



P R E S S C O V E R A G E

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Credit risk to increase in 2014

2013 saw a significant increase in the number and value of credit insurance claims received by Coface South Africa year on year, according to Gerhard Buitendag, collections manager of Coface South Africa.

This is not the only area where there has been a deterioration – the value of notifications received for December 2013 were 75% higher compared to December 2012, which goes against historical trends.

The key to success in any business will be the availability of information to make sound credit decisions. With indications that 2014 will be a challenging year with many unforeseen events, it is imperative that sound risk assessment and risk management practices are adopted.

Normally, a significant slowing of notifications is seen over the December holiday period, however December 2013 indicated a different trend. Comparing the figures for November 2013 and December 2013, claim values increased by 9% while the number of claims received reduced by 30%, indicating much larger claims in value were received.

There was a similar trend for the first three weeks of January. Where notifications of overdue account sent to Coface are normally received later in the month when companies re-open for the new-year, there were a large number of notifications submitted to Coface in the first two weeks of 2014.

With an increase in the size of claims, Buitendag noted that the time frame for collecting overdue matters for their clients overdue debtors, has increased. Along with business rescue matters, payment plans are being accepted for much longer than normally accepted. There have also been large numbers of liquidations on much larger claims.

To avoid this situation, the credit worthiness of a company should first be determined before giving credit. There are a number of factors that need to be checked. The character of the company is important. This includes the company's credentials, references, treatment of employees and customers, and adherence to social and legal obligations.

Its payment record, liquidity and solvency levels are also important. In terms of capital: funding, investments, shareholder commitment and leveraged debt must be analysed.

The industry in which the company operates is also important, as well as market sensitivity, operational efficiency and expense control. One should also take cognisance of the global industry outlook, which could have far reaching effects on the local industry, and ultimately the company's financial situation.



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Collateral is another key issue. This includes asset pledges, book sessions, guarantees, suretyships and securisation.

In Africa there are definite challenges in getting this information. Emerging economies are generally non-compliant with western financial standards, information cannot be cross-referenced and sources of information cannot be validated. In addition, there is a lack of basic infrastructure in Sub-Saharan Africa and a lack of financial aptitude and credit understanding in a large percentage of underdeveloped or emerging economies.

Small economies do not have a competitive bureau industry, resulting in minimal options when negotiating. In addition, there is a culture of corruption and mistrust while emerging economies have very high CPI rates, and many as tax havens, make credit vetting all the more difficult.

Coface has a database of over 55-million companies worldwide that is available to its clients, making it easier to know with whom you are doing business, and offers a financial solution to losses relating to credit risk.

<http://www.fanews.co.za/article/credit/57/general/1270/credit-risk-to-increase-in-2014/15476>