GLOBAL SOLUTIONS COUNCIL

GUIDELINES FOR

Credit Management

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GSC Credit Management Workstream	Credit Management Guidelines 3.0	September 2020	GSC Group Members

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1. Overview

1.1 Privacy Statement

1.2 Background

GSC Group members were tasked to draft methods and a common approach how to minimise risk and bad debts.

This document consolidates the input from GSC Group workshop on this topic.

1.3 Abbreviations

Abbreviation	Description
GSC, GSCG, or GSC Group	Global Settlements Carrier Group

2. Introduction

2.1 Intended Audience

This document is intended for GSC members.

The primary audience of these guideline is company's units that are directly involved to:

- financial decision
- managing financial risk
- financial forecasting

ensuring processes and procedures are in place to maximize revenue and cash flow.

Secondary audience is all other company's units that are directly involved in the above processes (e.g. Sales).

Credit management responsibilities could be allocated in different departments based on company's organization structure.

2.2 Objective and Scope

The objective of this document is to assist the GSC members in standardizing credit management guidelines This document will be made available to all GSC Group Members and Benefactors and intended to be limited in application to the supply of telecommunications products and services.

2.3 Benefits of Standardizing Credit Management Guidelines

The benefits that the guidelines are envisioned to bring to GSC members are as follows::

- Help the GSC members formulate a set of guidelines (if none is yet in place) according to their needs or review their existing policy and enhance according to latest standard credit management policies.
- Ensure efficiency in managing accounts receivable
- Opportunity to exchange information about blacklisted companies.

2.4 Key Factors Driving Credit Management

Accounts Receivable assets are among the largest and most liquid holdings on the books of most companies. A properly managed A/R portfolio helps expedite cash flow, supports corporate cash requirements and expands working capital. A/R plays a vital role in the overall health of a company.

2.5 Key Objectives of Credit Management

The key objectives of Credit Management are, but not limited to, the following

- Speed-Up Cash Inflow or convert accounts receivable to cash in a timely manner.
- Maximize Sales and Profits
- Monitor, Protect and manage the Company's investment in Accounts Receivable
- Communication condition, status and trend of the Company's investment in receivable to management
- Reduce Financial Exposure
- Minimize Bad Debt Losses
- Consolidate view of contracted products and services(i.e. carrier having multiple agreements on Voice, Data, Roaming and Other Services)

2.6 Credit Management Principles

Sound credit management principles revolve around (3) E's:

- Estimation
    - All available sources of credit information must be tapped and utilized so that proper estimation of the credit risk can be obtained.
    - For business concerns, credit granting should be based on net worth and condition of the business as well as the reputation for paying bills. For individuals who buy for consumption, character and their ability to pay.
    - All credit information gathered and received must be kept in strict confidence.

- Enforcement
    - Granting credit is but one phase of credit function, collection is another. Collection of accounts should start from the moment they become due.
    - The task and responsibility of every collection department is to get the money due the company.
    - Collection records must be kept and maintained and should indicate when notices were sent; dates when calls were made by collectors; payment made; balance due; and action taken, if any

- Evaluation
    - Sound credit management principles dictate that results must be evaluated against company policies and procedures.
    - Records must be periodically reviewed and kept up to date.

2.7 Core Activities and Key Responsibilities

- Analysis and Evaluation of current and prospective Customer's credit worthiness

- Evaluation and Validation of new business cases
- Development, Review and Update of Credit and Collection Policies
- Maintenance and Build-Up of Credit track record for each Customer
- Management Reporting (top management and internal customers within Sales, Billing & Settlements, Accounting, Operations, etc)
- Management of external credit information sources or credit reporting agency services
- Billing & Collections Management (maybe be handled by a separate or distinct unit)

2.8 Department/Division Goals

- Meet Management Requirements
- Meet Sales Requirements
- Meet Accounting Requirements
- Meet Operations Requirements
- Meet Financial Requirements

Educate people – internal training e.g. between sales, or billing team and credit control2.10 Measurable Goals

- Cash Flows
- Days Receivable or Sales Outstanding
- Collection Performance over Generated Revenues
- Bad Debts Write-offs
- Delinquency Percentages over the Total
- The time period for contacting past due customers

3. Credit Management Guidelines

The following guidelines and suggestions are the product of GSC workshops and proposals by the various work groups.

3.1 Credit Policy

It is set of standards, processes and procedures encompassing all credit functions and activities of a business organization.

3.2 Credit and Collection Policy Checklist

A well-defined and complete credit policy includes:

- Credit Policies
  - Procedures in conducting a credit check and evaluation of existing and new Customers.
  - Establishment of credit lines, limits or standards.
  - Establishment of credit terms or terms of sale (e.g., credit period, maximum exposure, discount policy, special terms, late payment)
  - A Checklist of required documents in the Credit Evaluation process
  - Methods of gathering credit information (internal and external sources)
  - Time limits or turnaround time for making credit decision/recommendation
  - Procedure in communicating decision/recommendation to management
  - Credit Approvals
  - Credit Documentation required for Credit File Database Maintenance

- Collection Policies
  - Collection policies for handling past due accounts
  - Collection policies for delinquent accounts
  - Collection policies for handling high risk/problematic/marginal accounts
  - Contingency plans for handling “special case” accounts (Customer under “Financial difficulty”, “Bankruptcy protection /court Receicership and “Bankeuptcy”) or Distressed Accounts Management

- Sharing of Information and Report Dissemination
  - Guidelines for reporting to upper management (status and monitoring reports and other report requirements, etc.)
  - Policies on sharing of credit information with other business units within the company (via reports or through linkage meetings)

3.3 Pre-Sales Credit Check/Assessment

Credit Assessment encompasses the process by which a Supplier determines whether a Customer seeking a service will be granted the service, the terms under which the service is granted, and any restrictions by the Supplier that may be placed on the service that will be provided. It is a process a Supplier undertakes in considering the circumstances of a Customer to assess their level of credit risk

3.4 Scope of Credit Assessment

- Customer company's history (legal, corporate and capital structure etc) and background of principal/owners/officers.
- Financial Condition and operating results (financial statement and ratio analysis)
- Others (e.g., bank and trade dealings, court cases, internal records etc

3.5 Credit Assessment Rules

If a Customer applies to a Supplier for the supply of a Service, the Supplier must either:

- Undertake an appropriate Credit Check/Assessment in order to determine whether to supply a Service to that Customer; or
- Supply a service which limits the Customer's expenditure or usage via measures that effectively limits a Customer's expenditure

During the pre-sales phase, the following activities can be done to evaluate the credit worthiness of a potential Customer:

- Pre-Evaluation
  - Obtain copy of the following documents/papers as basis/reference in analyzing the potential Customer's credit worthiness:
    - Company Information
      - General Information Sheet (most recent)
      - Certificate of Registration
      - Certificate of Partnership (for subsidiaries)
      - License(s) and details of Ownership
      - Articles of Incorporation
      - Financial Statements (audited year-end report for the last three years)
      - List of Directors/Partners and their specimen signatures
      - List of Principle Stockholders/Shareholders and their specimen signatures
      - List of Affiliates
      - List of client's International bank(s)
      - By-Laws (Optional)
    - Business Proposal Details (Sales requirements)
      - Formal Proposal to Supplier (draft agreement/contract)
      - Service Offerings
      - Traffic Projections (for the next three years)
      - Rates
      - Settlement/Payment Terms
      - Facility and Circuit Details
      - Documentation of authorization to enter into transaction with PLDT
      - Details of authorized representatives and their specimen signatures

- If a prospective customer cannot complete the above-listed documentation requirements, the following may be done in lieu of the documents:

    - Supplier to procure Credit Application or require Customer to accomplish a Customer Information Form. This is especially required from non-traditional/FBO carriers who normally cannot complete the above listed requirements. Said form should be signed by an officer or designated authority of the customer Company.
    - Avail of the services of a professional credit rating agency to conduct a corporate background check.
    - Get information from third parties (e.g., other companies within and outside the industry or Customer-provided trade references) and other sources (e.g., internet searches)

- Evaluation Proper
    - Perform the following activities:

        - Financial Statement and Ratio Analysis (compare with industry benchmarks and spot trends and changes on a year-on-year basis).
        - Review of Credit Reporting/Rating Agency Findings
        - Review and Cross checking of information gathered from Customer-provided documents/Credit Application/Customer Information Form, Credit Rating Agency Report and researches via the internet
        - Check historical (company and operations) performance of the Customer
        - Check legal, corporate and capital structure of the Customer
        - Trade Checking with existing and past creditors
        - Bank Checking, if feasible
        - Internal Checking as prospective Customer maybe an existing or past customer of other business units within your Company
        - Summarize findings and recommendations
        - Submit the Credit Evaluation Report to Sales

3.6 Credit Limits

Credit Limits are threshold that a Supplier will allow the Customer to owe at any one time without having to go back and review their credit file. It is the maximum amount that a Supplier is willing to risk in an account. Setting credit limits is an overall tool for the control of credit extension, promotion of sound credit practices and the effective collection of the accounts

3.7 Credit Limit Setting Considerations

- The outcome of the pre-sales credit check which may include all or some of the following:
    - The financial strength of the customer
    - The information that you have or can obtain from your customer or other sources.
    - The number of years that the customer has successfully run that particular business
    - The reputation carried in the marketplace, both of the business and its management
    - The customer's business plan or blueprint to operating the business in the future

- The revenue the business is estimated to generate or the overall "Margin" that the service contributes to the bottom line.
- The confidence that you have in your in-house "Collection" process
- The length of your terms to your Customer because risk is directly proportional to the length of your terms.
- The strength or weakness of the Product or Service that is being sold
- The degree of competition or opportunities in the marketplace; the nature of the industry that you're in or deal with.
- Whether you are a "secured" or "unsecured" creditor. If there is any lien rights that you can exercise.

3.8 Two Approaches in Setting your own Credit Limit

Consensus was reached that different credit check criteria apply to bi-lateral and hubbing carriers, i.e

- Bi-lateral carriers:: no credit limits or very few credit limits are set.
- Hubbing carriers: credit limits are set to cover one's exposure – see paragraphs below
- Additional considerations in the credit limit setting process:
  - License (if facilities-based, service-based. "214" or Tier 2 or 3 carriers)
    - if licensed FBO (with LEC or toll network) : With credit; with established credit limit
    - if licensed SBO and commits to establish bilateral circuits or connect via the Internet or via Supplier's PoP, or if non-telecom but multinational company and will avail of products/services as agent, distributor or partner: With credit, with established credit limit and parent guarantee or stand-by letter of credit
    - if licensed second or third tier carrier/"214" carrier: No credit limit, with prepayment or stand-by letter of credit equivalent to an estimated revenue of at least two billing cycles with the Supplier-designated bank
  - Years in Operation
    - has five years of operating service or with guarantee from parent company with at least ten years operation in any industry: With credit, with established credit limit
    - at least two years in operation or with guarantee from parent company with at least five years of operation in any industry: With credit, with established credit limit and parent guarantee or stand-by letter of credit
  - Ownership (government-owned/controlled, public or privately owned)
    - if government-owned/controlled or publicly or privately owned, passes all financial measures: With credit, with established credit limit
    - if publicly or privately-owned: With credit, with established credit limit and parent guarantee or standby-letter of credit
  - Interconnection or interconnection via internet or via Carrier's PoPs

3.9 Credit Limit Setting (Bi-lateral carriers versus Hubbing carriers)

- A Credit Limit to support sales levels. If credit checks are good enough, the Credit Limit is equal to twice the monthly sales figure for that Customer
- A maximum amount you are prepared to be owed, regardless of current sales levels. A popular computation is the lower of 10% of your Net Worth or 20% of your Working Capital

3.10 Contents of the Master "Agreement"

- Deposits and pre-paid amounts
- Acceptable instalment scheme in place if the carrier gets into trouble
- Assurance of settlement
- Criteria for revising and monitoring credit limits
- Segregate bi-lateral and hubbing criteria
- Role a parent company has to play in mitigating risk
- Billing cycles
- State period within which disputes can be raised, validated, reviewed and resolved
- State dispute resolution time frames and escalation procedures
- State Payment Terms
  - Currency
  - Bank Charges
  - Penalties for late payments
- State that non-disputed amounts are payable and should not be held back until disputed amounts are resolved
- Acceleration clause for non-payment upon due date of any instalment as agreed in the payment plan
- Require submission of annual financial statements (Balance Sheet, Income Statement, Cash Flow Statement) and/or Annual Reports for a routine "Credit File" updating.
- Payment for toll and fixed charges should be treated separately
- Require payment to be made via wire or bank transfer.

3.11 Credit Limit Monitoring

- Monitor traffic on a daily basis and raise an alert as soon as traffic exceeds pre-paid amount
- Increase capacity as credit limits are increased
- Visit the carrier/company on a regular basis
- Check billing cycles and introduce shorter cycles if necessary
- Have your system ready to cut the service immediately
- Monitor status of accounts and collections on a daily basis for prepaid accounts and monthly for postpaid accounts

3.12 Credit Risk Reduction Techniques

Apart from credit checking, there are other ways in which one can reduce the likelihood of late payment or protect oneself against the consequences.

Possible measures include:

- Pre-payment or advance payment before providing a service or goods
- Special Payment terms (Credit period can be limited to 7 or 14 days instead of the normal 30 days
- Prompt payment rebate schemes
- Credit insurance
- Factoring
- Stakeholder Accounts and other forms of secure deposits

- Cash Discount
- Third Party Guarantees
- Contra or Offset Against Payables
- Keep the net balance in favor of your company, balanced traffic

3.13 Global Best Practices for A/R, Credit and Collections Management

- Accurate and timely invoicing
- Eliminate barriers to payment
- Enhance automation of the remittance processing function
- Implement a formal dispute management process
- Address distressed and delinquent accounts with strategic proficiency
- Mobilize collections staff through specialization, performance goals and incentives

3.13.1 Best Practices in Credit Risk Management (Specifics)

- Set up a procedure for the regular monitoring of customer profiles
- Classify or segment existing and potential customers according to risk to customize credit and collection strategies
- Segment A/R portfolio according to risk (high, medium and low) to identify priority receivables and modify collections tactics for each customer
- Obtain up-to-date customer data from a reputable credit information or rating agency
- Periodically review the terms of your credit and collection policies.
- Always have a customer fill out a credit application or customer information form, if the risk is unacceptable, deny credit
- Always provide the sales department and other internal customers with a monthly report showing total A/R balance and status.
- Reduce the customer's credit limit or shorten the payment terms when you are concerned about a customer's financial status, or when a customer has demonstrated that they are unable to pay you or other trade creditors in a reasonable amount of time
- Clearly stipulate payment terms on invoices
- Drive for continuous process improvement.
- Require payment via wire transfers

3.13.2 Best Practices in Debt Collection (Specifics)

- Follow your established credit and collection policies
- Classify existing and new customers according to risk and develop a "Follow-up System" for past due accounts for each type/class, A specific timetable should be set in following up on past due balances.
- Regularly track payment behaviour trends and schedule collections activity accordingly
- Establish high level of professionalism among collections staff and to encourage peak performance.
- Develop an effective reporting tool for identifying low risk or high risk/marginal/problematic accounts
- Improve both debt collection and dispute resolution by reducing the cycle times of every process the credit department controls

- Discourage payment delinquencies by charging late payment penalties and by enforcing them
- Establish collection targets but remember that such targets should not be measured by the number of calls made, but in terms of calls completed and payment commitments received
- Encourage collectors to report rather than to conceal collection problems. The sooner the immediate head is aware of a problem, the sooner it can be addressed and hopefully resolved.
- Consider, if feasible, partial debt forgiveness as a collection tool. For example, offering a seriously delinquent customer a 5% discount for immediate payment is far better than referring the account to a third party collection agency that may charge 15% to 25% or more to collect the balance due.
- If a customer asks for a payment moratorium or asks you to accept a protracted payment plan, before accepting be certain you:
  - Request and receive financial statements from the customer to help gauge the severity of the customer's financial problems.
  - Ask if the debtor mad e the request to all its creditors or just to selected creditors.
  - Request a list of vendors that have already agreed to the proposal
- Improve effectiveness in debt collection and in dispute resolution by shortening or totally eliminating grace periods
- After a broken payment commitment, the collector should insist that the debtor send payment by overnight delivery. This will send a message that you are serious about getting paid.
- As an inducement to a customer to sign a Promissory Note covering an extended payment plan, offer to waive the interest or finance charges that would otherwise accrue if the debtor signs the Note.
- Recognize that while it is unreasonable to expect a customer to pay a disputed balance, it is also unreasonable for customers not to pay the undisputed portion of the past due balance.
- Reconcile payment problems as they occur. Don't allow them to pile up. If you allow them to accumulate, reconciliation becomes even more difficult and time consuming.
- Shorten the open account terms and reduce the credit limit assigned.
- Asking a customer to confirm their payment commitment in writing is an effective collection tool.
- Be sure to conspicuously document when customers break payment commitments. Knowing which customers have a history of breaking commitments gives collectors an important tool and a vital advantage in negotiations.
- Be polite and respectful but firm.
- Flag accounts with irregular or erratic payment for more collection calls and more frequent credit file updates.
- Flag new accounts for special attention so that they are called quickly if account goes past due.
- Keep your commitments to customers as well as your threats. If you threaten to hold orders, or to place an account for collection but do not follow-through, you will have lost credibility as a collector in the eyes of the customer.
- Assign more experienced personnel to larger or more difficult accounts
- Don't argue with your customers
- Don't suggest an action you won't carry out
- If the customer is having a temporary problem, offer to work out a payment plan
- When appropriate, engage a mediator
- Take legal action only as a last resort

3.14 Other considerations

- Make provision for bad debt
- Have an escalation process in place, i.e. raise alerts as soon as issue is define and act immediately

- Leverage against other types of traffic

4. A Quick-Step Guide On Credit Management

- Get your attitude right. A Sale is not real until it is paid for.
- Cultivate large customers
- Make your payment terms very clear
- Ensure that you get the Credit Management basics right
- Open new accounts competently
- Invoice fast
- Have a clear account display. Use Aged Debt listing regularly (daily, monthly, quarterly, yearly). List accounts in value order ± largest first. Use progress sheet for large accounts to record action and payments being sent.

5. How Can GSC Members Assist Each Other

- Formulate best practices and guidelines
- Create black list of non-payers or bad payers and share updates on a regular basis
- Establish contact list of all carriers