

Debtor Red Flag Checklist

This checklist is designed to help you identify early warning signs that a customer may be experiencing financial difficulty and could default on their payments. If a debtor begins to display several of these characteristics, it is a signal to review their account and take pre-emptive action.

Red Flag	Category	Why it Matters & Action to Consider
Shift from Prompt to Late Payments	Payment Behaviour	The most common indicator of cash flow problems. A customer who consistently paid on time but is now paying late requires immediate attention.
Making Partial or "Round Number" Payments	Payment Behaviour	Paying in smaller, ad-hoc amounts without a formal arrangement suggests they do not have the funds to cover the full invoice.
Increased Frequency of Disputed Invoices	Payment Behaviour	Suddenly questioning minor details on invoices can be a tactic to delay payment rather than a genuine query.
Paying Only When Chased or Threatened	Payment Behaviour	If payment is only made after a final demand or threat of service suspension, the customer is likely prioritising other creditors.
Becoming Difficult to Contact	Communication	Calls are not returned, emails are ignored, or the usual accounts payable contact is suddenly "unavailable". This evasiveness is a major red flag.
Broken Promises of Payment	Communication	Repeatedly promising to pay on a specific date and failing to do so without a valid reason indicates a lack of intent or ability to pay.
Change in Tone (Defensive or Aggressive)	Communication	When follow-up calls are met with hostility or overly elaborate excuses, it can signal deeper financial stress.
High Staff Turnover in Key Roles	Business Health	The sudden departure of the accounts contact, financial controller, or key managers can indicate internal instability.
Negative Industry News or Rumours	Business Health	Keep an eye out for news of the debtor losing major contracts, facing legal action, or general struggles in their industry sector.

Slowing or Stopped Orders	Business Health	A significant drop in business volume from the customer can signal they are struggling financially or shifting their business elsewhere.
Changes on the NZ Companies Office Register	Business Health	Look for recent changes in directors, a new registered office address, or an increase in security interests (PPSR) registered against them.
Repeated Claims of "Lost Invoices"	Administrative	While it can happen, a pattern of claiming not to have received an invoice is often a simple stalling tactic.
Requesting Copies of Old Invoices/Statements	Administrative	This can indicate poor record-keeping and disorganisation, which often correlates with poor payment habits.

Recommended Actions When Red Flags Appear

When you identify one or more of these red flags, it is crucial to act swiftly. The appropriate response will depend on the severity and number of flags identified.

1. Open Communication:

- a. Immediately contact the client by phone to discuss their account. An open, non-confrontational conversation can often clarify the situation.
- b. Listen to their reasons and, if appropriate, discuss a structured payment plan. Get any agreement in writing.

2. Review Credit Terms:

- a. **Pause Credit:** Immediately place their account on hold, meaning all future work requires upfront payment until the outstanding balance is cleared.
- b. **Reduce Credit Limit:** Formally reduce their credit limit to minimise future exposure.
- c. **Tighten Payment Terms:** Look at changing payment terms for future invoices – i.e. if on 20th of the month following move to 7 days – check your T&Cs for clause around payment terms.

3. Formalise the Process:

- a. Ensure all communication from this point is documented, including dates and times of calls and summaries of conversations.
- b. If payment is not forthcoming, do not delay in following your standard escalation process, from firm reminders to a formal letter of demand.

By using this checklist, you can help your clients make informed decisions, secure their revenue, and maintain a healthy accounts receivable ledger.