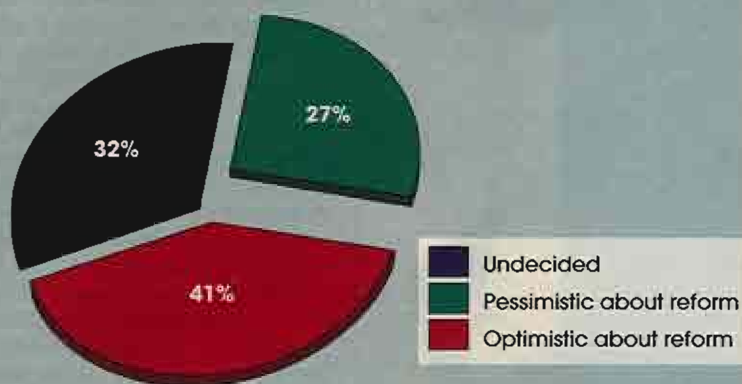

Prince, a Baybanks senior vice president. They are currently separate products.

Once that goal is achieved, Baybanks intends to step up marketing of credit sweeps. "This is a perfect example of customer outsourcing," she notes. "It gives them more time to focus on their primary activities."

Merrill Lynch & Co. has been offering credit sweeps since 1985 and has portfolio commitments in excess of $1.2 billion in lines of credit tied to Merrill's Working Capital Management Account, the corporate version of its retail CMA account. Committed lines to corporate customers are growing at 15-20% a year.

William King, a Merrill Lynch vice president, notes that the brokerage product offers even more flexibilty than a bank revolving line. Merrill will advance funds even on uncollected balances. "If we receive a check by 1:15 p.m., we'll pay interest or pay down the line," says Mr. King. "The Federal Reserve clears checks real fast."

Even if more providers offer them, credit sweeps are unlikely to reach the 25% annual growth of investment sweeps simply because banks can offer credit sweeps only to companies they offer credit to. As Mr. Murray observes, "You're not going to give everybody a credit sweep unless you've got better controls."

—*Thomas P. Fitch*

RISK MANAGEMENT

How to keep workers comp claims down after downsizing

Although workers compensation claims often skyrocket when companies downsize or close plants, there are several steps risk managers can take to ferret out fraud and keep legitimate claim costs low.

Robert Hartwig, senior economist at the National Council on Compensation Insurance in Boca Raton, FL, says a 10% increase in the number of business failures typically leads to increases in the loss ratio ranging from 1% to 8%, depending on the state.

Mary Hollis, manager of claims services at Liberty Mutual, Boston, attributes the increase in claims in part to the reduced fear laid-off employees feel toward filing claims. "Their job is eliminated; they have nothing to lose and have no fear of reprisal for filing the claim," she says.

Mass layoffs inevitably generate workers comp claims, says Robert Weyburn, vice president, claims consulting manager for Sedgwick James, Boston.

"Though some claims filed by laid off workers are fraudulent, many are filed by workers who have developed hearing loss, carpal tunnel or multiple soft-tissue injuries and, for reasons of fear or reluctance to file claims, did not report the claim until notified of the layoff or plant closing," he says. "Additionally, since most COBRA and employer benefit plans are subject to deductibles and other coverage restrictions, employees may opt for filing a claim under workers compensation."

Ms. Hollis reports that downsizing even more than plant closings increases claims. "Downsizing tends to shuffle your workforce and move people into different departments where they use unfamiliar machinery or different physical procedures. We've found that 40% of accidents happen during the first year of employment," she says.

States that have not reformed their workers comp laws make it easier for employees to "use workers comp as a tool to supplement unemployment," says Mr. Weyburn, who advises employers to research the workers comp laws in the plant location jurisdiction prior to a downsizing or closing.

For example, in California stress from termination is considered a compensable injury. Here, an employer must terminate staff in the "least intrusive way," says Ms. Hollis. "When we go before a judge in such a state, the claimant may be given a higher award and continued disability because he has no job to return to."

Mr. Weyburn suggests that an employer can reduce termination stress by:

- Having a high-ranking official deliver the news, and
- Showing concern for the laid-off employees by offering job fairs, résumé counselling and on-site therapy sessions.

Ms. Hollis adds her own suggestions:

1. **Choose a team with experience** in claims, loss prevention and human resources to manage the downsizing.
2. **Establish a claims procedure** and place a claims team on-site to learn the employee's situation first hand.
3. **Keep accurate records** in one central location.
4. **Investigate carefully** before announcing any layoff. Consider videotaping employees at work

and documenting baseline levels of noise, airborne particles and chemicals.

5. **Conduct exit interviews** with employees to detail their injury history. Photographing employees at this time can help you remember them better and supply photos for fraud surveillance if necessary.
6. **Train the downsizing team** to watch for fraud indicators, such as fraud solicitation, a history of fraud or filing similar injury claims with the same doctors and lawyers.

Communication with your insurer should be an integral part of the downsizing process, Mr. Weyburn advises.

Even with such precautions, companies should expect workers comp claims to hurt their insurance ratings after a downsizing or plant closing. "Most *Fortune* 1000 corporations have some direct financial impact, through a compensation deductible plan, retention levels or charge backs, that will cause a financial burden on a division or plant to be phased out," says Mr. Weyburn.

"Smaller corporations usually participate in a guaranteed cost program, non-retro or even the state fund. In general, the smaller companies' compensation experience modifier would increase because of the bad experience that may be associated with a problematic layoff. One alternative would be to enter a state fund and seek relief."

—*Patti Verbanas*

CREDIT & ACCOUNTS RECEIVABLE

Portfolio approach, customer groupings lift A/R performance

For many credit departments, prudent credit limits coupled with an aggressive collections program equals effective performance. However, a portfolio approach to accounts receivable management, rooted in modern software technology, can open the door to improved cash flow, gains in sales and profits and better quantification of accounts receivable risks.

Kimball International, Jasper, IN, uses portfolio management techniques to standardize credit line decisions and set collection priorities, supported by Corporate Credit Manager (CCM) software from Credit & Management Systems Inc., Lake Bluff, IL. According to Kurt Grothouse, operations manager, Kimball has been able to reduce bad debt and days sales outstanding (DSO) despite staff reductions.

A portfolio approach to A/R management requires categorizing your customers by both risk factors and common attributes, establishing standards, evaluating risk and selecting appropriate responses.

Categorizing accounts properly is best based on the answers to three questions:

- How important is this customer to our company?
- What support does this customer need?
- What is the customer's industrial classification?

Many companies segment their customers by geography or product lines. While this scheme provides useful information for sales, manufacturing and distribution, it has not done much to improve credit decisions.

Not every company will categorize customers the same way. Using more than one classification scheme may permit a more intensive evaluation and focused responses to the special characteristics of your customers.

Profiles reflecting these qualities can then be developed for each A/R classification, tapping both internal and external sources of information. The key is to build a financial ratio database around your customer's financial statements.

Include in the database agency credit and payment scores and internal data specific to your receivables such as payment history, gross profit margins and failure rates. Robert Morris Associates' Statement Studies, Dun & Bradstreet's Duns Financial Profiles and Warren Gorham & Lamont's Financial Ratio Analyst all provide financial ratio summaries by industry that are useful in making comparisons.

Objective risk evaluations can now be made across your entire portfolio. Hank Forlenzo, corporate credit manager for Oil-Dry Corp., Chicago, uses Dun & Bradstreet's Risk Assessment Manager (RAM) software to build customized scoring models based on both the customers' financials and other internal and external information.

On a transactional level, new customer approvals, order approvals and credit limit reviews become not only less subjective but easier to make. Detecting specific categories of customers that are above or below industry standards will guide your decisions to loosen or tighten cred-