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FOCUS: *Stopping debt going bad*

David DiPiero, CEO and Director of FGI Finance in the United States talks to Factorscan about dealing with the threat of debt turning bad, in the downturn and beyond.

David addresses practical steps aimed at stopping debt turning bad, the best means of identifying risky debt, how factors can monitor its development and what they need to consider when turning to services of outside assistance to retreive debt.

Factorscan asked David to address the following questions in the context of the rising risk presented by the global economic downturn.

What practical steps can factors take to stop debt turning bad? What preventative measures should factors be considering?

There are several practical preventative measures to limit bad debt, particularly in the current environment. First, factors should revisit portfolio client industry segments and perform detailed analyses of current trends, notable occurrences, and overall industry performance. An active assessment of each individual client is necessary to assess the current financial and operational health of each organization. This is especially important due to the fact that customers often react to failing suppliers by suspending trade and often withholding payment. Subsequently, debtors of clients should be individually reviewed with particular attention to trade history, i.e., payment history, aging trends, volume trends, etc., to reveal any potential early warning signs of trouble for each particular account. Key debtors should be further evaluated via external agency reports, updated financial statements, or via other more in-depth assessment techniques. Frequent communication with debtors is also a critical strategy for the early detection of potential future payment issues; this is particularly true if, via other assessment mechanisms, it is determined that a particular debtor is 'at risk' for non-payment or other financial trouble. In such cases (where it is determined that a debtor is a non-payment risk) early and frequent communication is critical to the successful recovery of outstanding amounts due.

But what happens when there are increasing numbers of bad apples?

Can non-confidential factoring help to reduce the chances of debt going bad?

Non-confidential factoring, in some cases, does actually improve the likelihood of a particular debt being paid, however, in times of a global economic crisis, and in particular a credit crisis, the impact of non-confidential factoring is far less significant. As the tightening of the credit markets continue, organizations with restricted access to credit and cash coupled with decreased sales volume and shrinking profits are forced to make difficult decisions. Often such occurrences result in customers diverting what available cash they have away from suppliers (and their associated non-confidential factors) and toward other perceived more 'critical' uses.

What are the best means of identifying bad or doubtful debt?

The best means of identifying bad or doubtful debt is by observing negative changes in customer behavior including, payment history trending negatively, reduced responsiveness to requests or other attempted communication, client knowledge of deteriorating customer financial health, or public filings and/or news indicating a pending bankruptcy or other similar occurrence.

What monitoring systems are most effective in identifying bad or doubtful debt?

Communication with both clients and customers along with trend analyses (payment trends, volume trends, etc.) are the most effective mechanisms for monitoring or identifying doubtful accounts.

How can you work to actively reduce the level of bad debt in your portfolio?

As I mentioned above constant monitoring and communication and when necessary modifying agreements temporarily to help clients weather the storm.

What considerations should factors take into account when considering debt collection services?

Past performance, price and reputation.

How should factors approach dispute resolution in the downturn?

Dispute resolution should be handled in the downturn as it is at any other time. When a dispute is identified, frequent and open communication with both the supplier and the customer must occur to quickly resolve the dispute.