



...Enabling Your Financial Freedom



Trust. Knowledge. Diligence.

CREDIT RISK MANAGEMENT MADE EASY FOR BUSINESS



MINISTRY OF
FINANCIAL SERVICES,
COMMERCE & ENVIRONMENT
CAYMAN ISLANDS GOVERNMENT



Presented by:

Cayman Islands National Credit Bureau Ltd.

www.CINCB.ky

A professional full service
credit reporting and debt collection agency

About Us

- ✓ Established in 2002, CINCB now services over 200 local and international members holding over 60,000 credit records on file.
- ✓ Access to cultural knowledge and international resources through over 100 offices worldwide provided by Global Credit Solutions.
- ✓ Cayman's full service credit bureau and debt collection agency delivering invaluable information to businesses and consumers.

Who We Serve – The Credit Circle

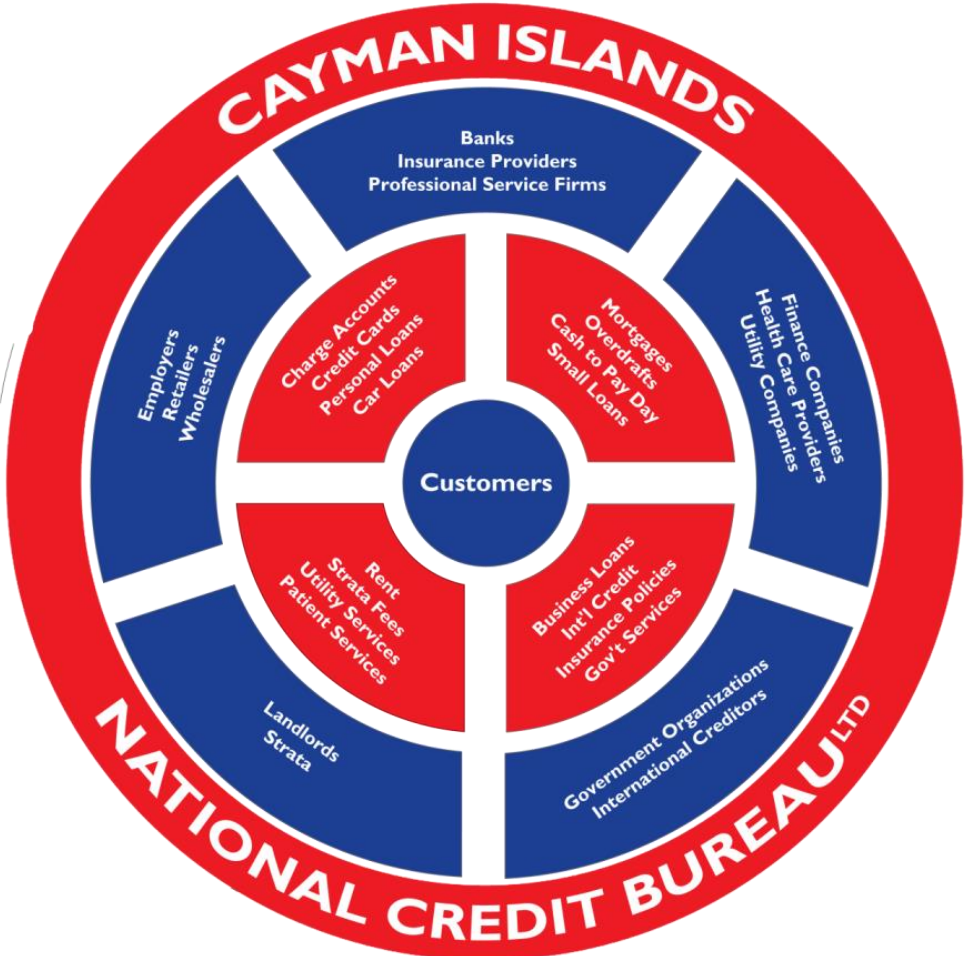


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PART I

THE BASICS



As the world continues to become a global marketplace, credit is an increasingly necessary tool for the economy of the Cayman Islands.

What is Credit?

- Credit is letting someone borrow money from you with the promise of a payback
- Extending credit is a privilege you grant for the purpose of extending payment on a debt

What is Credit?

➤ TYPES OF CREDIT

➤ Trade Credit

➤ Examples are store credit or store charge account

➤ Consumer Credit

➤ Examples are credit cards, auto loans, personal loans, retail loans, mortgages, payday loans, revolving charge accounts

Why Extend Credit?

- To make it easier for the customer to buy from you
- To make it more likely for the customer to order from you rather than from someone who doesn't offer credit
- Research confirms that consumers who can obtain credit will pay more for a product or service
- You may lose those customers that require credit

... but don't extend credit without a credit policy !!

Credit Control

- What is Credit Control?
- Credit Control is the system used by a business to make certain that it gives credit **only** to customers who are able to pay, and the customers pay on time.
- Credit control is a critical system of control that prevents the business from becoming illiquid due to improper and un-coordinated issuance of credit to customers.
- Credit control has a number of sections that include – Know Your Customer (KYC), credit approval, credit limit approval, as well as collection process.

What is Credit Risk?

- **Credit risk** is an investor's risk of loss arising from a borrower who does not make payments as promised
- Credit is dependent on the character and reputation of the borrower
- Bad debt may be a serious strain on a business and could lead a company to failure
- Many businesses have failed due to unsatisfactory debt collection processes and procedures

The 5 C's of Credit

- Does anyone know the 5 C's of Credit?
- Capacity (can they pay? – most important)
- Character (will they pay?)
- Credit History (have they paid?)
- Capital (have they contributed equity?)
- Collateral (what if they don't pay?)
- 5 C's are things to consider when collecting the client's information and approving credit

Top 3 challenges of collections

- Does anyone know 3 challenges of collections?
- The top 3 challenges of collections are:
 - #1 Lack of contact information
 - Full name, DOB, Cell #'s, emails, mail/physical addresses, next of kin
 - #2 Waiting too long to get professional help
 - #3 Failing to have proper documentation
- Collectability is dependent on Information

The Credit Market

- CAYMAN STATS
- 58,280 persons living in the Cayman Islands
- 39,259 persons between the ages of 20 – 64
- \$820 million credit to businesses
- \$1.8 billion in credit to consumers
- Potentially \$150-200 million in doubtful accounts

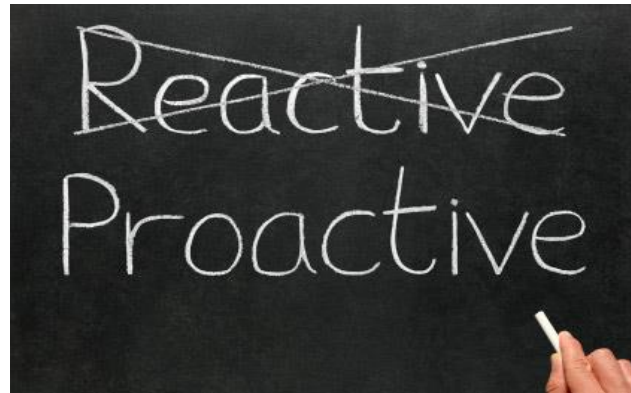
Relevant Cayman Laws

- Bills of Exchange Law (1997 Revision)
- Confidential Relationships Preservation Law (2009 Revision)
- Contracts Law (1996 Revision)
- Defamation Law (1995 Revision)
- Registered Land Law (2004 Revision)
- Judicature Law (2007 Revision)
- Limitation Law (1996 Revision)
- The Summary Court Rules 2004
- Grand Court Rules 1995 (Revised)
- The Penal Code
- Case law



PART 2

SETTING THE STAGE FOR CREDIT SALES



Reasons you need a Credit Policy

- The single most important tactic to reduce credit risk is to have a credit policy
- If you don't tell your customers how and when you want to be paid, they are left to decide for themselves how and when to pay you
- The longer someone owes you money, the less likely you will get paid

What is a Credit Policy?

- Credit policies vary from industry to industry and business to business, however, credit policies typically include:
- Using a credit application to access credit reports and to recover collection costs
- Establish a procedure to set reasonable credit limits for credit customers
- Establish a procedure to remind customers when they are past due
- Establish a procedure to provide customers with options when they cannot pay on time

What is a Credit Policy?

- Establish a procedure on when and what to do with small balances on customers' accounts
- Establish a procedure when an account should be placed for collection to avoid carrying bad debts on you're A/R's
- Establish a procedure when to write off bad debts

... the heart of any good credit policy is a credit application

Credit Applications

- Credit applications are critical to reduce credit risk!
- You *always* want to have a written contract, agreement or a signed credit application
- For businesses, prudent to get a personal guarantee
- Know Your Customer (KYC): get full contact details of your customer and check their credit

Credit Applications

You *always* want your credit application to include:

“I grant my permission to you to seek, obtain, and divulge any information regarding my credit history and credit account details or proposed dealings with you to or from any credit reporting bureau, any financial institution, my employer, or any other person in connection with any of my credit dealings with you.

I further understand that this credit information may be used to create and maintain a credit report file on my credit history and credit account details with any Cayman Islands credit reporting bureau, which may periodically receive credit updates from other financial institutions or creditors whom have extended credit to me and which may periodically divulge such credit information to members in good standing of such credit bureau.”

Debt Service Ratio (DSR)

- US 2008 sub prime debt crisis was due in large part to excessive lending practices above established DSR's by creditors. Borrowers were simply unable repay the loans when they became due and ultimately defaulted.
- Responsibility in lending means that lenders should avoid lending practices that overextend borrowers.
- Debt Service Ratio is a debt service measure that financial lenders use as a rule of thumb to give a preliminary assessment of whether a potential borrower is already in too much debt.

Debt Service Ratio (DSR)

- Receiving a ratio of less than 40% means that the potential borrower has an acceptable level of debt.
- Debtors will find it very difficult to meet their expenses if the DSR is above 40%
- Courts will not award payments beyond the means of a person's ability to pay.
- $DSR = \frac{\text{Mortgage payments} + \text{other debt payments}}{\text{Gross Family Income}}$

Debt Service Ratio (DSR)

➤ 40% = \$1,600/mon total mortgage and debt payments = Excessive DSR
\$4,000/mon gross income

➤ 50% = \$2,000/mon total mortgage and debt payments = Excessive DSR
\$4,000/mon gross income

Check Credit References

- How do you vet your credit customers?
- You can manually call the personal, business, and bank references listed on the credit application
- Did you know you can become a member of the Credit Bureau and request credit reports?

Set Credit Limits

- Set a low credit limit to start and then increase the limit as the debtor proves his credit worthiness or ...
- Calculate a reasonable limit based on their salary reported in the credit application
- For business customers, estimate their credit limit based on what the income and expenses of the business might be

Set Credit Terms

- Credit terms can be whatever you want. Typical credit terms are as follows:
- Payment terms are net thirty (30) days from date of invoice. Seller reserves the right to require alternative payment terms, including, without limitation, a letter of credit or payment in advance.
- If payment is not received by the due date, a late charge will be added at the rate of one and one-half percent (1.5%) per month, or eighteen percent (18%) per year, to unpaid invoices from the due date thereof.

Set Credit Terms

- If a buyer is delinquent in paying any amount owed to seller by more than thirty (30) days, then without limiting any other rights and remedies available, the seller may cancel all further deliveries and any amounts unpaid shall immediately become due and payable.
- Should my account(s) become in default my account may be assigned to a credit bureau/collection bureau for collection and/or court proceedings and I may further be charged with collection fees, legal fees, and/or court costs to be recovered on an indemnity basis.

Granting and Refusing Credit

Once you determine the customer's credit worthiness you should notify them in writing of the approval or refusal

- Write a letter advising them that you have granted the line of credit and include the terms and conditions of your credit terms
- You can also have your customer sign a formal contract or agreement that sets out the credit limit granted and terms and conditions

Granting and Refusing Credit

➤ Refusing Credit

- Write a letter advising them that you have refused the credit
- Should include the reason(s) why credit was denied
- Give your customer an opportunity to reapply later
- Remind them that they can certainly pay cash until such time credit can be extended

Updating Credit Limits

- You might want to re-check credit once or twice per year on customers
- If business is working well with your customer you may want to increase your customer's credit limit
- Or you may learn that the company is having financial difficulty, this indicates tightening your credit limit



PART 3

COLLECT YOUR MONEY



Collection Procedures

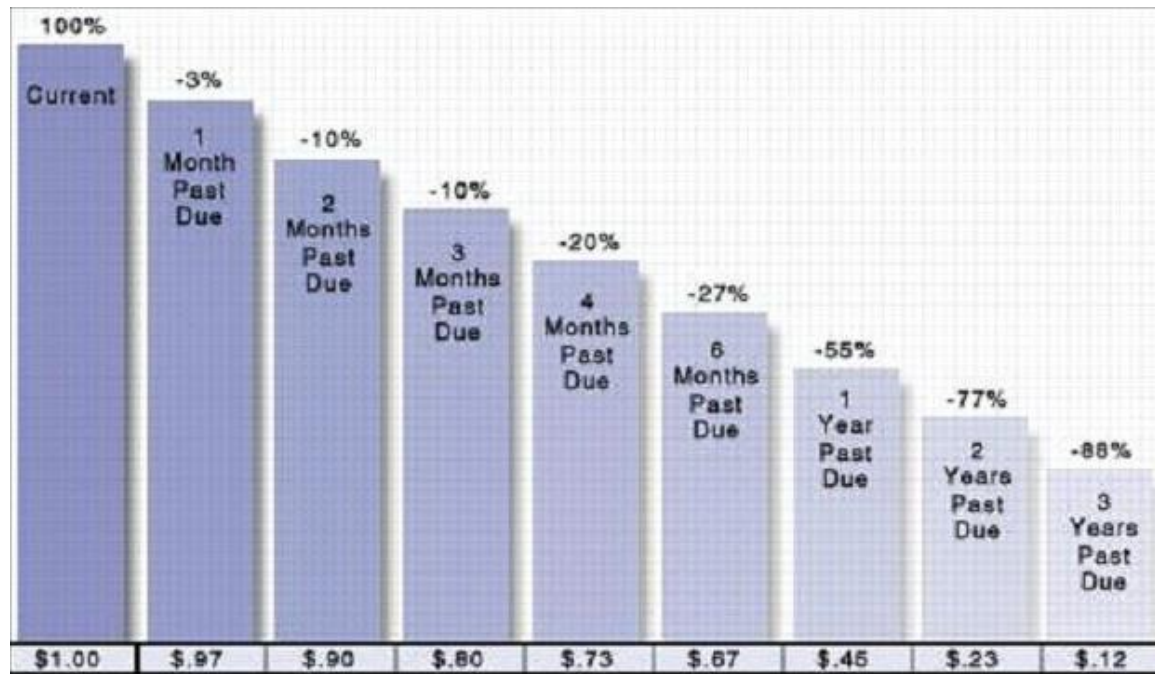
- There are two basic concepts that support you having debt collection procedures:
- Time is the greatest deteriorating factor on the collectability of an account
- You will never have enough resources to collect all of your delinquencies

Collection Procedures

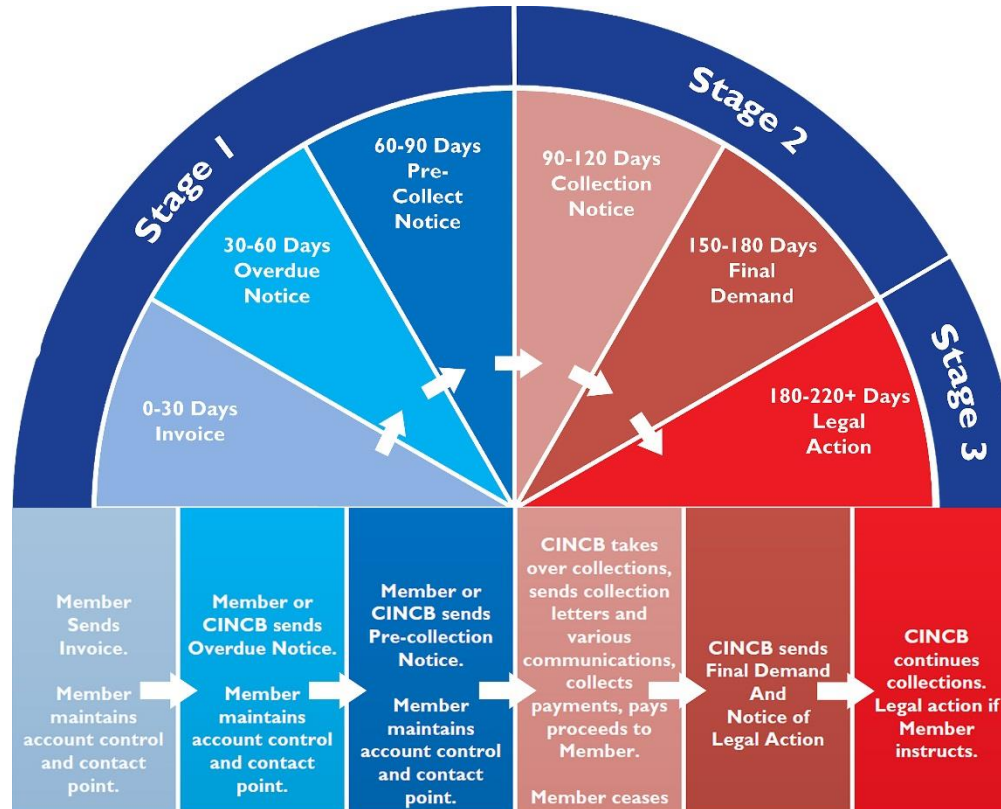
- What are your expectations to collect bad debt?
- What is the reality of collection and the value of aging debt?

Collection Procedures

- United States Department of Commerce graph showing effects aging debts



Collection Procedures



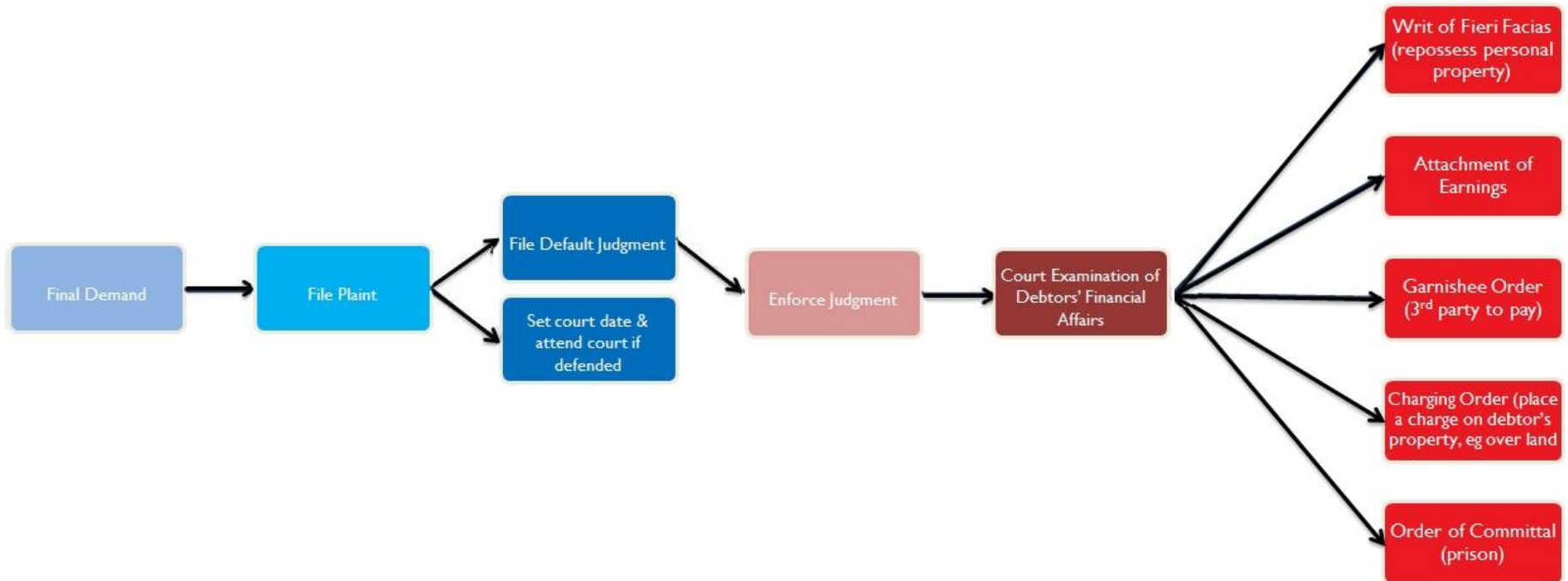
**The collection program is provided for information only and is suggested in order to increase successful collection rates.*

Using a Collection Agency

There are many benefits of using a collection agency:

- A professional agency has a vast knowledge of professional collection techniques, technology and debtor history
- A professional agency will save time and yield better results than you can achieve on your own
- A professional collection agency will provide monthly reports regarding collections made and status of accounts
- A professional collection agency becomes your outsourced collection department, at no risk or expense to you

Legal Action



Questions & Answers

Thank you for attending.

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