Information is not always available to take responsible credit decisions by Josef Busuttil

I firmly believe that the credit practitioners should do more than crunch numbers and mitigate risk. The credit function is a people's function and one of the roles of the credit team should be that to gain and sustain competitive advantage in the market by building and maintaining long-term customer relationship.

Going back to basics, if a firm had to examine the rationale behind granting and extending credit to customers, and ask the question: "Why incur the costs that go with the credit function?" one would soon realise that there may be different answers, some of which would include to increase sales, to provide the same service that the competitors offer, to finance customers in the shorter-term, to gather information about potential customers and markets, to allow for transaction efficiency, and to invest in customers, to name but few.

Abe WalkingBear Sanchez, an internationally renowned credit management guru, argues that costs are incurred to grant credit in order to obtain profitable sales that would otherwise be lost. He also contends that credit is granted to generate a profit value.

This makes me recognise and also appreciate the profit imperative when selling on credit – the profit imperative for both the supplier and the credit customer alike!

Therefore, I often ask a simple question to myself, "Can suppliers make profit from credit sales if their customers' business is not sustainable?"

'Know Your Customer' soon comes to my mind as a reply and I understand immediately the importance and commercial value of building and sustaining long-term customer relationship, which is the best recipe to get to know your credit customers better.

Hence, suppliers should be proactive when granting and extending credit to customers. They have to make sure that the customers' businesses are doing well or have the potential of doing well in the future. Suppliers have to make sure that the customers requesting credit are not overtrading or mismanaging their business and that they have the necessary competence to run a business in a profitable manner. Therefore, suppliers should not be afraid to refuse credit which would result to be unprofitable.

Nevertheless, suppliers should also feel responsible to assist their customers requesting credit. One role of the credit practitioners should be to explain and help the credit customers understand why credit is being refused. This is what responsible credit granting is all about!

If a supplier had to grant or extend credit to a customer who may not have a sustainable business, both parties will suffer. The credit customer would aggravate his financial position and the chances of meeting his commitments would worsen and consequentially, the supplier would not be able to get paid from the credit customer as may have been agreed with the customer. This scenario would only result in litigation and incur more costs and pain to both parties.

This is the reason why a credit worthiness analysis prior to granting credit and continuous monitoring of the existing credit accounts are important. If suppliers lack proper credit management practices, they would be jeopardising their cash flow and profit.

Therefore, customers requesting credit are encouraged to collaborate wholeheartedly with their suppliers when the latter ask for pertinent information. It is for their own interest to ensure that future financial commitments will be met.

Although data protection is an important piece of legislation and should be observed and adhered to at all times, it may restrict suppliers to find the necessary information when dealing with individuals. However, this should not be the case when companies request credit, as the Data Protection Act only applies to individuals.

But who works in the field of credit management in Malta knows well that the information required by the suppliers in order to analyse the credit worthiness of companies may also be restricted or lacking.

Some companies are filing abridged accounts, which offer very limited data, while some other companies are completely ignoring the law and are not filing their accounts as they are obliged to. This matter is not only hindering good credit management practices but also encouraging commercial fraud when it comes to business investment and to granting trade credit, harming the economy at large.

In the UK, failing to file accounts or annual returns is a criminal offence which can result in directors being fined personally in the criminal courts. The UK Registrar of Companies may also take steps to strike the company off the public record. Penalty fees for not filing accounts starts from £150 if the length of delay is not more than one month and increase gradually to £1,500 if the length of delay is six months or more.

Section 183 of the Companies Act of the Laws of Malta clearly defines the obligations and responsibilities of Maltese registered companies to file their accounts annually as appropriate and the Eleventh Schedule, referring to Section 184(3) of the same law, specifies the penalties in case the directors fail to file the companies' accounts according to Law.

The Maltese fines are relatively hefty. The penalty fees for not filing accounts are EUR2329.37 and EUR46.59 daily. But is the Maltese Registrar of Companies enforcing these fees? For transparency and commercial fairness sake, is it the time when the Registrar of Companies ensures that all the registered companies are complying with the Companies Act in this matter to the benefit of the Maltese business community at large?

MACM urges the Registrar of Companies to enforce penalties and take appropriate actions on companies failing to file their accounts as they are legally required to the benefit of all parties involved and our economy.

Mr Busuttil is the director general of The Malta Association of Credit Management (MACM), a not-for-profit organisation providing a central national organisation for the promotion and protection of all credit interest pertaining to Maltese businesses.