvency screening: have any of the directors of the business been declared bankrupt or run an insolvent business in the past – and what were the circumstances?
- Request financial statements: depending on the size of the relationship you're about to enter into you could choose to examine full financial statements, rather than just the bottom line, in order to check specific elements.

Ensuring processes are in place and probing each business forensically can be particularly helpful as a way of preventing potential payment risks that might arise down the line.

STRATEGY 2: DIVERSIFICATION CAN REDUCE PAYMENT RISK

Respondents were of the opinion that businesses with a wide range of product types, or who sit across multiple industries, will be best placed to deal with major risks in the future. It might seem like a cliché, but not having all your eggs in one basket may well offer valuable protection against payment risk, as well as revenue risk.

Similarly, it was generally felt that even those with a smaller product range should be focused on diversification in customer numbers and types. The more customers you have, the more the non-payment risk is spread.

Diversifying as much as possible should mean that when events hit – be they typical matters, such as commodity shortages, or 'black swan' events – then the entire business is less likely to be hit when non-payment occurs.

STRATEGY 3: INSURANCE CAN PROTECT AGAINST NON-PAYMENT

CFOs believe that insurance will – and should – become more important. Trade credit insurance in particular can protect businesses against payment risk, both in the case of non-payment or late payment.

With trade credit insurance in place, the policyholder knows their business is protected against both commercial and political risks that are beyond their control and has the reassurance that money owed to them will be paid.

But it isn't simply a case of buying a product off the shelf. Respondents believe that it's crucial to work closely with trusted insurance providers in order to achieve the most appropriate level of protection.

Involving insurance providers, so that they have better insight, means that terms will be more specific and risk protection more comprehensive. This is already something that CFOs are acting on based on the economic consequences of Covid-19, and an area where many more are likely to follow suit in the near future.

Payment issues, along with client insolvencies, are very much at the forefront of CFOs' minds, and this is likely even more to be the case in the current climate. However, astute finance leaders will take a proactive approach so that their businesses are protected against future events.

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