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Welcome to this report on a survey of Australian credit managers that the Veda credit risk management team has conducted over the last few years.

Veda provides services to a large proportion of Australia’s credit professionals, and working closely with them gives us a detailed understanding of local credit management issues within a national and global context.

Since the GFC, the surveys have provided valuable insights into credit risk management practices. The timing of this year’s survey coincided with the political uncertainty of a pre-election period and an Australian economy performing relatively well despite some of the broader global challenges of 2016. This year’s survey also took place against the backdrop of some high profile business failures including Dick Smith and Arrium, and several participants indicated that there had been a negative impact on their business from these failures.

Key take aways from this year’s survey were:

1. **Economic conditions are seen to have deteriorated compared to 2015**, with a higher proportion of respondents reporting the economic environment had been a negative influence over the past 6 to 12 months. Similarly, participants were less optimistic about the future than in 2015, and were less optimistic about the impact interest rates and the Australian dollar would have on their business.

2. **Credit managers have tightened credit policies in response to economic conditions**. A majority of survey participants have increased or tightened collections activity, while a greater proportion of participants reported reducing credit limits than in 2015.

3. **This year’s survey shed further light on views regarding credit management in the future**. More than half of respondents indicated that automation, better use of data and general improvement of processes would be most effective for improving credit management in the future. The most popular response for improving Days Sales Outstanding (DSO) performance related to speeding up invoicing and collection processes.

The deterioration in business sentiment seen in this year’s survey has some parallels to what we have seen in Veda’s Business Credit Demand Index, where the growth of business credit applications has remained positive but has slowed a little compared with the first half of 2015.

I hope you enjoy the insights that the findings of this survey offer, and a big thank you to everyone who participated.

Neil Shilbury
General Manager, Commercial Risk
**KEY FINDINGS**

**Economic conditions have affected business sentiment in a varied manner,** with 20% of credit managers indicating a positive impact from general economic conditions over the last 6-12 months but **38% indicating a negative impact.** This was a weaker result than in last year’s survey.

Credit applications have risen for **40%** of credit managers and have fallen for **17%** of credit managers over the past year. This follows on from a strong year in the 2015 survey where the respective figures were a rise for **42%** and a fall for **18%**.

**26% of credit managers have reduced credit limits.** This was significantly higher than in last year’s survey.

There has been a **marginal improvement in Days Sales Outstanding (DSO) performance** with the average estimated at 42.65, down from 43.44 in 2015.

A majority of respondents indicated that automation, better use of data and general improvement of processes would be most effective for improving credit management in the future. **38% of respondents expected to improve their DSO performance by speeding up invoicing and collection processes.**

There has been a deterioration in expectations of economic conditions, with **31% of respondents anticipating a positive impact**, down from **47%** in the year prior.

Credit managers have tightened credit policies significantly; **64% of credit managers indicated they had increased or tightened collections activity** over the past 6 months.

Payment terms are very similar to last year’s survey, with **average payment terms estimated at 29.38 days** in 2016.

**18% of respondents believed that they had received applications from organisations** that were in fact not from the organisation in question.

**81% of respondents indicated that they did not perform a fraud assessment** in addition to a credit assessment.
Context

Veda conducted an online survey, concluding in July 2016, to assess the changing status of credit management in Australian organisations. The survey presented questions in a range of formats to key personnel responsible for credit and cash flow management. The questions were designed to provide valuable insights into current credit conditions, credit practices and to find out how business sentiment over the past 6 to 12 months has affected credit practices.

Purpose of the survey

This report intends to provide insights into the impact which business sentiment over the last 6 to 12 months has had on credit management conditions in Australia. The data accumulated from our participants will help to paint an accurate picture of how the current economic conditions are affecting Australian business and raise awareness of any notable shifts in credit management from those presented in Veda’s 2015 report.

Who we surveyed

The participants of our survey are credit managers within a variety of Australian organisations across different industry sectors. Although our participants represent a range of industries, the majority of participants were in the manufacturing, finance and insurance, construction, and wholesale trade industries that operate on a national scale with over 500 customers. The total number of survey participants in this year’s survey was 205.
Credit management experience

On average, our participants have an extensive 21 years of experience in the credit management industry.

Only 10 survey participants had less than 4 years of experience, suggesting the overwhelming majority has a deep knowledge of credit management, history, annual trends and processes.

Range: 1 to 43 years
Average: 21.29 years

Size of credit management team

The number of full time employees our participants had on their credit management team or department also varied considerably.

While 11 participants had no credit management team or department, just over half of participants had between one and five full time employees involved in credit management, and more than a quarter had more than 10 full time employees involved in credit management.

What we asked

The survey posed questions relating to the impact of economic conditions and business sentiment on the challenges, changes and practices of credit management in Australia.

This survey aimed to provide insight on:

• changes in economic conditions and the impact on business;
• changes in the process of new credit applications and approvals;
• changes in the credit management of existing customers;
• changes in the management of collections and recoveries; and
• prevalence, and response to, fraud.
Impressions of current and future conditions and its effect on business

Economic conditions have affected business sentiment and credit policy is being tightened.

In Veda’s Credit Management in Australia 2015 report, sentiment was quite positive among credit managers. Only 30% of respondents indicated that general economic conditions had a negative impact on business over the past 6 to 12 months. In terms of the coming 6 to 12 months, 47% of respondents expected general economic conditions to have a positive impact while 21% believed that general economic conditions would have a negative impact.

However, in 2016, sentiment was notably less positive among credit managers. 38% of respondents indicated that general economic conditions had a negative impact on business over the past 6 to 12 months. In terms of the coming 6 to 12 months, only 31% (down 16%) expected general economic conditions to have a positive impact while 34% (up 13%) believed that general economic conditions would have a negative impact.

Respondents were asked this year what the impact of high profile failures (e.g. Dick Smith, Arrium) had on their business. 15% of respondents indicated that the failures had a negative impact on their business. The majority (82%) said the failures had either no impact or a small impact, while only 3% said the failures were a positive.

The outlook

The outlook from survey participants became noticeably less positive in 2016. After years of improving optimism (with a peak in 2015), 2016 marked a reversal of this trend. A higher proportion of respondents had felt economic conditions had been negative while a higher proportion were also more negative about the outlook.

Reflecting this change in sentiment:

- 31% of businesses expected to be positively affected by general economic conditions in this year’s survey, compared with 47% of participants in last year’s survey, and 27% of participants in 2014; and
- 34% of businesses expected to be negatively affected by general economic conditions in this year’s survey, compared with 21% of participants in last year’s survey and 39% of participants in 2014.

Chart 4.1 Impressions of current and future conditions

Chart 4.2 Impact of high profile failures

Chart 4.3 Businesses expecting a negative impact from general economic conditions in the next 6-12 months
While sentiment is less positive than 2015, it is worth noting that it is still positive when compared with earlier years of the survey. This sentiment reflects a number of factors in the Australian economy:

- Australia’s unemployment rate has edged below 6% aided by a more supportive currency and record low interest rates;
- Australia’s economic growth has remained solid (3.1% growth over year ending March 2016) buoyed by a pick-up in exports (particularly from LNG projects) and solid consumer spending;
- The Reserve Bank has cut the cash rate to a record low of 1.5% and further easing is a real prospect;
- Despite that good news, income growth remains weak in the economy, reflecting the negative impact of lower commodity prices, and wage growth is at record lows;
- The Federal Budget remains firmly in deficit, with a return to surplus not forecast until after 2020. Meaningful tax reform or spending savings have not been enacted and the government has returned with a wafer-thin majority; and
- Global economic growth has been downgraded, concerns remain over China and the recent ‘Brexit’ reflects a tense political climate globally. The upcoming US election may provide more challenges in that respect.

Among some of the key economic drivers, over 64% of participants took the view that broader economic growth would have a positive impact on their business.

This is marginally below the 70% proportion in 2015. Surprisingly, despite record low interest rates, respondents were less optimistic about the impact of interest rates than in 2015 with 32% (2015: 53%) believing interest rates would be positive for their business over the next 6 months.

With the $A largely moving sideways in recent times after significant depreciation over 2014 15, respondents were less optimistic about the currency benefiting their business over the next 6 months. 21% of respondents believed it would have a positive impact (2015: 33%) while 22% believed it would have a negative impact (2015: 20%).

Survey participants were less comfortable around the Budget in 2016. 23% of respondents felt it would have a negative impact on their business in the next six months (2015: 19%) while only 14% believed it would have a positive impact (2015: 37%). The 2016 Budget was light on major changes, with one of the more notable initiatives being the proposed cut to the company tax rate. In contrast, last year’s Budget included a number of measures targeted at small business, including a small business tax package. Potentially, the more negative outlook also reflected a concern over the integrity of the Budget and the return to surplus.

Despite general optimism, participants expressed concerns about a range of specific factors, including the impacts of the downturn in Australia’s mining industry, weather concerns, economic growth and employment and levels of indebtedness in the Australian economy.
Credit policy changes in response to the economic conditions

The economic conditions facing businesses in Australia have implications for credit policy.

Although the general mood among survey participants can still be considered to be one of cautious optimism, many participants reported that credit policies had been tightened in the last six months.

Specifically, the survey asked participants to note any credit management policy changes they had adopted or were planning to adopt. These policy shifts included:

- adopting stricter/tighter or reduced/easier lending/credit criteria;
- increasing/tightening or reducing/loosening collections activity;
- reducing or increasing credit limits provided;
- registering or not registering security interests; and
- providing shorter or longer payment terms.

Of those that reported credit policy changes in the last six months, they reported the following (compared with last year’s survey):

- 64% increased or tightened collections activity (70% in 2015);
- 47% have stricter lending and credit criteria (49% in 2015);
- 30% have registered security interests (30% in 2015); and
- 26% have reduced credit limits (16% in 2015).

Looking ahead to the next six months, of the participants who reported planning to change credit policy in response to economic conditions (compared with last year’s survey):

- 56% plan to increase or tighten collections activity (59% in 2015);
- 43% plan to have stricter lending and credit criteria (41% in 2015);
- 27% plan to register security interests (27% in 2015); and
- 21% plan to reduce credit limits (19% in 2015).

As a result the majority of respondents expect to further increase or tighten collections activity in the future.

Chart 4.5 Changes to credit policies in response to economic conditions

[Chart and data presented]
These findings may have broader implications for the Australian economy. While the Reserve Bank of Australia continues to cut interest rates to record lows to stimulate the economy, credit growth may be restrained if the availability of credit is tightened further. Hence, the Reserve Bank’s frustration that a low cost of credit is not translating into much stronger economic activity, other than in promoting additional lending for housing. But credit managers are making prudent decisions not only taking into account the cost of funds, but the ability of the broader market to deliver growth over time.

Participants reporting a positive impact from the economy were less likely (51%) than those experiencing a negative impact from the economy (53%) to report changing to stricter credit criteria. However, they were more likely to report doing so than those experiencing stable conditions (40%). Surprisingly those reporting positive economic conditions were also more likely (71%) to increase or tighten collections activity than those reporting stable (62%) or negative (66%) conditions.

Consistent with other business surveys in recent times, current conditions are expected to be better than future conditions. That may explain why those who have experienced positive conditions are looking to tighten credit policies. Looking forward, Table 4.3 shows those anticipating negative economic conditions (52%) were more likely to move to a stricter or tighter lending criteria than those anticipating positive (44%) or stable (37%) economic conditions.

Table 4.6 Changes to credit policies for those feeling a negative, stable or positive impact from the economy over the past 6-12 months

<table>
<thead>
<tr>
<th>Of those that felt the following impact over the past 6-12 months from the economy:</th>
<th>Negative</th>
<th>Stable</th>
<th>Positive</th>
</tr>
</thead>
<tbody>
<tr>
<td>They have changed...</td>
<td>53%</td>
<td>40%</td>
<td>51%</td>
</tr>
<tr>
<td>To a stricter or tighter lending/credit criteria</td>
<td>66%</td>
<td>62%</td>
<td>71%</td>
</tr>
<tr>
<td>By increasing or tightening collections activity</td>
<td>25%</td>
<td>29%</td>
<td>22%</td>
</tr>
<tr>
<td>By reducing credit limits provided</td>
<td>26%</td>
<td>28%</td>
<td>39%</td>
</tr>
<tr>
<td>By registering security interests</td>
<td>17%</td>
<td>22%</td>
<td>24%</td>
</tr>
<tr>
<td>By providing shorter payment terms</td>
<td>51%</td>
<td>37%</td>
<td>46%</td>
</tr>
<tr>
<td>Over the next six months they plan to change...</td>
<td>61%</td>
<td>50%</td>
<td>54%</td>
</tr>
<tr>
<td>To a stricter or tighter lending/credit criteria</td>
<td>23%</td>
<td>22%</td>
<td>17%</td>
</tr>
<tr>
<td>By increasing or tightening collections activity</td>
<td>27%</td>
<td>22%</td>
<td>34%</td>
</tr>
<tr>
<td>By reducing credit limits provided</td>
<td>17%</td>
<td>22%</td>
<td>20%</td>
</tr>
</tbody>
</table>

Table 4.7 Changes to credit policies for those that reported a negative, stable or positive economic outlook

<table>
<thead>
<tr>
<th>Of those that reported that the outlook for the future looks:</th>
<th>Negative</th>
<th>Stable</th>
<th>Positive</th>
</tr>
</thead>
<tbody>
<tr>
<td>They have changed...</td>
<td>46%</td>
<td>37%</td>
<td>52%</td>
</tr>
<tr>
<td>To a stricter or tighter lending/credit criteria</td>
<td>59%</td>
<td>68%</td>
<td>69%</td>
</tr>
<tr>
<td>By increasing or tightening collections activity</td>
<td>29%</td>
<td>31%</td>
<td>20%</td>
</tr>
<tr>
<td>By reducing credit limits provided</td>
<td>32%</td>
<td>19%</td>
<td>38%</td>
</tr>
<tr>
<td>By registering security interests</td>
<td>26%</td>
<td>17%</td>
<td>20%</td>
</tr>
<tr>
<td>By providing shorter payment terms</td>
<td>51%</td>
<td>37%</td>
<td>46%</td>
</tr>
<tr>
<td>Over the next six months they plan to change...</td>
<td>61%</td>
<td>50%</td>
<td>54%</td>
</tr>
<tr>
<td>To a stricter or tighter lending/credit criteria</td>
<td>23%</td>
<td>22%</td>
<td>17%</td>
</tr>
<tr>
<td>By increasing or tightening collections activity</td>
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<td>By reducing credit limits provided</td>
<td>17%</td>
<td>22%</td>
<td>20%</td>
</tr>
<tr>
<td>By registering security interests</td>
<td>55%</td>
<td>54%</td>
<td>56%</td>
</tr>
<tr>
<td>By providing shorter payment terms</td>
<td>29%</td>
<td>15%</td>
<td>36%</td>
</tr>
</tbody>
</table>
Economic conditions are affecting the demand for credit and are having an impact on credit management processes. Compared to last year’s survey, the economic backdrop during 2016 is seen by credit managers to have become more challenging.

On balance, Day Sales Outstanding (DSO) performance has improved marginally again in 2016, and is now the lowest recorded in the Survey. Compared to last year, more credit managers are completing account reviews bi-annually or quarterly rather than annually.

**Demand for credit**

Survey participants reported varied conditions when it came to the demand for credit. The survey results revealed that:

- the demand for credit was rising for 40% of respondents, down from 42% in 2015;
- the demand for credit was falling for 17% of respondents, down from 18% in 2015; and
- 43% reported a neutral change in the demand for credit, up from 41% in 2015.

That left a net balance of 23% of participants reporting an increase over the past 6 months. It is also informative to consider the change in the net results from 2015 to 2016. The net proportion of survey respondents reporting an increase in credit applications fell marginally from 24% in 2015 to 23% in 2016. This suggests that the extent to which the demand for credit is rising has remained largely unchanged since the last survey, when averaged across all survey respondents. However, credit demand remains notably stronger than was the case in 2013 when a net balance of only 13% indicated an increase in credit applications.

Interestingly, all of the largest sectors for credit respondents (shown in Chart 5.1) saw an increase in credit applications (as measured by the net balance) with the exception of the manufacturing sector. This improvement in credit demand was seen across all major industries. Relative to 2015, the magnitude of this net balance was most positive in the retail sector (62% versus 20%) in particular, while it was lower for the manufacturing sector (19% down from 43%).

The mining industry saw a negative balance for credit applications (-25%). This meant that there were a higher proportion of respondents in this industry seeing a reduction in credit applications than an increase in applications. This is not a large surprise given the woes of the mining sector in terms of significantly lower commodity prices. This has caused financial distress for many companies in the industry.

On its bureau, Veda has seen positive growth in overall business credit applications in the first half of 2016. However, trade credit applications on Veda’s bureau have shown some weakness during this time.
Reflecting the broad nature of survey participants, around 30% of participants have opened less than 50 accounts in the last 6 months, while a further 44% of participants opened between 50 and 500 accounts. The remaining 26% of participants opened more than 500 accounts in the last 6 months.

This is broadly similar to the 2015 survey, although there are now slightly more organisations opening over 500 accounts (2015: 24%), and slightly fewer opening between 50 and 500 accounts (previously 47%).

Reflecting the broad nature of survey participants, around 30% of participants have opened less than 50 accounts in the last 6 months, while a further 44% of participants opened between 50 and 500 accounts. The remaining 26% of participants opened more than 500 accounts in the last 6 months.

This is broadly similar to the 2015 survey, although there are now slightly more organisations opening over 500 accounts (2015: 24%), and slightly fewer opening between 50 and 500 accounts (previously 47%).

The 2016 survey reveals that the proportion of participants who would provide credit if there was an adverse present was at 43%. This is slightly higher than in 2015 when this percentage was 38%. However, it is still significantly less than in 2013 when 64% of respondents indicated that they would provide credit when an adverse is present. This is a reflection that credit policies have become tighter although there has been some modest relaxation in this respect recently.
Payment terms

Most organisations request 30 days for payment. 77% of organisations represented in the survey provide 30 day payment terms, 21% request payment in 60 days, and 40% operate with COD or other payment terms. Note that the responses do not sum to 100% because multiple payment terms can be offered.

The average payment term, as weighted by the responses shown in Chart 5.6 and factoring in non-standard responses in the ‘other’ category where possible, was estimated at 29.38 days in 2016 practically identical to the result in 2015.

The survey results show that the standard payment terms for most credit managers remains 30 days.

![Chart 5.6 Payment terms offered](chart)

In terms of credit limits, results were very similar to last year. A small difference was a slightly higher proportion of respondents using COD (cash on delivery) or $0 limit (11% versus 9% in 2015). There was a slightly lower percentage of respondents issuing less than $20,000 of credit (35% versus 34% in 2015).

![Chart 5.7 Payment limits](chart)

DSO activity

Average DSO amongst survey participants has improved over the past year and is now the lowest seen in recent years, having fallen below the previous low seen in 2012.

The DSO in 2016 at 42.7 days was marginally less than the year prior when it stood at 43.4 days and below the previous low of 43.2 days which was seen in 2012. This may be a reflection of the finding that credit managers continue to tighten lending practices, helping to improve payment performance.

![Chart 5.8 Average current DSO performance (days)](chart)

Indeed, the survey findings on the proportion of participants reporting a change in DSO are also consistent with an overall improvement in DSO performance in 2016.

39% of respondents indicated their DSO has improved while 18% indicated that DSO had deteriorated. While this gap has narrowed from 2015, it still indicates a positive net balance (21%, previously 28%) of respondents indicating an improvement in their DSO performance.

![Chart 5.9 DSO change over the past six months (%)](chart)
Types of information used to help make decisions about credit policies

The types of information most frequently used by survey participants in their credit decision-making process were as follows:

- **82%** used company or business credit reports;
- **81%** used information from an application form;
- **75%** used ASIC information; and
- **72%** used directors/proprietors histories and their other business relationships.

In addition to those key information types, the results showed that credit managers also used a broad range of other information types in their decision making.

The results have remained broadly similar to last year although respondents appeared to use some information types less completely than in the past. For example 51% used Trade payment information down from 57% in the year prior. Respondents used financials (50%, previously 45%) and credit scores (59%, previously 54%) more intensively than in 2015.
Account reviews

Account review frequency.

Account review frequency has shown some change since 2015. In particular, there has been a trend towards more frequent reviews (quarterly or bi-annually, as opposed to annual). The proportion of those doing annual reviews decreased from 33% to 27%. 24% of respondents did quarterly or half-yearly reviews (up from 21% of respondents in 2015).

Chart 5.11 When to complete account reviews (%)

Triggers for reviews

Past due is the main trigger for conducting reviews.

77% of survey participants reported that a trigger used to review accounts is when they are past due, while 60% reported the use of external alerts such as external administration or court action, and 63% reported the use of amount outstanding.

While the top three triggers for conducting reviews remained the same from last year, some changes were recorded in how common it was for particular triggers to be used. Generally speaking, respondents were more ‘trigger happy’ in 2016. Indeed only 5% of respondents indicated they did not use triggers to review accounts, down from 10% in 2015. This appears to be consistent with the above finding that reviews of accounts are also becoming more frequent. It may also reflect a more conservative economic outlook.

Prioritising collection activity

In terms of prioritising collection activity, 42% of respondents indicated that customers with the greatest dollars outstanding were their main focus while 37% indicated it was customers with the greatest days outstanding on their payments. These were the two dominant answers to the question which is intuitive as it reflects customers who already are problematic rather than look like they may be problematic. These proportions were very similar to those seen in 2015.

Chart 5.13 Prioritising collection activity

Chart 5.12 Triggers used to review accounts (%)
PPSR search information.

Respondents were also asked about their use of PPSR (Personal Property Securities Register) search information when extending credit terms. Over two thirds of respondents said it was not important or somewhat important. The remaining third believed it was either important or critical to consult the PPSR as part of the decision making process.

Chart 5.14 How important is PPSR when deciding to extend credit?

By industry, the proportion of respondents who registered on the PPSR was highest for wholesale trade, retail trade, construction, manufacturing, and mining. Around one third of respondents in finance and insurance (33%) and transport and storage (31%) indicated that registering on the PPSR was not applicable, while communication services (43%) and government administration and defence (60%) also had high proportions of respondents stating that PPSR was not applicable, but there were smaller numbers of overall respondents for these latter two industries.

Chart 5.16 Industries using the PPSR

Respondents were also asked how easy the PPSR search information was to understand. Of those who used the PPSR, almost half of them believed it was either not easy at all to understand the information or that it needed some interpretation.

Chart 5.15 How easy is PPSR search information to understand?

Across all industries, 62% of respondents registered on the PPSR. Of those who did not register on the PPSR (38%), the majority said that it was not applicable to do so. 34% of respondents believed it would have no benefit for their business while similarly 5% were unsure of the value. Two respondents indicated it would be too costly to do so.

Chart 5.17 Reasons for not using PPSR?
Credit management is a function that has historically been situated within the Finance department of an organisation. This was borne out in the survey with the majority of respondents (64%) indicating that currently that is where credit management sits in their organisation.

Respondents were asked about whether they provided advice to their sales department or management about which markets they should approach. The majority did not (62%), but in the future, 51% of respondents believed that they would provide this advice while 12% were not sure.

On a similar note, respondents were asked which departments used the customer insights of credit management. Sales (80%) and management (72%) were the most commonly selected responses. Customer insights of credit management were less likely to be used in areas such as marketing, logistics or purchasing. There was a fall in the proportion of respondents stating that the marketing department used the insights of credit management compared with the results of the 2015 survey. To a lesser extent, there was also a fall in the proportion of respondents stating that management was using the insights of credit management, while other areas were relatively unchanged.
Similarly, respondents were asked about expanding the function of credit management and most important areas of potential growth. The top two most commonly selected responses related to risk management.

Respondents were also asked what would be the most effective for improving credit management in the future. Automation, better use of data and general improvement of processes were selected by more than half of respondents.

Respondents were asked how they expected to improve their DSO performance in the future (2020). The most popular response related to speeding up of credit manager’s own invoicing and collection processes (38%). Improving alignment with sales (23%) and communication with the customer in question (23%) were also seen as avenues to improve DSO performance.

86% of respondents believed credit management would not be sent offshore in the future, while 14% believed this would happen.

...there was also a fall in the proportion of respondents stating that management was using the insights of credit management...
A special focus of this year’s survey was the prevalence of fraud and its management by respondents.

We asked a series of questions to gauge the opinions of credit managers on:

- Fraudulent credit applications;
- Their use of fraud assessments;
- The form of fraud assessments (if used);
- The extent of internal fraud; and
- The sharing of fraud information with other companies.

With the increasing sophistication of cyber threats, fraud is a relevant consideration for operators in the industry. In terms of the prevalence of fraud, 18% of participants believed that they had received applications from organisations which were not in fact from the organisation.

Only 19% respondents performed a fraud assessment in addition to a credit assessment. Of the 19% who did perform a fraud assessment, the most common form of check was checking whether the representative was in fact a director of the company in question (53%).

38% of respondents shared fraud information with other companies in the industry, while 62% did not. Economic theory would suggest this would be a good idea in cases where the cost of sharing information is outweighed by the benefits of exposing fraudulent operators.
The 2016 survey marked a reversal after years of improving economic conditions experienced by credit managers in the prior 6 to 12 months. Only 20% of respondents believed general economic conditions had been positive (2015: 35%) while 38% believed that conditions had been negative (2015: 30%). However, it should be recalled that respondents were still relatively positive when compared to years before 2015.

The Reserve Bank of Australia has cut interest rates to a record low of 1.5% to support economic growth while the Australian dollar is at more supportive levels for trade-exposed sectors. On the fiscal front, the Federal Government opted for a relatively ‘no frills’ Budget leading into the Federal Election; however respondents were less optimistic about the Budget than in 2015. Concerns remain over the economic outlook, with many respondents referring to the impact of the mining downturn on the economy.

The number of credit applications has risen for 40% of respondents and decreased for 17%, a net balance of 23%. This is marginally less than the net balance seen in 2015 which was 24%. As a result, credit applications continue to grow, with momentum largely unchanged from the prior year.

With economic conditions seen as less favourable, credit managers continue to adopt stricter and tighter lending criteria. However, credit managers are intending to tighten practices at a broadly similar pace as they were planning a year ago. Surprisingly, and in contrast to previous surveys, those who felt economic conditions had been positive were more likely to tighten lending criteria.

This year 43% of respondents indicated they would provide credit when an adverse is present, up from 38% the year prior. This is somewhat surprising given the worsening perceptions around the economy. However, this is still significantly less than the 64% response in 2013, indicating the broader trend to tighter lending standards.

Perhaps reflective of the trend towards tighter credit policies in recent years, DSO performance improved again in 2016, falling to 42.7 days which is marginally below the previous lowest figure in the surveys recorded in 2012 (43.2 days). This is consistent with responses indicating that 39% had enjoyed an improvement in DSO over the past six months as opposed to 18% experiencing deterioration.

This year’s survey also had a particular focus on fraudulent credit applications. Only a small proportion of credit managers (18%) undertook fraud assessments as well as credit assessments. Of those who did, checking the representative was in fact a director of the company was the most common check for fraud. The vast majority of respondents indicated they could not ascertain the impact of internal fraud (39.5%) or that it accounted for less than 10% of outstanding balances (60%).

After another year less than optimal economic conditions, Veda’s Credit Management Survey 2015 aimed to reveal changes in how credit managers feel about the economy, and changes in the credit management industry in Australia. Our participants have indicated that the economic environment may be worsening again after a peak in 2015. Despite that, credit applications are continuing to rise. Stricter lending criteria and continuing caution in the management of existing customers remain key themes in the industry.