



Product bulletin

Late interest charges, dare you?

Introduction

Late payment has always been a major problem in business. Retention of a card index of printed cheques in the FD's top drawer, only released when court action is threatened, was historically a common occurrence. In more recent years, more advanced systems of delay are prevalent, still resulting in the same situation; potential charges incurred on an overdraft or failure to attract interest on a positive bank balance.

It is widely accepted that late payments are currently crippling many businesses and that this entrenched practise is, in effect, gambling with their very existence.

In December 2009, the Government launched a major new economic initiative called the Prompt Payment Code which is currently voluntary and where signatories must undertake to follow three core steps that are designed to lead to faster payment for suppliers. Working closely with the Institute of Credit Management (ICM), the then Secretary of State for Business, Peter Mandleson, was a key driver and supporter of this initiative.

As one would expect the Code is proving to be a real hot topic that is gaining a lot of media attention, some of which is not altogether positive as the concept is being viewed by some experts as purely PR hype. With the election of our new coalition government, this Code could change dramatically. So until rules are finalised, it remains for credit controllers to maintain best practice and collect cash in the time honoured fashion.

Late payment interest charges

Within nearly all businesses terms and conditions, a clause is included which states that in the event of delayed payment, a business is entitled to raise an invoice to reflect the cost incurred in lost revenue and recovery. Typically the clause will be as follows;

"if any charge is not paid within the 28 day period The Company reserves the right to charge interest on such charges on a day to day basis (as well after as before any judgement) at the rate of 4% above Minimum Lending Rate or such equivalent rate as

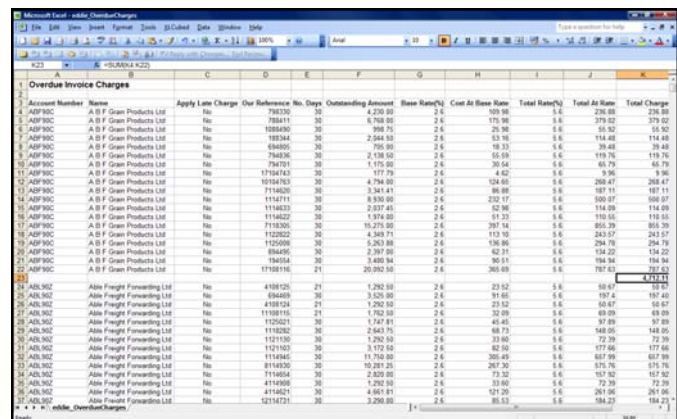
defined and applied by the Bank of England in force from time to time on the balance outstanding calculated from the first day on which the payment became overdue"

Although clearly stated in signed contracts in businesses throughout the UK, the vast majority of companies do not enforce this as a means of encouraging their clients to pay on time. This is for a variety of reasons, the most common of which is fear of upsetting a valued client. The other primary reasons are the added complication of needing to chase yet another invoice on an already tardy client but more so, that most current systems do not have the ability to easily calculate the late payment interest charge that would be levied. In order to enforce a late payment interest charge most businesses need to resort to, at best a spreadsheet or more commonly a calculator to work out the interest due and then manually create a resultant invoice with again, a manually produced list of the outstanding invoices and their value.

Collectively the time, effort and potential upset to existing clients mean that late payment interest charges rarely see the light of day.

Dare you?

The issue of whether you 'dare' raise late payment interest charges on an client is always a subject for debate within many businesses, the argument often being based on the relative importance of the client in question. It may be argued that your practise should be consistent regardless of the size or importance of the client, however, in the real world it is important that you can distinguish.



Account Number	Name	Apply Late Charge	Over Reference No	Days	Outstanding Amount	Base Rate%	Cost At Base Rate	Total Rate%	Total At Base	Total Charge
4	A B F Green Products Ltd	Yes	780230	30	4,230.00	2.6	109.58	2.6	236.88	236.88
5	A B F Green Products Ltd	Yes	788411	30	6,760.00	2.6	176.56	2.6	379.02	379.02
6	A B F Green Products Ltd	Yes	888690	30	999.75	2.6	26.58	2.6	55.92	55.92
7	A B F Green Products Ltd	Yes	183244	30	2,544.50	2.6	63.76	2.6	134.48	134.48
8	A B F Green Products Ltd	Yes	824695	30	705.00	2.6	18.33	2.6	38.48	38.48
9	A B F Green Products Ltd	Yes	748336	30	2,138.00	2.6	55.59	2.6	119.76	119.76
10	A B F Green Products Ltd	Yes	784751	30	1,175.00	2.6	30.54	2.6	63.79	63.79
11	A B F Green Products Ltd	Yes	17104743	30	177.79	2.6	4.62	2.6	9.96	9.96
12	A B F Green Products Ltd	Yes	10524657	30	4,794.00	2.6	124.05	2.6	264.47	264.47
13	A B F Green Products Ltd	Yes	7114639	30	3,341.41	2.6	86.88	2.6	187.11	187.11
14	A B F Green Products Ltd	Yes	4114211	30	8,360.00	2.6	212.57	2.6	500.07	500.07
15	A B F Green Products Ltd	Yes	1114633	30	2,037.45	2.6	52.98	2.6	114.09	114.09
16	A B F Green Products Ltd	Yes	1114627	30	1,574.00	2.6	41.31	2.6	110.65	110.65
17	A B F Green Products Ltd	Yes	2118300	30	16,275.00	2.6	421.74	2.6	855.39	855.39
18	A B F Green Products Ltd	Yes	1120222	30	4,340.71	2.6	113.70	2.6	243.57	243.57
19	A B F Green Products Ltd	Yes	1120508	30	5,203.00	2.6	136.86	2.6	294.78	294.78
20	A B F Green Products Ltd	Yes	884695	30	2,387.00	2.6	62.31	2.6	134.20	134.20
21	A B F Green Products Ltd	Yes	194654	30	3,480.94	2.6	90.51	2.6	194.94	194.94
22	A B F Green Products Ltd	Yes	17108116	21	20,892.50	2.6	565.89	2.6	787.43	787.43
23	Able Freight Forwarding Ltd	Yes	4108125	21	1,282.30	2.6	33.52	2.6	50.47	50.47
24	Able Freight Forwarding Ltd	Yes	586489	30	3,320.00	2.6	81.66	2.6	197.41	197.41
25	Able Freight Forwarding Ltd	Yes	4108124	21	1,282.30	2.6	33.52	2.6	50.47	50.47
26	Able Freight Forwarding Ltd	Yes	11108115	21	1,762.00	2.6	45.65	2.6	69.89	69.89
27	Able Freight Forwarding Ltd	Yes	1120521	30	1,747.81	2.6	45.45	2.6	97.89	97.89
28	Able Freight Forwarding Ltd	Yes	1110202	30	2,843.75	2.6	73.53	2.6	148.05	148.05
29	Able Freight Forwarding Ltd	Yes	1121130	30	1,290.00	2.6	33.60	2.6	72.39	72.39
30	Able Freight Forwarding Ltd	Yes	1121003	30	3,172.00	2.6	82.50	2.6	177.66	177.66
31	Able Freight Forwarding Ltd	Yes	1120000	30	11,700.00	2.6	304.20	2.6	657.60	657.60
32	Able Freight Forwarding Ltd	Yes	8114930	30	10,281.25	2.6	267.30	2.6	575.76	575.76
33	Able Freight Forwarding Ltd	Yes	1710464	30	2,820.00	2.6	73.32	2.6	157.82	157.82
34	Able Freight Forwarding Ltd	Yes	4114908	30	1,282.30	2.6	33.50	2.6	72.39	72.39
35	Able Freight Forwarding Ltd	Yes	4114651	30	4,481.01	2.6	117.20	2.6	261.06	261.06
36	Able Freight Forwarding Ltd	Yes	8214731	30	3,290.00	2.6	85.51	2.6	184.23	184.23

Even if it is decided not to enforce late payment interest charges, the ability to 'threaten' with a detailed backup of offending invoices and a clear statement of how the charges are arrived at is a powerful tool in the credit controllers kit bag.

From an internal perspective, the ability to report and analyse on potential charges is also a powerful tool to identify exactly how much late payment is costing your business and how much could be recovered if interest were to be applied.

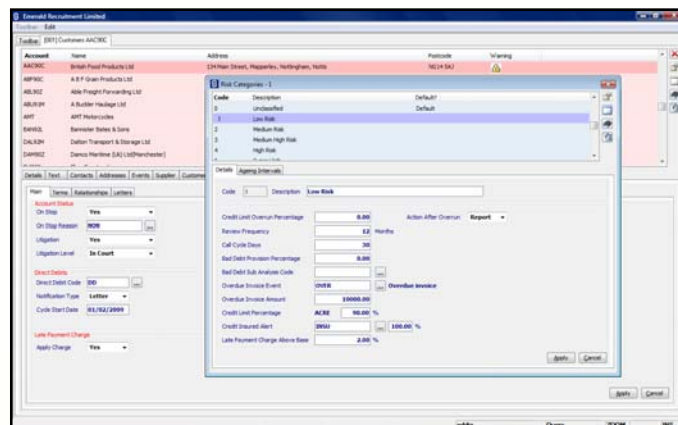
Imagine being able to report on a regular periodic basis the total cost of debt (interest related) by credit controller, business unit, geographic area, sector or indeed any business analytic. How about a stage further and incentivising managers of specific areas of the business on reducing such costs?

Given a series of tools to support late payment interest charges, perhaps 'dare you' implement them is not right question, 'dare you not' is probably more pertinent.

The solution

The latest release of Safe Credit Control now has the functionality to bring the managed usage of late payment interest charges and analysis of them into the business 'kit bag'.

A date effective, bank base rate percentage may be maintained at Company level, together with a percentage above base rate against user definable risk categories that are linked to each customer. Each customer then has a flag to denote if late payment interest charges are to be applied.



Upon running the routine for late payment interest charges, the system will generate a report for all customers, analysing each invoice, determining its age and applying an interest charge against the outstanding amount, based on the percentage above base rate and the number of days that the payment is overdue.



Product bulletin

Late interest charges, dare you?

The report may either be printed or directly output into Excel in either a detailed format, as above, or at a summarised level, totalled for each customer. The report may then be analysed and distributed to key personnel within the business. The data may also be used by the credit controllers to indicate to their customers the interest that would be applied if no further payments are applied.

After suitable analysis and decision making, the process may be re-run with the apply charges flag set, this will not only reproduce the report but also generate a physical invoice for each client for whom the apply charge flag is set. The invoice will be posted to the customers account and the physical document distributed by post, email or fax to the customer.

Described by Credit Controllers and Finance Directors as a significant new addition to the product and a key tool in the drive to reduce debtors, the new late payment interest charge functionality is proving to be a great success ... for those who dare!

Contact us

For further details on Safe Financials and Safe Credit Control, please email info@safecomputing.co.uk. Alternatively visit our web site www.safecomputing.co.uk.