

Workflow Automation

Credit Application, Investigation & Review

FEDERATION of CREDIT
and FINANCIAL PROFESSIONALS

EXECUTIVE SUMMARY

The desire to automate repetitive work processes has been around for a long time. In fact, the ability to do so with certain aspects of cash application was an important feature of an AS400-based Credit and AR system that two of the younger executives of FCFP had the pleasure of helping with the design of, back in the 1980s or so. That system is still in use, successfully, today. However, it is somewhat limited in its ability to more fully automate the process.

With the powerful technology and software abilities available today, it is possible to take many more of the so-called mundane tasks of the credit management process and automate them. Doing so leaves much more time and provides much more useful and timely information for the Credit Professional to do the really important part of the job, making a sound business credit decision.

Tom Gannon, CCE

Director of Research & Education
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Workflow Automation #1: Credit Application, Investigation & Review

Thomas Gannon, CCE

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In the interest of continuity, the best place to start is in the beginning, the credit investigation and review process.

Information Required for the Process

In order to automate workflow, there must be data and tasks:

- Databases:
 - Credit Reporting Agencies
 - Industry Credit Group Reports
 - List of Competitors
 - List of Sales Associates and Branch Managers
 - List of Credit Department Personnel
 - Customer Master List
- Tasks:
 - Compilation of information
 - Follow-up for errors or missing information
 - Various what-if scenarios, including thresholds for additional action
 - Various notifications
 - Certain manual tasks, such as telephone calls, that cannot be automated, other than the distribution to the appropriate people.

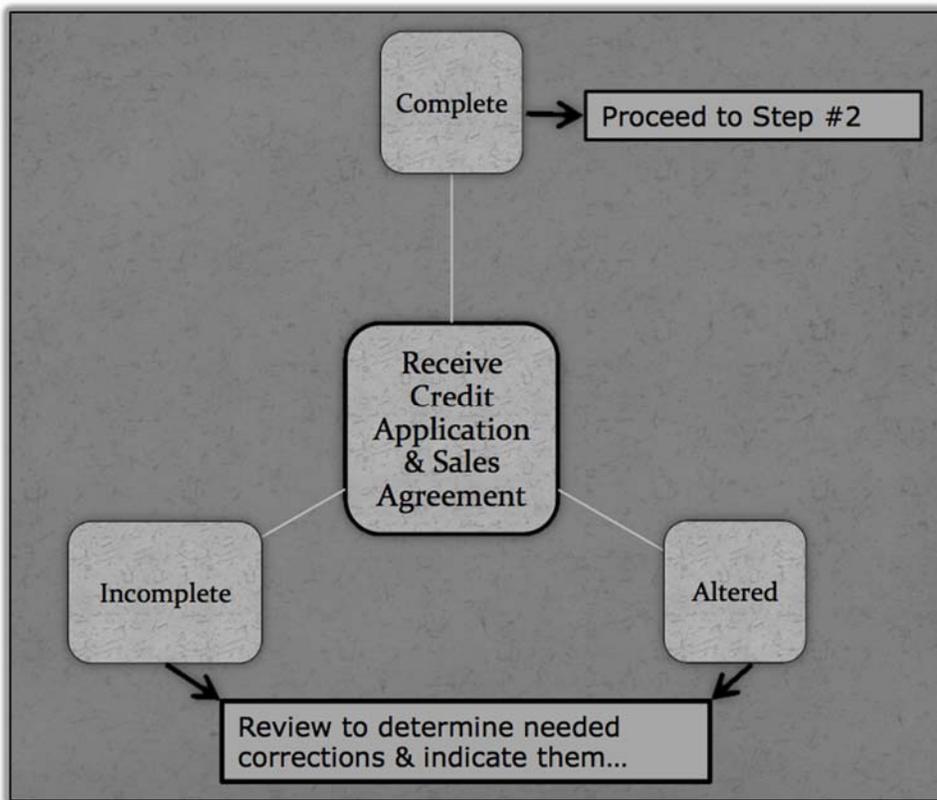
This information is essential to the automation process, so it must be available from the beginning. The step-by-step automation process will include reading the data, analyzing it by the what-if scenarios, taking the next step and then taking the next one and so on.

Step #1: Receipt & Review of the Credit Application

Step #1a: Scan the document and any attachments. For concerns about original signatures, see the PowerPoint slide below:

The Electronic Signatures in Global and National Commerce Act (2000)

- ☒ E-signatures accepted to form a binding contract
 - ☒ Facsimile (FAX or scanned) signatures
 - ☒ Double click for Internet signature
- ☒ Any symbol constitutes a signature if executed and adopted as authentic



The chart above is a simple visual representation of the manual process that one goes through with every new application. Since many (most) credit application forms are completed by hand, there is little to do to change the review process. Unfortunately, an electronic device cannot (yet?) read handwriting. Also, within a given company's policies, some of what is either missing or altered may be deemed acceptable, according to circumstances. If they are not, then additional follow-up is made easier, by having an electronic or scanned document.

To proceed, you must capture certain details, by entering the data from handwritten forms, into your system. If the form is typed or electronic, however, OCR (Optical Character Recognition) capability will do that function for you. OCR is also essential for much of the rest of the automation process.

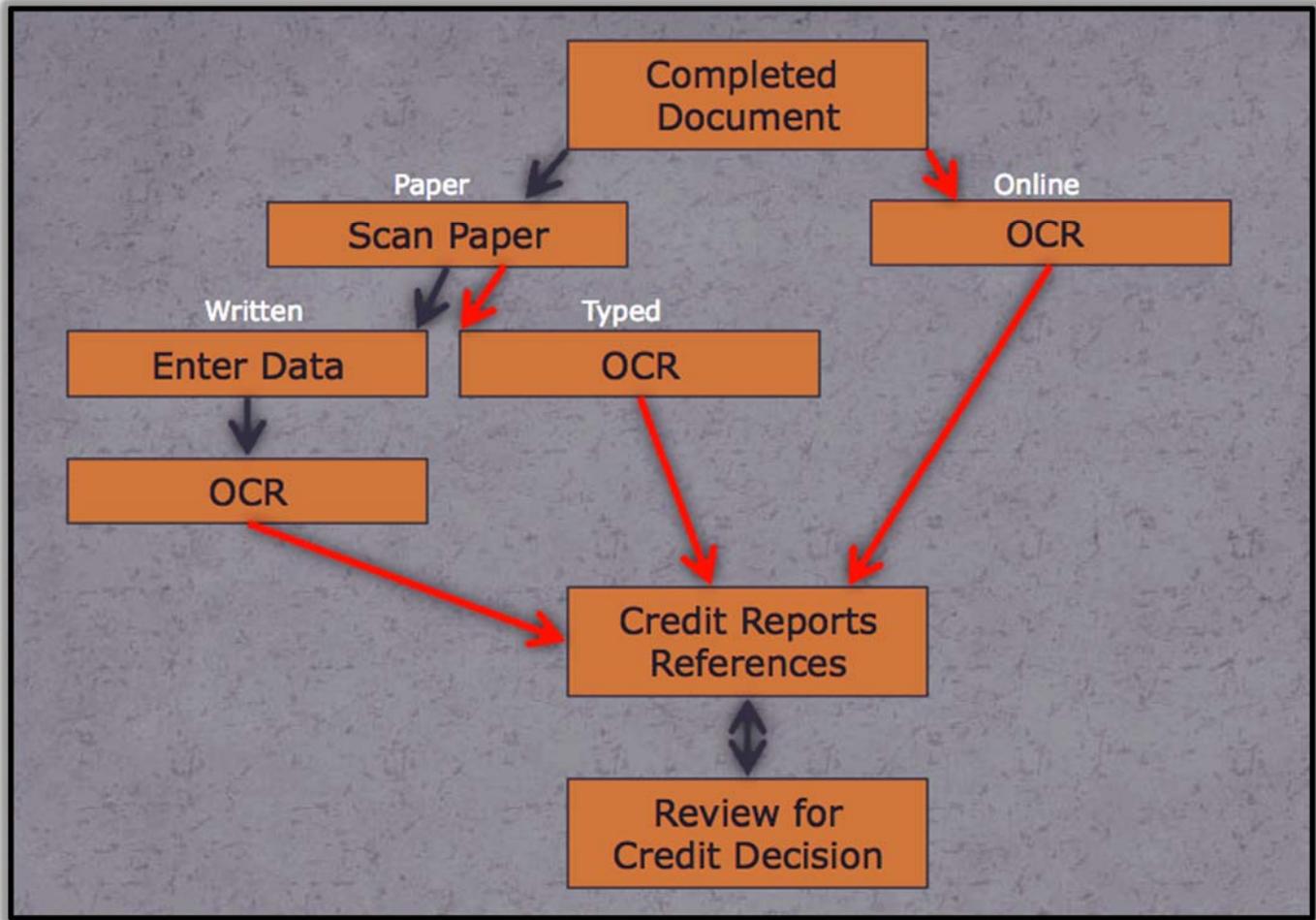
Starting with the simplest issue here, the incomplete document:

- Establish a standard form letter, diplomatically explaining that the entire application must be completed, but that, in the meantime, processing will continue to the extent possible, with the partial information available. However, credit approval will be delayed until the properly completed document is received.
- Determine if the delivery of the package (letter and copy of the partially completed application document should be the Sales Associate or directly from Credit to the customer.
- The automation process is similar to developing a Macro in Excel. Whatever software solution that you choose, either via an outside vendor or through your own IT Department, will provide a set of command options, such as:
 - Establish connections to various databases
 - Read documents via OCR
 - Filter the data and options on the variables
 - Separate data & documents into various categories
 - Compare the variables to pre-set rules
 - Establish the “what if” process
 - Execute
 - File data and documents
 - Many more..
- By selecting a series of these commands/ macros, you will be able to direct the package through the necessary stages, and, then, activate the process by pushing a button, more or less.

For the altered document, the process will require additional steps in the manual effort, plus some decision-making, before the document enters the automated process, if, indeed, it does. Contractual issues may be too complex, and the following efforts to resolve them may be too intense for immediate automation.

<u>Step #2: Creating a File & Conducting an Investigation</u>
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The illustration below is meant to visually show the reduced manual effort required, once the various steps are automated. The black arrows represent human intervention, while the red arrows indicate the flow toward initiating the actual credit review process.

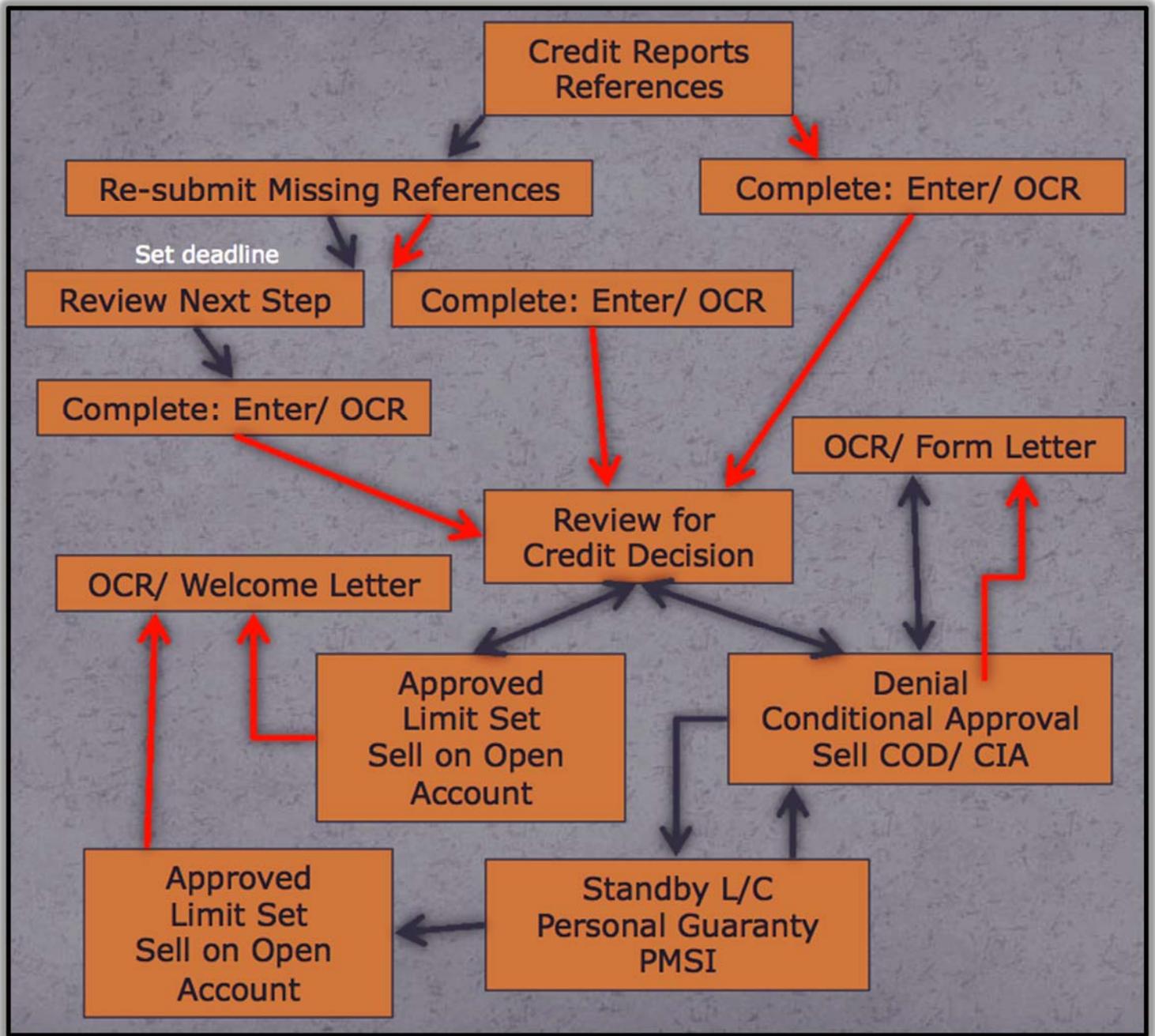


The advantage of an online application is immediately evident, especially if it is HTML-based, to be electronically “signed” and submitted. It is also advantageous to have interactive PDF forms posted online, as well. They can be completed on the website, then downloaded, signed and submitted electronically or as a paper document. All three scenarios allow for OCR transfer of the data to various databases and processes. For the sake of consistency and further automation, the HTML version should visually match the PDF and paper forms available for your customers.

Another advantage with OCR is the ability to use the credit information sheets that are often submitted by customers, either in place of an application itself or as an attachment. Automation templates can be created, in many cases, to transfer that information to your database/ credit file. Consider them to be an incomplete application, until you determine whether to accept it in lieu of.

Returning to the actual investigation process, one of the first things that most companies do is to pull a commercial credit report(s). In the automation world, this can be done immediately, with a command option, as soon as the data is in the system. It is also possible to then create some filters to “review” the report information vs. some preset parameters and “if this” scenarios. The automation concept can relate data fields, such as High Credit and payment rating to the amount of credit requested and other parameters determined by you, which can then be used to determine what steps to take next. For instance, a D&B rating or other credit score value can direct the file to a credit person, for immediate

review and possibly a credit decision, without otherwise taking time and effort from other staff members.



Please note, again, that the black arrows indicate human intervention, and the red ones are enhanced by the ability of the automation process to use OCR, pre-determined filters and access to databases, for the appropriate actions. Of course, at any time during the process, a person can jump in.

The degree to which anyone wishes to automate this process is up to him or her, within the needs and policies of their companies. In a high volume business, one could go so far as to establish parameters regarding trade references, credit reports and automatic approval/ credit limits, for those smaller low volume/ risk customers.

For instance:

- If a business was opened at least 2-plus years ago:
 - There is no negative information in the credit report, such as:
 - No bankruptcy history, for the business or the principals
 - No litigation
 - No Poor payment patterns
 - The requested level of open account credit availability is within a predetermined threshold for this risk.
 - The account is not listed in Industry Credit Group reports (Must be a slow-paying account to be listed), or the reports are ok, via OCR and Compare options.
- Approve an open account credit availability, within your threshold and equal to or less than the amount requested by the customer.
- Assign some sort of risk category or code that will prompt electronic or manual review. If the parameters are not met, refer the account for review. (Note: All of this must be within your company's policies regarding risk.)

<u>Summary</u>

This Paper is an overview of what could be automated within the Credit Application and Review Process. To attempt to cover in absolute detail every potential option and path would be very lengthy and complicated. The benefit is to see that such a complex subject, one that requires a great deal of knowledge and sound judgment skills, can be managed faster and with fewer time and labor intensive manual processes. It frees up available staff, at all levels, for handling more of the exceptions faster, as well.

FEDERATION of CREDIT
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Printed in the United States of America

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