

# Going Global Series

# **Credit Policy**



#### **Instructor:**

Edwin Bell Ph.D., CICP, ICCE Senior Manager, Credit Administration W.W. Grainger

March 10, 2016



# 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:**

Does your company have a published credit policy covering International?

- Yes
- •No



# 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 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 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.





#### 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:





Formal organization of department





- Formal organization of department
- •Job description, titles and review process





- Formal organization of department
- •Job description, titles and review process
- Credit department budget guidelines





- Formal organization of department
- Job description, titles and review process
- Credit department budget guidelines
- •Credit documentation required for credit file





- 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





- 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





- 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





- 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



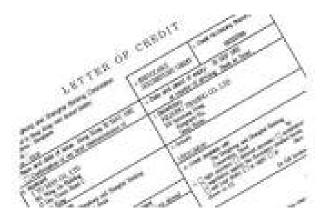


- Formal organization of department
- •Job description, titles and review process
- Credit department budget guidelines
- Credit documentation required for credit file
- Methods of gathering credit information
- Time limits for credit decisions
- •Established credit lines and procedure for establishing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





Procedure for handling letter of credit and other "non-open" credit situations





- •Procedure for handling letter of credit and other "non-open" credit situations
- A collection policy that reduces borrowing cost





- •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



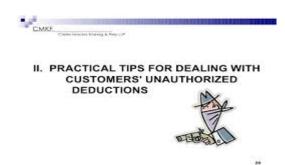


- •Procedure for handling letter of credit and other "non-open" credit situations
- A collection policy that reduces borrowing cost
- •A collection policy that deals with slow-paying accounts
- •A collection policy that minimizes bad debts





- •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





- 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
- •A policy for the handling of disputes





- •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
- A policy for the handling of disputes
- •A policy for the handling of returned and damaged merchandise





- 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
- A policy for the handling of disputes
- •A policy for the handling of returned and damaged merchandise
- Establishment of terms of sale





- •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
- 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





- •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
- 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





- 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
- •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?

- Yes, my company has a great International Credit Policy in place.
- No, my company has quite a bit of work to do on its International 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

#### March

24th, Know Your Customer (touching on compliance and ethics)

#### April

14<sup>th</sup>, Financial Information to Assist International Credit Decisions 28<sup>th</sup>, – Assessing International Risk

#### May

12<sup>th</sup>, Protecting Your International A/R Portfolio with Trade Credit Insurance 26<sup>th</sup>, Commercial LCs

#### 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 13<sup>th</sup> 25080 – Role of Financial Information in Global Credit Decision Making – Wednesday, June 15<sup>th</sup>





## **Questions?**

#### **Instructor:**

Edwin Bell Ph.D., CICP, ICCE Senior Manager, Credit Administration W.W. Grainger

March 10, 2016