COLLECTION POLICY
- SAMPLE -

Auteur: VVCM

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1. **Scope**
This Credit Policy is part of the documentation of the Credit and Collections management covering all aspects Credit Management activities. The Collections Policy specifies guidelines, standard practices, and authorization limits.

1.1 **Objective**
This Credit and Collections Policy is designed to maximise earnings and profit from sales revenue and minimise exposure to slow paying customers and trade losses ensuring a healthy cash and working capital position. This is accomplished by applying consistent practices being cognizant of country, and regional differences in operations, customs, and resources.

Policy compliance will be evaluated through independent audit reviews based upon this Credit and Collections Policy. This template Collections Policy describes the procedures which will be followed by the Credit and Collections Staff.

This Policy will be reviewed periodically and adjusted as required dependent upon:
- Market conditions
- Economic conditions
- Working Capital requirements.

1.2 **Organisation**
The Credit and Collection activities will be structured as per the following Organisation chart:
1.3 Responsibility
The O2C [Credit manager] has the overall responsibility for the Credit Policy. This includes any policy modifications. The policy will always be in compliance with the Group Policies and Procedures.

The O2C [Credit manager] acts as the administrator of the Policy. Overview of the Credit and Collection responsibilities

The Credit and Collections Strategy aims at optimizing the effectiveness and the efficiency of the Credit and Collections Department whilst adhering to the Credit and Collections Strategic Objectives of the group.

The O2C [Credit manager] remains responsible overall for the O2C processes of Customer Master Data, Credit Management, Collections and Cash Application, even though the individual tasks are performed by the organization.

2. Collections

2.1 Introduction
Customers are expected to pay all invoices on or before the designated due date. Proactively, the Collections department should identify and correct process defects that would prevent a customer from paying on time.

Best Practice methods will advise displaying process standards, scorecards and other forms of guidance prominently in the workplace, improving Collection productivity and Communication and include KPIs together with goals and metrics. (DSO, Cash collected, overdues, ageing of receivables, bad debts).

This will lead to following the practice of establishing and conducting routine interactions for reviewing collections performance, managing work and assigning actions, for managing daily operations and driving collection improvement. When a customer is past due, the intent of this process is to determine the reason for non-payment and take appropriate steps to collect from customers unable to pay or correct the defect that renders the customer unwilling to pay.

Actions are taken to obtain payment as quickly as possible, in a cost-effective manner, consistent with local laws and business practices. Effective collection practices serve to identify and minimize risk of loss and improve cash flow and serve to identify and minimize risk of loss.

2.2 Collections Practices
Customer accounts receivables are aged. The collection call prioritization for collectors will be based on a treatment schedule determined for each customer segment. It is the responsibility of Credit Department to ensure that the treatment schedules are maintained in accordance with the agreements with . O2C [Credit manager] will assess each treatment schedule on an ongoing basis and adjust where required in line with market and economic conditions along with customer behaviours.
Collection priorities are established based upon customer segment, exposure and aging.

Collection responsibility is defined with appropriate performance measurements tied to department and geographic goals.

Effective collection practices include the following:

2.3 Customer Segmentation for Collections
In order to ensure the Collections process is efficient and effective, the customers will be broken down in different customer segments. For each customer segment, a separate Reminder strategy will be defined.

Customer segments allow the collectors to focus on high value accounts, whilst the reminder process of lower value accounts is more automated. These accounts will be contacted by collectors when these accounts move to later past due stages.

For Collection purposes, the same customer segments as in Credit are recognized:

(\textit{Table below is a sample. Amend to reflect the needs of the organization})
- Public Accounts
- Key accounts
- Standard accounts

The customer segments are based on their value along with risk category. The customer segments should be reviewed on a quarterly basis and adjusted according to the market, economic and customer behaviour.

It is the responsibility of O2C [Credit manager] to ensure that Collection treatment strategies are kept up to date and, those customers are assigned to the right customer segment.

All customer contacts will always have to be conducted in a professional manner in accordance with local customs and practices. However, the guidelines included in this policy document are not intended to stop the collectors from agreeing specific steps with the customer with regard to the payment of overdue invoices.

2.4 Collection strategy
For each customer segment, a specific collection strategy has been developed. It is important that all parts of the organization adhere to the agreed steps and timelines in the strategies to ensure that the way approaches its customers is uniform across countries. The strategies and timing of the steps are detailed in the table below. The timing of steps can be adjusted to accommodate the requirements and standard practices in different countries. Any country specific amendment to the standard strategy needs to be approved by the country Finance Manager.
# Collection Strategy

<table>
<thead>
<tr>
<th>Description</th>
<th>Strategy Action</th>
<th>Stage</th>
<th>When To Perform (days)</th>
<th>When To Perform (days)</th>
<th>When To Perform (days)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Public accounts</strong> (Email to Public accounts only to named individual)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Statement of Account</td>
<td>Monthly</td>
<td>EOIM</td>
<td>DD - 15 Days Based on threshold</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Proactive call to validate Invoice(s)</td>
<td>call</td>
<td>Courtesy</td>
<td>DD - 15 Days Based on threshold</td>
<td>DD - 10 Days Based on threshold</td>
<td>N/A</td>
</tr>
<tr>
<td>Proactive e-mail to validate Invoice(s)</td>
<td>e-mail</td>
<td>Courtesy</td>
<td>DD - 15 Days Based on threshold</td>
<td>N/A</td>
<td>DD - 10 Days Based on threshold</td>
</tr>
<tr>
<td>Proactive 2nd call to validate Invoice(s) - If first call unsuccessful</td>
<td>call</td>
<td>Courtesy</td>
<td>DD - 10 Days Based on threshold</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>1st call regarding non payment of Invoice(s)</td>
<td>call</td>
<td>Evaluate</td>
<td>DD + 1</td>
<td>DD + 5</td>
<td>N/A</td>
</tr>
<tr>
<td>1st e-mail regarding non payment of Invoice(s)</td>
<td>e-mail</td>
<td>Evaluate</td>
<td>DD + 1</td>
<td>N/A</td>
<td>DD + 5</td>
</tr>
<tr>
<td>2nd call regarding non payment of Invoice(s)</td>
<td>call</td>
<td>Evaluate</td>
<td>DD + 10</td>
<td>DD + 15</td>
<td>DD + 15</td>
</tr>
<tr>
<td>2nd e-mail regarding non payment of Invoice(s)</td>
<td>e-mail</td>
<td>Evaluate</td>
<td>DD + 10</td>
<td>DD + 15</td>
<td>DD + 15</td>
</tr>
<tr>
<td>3rd call regarding non payment of Invoice(s)</td>
<td>call</td>
<td>Evaluate</td>
<td>DD + 20</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>3rd e-mail regarding non payment of Invoice(s)</td>
<td>e-mail</td>
<td>Evaluate</td>
<td>DD + 20</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>4th call regarding non payment of Invoice(s)</td>
<td>call</td>
<td>Evaluate</td>
<td>DD + 30</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>4th e-mail regarding non payment of Invoice(s)</td>
<td>e-mail</td>
<td>Evaluate</td>
<td>DD + 30</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Official Paper Reminder (only if legally required)</td>
<td>letter</td>
<td>Management</td>
<td>DD + 35</td>
<td>DD + 25</td>
<td>DD + 25</td>
</tr>
<tr>
<td>E-mail to Financial Business Partner requesting autorisation to Initiate the Credit Stop Process</td>
<td>e-mail</td>
<td>Crisis</td>
<td>DD + 40</td>
<td>DD + 30</td>
<td>N/A</td>
</tr>
<tr>
<td>E-mail to Sales to alert pending initiation of Credit Stop process</td>
<td>e-mail</td>
<td>Crisis</td>
<td>DD + 40</td>
<td>DD + 33</td>
<td>DD + 33</td>
</tr>
<tr>
<td>Call regarding non payment of Invoice(s) and to advise customer of the imminent Credit stop</td>
<td>call</td>
<td>Crisis</td>
<td>DD + 48</td>
<td>DD + 38</td>
<td>DD + 38</td>
</tr>
<tr>
<td>Apply Credit Stop</td>
<td>action</td>
<td>Crisis</td>
<td>DD + 49</td>
<td>DD + 39</td>
<td>DD + 39</td>
</tr>
<tr>
<td><strong>Key accounts</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Official Final Demand e-mail/letter and confirmation that Credit Stop has been applied</td>
<td>e-mail</td>
<td>Crisis</td>
<td>DD + 49</td>
<td>DD + 39</td>
<td>DD + 39</td>
</tr>
<tr>
<td>E-mail 7d to Finance Business Partner to authorise <em>Initiation of legal proceedings</em> / 7 Day Letter</td>
<td>e-mail</td>
<td>Management</td>
<td>N/A</td>
<td>DD + 47</td>
<td>DD + 47</td>
</tr>
<tr>
<td><em>Initiation of legal proceedings</em> / 7 Day Letter</td>
<td>letter</td>
<td>Crisis</td>
<td>N/A</td>
<td>DD + 50</td>
<td>DD + 50</td>
</tr>
<tr>
<td>e-mail to Finance Business Partner to decide DCA-Legal or w/o</td>
<td>e-mail</td>
<td>Final</td>
<td>N/A</td>
<td>DD + 57</td>
<td>DD + 57</td>
</tr>
<tr>
<td>Periodic follow up on status with Finance Business Partner</td>
<td>call/e-mail</td>
<td>Final</td>
<td>DD + 57 &amp; every 7 Days</td>
<td>DD + 57 &amp; every 7 Days</td>
<td>DD + 57 &amp; every 7 Days</td>
</tr>
</tbody>
</table>
The steps in the strategy are complemented by the actions the collectors deem necessary to respond to the specific circumstances of a customer. These actions can include ad hoc emails, additional telephone calls or responding to specific customer requests.

If a customer cannot be reached, the collector is expected to call back two times before leaving a message. If no response is received, follow up e mails should be sent two days after the initial attempt to make a phone call and the collector should verify the correctness of the customer contact data.

If all attempts to contact the customer fail, the account should be escalated to the Customer Service organization with recommendations with regards to the desired follow up actions.

2.5 Reminder stop
A Reminder stop i.e. the initiation of a stop to prevent the customers receiving automatic chase letters, needs to be in accordance with agreed collection procedures or approved by O2C [Credit manager] A disputed invoice will be blocked for dunning. Upon resolution of the dispute, the dunning process will be resumed.

2.6 Debt Recovery
If amounts remain overdue due to the debtor’s financial inability (insolvency, receivership, voluntary wind up) to pay or his unwillingness to pay (refusal to resolve queries) the account should be placed into Collection Agency, internal or . Collection Agency will take all steps to recover monies due. This will include the involvement of court action if necessary. Co-operation with external collection agencies requires a documented contract, a treatment plan and adequate processes to ensure appropriate information.

If Recovery is successful without legal action the account will be passed back to the normal ledger but the credit limit will be set to -0- (zero).
If legal action is taken the account will usually be closed, except in special cases when controls or guarantees will be put in place. If all steps are unsuccessful the amount due may need to be written off to Bad Debts.

2.7 Payment plans
In exceptional cases where a customer is unable to pay his obligations within the agreed timeframe, a payment plan may be agreed. The Collector will discuss with the customers the options. The collector will present to the O2C [Credit manager] a payment plan proposal. O2C [Credit manager] will review the proposal and, if he agrees, forward the proposal to the Finance Manager for approval. Upon receipt of the approval, the collector will send the confirmation of the agreed payment plan to the Customer.

If the customer fails to adhere to the payment conditions of the payment plan, the collection strategy will immediately accelerate to the Credit Stop stage.
2.8 Legal Proceedings
In case of insolvency, the Customer case must be referred to the Finance Manager. In case of fraud, the Finance Manager, the Legal department and the Sales Department have to be informed immediately by telephone call, with an email follow up.

Bad debt provisions and bad debt write-offs are to be made in full alignment with the corporate standards

2.9 Doubtful & Uncollectible accounts buckets
In the case of tangible external information indicating a probable risk of non-recovery, the balance of such accounts should be reclassified to a separate doubtful bucket. Examples for such cases are:
- Financial difficulties – Following negotiation
- Court rulings and receivership or administration.

2.10 Specific provision aligned with accounting instructions
Consequently the doubtful accounts receivables must be provided for on a case by case basis, depending on the estimated risk of non-recovery being supported by external documentation.

After initial reclassification and provisioning, these receivables must be reassessed periodically for any additional impairment, in order to reflect their current recovery value and adjust subsequently the related bad debt provision.

When at any point of time, it is recognized that any cash recovery is more than unlikely (triggering event for impairment, i.e. in the case of legal proceedings or liquidation), these doubtful accounts must be fully provided for(100%) and disclosed as uncollectible.

2.11 A/R write-off align with accounting instructions
Accounts receivables, for which external assessment or information is confirming any final non recovery of an outstanding balance due, must be written off and expensed to the income statement.

This implies that the write-off expense is reflected in the income statement and not offset against the bad debt provision account in the balance sheet. However, in case of a specific bad debt provision already provided for, whether in full or partial, this provision should be reversed entirely to the income statement.

2.12 Income from cash collections on written off receivables
Cash collection and recoveries of receivables written off in prior periods will be booked directly to the P&L as income specifically to the account ‘Income from cash collection on written off receivables.'
3. Credit Stop

3.1 Customer Credit Stop

3.1.1 Process
Customers who do not pay their outstanding receivables can be put on Credit Stop. Credit Stop means that that no new orders will be accepted.

3.1.2 Aged Debt Report Reviewed
All customers who have undisputed invoices which remain unpaid 30 days or more after due date will be put on Credit Stop.
Credit Stop is a process that has the potential to interrupt the business of the customer. As a consequence, the credit stop procedure needs to be strictly followed to avoid any potential liabilities.

On a daily basis, the system or the collector creates a reports listing all customers for whom the Credit Stop Process needs to be initiated. For each customer segment, the Collection strategy sets the number of days after Due date when the Credit Stop needs to be applied.

3.1.2.1 Key accounts and partners
As soon as the open invoices on the account of a customer in the customer segments ”Public” and ”Key accounts” reaches the Credit Stop stage, the system or the collections department will send an e mail to the Finance Manager to request authorization to initiate the Credit Stop process.
The Finance Manager will return the decision to authorize or deny the Credit Stop Process within 2 business days.

In case the Credit Stop has been approved, the collector will then attempt contact with the customer to advise them of the imminent Stop action. The telephone call will be followed up by an email confirming the imminent credit stop. If the customer cannot be reached by telephone, a letter will be sent to advice the customer about the imminent Credit Stop.

Should payment not be secured or a query identified this will be reflected in the comments as to why the debt has not been collected along with the Stop recommendation.

3.1.2.2 Other Accounts
As soon as the open invoices on the account of a customer in the customer segments ”Other Commercial Account” reaches the Credit Stop stage, the collections department will send an e mail to the customer advising the customer about the imminent credit stop.

The collections department will then attempt contact with the customer to advise them of the imminent Stop action. Should payment not be secured or a query
identified this will be reflected in the comments as to why the debt has not been collected along with the Stop recommendation.

3.2 Stop Process
After following the process described above, the Collections department will enter the Credit Stop into the system. Any new orders will be temporarily held whilst the Stop activity is ongoing - the account would show as delinquent. If the customer calls in whilst they are on STOP, all calls or email enquiries should be referred to the O2C [Credit manager].

3.3 Release
The account would only be released if payment is made (cleared funds into our bank) or a valid query raised. If a customer can be release from Credit Stop, the Collections team send a request for release to the Finance Manager. The request will specify the details of the payment received or the details of the dispute and the name of the proposed dispute resolution owner.

Only the Finance Manager can authorise the release of the account from Credit Stop. When an account is taken off Stop, an e mail advice will be sent to the same stakeholders who were sent an e mail advising the imminent credit stop.

4. Dispute Management

4.1 Overview
Customer disputes are an element of the business relationship. Typically, disputes can be categorized into claims and queries. Claims are directly related to the quality of services or related to Commercial agreements between us and the customer. Queries relate to commercial aspects. e.g.: billing issues (incorrect rate) other documentary issues.

4.2 Objectives of Dispute Management
The objectives of dispute management are to resolve a customer dispute in the fastest and most efficient cycle time possible in order to sustain customer satisfaction, to remove barriers to payment and to improve quality standards.

4.3 Organization, Authorities, Escalation

4.3.1 Organization
Disputes are handled by the collections team. The manager [...] is responsible for the resolution decisions.

If Collection Department Staff during the collection process identify that the customer wants to record a dispute, the dispute is registered into the finance system by the collector and, depending on the content of the query, forwarded
electronically to the relevant unit responsible for resolving the dispute. (Resolution owner)

Disputed invoices will be put on reminder block. The collector will monitor the progress through the dispute lifecycle of each transaction in dispute. The table below documents the touch points in the process and the turnaround times for each action:

**Enter table**

### 4.3.2 Resolution and Authorization
The resolution owner will investigate the query and, if needed, contact the customer for additional information. Once all information is available, the resolution owner will communicate to the Collections team the resolution decision. If the dispute is finalized with issuing a correction-invoice or credit note, approval for the issuance of a credit note will be given by the Finance Manager.

### 4.3.3 Escalations
The collection team will send reminders to the resolution owners if disputes remain open beyond the agreed time frame. If following a reminder, a reply is not received, the collections team will escalate the dispute to the Finance Manager. The person within the organization responsible for the dispute resolution will respond within 7 working days. To check whether feedback concerning the dispute has been received from the relevant area, the collectors need to have the correct contacts and escalation from Sales and the different operational units.

### 4.3.4 Reminder Stop
During the time that an invoice is disputed, the invoice will be excluded from the collection process. Upon resolution of the dispute, either by rejection of the dispute or by issuing a Credit Note to correct the original invoice, the status of the dispute will change to "closed" within Dispute Management. By changing the status of the dispute, the corrected invoice shall be unblocked for debt collection and the collections path restarted.

### 4.4 Sales Teams
Collections will hold regular dialogue with Sales to co-ordinate actions and share responses on the > 90 days overdue debt. The BPO Manager will also flag the current top 5 Sales Issues on the fortnightly Sales Managers call and agree deadlines.

### 5. Reporting
Reporting involves provision for timely and accurate information that meets the needs of management team within the organization, with respect to the amount, age and content of receivables, while maintaining compliance with local and corporate accounting requirements.
Accounts receivable reporting consists of standard reports from several sources. These include:

- Credit management system
- ERP system
- External sources

In order to ensure consistency and comparability of data, it is important that the same set of reports and calculation methodologies are applied across Regions or Countries.