Thornton Hope Supports Council to Reduce Credit Risk Exposure

Overview

Many Councils are working towards increasing their commercial opportunities as a way of increasing revenues, therefore Credit Risk must be considered to ensure this hard-earned revenue does not result in bad debt.

Thornton Hope’s extensive experience in Credit Management has been pivotal to reducing the credit risk and bad debt within our client’s Organisation. We have introduced a robust Credit Management Policy together with Best Practice Processes and Comprehensive Training for all employees involved in the Credit Management Cycle. The scope of the new Credit Policy covers the full end to end Credit Risk and Accounts Receivable process and we would like to share our experience and success criteria with other Public Sector Organisations.

Credit Risk Management Project Focus

Sponsorship and Stakeholder Engagement

Our Credit Risk Management project was sponsored by our client's Corporate Finance Department. We kicked-off with a meeting of all the key stake-holder departments across the organisation. This meeting introduced the concept of pro-active credit risk assessment and the ongoing need for credit risk management that would result in the avoidance of future bad debt for our client. The overall stakeholder engagement was key to helping the wider organisation and especially high-risk departments understand and implement the policy and procedures that would give the council the best chance of minimising future bad debt.

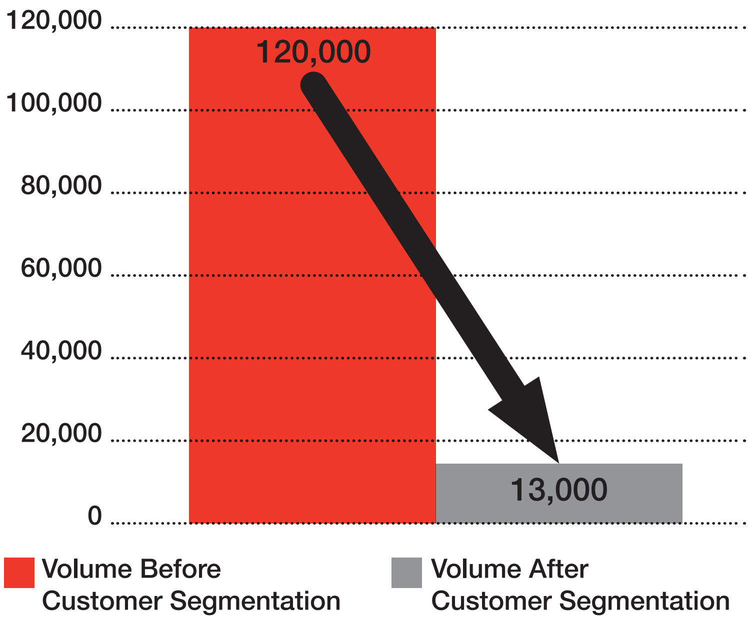
Customer Segmentation

The integrity of the existing customer master-data is critical to identifying the overall credit risk within any organisation, that's why this was the first project data exercise that we carried out. We started with 120K customers and following several workshops with key stakeholder departments we identified customer profiles including: - Inactive Customers, Credit Trading Customers, Penalty Fee Customers, Mandatory Service Customers and various other segmentations relevant to the client's organisation.

Once the customer profile segmentation was completed we knew what customers would be relevant to the Credit Risk Assessment and ongoing Credit Management Processes. These customers were credit checked and categorised as Low, Medium and High credit risk classifications. Whilst credit checking the customers we took the opportunity to clean-up the customer master-data ensuring registered addresses, correct billing addresses and registered company numbers were updated.

High Credit Risk Customer Volumes

Significant Reduction in the Volume of High Credit Risk Customers



We could see from the Credit Risk Classifications what existing customers presented the high risk of bad debt, there were circa 13K, so we worked with our Client to address key steps to reducing that risk. These steps included customer master-data and billing process improvements, reviewing payment terms, reviewing collection strategies and introducing much tighter credit risk management processes for continuing to do business with and monitoring high risk customers.

New Customers – “Know Your Customer”

The importance of knowing your customer is key to good Credit Management. We could see from our review of the customer on-boarding process that the correct customer details required for credit risk management purposes were rarely captured at the customer creation stage. We introduced new customer credit application forms that provided the necessary data required to set-up a credit account. This New Customer Process has resulted in the Council “knowing their customer” and that means there is significantly reduced risk of revenue resulting in a bad debt in the future. It also means that: -

- invoices are correct first time
- customers find it easier to pay on time
- overall customer service has improved
- the cost of the invoice to payment process has reduced

Ongoing Monitoring of Credit Risk

Credit Risk is a fluid situation, it was important that the Council had robust processes to identify changes to a customer’s Credit Risk Profile. We implemented daily routines that were easy for the credit manager to operate and communicate with the relevant departments involved with a potential credit risk customer. The is means that early warning of customer credit risk and a joined-up approach to act across the council to reduce the risk of bad debt is now in place. The Council is now in a significantly stronger position to ensure they avoid the bad debt pitfalls of the past.

Credit Policy

A new Credit Policy has been created and tailored for our Client’s needs, it reflects the new end to end Credit Management Process. This Credit Policy serves all departments involved with Customers and Credit and it provides the guidelines that will ensure Best Practice Credit Management is achieved throughout our Client’s organisation in the future.

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The Key Aims, Outcomes and Activities

achieved as a result of the Credit Risk Management Project

Aims

- Reduce Credit Exposure
- Minimise Risk of Bad Debt
- Increase Revenue Opportunities

Outcomes

- Reduced Credit Risk Exposure
- Improved Customer Master-data Quality
- Improved Customer Service
- Improved Debt Recovery Performance
- Increased Savings in the Order to Cash Process
- Credit Risk Awareness and buy-in Across Council Departments
- Trained and Informed Staff
- Improved Financial Controls
- Increased Visibility for Audit Purposes
- Platform for Increased Revenue

Activities

- Cleansed Customer Data-base
- Segmented Customer Data-base
- Implemented Customer Profile & Credit Risk Classifications
- Credit Checked Customers
- Created Daily Control Reports & Processes
- Created & Updated Forms for Customer Data Capture
- Trained & Communicated Processes
- Created New Fit for Future Credit Policy

If you would like to discuss how you could reduce Credit Risk in your organisation, please get in touch:

Email us at enquiries@thorntonhope.co.uk or call us on 0141 242 4450