

Meeting the true trade greasers

A story on credit risk management, minus the yawn

By Christoph Kober

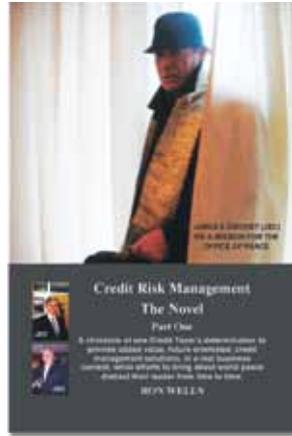
With competitive pressures to move towards open account terms of trade on the rise, the role of credit risk teams within large and small enterprises has become more critical. Credit Risk Management – The Novel (Part One) by Ron Wells delivers solutions for complex business risk situations, drawing from real cases and companies. Far from taking a textbook approach, this can be an essential guide for finance students and professionals alike. A good dose of entertainment makes it a worthwhile read for anyone else as well

One of the lessons that a lifetime of managing credit risk has imparted on Ron Wells, author of *Credit Risk Management – The Novel*, is that people decide whether a business will perform or not, pay or not. “Balance sheets don’t pay bills,” sums up Wells’ approach to credit risk and the motto of his book. *The Novel* puts people, not financial ratios, at the centre of attention, namely the credit risk team at Chevron (disguised as ShamOil in the book) and the suppliers and customers they deal with around the globe.

The tools they use to facilitate multi-million dollar oil shipments worldwide are based on actual events that Wells encountered in his long career as a risk specialist, working for global multinational companies and trade finance banks. Wells headed Chevron’s credit risk team in London for 16 years until 2007 and also set up the credit team for Cargill’s energy transportation and metals business in Asia in 2011. He now runs his own trade and risk consultancy, T3P.

“*The Novel* presents solutions to difficult credit risk solutions,” Wells tells *The Asset*. “My approach to credit has never been to give as little as possible. The credit team should always aim for the business to grow but in order to do that, credit managers need to understand their customers better than they do themselves.”

“Any financial statement contains a lot of management decisions and for obvious reasons, businesses will always try to



The Novel: Uncovering the covert world of commodities

appear in the best possible light. Many people associate credit departments with collections only. The truth is that if you have moved to the collection process, chasing overdue payments, you have failed already.”

Practical advice wrapped in lively accounts of how large commodity deals are brokered make the book a helpful guide not only to credit professionals but treasurers and financial directors as well. There is the example of a US\$22 million crude oil shipment to Nigeria, secured by a letter of credit that was opened by a bank with a track record of less than a year. Without a more reputable bank confirming the L/C, the transaction would be impossible.

Too bad that the confirmation charges would wipe out nearly all of ShamOil’s profit margin on the trade and that with the cargo having nearly arrived, no time is left to look for alternative banks. Resolute negotiation by ShamOil’s credit team, which reminds the bank of the ancillary foreign exchange business that the company conducts annually, helps reduce the fee and eventually saves the deal.

In *The Novel*, Wells presents technical concepts in a manner that is enlightening to anyone interested in how oil majors and traders fuel the world economy. In the sometimes covert world of commodities,

the book reveals how large oil majors can do business even with nefarious Greek traders and West African national oil companies with erratic payment patterns.

One issue often faced by commodity traders is access to documentary trade finance facilities by banks, since their main assets are the skills and contacts of their executives rather than anything tangible found on typical balance sheets. An instrument that can be used instead of common letters of credit or bank guarantees are payment guarantees – separate confirmations by the buyers to fulfil the terms of the contract addressed to the seller’s bank. *The Novel* introduces the concept with a case study and provides supporting details on how to negotiate the use of this instrument with buyers in the appendix.

But *The Novel* also has room for fiction. James “Jim” E Cricket (read Ron Wells), the head of the team of “credit-philies” at ShamOil (read Chevron), fancies more than just collateral when dealing with risky buyers. World peace is what he really strives for. Jim nearly brokers the smooth fall of the Berlin Wall and the end of Apartheid in a matter of just a few months. “I had to start off the book with something exciting,” Wells quips.

The Novel recounts some of the most dramatic geopolitical events at the end of the 20th century – which of course proved to be watershed moments for the commodities industries as well. Fast forward two decades and geopolitical hotspots throughout the world again keep businesses on their toes. Although set in the 1990s, the solutions presented by Wells were in fact developed more recently, he says, and their applicability today adds to the book’s relevance.

The book even makes reference to bank payment obligations (BPO), a very recent development in the trade finance space pitched by some banks and the International Chamber of Commerce as a safer alternative to open account terms yet faster method of secured finance than L/Cs. Wells is a staunch advocate of the

product, saying it is safer than traditional letters of credit.

“Some banks have been slow to adopt BPOs,” he notes, “mostly because they fear existing infrastructure could become redundant. Legacy systems are a big issue at banks. Letters of credit can be dangerous, because the day you need them most, they may not work. Petroplus is a case in point. Its standby L/Cs (about US\$60 million each) were initially not honoured by three banks on the grounds of discrepancies. An electronic matching of information would not let that happen.” Petroplus, the Swiss oil refiner, filed for insolvency in 2012.

The Novel achieves to strip long-held clichés about the field of credit risk of their valor. The protagonist of the story himself sums up what springs to most people’s mind when asked to define credit risk management: “Credit management is only about reading credit reports, plugging in credit limits according to some boring matrix, insisting on security or cash in advance for new businesses



Wells: Balance sheets don’t pay bills, people do

and chasing overdue invoices. Everyone knows credit management’s mission is to prevent sales or give as little credit as possible, then upset potential customers by hounding and threatening them when payments are overdue.”

For professionals in multinationals who seem exposed to prejudices of this sort, *The Novel* offers firepower in discussions with salespeople, traders and superiors. It is also a toolbox to be drawn upon

when a deal hinges on sheer impossible credit terms. For the uninitiated reader, Wells’ book offers delightful entertainment with a healthy dose of valuable business lessons.

Wells also says he hopes to reach an entirely different group of readers with *The Novel* – students and graduates undecided where to work. “Younger people looking for a career in finance are drawn to investment banking because of the money it offers. I have always found that working in business is much more exciting because real stuff moves as a result of your actions as a credit specialist. There are very few finance programmes that give students exposure to credit risk management in their courses. I hope *The Novel* can add to this education and show that managing customer and supplier risk in a real business is an exciting career opportunity.”

Credit Risk Management – *The Novel, Part One* (2013) is published by T3P and available for purchase at Amazon. ISBN: 978-0-9576279-2-5, 104 pages.



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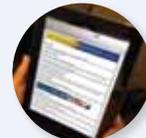
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