Insolvency outlook: what credit managers are thinking

At the recent Australian Institute of Credit Management (AICM) conference, credit professionals from around Australia came together to discuss the current financial pressures being felt by their customers and provide expectations for the next 12 months. Jirsch Sutherland's Andrew Spring led the roundtable discussion, which revealed some interesting insights.

When it comes to identifying a company's solvency issues, credit managers are often the first to notice if their customers are experiencing a problem. At a recent roundtable discussion at the annual AICM conference, 30 credit professionals from around the country provided their insights to Jirsch Sutherland's Andrew Spring, who heads the firm's specialist Insolvency Intelligence arm, which is designed for credit managers. The consensus was while there's not yet a large increase in defaults, cash reserves are shrinking and companies are becoming more vigilant.

"Credit professionals often have superior knowledge of their customers' financial health – even more so than their bankers. They're frequently the first port of call when a business is facing cash-flow issues, providing support such as extended credit limits, alternative sources of credit, renegotiated payment terms and repayment arrangements," says Spring. "The roundtable gave us a chance to tap into the credit management sector to see what credit managers are witnessing and what they're doing to address changing conditions. And while they're not predicting a huge increase in insolvency appointments, there's certainly a more concerned outlook for the next 12 months."

Key credit manager insights:

- There hasn't yet been a large increase in defaults.
- Cash reserves are getting tighter.
- There's greater focus on enforcing trading terms and of creditors securing their interests on the Personal Property Securities Register (PPSR).
- There's a rise in conflict between sales teams and credit teams as trading terms are revisited or renewed.
- Pressure points include supply chain issues, cost of living, higher interest rates, unprecedented weather events.
- There are concerns with trade credit insurance, particularly in the construction industry.
- There's greater concern about the impact of rising cost of living on SME customers; the possibility that customers may choose to prioritise paying themselves versus their suppliers is becoming a real risk.
- Credit professionals are 'digging deeper' into the reasons for credit limit increases before approving increases; they're reviewing customer files to ensure credit applications are up to date and that personal guarantees and security interests are correct.
- Data analytics are playing an increasing role to assist in risk assessment by credit professionals.
- Some in the sector are considering tightening the level of enforcement activity and encouraging engagement with customers.

Anecdotal evidence: what credit professionals are saying

International supply chain delays

"China's zero tolerance COVID policy has meant that some supplier factories have been closed without notice, creating delays on components resulting in back-orders for our customers. If we are supplying a mechanic undertaking repairs or maintenance but one component is not available to ship, the mechanic is unable to complete the works and charge their customer. This is creating difficulties for us to collect monies for goods that have been shipped, as our customer's cash-flow is upset."

Credit manager of an automotive supply business

Interest rates

"The rising interest rate environment has seen a reduction in demand for home renovations. For some of our customers this has created cash flow pressures. With the rising cost of living, we are concerned that at SME level some customers may have to choose between paying themselves and paying their supplier."

Credit manager of electrical wholesaler

Credit limit increases

"When a customer is approaching us to request a credit increase, we are trying to ascertain whether this is due to growth of the customer, inflation, difficulties with supply or financial distress. We will not approve a credit increase until we are comfortable knowing why the customer is making the request."

Credit manager supplying the construction industry

Business 'housekeeping'

"We are revisiting our files on each of our customers to ensure that the most recent terms of trade have been provided, their credit application details are still current, that we have personal guarantees when appropriate and we have secured our interest correctly on the PPSA [Personal Property Securities Act]. We have noticed that when seeking to update details with customers, we are getting a higher degree of "push back" from our sales teams"

Credit manager in food supply

Jirsch Sutherland has been partnering with the AICM since 2018. Through the firm's pro bono Insolvency Intelligence for Credit Managers service, Jirsch Sutherland is uniquely positioned among insolvency professionals to gain insights into the creditor mindset, and assist both debtor and creditor with finding a solution to any form of financial distress.