

Risk Management

Credit risk, contract risk, currency risk, fraud risk, and audit risk – all are becoming increasingly important components of risk that must be controlled by corporations and government agencies. Credit risk management, by combining data from publicly available sources with corporate customer and sales data, focuses on the determination of credit ratings, credit risk exposure in a particular country or industry, or the impact of increased customer defaults. Currency risk analysis involves evaluation of exchange rate exposure and predictive modeling of the impact of currency fluctuations on forecasted profit margin. Fraud risk analysis, through the use of statistical data mining techniques, can uncover patterns of activity correlated to fraudulent events. Business intelligence, by enabling the use of data mining and statistical techniques for risk detection and management, empowers wider worker populations to help mitigate the various forms of corporate risk.

Key Performance Indicators

Average Outstanding Balance
 Payment Behavior Index
 Exchange Rate Volatility
 Top 5 Exposure Currencies
 Top 5 Exposure Industries
 Average Daily Balance/Assets
 % Change in Receivables
 Change in Credit Rating

Sample Report: Credit Risk Assessment

The Clothing Company	Credit Rating	Total Credit Line	Credit Available	% Credit Line Available	Deposits and Other Assets	Payment History
Ocean Airline	Aaa	\$ 575,138	\$ 57,892	10%	\$ 8,503,990	Good
Global Industries	Bbb	\$ 651,822	\$ 324,587	50%	\$ 9,637,840	Fair
The Clothing Company	bbb	\$ 452,846	\$ 325,698	72%	\$ 6,695,781	Fair
Financial Instruments	Aaa	\$ 373,053	\$ 372,154	100%	\$ 5,515,962	Good
NSP Co.	Bbb	\$ 360,991	\$ 123	0%	\$ 5,337,613	Poor
Great Motors	AAA	\$ 369,115	\$ 89,654	24%	\$ 5,457,734	Good
Light Food	Aaa	\$ 261,363	\$ 154,789	59%	\$ 3,864,513	Fair
Eyeshapers Inc.	Aaa	\$ 172,513	\$ 65,218	38%	\$ 2,550,777	Poor
Internet Solutions LLC	Bbb	\$ 153,339	\$ 125,698	82%	\$ 2,267,270	Good
University of Vienna	Aaa	\$ 173,818	\$ 154,898	89%	\$ 2,570,073	Good

This report illustrates one of several analysis steps that may be used when determining the financial risk associated with extending additional credit to customers. In assessing credit risk, it is important to determine various characteristics of a customer/organization including credit score/credit rating, transaction history and balances. The next steps would be to investigate the recent transaction details and financial statements of customers approaching their credit limit with poor payment histories. Forwarding a report on individual customers to the respective credit managers can aid in collections and risk management.

COMMON BUSINESS QUESTIONS

- What is a customer's payment history?
- At the current exchange rate, how do revenues and expenses convert to local currency?
- What is the variance on forecasted profit margin at the current exchange rate and at the year end projected exchange rate?
- How does the current cost of capital affect margin compared to last year?
- Is the average age of A/R increasing or decreasing?
- What five foreign currencies represent the most exposure?