Risk Assessment in the new world: the Covid 19 perspective

As credit managers and risk analysts, we are having to come to terms with a changing credit risk situation. What we already know is that:

- Some of the information we have is already out of date.
- A lot of our previous financial analysis is of no help.
- More than ever the focus must be on cash.
- Prestige is no protection - large organisations can struggle.
- In business nothing is forever – even long-standing businesses can and do go bust!

It is apparent that the rules of risk assessment need to change – and quickly.

Here are questions we can ask and actions we can take, to improve our risk assessment in the new credit world we live in.

Questions to ask:

- Is our customer's foreseeable revenue reduced or completely gone?
- Could they start to derive revenues fairly quickly?
- What does their liquidity position look like?
- Do they have the cash flow resilience to keep going for a while with zero or little revenues?
- If they continued without revenue or finance, when will they actually run out of cash?
- Does their cost base have a high percentage of fixed costs, placing them at greater risk?
- What does the cash burn (daily/weekly/monthly cash deficit) look like?
- Do they have additional financing flexibility?
- Could they borrow more, or gain access to unused banking facilities?
- How much capital do they currently hold?
- Could their shareholders re-capitalise?
- How financially strong are they in the long term (asset base, net worth)?
- Where do they sit in the supply chain?
- Are they under pressure from their own suppliers?
- How resilient are their own customers?
- Could they get government help?
- How have they reacted so far during this crisis?
- Do they still have a workforce capable of picking up where they left off?
- Are they in a good position to recover when the lockdown begins to be lifted?

Actions to take:

- Open a collaborative dialogue with them as soon as we can.
- Categorise risk, based on the feasibility of their ability to repay invoices.
- Revisit our risk categories as often as we can – it is a fast-changing situation.
- Run forecasts for them (as best as we can) for the next three to six months.
- Align our own cash flow forecasts and contingencies.

Look out for more from risk expert Jean Pousson, in CICM's forthcoming webinar.

CICM in conjunction with Jean Pousson