



How credit insurance and credit information kept pace with the ideals and visions of a global information society

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1 Introduction

Credit insurance is an area of commerce known and understood mainly by specialists who work in this field and therefore it has not been the subject of any studies regarding its position within the information society. However, the global economy, information society and changed economic circumstances in South Africa forced credit insurance and credit analysis to change. Consequently, it can be asked how well the credit insurance industry in South Africa dealt with this change and whether there are factors that could lead to possible problems.

To facilitate a clear understanding of the relevant mechanisms, a fair amount of this article is devoted to an explanation of credit insurance and where various information-requiring factors fit in.

The discussion includes a wide reference to credit insurance instead of focusing on a particular company. However, on occasion, a particular point is made from an organizational perspective.

The research for this article was done at the author's place of work and most of the material

was drawn from experiences in the field of credit insurance, as well as interviews with senior management within the company. Therefore, very few references are quoted. The study was based on the workflow in a particular area from the point of view of a credit insurance underwriter.

Fairly detailed explanations are given for the various processes involved in credit insurance underwriting. By necessity, this project focused on the underwriting of credit insurance rather than any other aspects, for example claims assessing.

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2 What is the information society?

2.1 Definitions

The IBM Community Development Foundation (1997) defines an information society as a:

'society characterised by a high level of information intensity in the everyday life of most citizens, in most organisations and workplaces; by the use of common or compatible technology for a wide range of personal, social, educational and business activities, and by the ability to transmit, receive and exchange digital data rapidly between places irrespective of distance.'

From www.information-society.org.uk comes the following definition:

'Information Society is a term for a society in which the creation, distribution, and manipulation of information has become the most significant economic and cultural activity. An Information Society may be contrasted with societies in which the economic underpinning is primarily industrial or agrarian. The machine tools of the Information Society are computers and telecommunications, in addition to lathes or ploughs.'

2.2 Visions of the global information society (GIS)

The policy requirements of the Global Information Infrastructure Global Information Society (GII-GIS) envision the following for a global information society:

- Dynamic competition
- Private investment
- An adaptable regulatory framework
- Open access to networks
- Universal provision of and access to services
- Equality of opportunity to the citizen
- Diversity of content, including cultural and linguistic diversity
- World-wide cooperation with particular attention to less developed countries.

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3 Credit insurance

3.1 Credit insurance and various other terms as used in this article

Credit insurance is purchased to cover specific debts against the risk of non-payment. A company (the insured) takes out credit insurance and the credit insurance company assesses and underwrites credit limits. These limits are set for the insured's various clients. The

insured may trade with the client up to the value of the credit limit issued. If the credit limit is exceeded, the risk of any excess amounts will be for the insured's own account.

Should the insured's client (the debtor) fail to pay for a variety of reasons, the credit insurance company will assess the claim. The insured will receive an indemnity if the claim is valid.

3.2 Reasons for default

Possible reasons for non-payment by the debtor include:

- insolvency: sequestration, liquidation, judicial management and the conclusion of a company;
- protracted default: the failure to pay for goods or services rendered – this might be due to an inability to pay or a simple lack of desire to do so;
- repudiation: failure or refusal to accept goods or services, possibly due to unhappiness with the quality of the goods – this would be a unilateral cancellation of the contract;
- importation problems: a strike outside South Africa or sanctions being imposed on a particular country;
- transfer problems: a shortage of foreign exchange in the importing country or a law, decree or regulation preventing the transfer of funds; and
- conflict: occurrence of hostilities within an importing country, for example civil war, rebellion or revolution or insurrection outside South Africa.

A careful analysis of each debtor must be made to determine the company's financial situation (to determine if they have the means to pay) and previous credit history (to determine if the company is likely to pay). Furthermore, the country in which the company is situated must be analysed to prevent political problems from being a cause of loss.

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4 Credit insurance underwriting

Credit insurance underwriting involves making an assessment of the creditworthiness of a debtor. This is done by an underwriter and is based on information at hand.

Information is the key to profitable credit insurance underwriting. South Africa's largest and oldest professional credit insurance company, Credit Guarantee Insurance Corporation (CGIC), sees information as follows:

'Our unique strength lies in our ability to secure a vast store of information and market intelligence from a network of contacts and to interpret data to support the business of our clients – in both local and international markets. (<http://www.creditguarantee.co.za>)

4.1 Domestic credit insurance underwriting

For the purposes of this article, domestic or local companies are defined as companies within the borders of South Africa, Namibia, Swaziland and Lesotho.

Why would companies choose to insure their local debt? The risk of non-payment would seem small compared to the turbulent export market. However, the South African economy has many pitfalls for an unwary company. A recent CGIC press release comments that the January 2002 liquidation level is the highest ever for that particular month. A total of 398 liquidations were recorded – 33,6% higher than January 2001 (Doig, personal

communication, 11 March 2002).

Agricultural failures rose from four in December 2001 to 11 in January 2002, while liquidations within the construction industry rose from 24 to 45 in the same period – a cause for concern. Wholesale and retail trade closures also increased sharply from 82 in 2001 to 132 in January 2002, while failures in the financial sector increased from 105 in January 2001 to 136 in January 2002.

M. Truter (personel interview, 8 March 2002) comments that these statistics are particularly relevant in the light of such incidents as the Saambou problems, as they emphasize the need for domestic credit insurance.

4.2 How are domestic credit limits underwritten?

Information on domestic debtors can be sourced through banks, the credit bureaux, the media and Internet. In this article, each of these sources are discussed with regard to their information processes, as well as their adaptation to increase convenience. In other words, does the provider of the information act pro-actively for the benefit of the recipient of the information (in this case the insurance company)?

Banks

The greatest delay in the information acquisition process is waiting for information from third parties like banks. This is why it takes approximately two to three days to set an accurate credit limit. To make an assessment, up-to-date information is needed.

Banks are the primary source of information for the insurance company. Details that are received from banks include the company's name and registration number, as well as details of partners, members and directors. Most importantly, a bank opinion (bank code) is given on the company's ability to deal with the value of a business transaction. The bank comments on whether any refer-to-drawer cheques have been issued.

One of the biggest hold-ups in the information process surrounding credit limits is waiting for information from the bank. Banks claim that for various security reasons, as well as client confidentiality, they cannot offer an insurance company on-line access to information. However, there has been no effort to facilitate a quicker or more efficient provision of information. In essence, the bank's service to its external client is no different than 10 years ago, even though its internal systems may be vastly different.

Credit bureaux

Information Trust Corporation (ITC) and KreditInform (KI) provide on-line credit information, including company registration details, payment history, any possible judgements and whether or not they have been paid in full or rescinded by a particular company.

ITC has a useful Web site (<http://www.itc.co.za>) that provides a full credit history, including credit checks, details of judgements and other potential problems. Access is quick and details are easily found.

KI has an on-line link with Credit Guarantee Insurance Corporation (CGIC) that connects CGIC staff members with KI access to the KI database. The database contains a great deal of information, including company registration details and possible judgements.

Both of these credit bureaux provide information pro-actively to the credit insurer, as well as any party willing to pay their subscription fees. These companies facilitate easy and quick

information exchange, which benefits the recipient of the information.

Media and the Internet

Press releases and media clippings can be invaluable sources of information, particularly for companies quoted on the Johannesburg Stock Exchange. Newspapers are now easier to access because of their on-line presence and are much more readily searchable.

A company's home page often provides details about its operations and business activities, and sometimes even provides financial information. Financial statements, for example balance sheets, income statements and cash flow statements, whether audited or not, can give the underwriter a better view of the company's financial processes.

Information about an industry can be found on the World-Wide Web (WWW) or in the news. Being able to read background news about various industries, for example steel or textile, can be a great advantage when assessing a credit limit or assessing the creditworthiness of a company.

Of all the sources listed above, the greatest change in the last few years has been the advent of and easy access to the Internet. It is a lot easier today to source information and find up-to-date company details.

CGIC had a policy of providing WWW access to all employees. However, the abuse of this facility led to access being available only to staff members in certain positions and departments. This is a step backwards for the company because of the policy of free availability of information, but it was necessary to return productivity to its previous levels.

4.3 How the domestic credit insurance industry adapted to the Information Age

Many changes have occurred in the credit insurance environment over the last 10 years. Credit insurance has become a viable and cost-effective backup for many small companies who could not afford to deal with a large loss. It also became an effective backup for larger companies that are in need of alternatives.

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5 Export credit insurance underwriting

Recent media reports about the global economy have been less than positive. The recession in the United States, the declining economies of the former 'Asian tigers' and the mixed fortunes of emerging markets in Africa have been cause for concern. Even though the International Monetary Fund (IMF) is optimistic about the prospects for most of these economies, the general outlook seems to be negative, particularly in light of the September 11 events. Credit insurance therefore fulfils a particular need.

5.1 Underwriting export credit limits

As with domestic credit limits, the key to underwriting successful export credit limits is the availability of accurate information.

Foreign colleagues

Most credit insurance companies maintain a network of 'foreign colleagues' with whom they consult when information on an overseas company is required. These colleagues are foreign credit insurance companies who provide information of their 'local' clients to the requesting insurance company. South African credit insurance companies also provide credit

information on local debtors to foreign companies. An assessment (credit opinion) is made and given to the requesting insurance company.

Most foreign colleagues provide a good service in terms of information availability. Reports are provided on-line or, in the case of a new assessment, new concerns or outdated reports, a new credit opinion can be given and quickly e-mailed through or provided on-line. This is a big change from the past when report requests were faxed, which led to a delay of a few days. Today on-line information enables speedy and efficient processing.

Foreign credit bureaux

As with foreign colleagues, these credit bureaux can provide a network of information, support and credit opinions. Most of the major overseas credit bureaux are on-line and a report can be accessed within a matter of minutes. This saves the underwriter a great amount of time.

Internet

Company home pages are an invaluable source of information, particularly with regard to the availability of financial statements. It is often difficult to get accurate information about particular debtors or even simple details such as names and addresses. However, being able to access this information almost immediately is beneficial for the underwriter, who can provide a faster and better service to the client.

Another benefit of being able to access the Internet is the availability of information both on the country and on the debtor's industry from a world-wide perspective. Previously information was difficult to access and incomplete. Although the problem of information overload is valid, the Internet still holds numerous benefits for the credit insurance industry.

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6 Example of credit risk assessment using the Internet

It can take between three and 10 days to get an accurate assessment or updated information from foreign colleagues. However, the Internet can decrease this time dramatically.

Up to now, in this article was discussed the theoretical implications of credit risk assessment, including the details and obtaining of information. The following scenario illustrates how a credit risk underwriter was able to use the power of the Internet to assess a potential risk in a matter of minutes.

Scenario: A policyholder applied for credit cover of \$100000 on Ashanti Goldfields in Ghana. It was going to supply Ashanti with a single order of that value, but was concerned about problems that the company experienced in the past.

In the past, the first step in the process was to apply for a credit report from a foreign colleague. A fax was sent to the foreign colleague, giving full details of the company and asking for a credit opinion. A report was then sent back after a few days. This process normally took a minimum of five to six days.

In this case, the underwriter used the information available on the Internet. He/she logged onto Dun and Bradstreet's Web site (www.dnb.com) and downloaded a report within minutes. Further details on past problems experienced by the company in Ghana were obtained through an Internet search.

In this particular instance, the underwriter searched the BBC's site (news.bbc.co.uk) for

further details on previous problems. The site revealed an article dated 13 February 2000 entitled: 'Crisis for Ashanti Goldfields' (http://news.bbc.co.uk/hi/english/business/newsid_641000/641515.stm), stating that:

'Ghana's largest company, Ashanti Goldfields begins a week of crisis talks with its creditors, its shareholders and the government on Monday. The company, Africa's third largest gold producer, is facing huge losses from its wrong-footed bet that gold prices would continue to tumble.'

The underwriter also found an article on the World Socialist Web Site (<http://www.wsws.org/articles/1999/oct1999/gold-o30.shtml>) entitled 'Ghana's Ashanti Goldfields going for a song', which stated that:

'The Ghana-based company, Ashanti Goldfields, is being sought by a rush of potential buyers looking to purchase gold mines at rock-bottom prices. Ashanti owns some of the most productive gold mines in Africa – altogether worth over \$2 billion at current prices. Besides the giant Obuasi mine in Ghana, existing and potential operations dot the continent – in Mali, Senegal, Guinea, Sierra Leone, Burkina Faso, Niger, Angola, Mozambique, Zimbabwe, Tanzania, Ethiopia and Eritrea. Ashanti's Geita deposit in Tanzania has been described as Africa's new El Dorado.'

All this information was found within a matter of minutes and added new details to the report. However, most of the information was comparatively old and negative. New and updated information was vastly more positive.

The underwriter found a report on a South African site called Mbendi (<http://www.mbendi.co.za/orgs/caox.htm>) that commented that Ashanti was listed on six stock exchanges, namely the Australian Stock Exchange (ASX), Ghana Stock Exchange (GSE), London Stock Exchange (LSE), New York Stock Exchange (NYSE), Toronto Stock Exchange (TORONTO) and the Zimbabwe Stock Exchange (ZSE).

Ashanti's own Web site (<http://www.ashantigold.com/>) was also of great assistance. In a press release, dated 28 February 2002, the following information was given:

'Ashanti's operations continued with a strong performance in 2001. The Group's total 2001 gold production of 1,656,784 ounces at an unaudited cash operating cost of US\$189 per ounce compares with the previous year's 1,737,264 ounces produced at a cash operating cost of US\$187 per ounce. Total gold production in 2001 reduced mainly due to the closure of surface mining operations at Obuasi, complete cessation of operations at Ayanfuri and a 50% share of Geita's production which is now attributed to AngloGold, Ashanti's JV partner. In 2001, management continued to focus on improving safety, operational and cost efficiencies while enhancing production sustainability through the implementation of key strategic initiatives.'

In an article entitled 'Ashanti Goldfields makes giant strides', the Ghanaian Times (<http://www.mclglobal.com/History/Jan2002/31a2002/31a2r.html#d>) comments that the 'operations of Ashanti Goldfields Company Limited (AGC), the gold prospecting company headed by Dr Sam Jonah continued with a strong performance in 2001'.

It is particularly interesting to note the change in the company's fortunes, and this acts as a particularly good example of the power of the WWW. Without the background information provided on the WWW, the underwriter assessing the credit limit on Ashanti Goldfields would have been dealing with information that was possibly out-of-date and certainly a lot

less thorough than the information available on the WWW.

In this situation, a credit limit of \$100000 seemed feasible. The latest reports on Ashanti indicated that the company was improving because of the assistance of joint venture partners like AngloGold in South Africa. This assessment was made within a matter of hours, rather than days. A much better assessment was also made based on up-to-date information. This breakdown showed the true power of up-to-date and easy accessible information to the credit insurance underwriter.

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7 Conclusion

This study found that the credit information industry was performing well with respect to information resources. Problems occurred when third parties, for instance banks, were sourced. Information was more difficult to obtain when third parties were not dedicated to servicing anyone other than their direct clients. The on-line utilization of credit assessment-related services was of great benefit to the industry.

Overall, the advent of the information society and readily available information are useful to credit insurance. When information vendors improve their services, the credit insurance industry will be able to offer better services. However, for the moment, it appears that the industry meets expectations.

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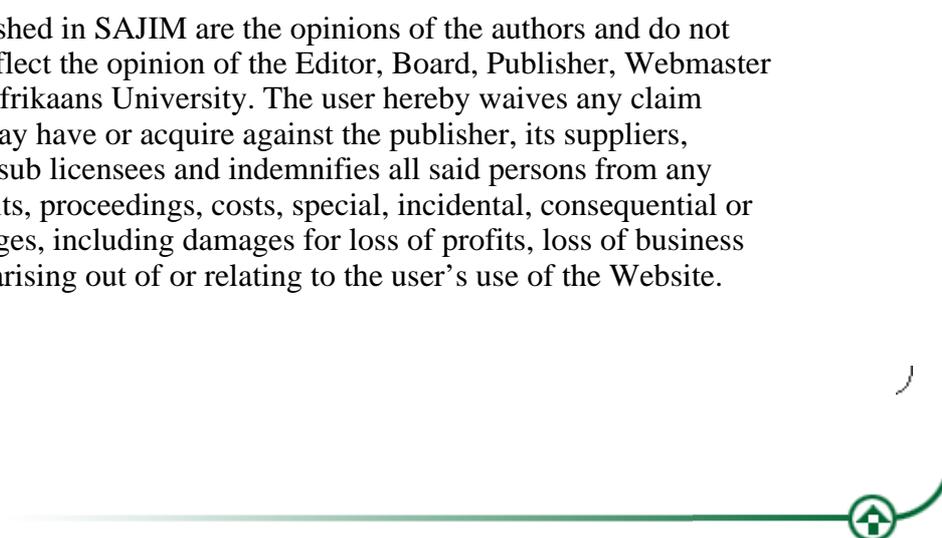
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