Make up a Missed Lesson of Credit Risk Awareness

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Gaining and solidifying credit risk awareness involve three stages and seven steps, which are necessary to get credit risk awareness embodied in daily work of employees.

Stage I: Learn credit risks

Credit risk usually refers to the probability of loss from a debtor's default, such as the risk of payment delinquency and bad debts. The risks arising from credit sales fall into such three main categories as financial risks, transaction risks and observation risks. The key part of our training is to enable the recipient learn what is risk and herein financial risk comes first. In this stage we would firstly give a preliminary interpretation and analysis to help them learn the formation and structure of risks and acquire certain understanding on the causes and classification of risks under observation.

Stage II: Understand credit risks

This stage is important for the gaining of credit risk awareness, which can be cultivated through training, learning and system establishment.

Training & dissemination: After the cause and formation of credit risks are preliminarily known, the employees of a company, from highest to lowest, should all be educated and disseminated with relevant credit risk management knowledge. Training is an important step to cultivate credit risk awareness because through training, we can sort out the different risks, recognize the key control points on risk tree and deepen our understanding on risk management. Dissemination should be a continuous process ongoing through different stage, at different time and on different subject.

Risk identification: Risk identification means to rake out the main risks faced by different positions under a complication situation. We can form a judgment from sensitive cognition and previous experiences on one hand, and on the other hand we can also classify, summarize and analyze the financial data and transaction records available to find various apparent and underlying risks and the logical relationship between these risks and possible losses. Risk identification, which precedes risk control, should be examined in a breakdown. Currently, brainstorm method, Delphi method, Scenarios analysis, listing method and on-site investigation are usually used in identifying risks.

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Risk measurement: We should conduct an assessment on the risks identified through the above step and estimate the possible losses so as to make necessary preparations for the following risk responses and countermeasures. Scientific techniques such as data assessment models and qualitative and quantitative analysis can be used in risk measurement. Sinotrust pioneers an ABI assessment model as a basic framework for the measurement of credit risks.

Risk responses: Different measures and instruments should be designed to tackle risks before, in the middle and after their occurrence so as to minimize possible losses. Only with abilities to identify and assess the risks could we bring out effective countermeasures.

System establishment: Code of conduct is an important part of system establishment while the standard operating standards for credit risk management positions are the most important of all. A closed-loop management system should be formulated to cover every link of credit investigation, credit assessment, credit issuance, pre-due alert, receivables collection and credit analysis, for which standard operating procedures should be contemplated and KPI should be created for credit risk positions. The establishment of such systems can effectively transform the personal knowledge and skills of employees into motivation while the implementation of KPI can ensure best results.

Stage III Credit Risk Culture

Risk culture, a.k.a risk management culture or risk control culture, is a cultural power encompassing modern enterprise theory, risk management theory, risk management behaviors, risk control standards and risk management environment. Risk culture is an important part of corporate culture and also a foundation for the healthy development and continued operation of a company. There are clear path and well-defined concepts for risk management culture and a sound risk management culture can always enhance a company’s credit risk management effectiveness significantly.

Credit risk management culture is a structured mechanism created with guiding thoughts, rules and result-oriented features. The guiding thoughts lay down premises or first propositions, on which rest the subsequent reasonings elaborated in rules while the result-oriented designs ensure the effective implementation and adoption of such rules.

To develop credit risk awareness of employees is a systematic and long-term effort. Nowadays credit sales have already grown into a mainstream pattern in different industries and also an inevitable choice for sales. A keen awareness of credit risk cannot only help us to diagnose the cause and structure of risks but is also a main booster on endogenous efficiency gains. The risk-conscious employees are more willing to abide by relevant management rules in their daily work and more readily to assimilate with risk management culture so that we can see gratifyingly that credit risk management becomes an act of their own accord rather than responsibilities forced upon them.

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