



Credit Risk Management in the World of Global Enterprises

By Joseph N. Boland

The buzz surrounding China is growing louder. As this burgeoning market continues to mature, opportunities abound for lessors and finance companies with cross-border capabilities.

While the People's Republic may be the biggest prize, significant opportunities also exist for U.S.-based lessors in countries like Brazil, Russia, India and Eastern Europe.

For those seeking to manage risk on a global basis, The Alta Group stresses understanding of the business nuances of these countries and establishing credit risk management strategies in these markets to assure effective portfolio management. Failing to do so could result in control problems, credit losses and large exposures that eventually impair or doom overseas aspirations.

The basics of sound credit decisions have not changed over the years. But for larger lessors considering overseas markets or expanding an existing base, the challenges have grown more complex.

These include customers within new industries, classes of small business owners and geopolitical and sovereign risk considerations; recognition of the changing risk profiles of these groups; and appropriate pricing strategies.

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- strategic planning
- captive finance and vendor program development
- competitive analysis
- professional development and training
- market entry services
- global portfolio development and management
- merger and acquisition management
- litigation support
- mediation
- information technology management

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Other considerations include the timely and accurate information on portfolio performance and access to syndications and credit default swaps to manage portfolio risk. Companies also must optimize operational efficiencies through automation, resource centralization and outsourcing.

Risk managers must consider the complexity of operating in multiple countries. Some have radically different

The Alta Group is a global consultancy serving equipment leasing and finance companies, investment professionals, manufacturers, banks and government organizations.

credit cultures, unfamiliar laws, inadequate information sources, transparency issues and unpredictable means for enforcing claims.

Even with acceptable credit environments, countries may have risk processes that make sense locally, but are globally inefficient, or don't support global risk management. Today, Alta recommends risk managers ask themselves how much of the credit process can be safely automated in a given locale, and also whether it makes sense to aggressively consolidate global credit resources in low-cost jurisdictions.

China exemplifies the challenges credit risk managers face when establishing operations overseas. Its political stability and strong foreign currency reserves present a very acceptable sovereign risk profile. The internal credit environment however, while improving, is relatively weak.

Its banking system has a lax credit culture, and the availability and transparency of financial data is not on par with that of more developed countries. In addition, the Chinese legal system is unsupportive of creditors' claims, resulting in high collection costs.

The bottom line: China is a tough place to extend credit. Local knowledge is critical and a vigorous credit process is

essential. Opportunities for automation are limited. Nonetheless, Chinese and foreign companies are successfully expanding the scope of their credit extension activities.

Conversely, China has great potential to be an "insourcing" consolidation point for a global credit operation. In addition to the cost competitiveness of its work force, there are a growing number of university-educated finance

professionals. Many have worked for Western companies there and are capable of sophisticated financial analysis.

Alta has advised U.S. businesses on addressing the challenges outlined above in China and other emerging markets – in terms of extending credit, integrating such business into a global risk framework and establishing low-cost credit centralization points. We also have worked with Chinese multinationals to establish "de novo" global credit functions.

Smart decisions are critical when setting sights on China or another foreign market. Credit risk must be a top priority.

Consequently, a growing number of companies are leveraging Alta's extensive experience in global risk management strategies and structures. These include credit methodology/policy, specific country and global risk assessment processes, portfolio analysis, risk mitigation and systems development.

Together, we can turn the excitement of new market opportunities into safe, profitable business ventures across the globe.

Joseph N. Boland, a principal with The Alta Group, can be reached at 914-533-7007 or jnboland@thealtagroup.com.

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