International Credit Policy

Speaker – Ed Bell, PhD, CICP, ICCE
Date – June 13th, 2016
Time – 2:00 – 3:15pm
Session Number – 25020
Going Global Series

International Credit Policy
Building Nations with Education, Innovation and Confidence in Each Other

"Commercial Credit is the creation of modern times and belongs in its highest perfection only to the most enlightened and best governed nations. Credit is the vital air of the system of modern commerce. It has done more, a thousand times more, to enrich nations than all the minds of the world."

Daniel Webster, 1834
‘Going Global’ Checklist
Your Checklist Should Include:

✔ Credit Policy
✔ Credit Investigation – Know your Customer
✔ Financial Information for the International Credit Decision
✔ Assessing International Risk
✔ Credit Insurance
✔ Commercial Letters of Credit
✔ Resources - Agencies
✔ Trade Credit Financing
✔ Correspondent Banking Relationships
✔ Compliance and Ethics
Polling Question Number One:

How many of you have a published credit policy covering International?
Credit Policy

Know the difference between a credit policy, credit procedure, and credit rule.

• A **credit policy** is a general course of action developed for recurring situations and designed to achieve established objectives. It is a general statement that serves as a guide for the export credit manager's decision making.

• Most effective if top management endorses credit policy
Credit Procedure and Credit Rule

• A credit procedure describes the actual working steps that should be followed in the appropriate order to accomplish the desired credit result or decision.

• A credit rule is a statement that defines and/or restricts the actions that a credit manager can take (or not take) in a specific situation or decision.
Credit Policy

• Credit policy should address the authority to do the job, establish consistent credit guidelines, and assure credit and sales cooperation.

• Credit policy serves as a guide in determining how to handle given kinds of problems, but it does not offer a definitive solution.
Credit Policy

- Credit policy presents a range of solutions within which the credit executive is free to exercise judgment.

- Credit policy is most effectively implemented when all who are directly affected have some voice in its development and it is endorsed by top management.
Credit Policy

A good credit policy includes:

• Development of an optimal level of sales
  • New customer policy and procedures
  • Policies and procedures that relate to terms of sale
  • Policy and procedures that govern credit investigations

• Minimizing the carrying costs of receivables

• Minimizing bad debt losses

• Credit department organization and cost containment
A Well-Defined and Complete Credit Policy Also Includes the Following:
Well Defined and Complete Credit Policy

• Formal organization of department
Well Defined and Complete Credit Policy

- Formal organization of department
- Job description, titles and review process
Well Defined and Complete Credit Policy

• Formal organization of department
• Job description, titles and review process
• Credit department budget guidelines
Well Defined and Complete Credit Policy

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- Job description, titles and review process
- Credit department budget guidelines
- Credit documentation required for credit file
Well Defined and Complete Credit Policy

• Formal organization of department
• Job description, titles and review process
• Credit department budget guidelines
• Credit documentation required for credit file
• Methods of gathering credit information
Well Defined and Complete Credit Policy

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• Job description, titles and review process
• Credit department budget guidelines
• Credit documentation required for credit file
• Methods of gathering credit information
• Time limits for credit decisions
Well Defined and Complete Credit Policy

- Formal organization of department
- Job description, titles and review process
- Credit department budget guidelines
- Credit documentation required for credit file
- Methods of gathering credit information
- Time limits for credit decisions
- Established credit lines and procedure for establishing new lines
Well Defined and Complete Credit Policy

• Formal organization of department
• Job description, titles and review process
• Credit department budget guidelines
• Credit documentation required for credit file
• Methods of gathering credit information
• Time limits for credit decisions
• Established credit lines and procedure for establishing new lines
• Procedure for communicating the decision to the customer, management, the sales department, and operations
Well Defined and Complete Credit Policy

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• Job description, titles and review process
• Credit department budget guidelines
• Credit documentation required for credit file
• Methods of gathering credit information
• Time limits for credit decisions
• Established credit lines and procedure for establishing new lines
• Procedure for communicating the decision to the customer, management, the sales department, and operations
• Guidelines for dealing with and assisting marginal accounts
Well Defined and Complete Credit Policy

• Procedure for handling letter of credit and other "non-open" credit situations
Well Defined and Complete Credit Policy

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• A collection policy that reduces borrowing cost
Well Defined and Complete Credit Policy

• Procedure for handling letter of credit and other "non-open" credit situations
• A collection policy that reduces borrowing cost
• A collection policy that deals with slow-paying accounts
Well Defined and Complete Credit Policy

- Procedure for handling letter of credit and other "non-open" credit situations
- A collection policy that reduces borrowing cost
- A collection policy that deals with slow-paying accounts
- A collection policy that minimizes bad debts
Well Defined and Complete Credit Policy

• Procedure for handling letter of credit and other "non-open" credit situations
• A collection policy that reduces borrowing cost
• A collection policy that deals with slow-paying accounts
• A collection policy that minimizes bad debts
• A policy for unearned discounts/unauthorized deductions
Well Defined and Complete Credit Policy

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• A collection policy that reduces borrowing cost
• A collection policy that deals with slow-paying accounts
• A collection policy that minimizes bad debts
• A policy for unearned discounts/Unauthorized deductions
• A policy for the handling of disputes
Well Defined and Complete Credit Policy

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• A collection policy that reduces borrowing cost
• A collection policy that deals with slow-paying accounts
• A collection policy that minimizes bad debts
• A policy for unearned discounts/unauthorized deductions
• A policy for the handling of disputes
• A policy for the handling of returned and damaged merchandise
Well Defined and Complete Credit Policy

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• A policy for unearned discounts/unauthorized deductions
• A policy for the handling of disputes
• A policy for the handling of returned and damaged merchandise
• Establishment of terms of sale
Well Defined and Complete Credit Policy

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• A collection policy that deals with slow-paying accounts
• A collection policy that minimizes bad debts
• A policy for unearned discounts/unauthorized deductions
• A policy for the handling of disputes
• A policy for the handling of returned and damaged merchandise
• Establishment of terms of sale
• Policies for using secured transaction for protection
Well Defined and Complete Credit Policy

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• A collection policy that reduces borrowing cost
• A collection policy that deals with slow-paying accounts
• A collection policy that minimizes bad debts
• A policy for unearned discounts/unauthorized deductions
• A policy for the handling of disputes
• A policy for the handling of returned and damaged merchandise
• Establishment of terms of sale
• Policies for using secured transaction for protection
• **A policy for the use of guarantees**
Well Defined and Complete Credit Policy

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- A collection policy that reduces borrowing cost
- A collection policy that deals with slow-paying accounts
- A collection policy that minimizes bad debts
- A policy for unearned discounts/unauthorized deductions
- A policy for the handling of disputes
- A policy for the handling of returned and damaged merchandise
- Establishment of terms of sale
- Policies for using secured transaction for protection
- A policy for the use of guarantees
- Guidelines for reporting to upper management
Polling Question Number Two:

How many of you feel your company has a well defined and complete credit policy?
Your Detailed Checklist Now!

✔️ Credit Policy
Credit Investigation – Know your Customer
Financial Information for the International Credit Decision
Assessing International Risk
Credit Insurance
Commercial Letters of Credit
Resources - Agencies
Trade Credit Financing
Correspondent Banking Relationships
Compliance and Ethics
Look for Future Educational Opportunities at FCIB:

Going Global Webinar Series – 2016

June
Live Sessions at NACM Credit Congress Include:
25020 – International Credit Policy – Monday, June 13th
25030 – Credit Investigations and Getting to Know Your Customer – Monday, June 13th
25080 – Role of Financial Information in Global Credit Decision Making – Wednesday, June 15th

July
20th, Credit Resources (what to look for in credit reports – what should they contain – what else is needed to help make an assessment of credit risk?)
21st, Trade Credit Financing (factoring, asset based lending, securitization, forfaiting)

August
10th, Corresponding Banking Relationships
Questions?

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