

## Dispute Resolution Factsheets

# Effective credit control

### Information sources

Accurate, up-to-date information will help you decide whether a potential customer has the money to pay you, and how much risk will you be taking if you give them credit. The main ways to investigate credit-worthiness of customers are:

- Company searches at Companies House
- Personal insolvency searches at the Insolvency Service
- The register of disqualified directors.
- Checking the Registry of Judgments, Orders and Fines at Registry Trust Ltd.
- Status reports from a credit reference agency, online or as hard copy.
- Trade references.
- Bank references.
- Other investigations.

### Company searches

- You can investigate credit-worthiness of a limited company (ltd or plc) or Limited Liability Partnership (LLP) by searching the information it has filed at Companies House (just because a company is a plc does not guarantee that it will be any more credit-worthy than a limited company).
- Information at Companies House is quick and easy to access, but private companies do not have to file their accounts until nine months after their year-end, and public companies six months. (For accounts covering a period that starts before 6 April 2008, the time limits are even longer - ten and seven months respectively.) The information at Companies house will therefore, by definition, be out of date. Check by how much before relying on it too much.
- The WebCheck service at [www.companieshouse.gov.uk](http://www.companieshouse.gov.uk) gives you basic information such as registered office, date of incorporation, dates of last filed accounts and annual returns, and industry SIC code, free of charge. You can buy further documents online, such as company accounts on a pay-as-you-go basis.
- If you have subscribed to the Companies House Direct service, you can log on and order documents more cheaply. Subscription is free, and you then pay a monthly charge of £5, plus the cost of any information you order.
- In every case, you will need your customer's exact company name or their company registration number. Check the company details carefully. Get clarification from your customer if the information they have given you differs from what you found in the search. Ask for it in writing, on one of their official letterheads.
- Public companies and their large subsidiaries have to include average time taken to pay their suppliers in their directors' report, for a broad indication of how quickly you can expect payment. The Federation of Small Businesses publishes average payment time league tables for plc's at [www.paymentleague.com](http://www.paymentleague.com).

### Personal insolvency searches

- The Individual Insolvency Register at ([www.insolvency.gov.uk/doitonline/registerfrontpage.htm](http://www.insolvency.gov.uk/doitonline/registerfrontpage.htm)) tells you if a sole trader or partner in a partnership is subject to:
  - A current bankruptcy order or one that has ended in the last three months.
  - A current individual voluntary arrangement or fast track voluntary arrangement.
  - A current bankruptcy restriction, order or undertaking.
  - You can search online, by individual forename and surname, or trading name. In each case, you will need the real and

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trading names and, ideally, the trading address(es) of the individual(s) concerned. Searches are free.

### The register of disqualified directors

You can check online whether someone has been disqualified as a director at [www.companieshouse.gov.uk/ddir](http://www.companieshouse.gov.uk/ddir), free of charge. This does not mean they are insolvent, but you will probably want to think harder about doing business with them.

### The Registry of Judgments, Orders and Fines

- This Registry, at [www.registry-trust.org.uk](http://www.registry-trust.org.uk), is divided into three sections:
- All outstanding County Court money judgements, administration orders and some child support agency liability orders.
- High Court money judgments given on or after 6 April 2006.
- Fines in default registered by local justice areas.
- It also includes registers for other jurisdictions including Scotland, Ireland, Northern Ireland, the Isle of Man and Jersey.
- Entries on the first two sections remain there for six years, and entries in section three for five years.
- You need to register to use the service. Searches can be made against company, individual or trading names. You will need an address for individual or trading names.
- Once you have found the information you want, complete the form on the site and send it to Registry Trust (the non-profit making body that runs the registry) with the fees. Answers are normally posted back within two days.
- Search fees are £8 for one section, £16 for two and £20 for three sections. They are calculated by the total number of searches made against the same name in any single section. Discounts apply for searches against the same name in multiple sections. Extra fees are payable to search, eg single and married names for the same person, or individual and trading names for the same person.
- This information may already be included in credit reports - beware paying twice for the same information. Also, many large companies have plenty of county court judgements against them, but it doesn't necessarily mean they are a bad risk.

### Status reports

- You can pay for a status report from a credit reference agency. If you have credit insurance, your insurers can do this for you. Credit reference agencies include:
- Dun & Bradstreet at [www.dnb.com/uk](http://www.dnb.com/uk) (although you need to be a subscriber to search on-line)
- Equifax at [www.equifax.co.uk](http://www.equifax.co.uk).
- Experian at [www.experian.com](http://www.experian.com) (although you have to have an account with them to search on-line)
- ICC at [www.icc.co.uk](http://www.icc.co.uk).
- For limited companies and LLPs, credit reference agencies can provide basic searches that give you the name, address, and registration number of your customer, a credit rating and suggested maximum credit limit and, sometimes, profit and net worth figures.
- More sophisticated reports can give you full company accounts, annual returns, director's details, county court judgements, disqualified director's details, sales figures, industry comparisons, information on any holding companies, turnover, reports of interest (eg acquisitions, new contracts won, sales figures, etc) from the national and local press, and more besides.
- There is no legal requirement for sole traders or partnerships to make their accounts public. Therefore credit reference agencies can only provide limited financial information. Much of it will have come straight from the business itself. It will also cost you more than a search on a limited company.
- How much information you need, and how much you want to pay, depends on your customer and the amount of credit they want.

## Trade references

- If you can find a reference you already know and trust, take references from them as well as the customer's own references.
- Businesses usually ask their customers for two trade references. Ensure they are genuine trade suppliers to their business. Do not accept, eg insurance brokers, stationery suppliers, printers or solicitors as references.
- Consider whether the references are genuine:
  - Is the address of the reference and your customer the same, or very similar?
  - Do they have common owners or directors?
  - Does the reference sound like a genuine business or an individual?
  - Does their address sound like a business address or a residential one?
  - Do they answer the telephone during office hours, and assuming they do, do they sound businesslike?
- Are there tell-tale domestic noises in the background which might suggest you are not calling a real business? (e.g. a washing machine or a crying baby.)
- Apply for references by telephone. No one is ever going to say, 'Don't touch them with a barge pole!' in writing. Some companies will not give references over the 'phone. In this case, encourage a quick response by providing a post-paid envelope, or ask them to fax the form back to you.
- Ask questions like: how long they have known the customer, their payment terms (eg 30 days), sales per month, average payment period and who they deal with on payment. Offer to act as a reference back at any time.
- Disadvantages of trade references are the length of time it takes, and unreliable information. Also, many companies are unwilling to say anything bad about their own customers, for fear of upsetting them.

## Bank references

- A bank reference is the bank's written opinion that one of its customers can meet a particular financial commitment, that you specify when asking for a reference. Banks can only give a reference if their customer consents. They usually charge you a fee for providing it.
- Banks use standard wording - often vague - in their replies. Any wording other than 'good for your figures', or something very similar, should put you on alert.
- Some argue that applying for reference from a bank is a waste of time since all banks are unwilling to disclose information about their own clients.
- Do not rely on bank references alone if providing significant credit.

## Interpreting the findings

- Interpreting company accounts can be a minefield. Ask your accountant, or a credit reference agency, for guidance on what to look for.
- Look for trends in the profit and net worth figures over the last three or four years. Decreasing net worth and profit could mean your customer's business is going downhill and may find it difficult to pay you.
- Also have a look at the date of the latest accounts figures. Private companies are supposed to file their accounts within 10 months of their year end, but it is quite common to find companies who have not. If your customer's accounts are late, ask yourself why.

## Deciding on a credit limit

- A basic search will include a credit rating and a suggested maximum credit limit. Each credit reference agency will give you a different credit limit for the same customer, so be careful.

- There is no guaranteed 'safe' figure. Decide on the level of credit you feel comfortable with giving your customer, and stick to that.
- Current thinking is that you should not give more than 10% of net worth. However, even 10% is pretty high when you are dealing with a customer with whom you have absolutely no trading history.
- You can always increase their credit limit once you get to know how reliably and quickly they pay.

### **What to do in the meantime**

- Until searches and references come through, limit the credit you offer or, if possible, ask for payment upfront.
- Stick to it at least until your new customer becomes a regular one. If things look good, you may be happy to increase his credit limit. If the opposite is true, you may want to reduce the limit, or withdraw the facility completely.
- Credit card payments can take the risk out of dealing with partnerships and individuals, especially those who are making one-off purchases. Many buyers at large companies have authority to make payment by credit card too.

### **Other investigations**

- If you can, visit potential customers with whom you plan to trade regularly, and use your own judgement as to their ability to pay invoices on time.
- Ask your sales team and other staff for any information they have on the customer.
- Ask contacts in other businesses for their opinion (see 'trade references') above.
- Search for information on your customer on the internet (search in 'groups' for mentions on blogs, as well as on the web), and in trade and other publications, eg local press, directories.
- Consider joining a credit circle, if one exists. Credit circles are groups of businesses in the same trade who exchange information on slow payers.