

Mastering Debtor Management

Key points and tips

- Have a Debtor Management plan:
 - Clearly outline your strategy and objectives
 - Have terms that are fit for purpose and are implemented with clients
 - Train staff to ensure consistency and compliance with inhouse policies and legislation
 - Monitor, review and continually improve.
- Be aware of the 'real' cost of credit:
 - Cost of time to action debt management
 - Opportunity cost of this time – could be spent on more profitable activities
 - Cost of own credit (overdraft, loans) to manage cashflow
 - Collection costs for software tools and external collection agencies
 - Know your Debtor Days, know your net profit % versus sales.

Question	Answer
What can I do to ensure new clients pay on time?	Check out your clients <u>before</u> offering services. Look online for publicly held information (eg. Companies Office, Insolvency Register, Google search) as well as having an internal credit application form. Ask for Creditor references. Be clear on payment terms and confirm in writing with purpose-built Terms of Engagement. Monitor Receivables regularly and follow-up promptly – use a mix of methods (email, phone, auto-reminders).
What actions can I take to help get payment – without resorting to debt collection?	Keep an eye on client behaviour. Someone who always paid on time may do so less frequently – they could be experiencing their own cashflow problems. Have a good working relationship and be able to talk to them – early! Options include suspending services, reducing services, adding late payment interest and penalty charges (providing clearly stated in previously agreed terms). Consider payment plans too.
What do I do when I can see client requests are for items 'out of scope'?	Confirm in writing <u>before</u> you do the work. Consider having <i>exclusions</i> stated in your services agreement (state clearly what work will be done, and what won't be as part of the regular package). Be mindful of what could be higher fees for some of this work – get client approval first for both the additional work and likely fees. If this is happening regularly it could be useful to have a review and restate the services agreement.
What are the things I should consider for a debtor management workflow?	Have clear terms that align with your inhouse procedures. Monitor Receivables and remind debtors promptly when overdue. Use a mix of methods – emails, phone calls. Consider software tools that can help automate part of the process. Schedule the required tasks and make sure they are being actioned. Have as a 'living document' to be regularly updated as needed.

Please Note: The above does not constitute professional advice. It is information only and of a general nature.

Bad Debt Write-Offs

- Cannot be done retrospectively
- Criteria for a bad debt:
 - The debt is overdue and uncollectible due to insolvency, non-response or hardship (The debt does not have to be sent to collection yet – can still be ‘bad’)
 - Good records should be kept – file notes, phone logs, emails, software logs – to show repeated attempts to get paid with no success (these records greatly assist an external debt agency too)
 - No response in itself is not sufficient – reasonable attempts should have been taken to locate the debtor – with multiple methods if necessary (eg email via software may have been ‘spammed’, they may have moved house – but still have the same phone number – therefore a reasonable attempt should involve a phonecall/SMS)
- The write-off needs to be dated at the time the decision is made to write it off
- The write-off needs to be authorised by the business owner or suitable senior person in the business (this needs to be in writing – an email clearly stating the details with the owner approving would suffice).

Relevant Legislation (NZ)

- Credit Contracts and Consumer Finance Act 2003 (CCFFA)
 - Regulates consumer credit contracts, including disclosure requirements, fees, and interest
 - Protects borrowers from unfair lending practices
 - Recently amended to shift regulatory oversight from the Commerce Commission to the Financial Markets Authority (FMA).
- Credit Contracts and Consumer Finance Amendment Bill (2025)
 - Updates the CCCFA to streamline regulation and improve consumer protection
 - Introduces a licensing regime for lenders and aligns credit regulation with the Financial Markets Conduct Act 2013.
- Fair Trading Act 1986
 - Prohibits misleading and deceptive conduct in trade
 - Applies to debt collectors and credit providers in their dealings with consumers.
- Privacy Act 2020
 - Governs how personal information is collected, stored, and shared
 - Debt collectors must comply when handling debtor data.
- Financial Service Providers (Registration and Dispute Resolution) Act 2008
 - Requires registration of financial service providers, including some debt collection agencies
 - Ensures access to dispute resolution schemes for consumers.

Regulatory Bodies (NZ)

Financial Markets Authority (FMA): Now oversees consumer credit regulation under the CCCFA

Commerce Commission: Previously responsible for CCCFA enforcement; still active in fair trading matters.

Office of the Privacy Commissioner: Oversees compliance with the Privacy Act.