International Telecommunication Union

ITU-T

TELECOMMUNICATION
STANDARDIZATION SECTOR
OF ITU

D.195
Supplement 1
(05/2013)

SERIES D: GENERAL TARIFF PRINCIPLES

General tariff principles – Service and privilege telecommunications

---

Time-scale for settlement of accounts for international telecommunication services

Credit management guidelines

Recommendation ITU-T D.195 – Supplement 1

ITU-T

International Telecommunication Union

ITU-T D-SERIES RECOMMENDATIONS

GENERAL TARIFF PRINCIPLES

For further details, please refer to the list of ITU-T Recommendations.

Recommendation ITU-T D.195

Time-scale for settlement of accounts for international telecommunication services

Supplement 1

Credit management guidelines

Summary

Supplement 1 to Recommendation ITU-T D.195 is intended to help interested telecommunication operators to develop credit management guidelines to promote efficiency in managing accounts receivable and internal information sharing on companies that pose credit risks. The objective of these voluntary guidelines is to help operators to formulate new (or update existing) credit management guidelines according to their own needs and in line with the latest credit management policies.

History

Edition	Recommendation	Approval	Study Group
1.0	ITU-T D.195	2003-11-21	3
2.0	ITU-T D.195	2006-06-27	3
3.0	ITU-T D.195	2008-04-04	3
4.0	ITU-T D.195	2011-04-01	3
5.0	ITU-T D.195	2012-11-20	3
5.1	ITU-T D.195 Suppl. 1	2013-05-31	3
5.2	ITU-T D.195 Suppl. 2	2013-05-31	3
5.3	ITU-T D.195 Suppl. 3	2013-05-31	3

FOREWORD

The International Telecommunication Union (ITU) is the United Nations specialized agency in the field of telecommunications, information and communication technologies (ICTs). The ITU Telecommunication Standardization Sector (ITU-T) is a permanent organ of ITU. ITU-T is responsible for studying technical, operating and tariff questions and issuing Recommendations on them with a view to standardizing telecommunications on a worldwide basis.

The World Telecommunication Standardization Assembly (WTSA), which meets every four years, establishes the topics for study by the ITU-T study groups which, in turn, produce Recommendations on these topics.

The approval of ITU-T Recommendations is covered by the procedure laid down in WTSA Resolution 1.

In some areas of information technology which fall within ITU-T's purview, the necessary standards are prepared on a collaborative basis with ISO and IEC.

NOTE

In this publication, the expression "Administration" is used for conciseness to indicate both a telecommunication administration and a recognized operating agency.

Compliance with this publication is voluntary. However, the publication may contain certain mandatory provisions (to ensure, e.g., interoperability or applicability) and compliance with the publication is achieved when all of these mandatory provisions are met. The words "shall" or some other obligatory language such as "must" and the negative equivalents are used to express requirements. The use of such words does not suggest that compliance with the publication is required of any party.

INTELLECTUAL PROPERTY RIGHTS

ITU draws attention to the possibility that the practice or implementation of this publication may involve the use of a claimed Intellectual Property Right. ITU takes no position concerning the evidence, validity or applicability of claimed Intellectual Property Rights, whether asserted by ITU members or others outside of the publication development process.

As of the date of approval of this publication, ITU had not received notice of intellectual property, protected by patents, which may be required to implement this publication. However, implementers are cautioned that this may not represent the latest information and are therefore strongly urged to consult the TSB patent database at http://www.itu.int/ITU-T/ipr/.

Table of Contents

Recommendation ITU-T D.195

Time-scale for settlement of accounts for international telecommunication services

Supplement 1

Credit management guidelines

1 Introduction

1.1 Objective and scope

The objective of this supplement is to assist telecommunication operators in establishing credit management guidelines. These guidelines are voluntary.

1.2 Benefits of standardizing credit management guidelines

The benefits that the guidelines are envisioned to bring to telecommunication operators are:

- helping the telecommunication operators to formulate a set of guidelines (if none is yet in place) according to their needs, or to review and update their existing policy according to the latest credit-management policies;
- ensuring the efficient management of accounts receivable (AR);
- promoting internal information sharing on credit-risk companies.

1.3 What is credit management?

Credit management encompasses the activities undertaken by a supplier (in this case the telecommunication operator) when seeking payment for services provided to a customer, including the restricting, suspending or disconnecting of access to the service and debt collection activities after the service has been disconnected. Credit management explores the importance of collecting money owed to one's business without allowing accounts to become overdue. It includes the communication of credit policies, credit checks and approvals, and credit maintenance.

1.4 Key factors driving credit management

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

1.5 Key objectives of credit management

The key objectives of credit management are, but are not limited to, the following:

- To speed up cash inflow or convert accounts receivable to cash in a timely manner
- To maximize sales and profits
- To monitor, protect and manage the company's investment in accounts receivable
- To communicate to management the condition, status and trend of the company's investment in receivables
- To reduce financial exposure
- To minimize bad debt losses.

1.6 Credit management principles

Credit management principles revolve around four (4) fields:

a) Estimation

- All available sources of credit information must be tapped and utilized so that a proper estimation of the credit risk can be obtained.
- For business concerns, the granting of credit should be based on the net worth and condition of the business as well as its reputation for paying bills. For individuals who buy for consumption, the granting of credit should be based on their character and ability to pay. In some cases, the potential reward and strategic importance of the customer and service concerned may be relevant.
- All credit information gathered and received must be kept in strict confidence.

b) Enforcement

- Granting of credit is but one phase of credit function; collection is another. Collection of accounts should start immediately after an invoice is issued to ensure that the customer has no queries in relation to the invoice and can confirm that it will be paid when it falls due, i.e., prior to when the invoice actually becomes due. Collection activity will also promptly identify any invoice disputes to ensure that they are validated efficiently and that any credits are raised as soon as practicable.
- The task and responsibility of every collection department is to collect payment of money due to the company.
- Collection records must be kept and maintained and should indicate the dates on which notices are sent, calls are made by collectors, payment is made, balance is due and action, if any, is taken.

c) 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.

d) Control and protection

- Correct legal protection must be stated within any contractual documentation to ensure enforcement of appropriate controls on the customer in the case of breach of contract.
- Proper management of customer master data must be set up to identify which legal entity is liable for the ongoing debt and to ensure that the contractual documentation consistently reflects that entity.

1.7 Core activities and key responsibilities

- To perform an ongoing review of contractual documentation to mitigate potential risk.
- To ensure the accuracy of customer master data throughout all company systems and contract paperwork.
- To review any requests for special terms, e.g., extended payment terms.
- To review credit policy in the light of the macro-economic climate, including the setting of parameters for bad debt provision.
- To process, maintain and enforce security documentation.
- To analyse and evaluate the creditworthiness of current and prospective customers.
- To develop, review and update credit and collection policies.
- To design and develop a general course of action for recurring situations to achieve established objectives.

- To formulate a general statement that serves as a guide for the credit manager's decision making.
- To maintain and build up a credit track record for each customer.
- To provide management reports (for top management and internal customers within sales, billing and settlements, accounting, operations, etc.).
- To manage external credit information sources or credit reporting agency services.
- To establish a system of billing and collections management (that may be handled by separate or distinct units).

1.8 Department/division goals

- To meet legal requirements
- To meet management requirements
- To meet sales requirements
- To meet accounting requirements
- To meet operations requirements
- To provide advice to the company on potential macro risks (e.g., concerning new and existing products, the economic environment of operating countries, etc.).

1.9 Measurable goals

- Accounts receivable or day sales outstanding (DSO)
- Collection performance over generated revenues
- Bad debts
- Bad debt write-offs
- Delinquency percentages over the total
- Time period for contacting former due customers
- Billing accuracy

2 Credit management guidelines

2.1 Credit policy

A credit policy is a set of processes and procedures encompassing all the credit functions and activities of a business organization.

2.2 Credit and collection policy checklist

A well-defined and complete credit policy may include:

– Credit policies
  - The procedures for conducting a credit check and the evaluation of existing and new customers
  - The establishment of credit lines, limits or standards
  - The establishment of credit terms or terms of sale (e.g., credit period, maximum exposure, discount policy, special terms, late payment, etc.)
  - A checklist of required documents in the credit evaluation process
  - The methods of gathering credit information (internal and external sources)
  - The time limits or turnaround time for making a credit decision/recommendation

  - The procedure for communicating a 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 disputed amounts
  - Collection policies for delinquent accounts
  - Collection policies for handling high risk, problematic or marginal accounts
  - Contingency plans for handling special case accounts (customers in financial difficulty, bankruptcy protection/court receivership and/or bankruptcy) 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).
- Security
  - Sale validation and maintenance of security documentation.

2.3 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 will be granted, and any restrictions by the supplier that may be placed on the service that will be provided. It is a process that a supplier undertakes when considering the circumstances of a customer to assess the level of credit risk.

2.4 Scope of credit assessment

- Customer company's history (legal, corporate and capital structure, etc.) and background of the principal/owners/officers
- Financial situation and operating results (financial statement and ratio analysis)
- Risk and reward profile, including strategic importance of the services being provided
- Location of the company, especially with regard to the ability to recover any delinquent debt (local legislation and culture)
- Others (e.g., bank and trade dealings, court cases, internal records, etc.).

2.5 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 or assessment in order to determine whether or not to supply a service to that customer; or
- supply a service which limits the customer's expenditure or usage by means of measures that effectively limit a customer's expenditure.

During the pre-sales phase, the following activities can be undertaken to evaluate the creditworthiness of a potential customer:

Pre-evaluation:

– may include obtaining the following information, including copies of official documentation, to enable analysis of the potential customer's creditworthiness:
  - Company information
    - – Registered address
    - – Trading address
    - – Website address
    - – Description of trading activity
    - – Major trade creditors and trade references
    - – 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 reports for the last three years)
    - – List of directors and partners and their specimen signatures
    - – List of principal stockholders and/or 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 and/or contract)
    - – Service offerings
    - – Traffic projections (for the next three years)
    - – Rates
    - – Settlement and/or terms of payment
    - – Facility and circuit details
    - – Documentation of authorization to enter into transaction
    - – Details of authorized representatives and their specimen signatures
    - – Tax authority approval if VAT exemption to apply.

– In the event that a prospective customer is unable to meet the documentation requirements listed above, the supplier may undertake the following activities:
  - require the prospective customer to complete a credit application form or a customer information form, which must be signed by an officer or designated authority of the customer company. It is of particular importance that this requirement be met by non-traditional facilities based operators (FBOs) who are often unable to complete the documentation requirements listed above;
  - avail of the services of a professional credit-rating agency to conduct a corporate background check;

- obtain 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

– The supplier may perform the following activities:
  - issue a financial statement and ratio analysis (compare with industry benchmarks and spot trends and changes on a year-on-year basis);
  - review credit reports and/or findings of credit rating agencies;
  - review and cross check information gathered from customer-provided documents such as a credit application form or a customer information form, credit rating agency reports, and research via the Internet;
  - check the customer's historical performance (company and operations);
  - check the customer's legal, corporate and capital structure;
  - check the customer's trade with existing and past creditors;
  - check the customer's bank information, if feasible;
  - carry out an internal check to check whether a prospective customer is an existing or past customer of other business units within the supplier company;
  - summarize findings and recommendations;
  - submit the credit evaluation report to sales.

2.6 Credit limits[1]

Credit limits are the threshold amount that a supplier will allow the customer to owe at any one time without having to go back and review the customer's credit file. It is the maximum amount that a supplier is willing to risk in relation to 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.

2.7 Considerations on the setting of credit limits[2]

The outcome of the pre-sales credit check may include all or some of the following information, obtained from the customer or other sources:

– the financial strength of the customer

– the number of years that the customer has successfully run the particular business

– the reputation carried in the marketplace by the customer's business and its management

– the customer's business plan or blueprint to operating the business in the future

– the revenue the customer's business is estimated to generate or the overall "margin" that the service contributes to the bottom line

– the confidence that the supplier has in his own in-house data collection process

– the credit terms that the supplier accords to the customer bearing in mind that risk may be considered as directly proportional to the credit duration

– the strength or weakness of the product or service that is being sold

– the degree of competition or opportunities in the marketplace

1 http://www.creditguru.com/CreditLimits.htm.

2 http://fr.slideshare.net/letmhakuisenynaj/credit-management-16157028.

– the nature of the industry that the company is in or deals with
– a determination as to whether the company can exercise any lien rights
– an assessment of whether the company is a "secured" or "unsecured" creditor.

2.8 Credit limit setting (bilateral carriers versus hubbing carriers)

Generally, different credit check criteria apply to bilateral and hubbing carriers, i.e.:

- for bilateral carriers, no credit limits or very few credit limits are set. However, the contractual right to offset or to mitigate the risk of default should be established;
- for hubbing carriers, credit limits are set to cover the supplier's exposure – see paragraphs below.
- Additional considerations in the credit limit setting process:
  - the number of years in operation
    - the customer has five years of operating service or holds a guarantee from the parent company with at least ten years of operation in any industry: with credit or with an established credit limit;
    - the customer has at least two years of operating service or holds a guarantee from the parent company with at least five years of operation in any industry: with credit or with an established credit limit and parent guarantee or stand-by letter of credit;
  - ownership (government owned or controlled, or public or privately owned)
    - if government owned or controlled, or publicly or privately owned, passes all financial measures: with credit or with an established credit limit;
    - if publicly or privately-owned: with credit or with an established credit limit and parent guarantee or standby letter of credit;
  - interconnection or interconnection via Internet or via carrier's points of presence (PoPs).

2.9 Two approaches for a supplier company to set its credit limit

- 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.

or

- A maximum amount that a supplier company is prepared to be owed, regardless of current sales levels. A popular computation is for the supplier company to lower by 10% its net worth or by 20% its working capital.

or

- A credit limit determined by payment terms. If the standard is a 30-day term, the company would typically set a limit at three (3) months to give sufficient headroom for sales activity in excess of forecast and the time taken to collect due invoices at one (1) month unbilled + one (1) month invoice not yet due + one (1) month to collect.

2.10 Contents of the master agreement

- deposits and prepaid amounts
- an acceptable instalment scheme in place if the client carrier gets into difficulty
- assurance of settlement
- criteria for revising and monitoring credit limits
- segregation of bilateral and hubbing criteria

- description of role a parent company has to play in mitigating risk
- billing cycles
- list of documentation required to support any disputes raised
- statement to specify period within which disputes can be raised, validated, reviewed and resolved
- statement of dispute resolution time frames and escalation procedures
- statement of penalties for late payments
- statement that non-disputed amounts are payable and should not be held back until disputed amounts are resolved
- an acceleration clause in the event of non-payment upon due date of any instalment as agreed in the payment plan
- statement requiring submission of annual financial statements (e.g., balance sheet, income statement, cash flow statement) and/or annual reports for a routine credit file updating
- clause specifying that payment for toll and fixed charges should be treated separately
- statement concerning requirement that payment to be made via wire or bank transfer
- statement concerning right to suspend services or terminate contract due to late payment.

2.11 Monitoring of credit limit

- monitoring of traffic on a daily basis and raising of an alert as soon as traffic approaches the prepaid amount or credit limit
- monitoring of exposure versus security
- review of security documentation prior to expiry date to establish whether it should be renewed
- increase of capacity (if required and technically and economically feasible) as credit limits are increased
- visiting or holding of conference calls with the carrier/company on a regular basis
- checking of billing cycles and introduction of shorter cycles if necessary
- establishment of a system ready to cut the service immediately
- monitoring of status of accounts and collections on a daily basis for prepaid accounts and monthly for postpaid accounts.

2.12 Credit risk reduction techniques

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

Possible measures include:

- prepayment or advance payment before providing a service or goods
- special payment terms – the payment period can be shorter than a company's normal terms (e.g., if the normal term is 30 days, it can be shortened to 7 or 14 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.

2.13 Best practices for accounts receivable (AR), credit and collections management

- 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.

2.14 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 AR 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 require that 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 AR 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.

2.15 Best practices in debt collection (specifics)

- follow 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 a high level of professionalism among collections staff and encourage peak performance
- develop an effective reporting tool for identifying low risk or high risk, marginal or problematic accounts
- improve both debt collection and dispute resolution by reducing the cycle times of every process the credit department controls
- collection strategy should be proactive – establish before an invoice is due that the customer accepts the validity of the invoice and commits to making payment in line with the due date
- ensure that the customer provides the requisite documentation to support any invoice disputes

- payment plan request: ask for security to mitigate the risk of default
- 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 might charge 15% to 25% or more to collect the balance due
- if a customer requests the supplier for a payment moratorium or that he accepts a protracted payment plan, the supplier should be certain of the following before agreeing:
  – financial statements are requested and received from the customer to help gauge the severity of the customer's financial problems
  – the debtor is asked whether the request has been made to all its creditors or just to selected creditors
  – a request is made for 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
- following a broken payment commitment, the collector should insist that the debtor send payment by overnight delivery or wire transfer. Such follow-up will send a message that the supplier is determined to be 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. Do not allow them to accumulate and consequently make reconciliation even more difficult and time consuming
- shorten the open account terms and reduce the credit limit assigned
- asking a customer to confirm his 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
- respect commitments to customers and follow through on demands for payment. If a customer is advised that steps will be taken to hold orders or to place an account for collection but the action is not followed through, credibility as a collector will be lost in the eyes of the customer

- assign more experienced personnel to larger or more difficult accounts
- do not argue with customers
- do not suggest an action that will not be carried 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.

2.16 Other considerations

- Make provision for bad debt.
- Have an escalation process in place, i.e., raise alerts as soon as an issue is defined and act immediately.
- Leverage against other types of traffic.

2.17 A quick-step guide on credit management

- Adopt the right attitude. A sale is not real until it is paid for.
- Cultivate the most profitable and strategically important customers.
- Ensure that your customer master data is accurate and well maintained.
- Invoice fast – and accurately.
- List accounts based upon value and risk – a high risk customer with a lower value may need prompter action than a minimal risk carrier with a larger amount outstanding.
- Make payment terms very clear.
- Ensure that the credit management basics are correct.
- Open new accounts competently.
- Invoice fast.
- Have a clear account display. Use aged debt listing regularly (daily, monthly, quarterly, and yearly). List accounts in value order – largest first. Use a progress sheet for large accounts to record action and payments being sent.

SERIES OF ITU-T RECOMMENDATIONS

Series A	Organization of the work of ITU-T
Series D	**General tariff principles**
Series E	Overall network operation, telephone service, service operation and human factors
Series F	Non-telephone telecommunication services
Series G	Transmission systems and media, digital systems and networks
Series H	Audiovisual and multimedia systems
Series I	Integrated services digital network
Series J	Cable networks and transmission of television, sound programme and other multimedia signals
Series K	Protection against interference
Series L	Construction, installation and protection of cables and other elements of outside plant
Series M	Telecommunication management, including TMN and network maintenance
Series N	Maintenance: international sound programme and television transmission circuits
Series O	Specifications of measuring equipment
Series P	Terminals and subjective and objective assessment methods
Series Q	Switching and signalling
Series R	Telegraph transmission
Series S	Telegraph services terminal equipment
Series T	Terminals for telematic services
Series U	Telegraph switching
Series V	Data communication over the telephone network
Series X	Data networks, open system communications and security
Series Y	Global information infrastructure, Internet protocol aspects and next-generation networks
Series Z	Languages and general software aspects for telecommunication systems

Printed in Switzerland
Geneva, 2013