

A Guide to Due Diligence Regarding Credit Application Procedures



At BIFA we have noted an increase in the number of enquiries regarding problems with clients not paying charges when due and relative to the best way to incorporate the BIFA Standard Trading Conditions (STC). This Guide is a pragmatic approach based on the personal experiences of BIFA personnel and Members should consider seeking the assistance of a suitably qualified professional if further help is required.

In any potential business relationship there are certain key stages, business is hard won and often difficult to retain. The credit application process is one of the earliest stages of any business relationship and the golden rule is that “you have not done the job until payment has been received”. In effect any service that you provide ahead of receiving payment is offering credit. One of the key functions of the credit application process is to provide the potential creditor a way in which to assess any customer’s ability to settle their account.

Internally all companies need to have clear credit policies and procedures which are understood by both financial and operational departments. Whilst procedures will vary dependent on the size and complexity of companies it is advisable to include the following elements: -

- 1** Credit Application Form (manual or electronic)
- 2** Collection of data and information required within the Credit Application Form from the applicant ensuring the data you collect is stored in accordance with current data protection laws
- 3** Assessment of this data including the authority of the signatory to sign on behalf of a company
- 4** Verification of the data
- 5** Incorporation of the STC
- 6** Confirmation of credit terms and that all business is conducted under BIFA STC current edition
- 7** Internal process to communicate point 6 to relevant departments and to retain evidence of the credit agreement and terms in case of future claims

Function of the Credit Application Form

The credit application process, of which the Credit Application Form is an integral part, is most effective when deployed in standard form that seeks all information necessary to check financial standing of the applicant as well as wider information gathering such as markets, routes, commodities and external authorisations held by the applicant. The more information gathered the more it will assist in assessing the standing of the potential client.

The credit application form should fulfil the following key functions: -

- Ensure that you to get the full identifying and contact details of your customer
- Ensure that you to get the information you need to make a judgement as to whether they can pay their bills
- Enable you to set out your required credit terms
- Make incorporation of the BIFA STC a requirement of completion of the form to seek credit.

What fields to include within the Credit Application Form?

Due to the range of BIFA Member activities and the different information required, it is difficult to give a definitive list of what to ask for on a Credit Application Form. However, the following list can be used as a starting point to assist you in deciding upon what information to gather in your Credit Application Form.

GENERAL INFORMATION

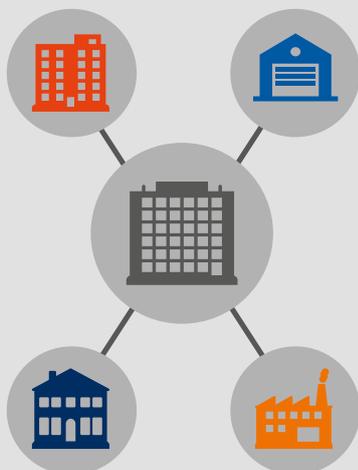
To be completed by the party offering credit

- Reason for the opening of, or change to, an account: -
 - New account
 - Change of address, ownership etc
 - Closure with reason
- Date application received

To be completed by the applicant

- Full Legal name of the business (not trading name)
- Type of business - Sole Trader, Partnership, LLP, Limited Company, PLC or other (charity)
- Trader's full business address
- Their accounts department address (if different)
- Company registration number (8 digits) at Companies House (where applicable)
- If a Company, the date of incorporation
- VAT Registration number
- EORI Number
- Information regarding Deferment Approval Number (where applicable)
- Identification of signatory and confirmation that they are a person authorised to sign for and on behalf of the company or firm

Many companies are part of a larger group. If this is the case ask for the Group information including Company registration numbers of all group companies and details of any intercompany agreement so you know how they operate between themselves etc.



Many companies are part of a larger group. If this is the case ask for the Group information including Company registration numbers of all group companies and details of any intercompany agreement so you know how they operate between themselves etc. Also, it is suggested that the details of the Managing Director, Finance Director and Company Secretary including any present or past directorships are obtained which may be checked against up to date information on Companies House Beta website.

Amount of Credit required

- Specifically ask for the amount of credit that is being sought and whether this will or will not include duty/VAT etc.
- Detail credit policy timelines
- Highlight credit policies regarding Duty/VAT payments to HMRC

Regarding the advance of Duty/VAT, in view of HMRC's guidance that VAT is advanced at the forwarders risk for and on behalf of their customers, and the limited circumstances in which a reclaim by the forwarder should the customer default on the payment will be entertained, BIFA's guidance is that Duty/VAT should be excluded from all credit arrangements, and collected prior to the cargo being delivered to the customer.

Getting Paid

- Obtain Bankers full name and address
- Bank account details including sort code and account number
- Name of and contact details of a person within the customer's organisation to liaise with regarding payment
- Consideration should be given to highlighting Clauses 8, 21 and 28 of BIFA's current STC to the potential customer. These clauses can be used to obtain the payment of outstanding monies.

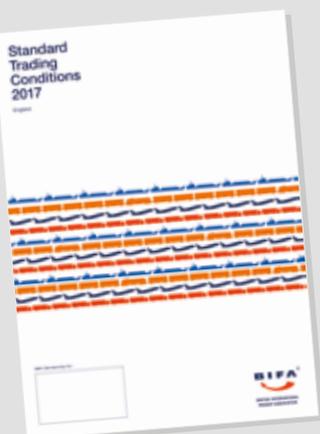
References etc.

- Request the details of at least two current suppliers (who provide a credit limit similar to the one being requested) including specific permission for you to contact them for credit reference purposes.
- Request name and address of applicant's: -
 - Solicitors
 - Accountants

The BIFA STC contain an acceleration clause making the customer liable to immediate payment of any sums whether due or not if they do not pay any invoice on a timely basis. This may be considered to be sufficient protection along with specified time limits for payment and credit limit if applicable.

However, additional terms may be considered such as, for example, clarifying how the credit limit works against any credit time limits. If there is a credit limit of, for example, £30,000 with a stipulation that duty and VAT is payable immediately and all else within 30 days of the date of the invoice, how does this work? It should be that any individual invoice for over £30,000 including VAT will be paid immediately with any other prior invoice becoming due at the applicable time limit for payment. As long as each individual invoice is under £30,000, and collectively the sum outstanding remains within the credit limit then the 30-day time limit applies. You may have customers that pay in lump sums not saying what they are paying. If they do this, you may want complete flexibility in terms of which invoices or parts of invoices you pay with the funds you receive.

BIFA's guidance is that the STC are positively incorporated by signed declaration on the Credit Application Form.



INCORPORATION OF BIFA STC

BIFA's guidance is that the STC are positively incorporated by signed declaration on the Credit Application Form. Some Members using a manual form actually have the STC printed on the document; some attach them as a separate sheet. For those using electronic means the recommendation is to have a process whereby the customer has to scroll through a document showing all 28 clauses and then tick the relevant box.

The crucial point of this part of the process is to highlight the following facts: -

- That all business transacted by the two parties will be subject to the BIFA STC current edition
- That the customer has seen, read and understood the terms
- The customer specifically agrees that all business will be contracted under the STC
- Also, it is appropriate to highlight the key clauses to customers regarding insurance, liens and credit arrangements.

It is essential that manually completed credit application forms are signed and dated and that the signatory confirms their job title and that they are authorised to sign for and on behalf of the applicant. For electronically submitted forms this data should be included within the document and details of the electronic signature be retained.

What to check and why?

Once the completed document has been received it should be checked by a suitably qualified person and any omissions etc. clarified with the applicant before a final decision is made on whether or not to grant credit and, if so, to what level. The first point to check is, has the document been signed by a person with authority to bind the applicant? This should be the owner of the firm or a Director of the company and preferably the Managing Director.

The Member will have to determine their own credit checking policies, and a balance must be struck between speed in order to be able to conduct business with legitimate traders and conducting sufficiently thorough checks to identify those who you would not wish to conduct business with.

The internet can be a good friend and much of the information is available on line, but it is important to download and retain any information. If you have asked for referee details, take up the references and check the responses.

It has to be recalled that HMRC and Border Force are placing greater emphasis on why customs agents and freight forwarders have done business with certain companies. Failure to have undertaken reasonable checks can lead to very uncomfortable conversations with the regulators. Conversely having all the relevant documentation in place should assist in any defence.

It is important that, whatever information is obtained from the customer, it is thoroughly checked and cross referenced. It is your responsibility to satisfy yourself that the correct checks have been made and that the outcomes from these are accurate and satisfactory.

Ensure that you have the eight - digit company registration number of the applicant and any parent companies

Remember that a company can change its name many times but that it cannot change its registration number. This will assist you to prove the identity of the entity that you have extended credit to.

If the Application for Credit has been received by email check the email domain address that has been used and then double check against any that are provided on the website (where there is one) of the applicant company to see that it is the same.

Fraudsters are known to make bogus applications for credit using email domain addresses which are almost identical to genuine ones. It is wise to have a policy of calling the applicant to check the email came from them. We are aware that there are electronic means to capture the IP address of persons submitting declarations and verify that it is correct, although IT providers should be contacted regarding the technical aspects of doing this.

Obtain a landline number from the Applicant Company and then “Google” it.

Whilst not a failsafe check this can throw up some very interesting results, particularly where the number appears against the details of another entity. If the entity has no landline then it is important to decide whether or not you are willing to trade with an entity which does not possess a landline number.

Check the information on the applicant’s website (if there is one) considering the following points.

Does the information, or any claims made in the application, roughly match the information on the website? It has to be remembered that a website does fulfil a sales function promoting its business and products. Whilst some exaggeration may be acceptable completely false claims are not.

Also, it is possible to verify information regarding a domain name at www.whois.net/

Some businesses claim to be multinationals, a quick check of the company's quoted locations may paint a very different picture. Similarly, a look at the contact listing may produce different results from those you were expecting. In particular, double check all the financial contacts and key management information provided.

Do the products detailed in the website cross refer to information provided by the applicant?

Consider checking the applicants address on "Google Maps" www.google.co.uk/maps/

This should include both the Head Office and Accounts address where different and any branch office addresses. At BIFA we use this process relatively often and it is not uncommon for the pictures of the address to be that of abandoned warehouse or similar.

Check EORI and VAT numbers

It is important to check the Company Registration number and equally important to check the validity of EORI and VAT numbers. Under current legislation any commercial enterprise who engages in an activity which interfaces with customs needs to have a valid EORI number, which may be checked at ec.europa.eu/taxation_customs/dds2/eos/eori_validation.jsp?Lang=en

Similarly, it is possible to check VAT numbers at ec.europa.eu/taxation_customs/vies/. These checks may result in discrepancies relative to addresses etc, but the trader's names should be correct and address differences may be subsequently clarified.

Credit check the company with a credit reference agency

Whilst not fool proof, or indeed possible when dealing with a new entity, it is sensible to check the financial performance of potential clients over a three to five-year period of time. It is worth remembering to look at any trends during the period under review and seek clarification of any points that cause concern.

Obtain a copy of the last filed accounts

It is always sensible to obtain copies of the last filed accounts to look for specific information that has not been provided by the credit referencing agency such as:-

- The Profit and Loss Account
- Balance Sheet
- Details of Director's remuneration
- Dividend payments
- Where applicable double check for payments made to parent companies etc.

Financial records may be obtained free from Companies House at beta.companieshouse.gov.uk/ but they may not be up to date and if not do seek up to date information from the applicant.

Check the appointments of directors

Some credit agencies will provide information regarding what other appointments the directors of the applicant have or currently hold. Also, this information is available at beta.companieshouse.gov.uk/ although changes to the database have made tracking individuals down more difficult. Any beta checks that cause concern should be followed up by a call to Companies House to check if there are any recent changes that have not yet been uploaded on to the site.

Carefully consider the accounts

When looking at the accounts always ask yourself do they look too good to be true, especially; -

- If the company has not been trading for long; or
- Where the accounts have not been prepared by an accountant

Fraudsters commit what is known as “short term fraud” using bogus accounts, credit agencies do not always spot this until it is too late. If there are doubts this should be double checked and additional checks made.

Take up trade references etc.

It is important to take up references from the trade referees provided. Ideally these should be from entities who transact approximately the same level of business that the BIFA Member anticipates. Also, it is appropriate to ensure that the references come from companies who have traded with the potential customer for several years. Look for discrepancies and double check some of the referee’s information such as accounts etc. filed at Companies House. Also, you can check out their address on Google Earth in an effort to verify their legitimacy.

County Court Judgments etc

Whilst this Good Practice Guide has covered the main points to be considered there are other sources of information such as County Court Judgments which can be used to assess the applicants standing. This often appears in credit rating company information.

Keep accurate records

It is essential to keep and retain accurate records in a secure manner. This helps in terms of checking on progress in the credit consideration process, in obtaining references etc. and is evidence if needed in court action, or dealings with authorities such as HMRC, or if issues arise with the applicant in the future when the information gathered may assist in resolving these.

Making the offer

Companies should have clearly understood procedures about whom will review the documents and make the decision regarding whether or not credit will be granted. Areas for consideration should include: -

- Setting the credit limits
- Advising what charges are covered by the credit arrangement (i.e.is Duty/ VAT included?)
- Payment terms and the action taken in the event of late payment
- Process if credit limits are exceeded
- Account review
- Ensure that the offer is made on the basis that the client has read, understood and agrees that all business will be conducted under BIFA STC
- Request positive acceptance of the terms

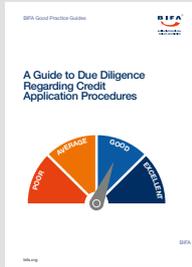
There will be difficult decisions to make. Some potential clients may have to be advised that the credit limit that has been requested cannot be agreed in full and, on occasion, that it has been declined.

Also, the agreement should confirm that all payments should be made directly into a specific bank account by bank transfer. Companies will need to have in place internal procedures to advise sales and operational departments of new accounts including the relevant terms.

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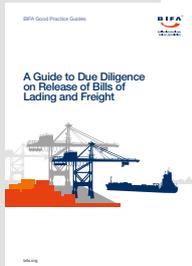


This guide forms part of a series of Good Practice Guides on the subject of Due Diligence. The individual guides are:



Good Practice Guide to Due Diligence regarding Credit Application Procedures

Good Practice Guide to Due Diligence at an Individual Shipment Basis



Good Practice Guide to Due Diligence on Release of Bills of Lading and Freight

Beware the one-off shipment

From BIFA's experience in helping Members it is evident that "one-off" shipments create a higher incidence of problems than for regular customers. The reasons are varied including that the client is often less experienced, the nature of the shipment, and that due diligence procedures have not been followed.

We are aware that some Members decline shipments if the client does not hold a credit account with them. For non-credit accounts, whilst it may not be possible to conduct all the previously detailed checks, Members should consider a simplified procedure before transacting any business with a new customer offering a one-off shipment. From speaking to Members, their policy is not to proceed with handling the business unless they have been provided with and verified all the information available on line.

In addition, BIFA Members are becoming increasingly reluctant to handle certain types of consignment even excluding some from business that they are willing to handle. This includes waste materials, consignments of natural stone, high value goods, perishables and dangerous goods. Latterly personnel effects have been added to the list of exclusions.

When handling one-off shipments, it is important that Members have in place procedures to incorporate the BIFA STC into the contract. This may be done either manually, electronically, face-to-face or on the telephone, but records must be retained. Whichever method you use, always ensure you offer the price for the job intended and say it is subject to the terms before the customer accepts. Once the customer accepts, the contract is fixed and seeking to include the terms at a later date is not successful if not agreed by the customer – this would be an attempted variation of the contract. If you offer to do business on the telephone or in person, it is advisable to confirm in writing what was said as soon as possible after the business is concluded.

Any business activity involves taking a risk at some point, what this Good Practice Guide seeks to do is assist the Member in minimising the risk to acceptable levels. Experience indicates that if you have suitable policies and procedures in place the fraudulent trader will be discouraged from trying to do business with the diligent and, by inference, vigilant trader. Furthermore, you may avoid being drawn in by a dishonest trader or fraudster. These procedures assist the Member to control the risks involved and minimise the chances of businesses being defrauded.

The credit application process may be one of the starting points of a long-term business relationship, which, if conducted carefully, should demonstrate professionalism and an ongoing commitment to future work.