

CFAS3.3

Assess customer creditworthiness



Overview

You generally need to assess a customer's creditworthiness before allowing them to open an account and use credit limits offered by your organisation. Creditworthiness is also assessed when a customer starts dealing with you in a new or different area of business.

You should be able to follow your organisation's own process of carrying out credit checks, credit assessments, seeking references from other accounts and undertaking a range of financial searches. These activities may involve working in co-operation with the accounting function.

You should also be able to use financial tools to analyse and assess your customer's financial status and to decide whether or not to do business with them in the future.

This unit is suitable for face-to-face selling, telesales and online selling, Sales Team Leaders and Sales Managers.

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Performance criteria

You must be able to:

- P1 develop an understanding of your customer's requirements for sales and credit through discussion with them
- P2 explain to your customer the process your organisation will use to approve the granting of credit and to set a credit limit for your customer
- P3 ask your customer to provide a range of financial information to support credit searches
- P4 carry out a range of internal checks within your organisation, including analysis and assessment of accounts reports from colleagues
- P5 use liquidity ratios to analyse customer accounts to ensure your customer is financially secure where appropriate
- P6 carry out external checks through banks, credit rating agencies or supplier references
- P7 complete a formal agreement with your customer in line with organisational procedures if the credit searches have proved satisfactory
- P8 explain to your customer if the credit searches have proved negative and offer cash trading only
- P9 monitor and review your customer's account regularly following organisational procedures
- P10 liaise with your customer regarding any changes in credit limits and the status of their account
- P11 draw on the expertise and resources of the accounting function for appropriate support in assessing creditworthiness

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Knowledge and understanding

You need to know and understand:

- K1 reasons why customers need and want credit facilities
- K2 documentation required to undertake a financial assessment of a customer organisation including annual accounts, annual reports, testimonial references and bank references
- K3 different types of financial reports that may provide relevant information for a credit rating including profit and loss accounts, balance sheets and flow of funds statements
- K4 how to use financial ratios such as profitability ratios, liquidity ratios, gearing ratios, activity ratios or shareholder return ratios to interpret the financial health of an organisation
- K5 how to use financial information to establish trends in performance including benchmarking against industry norms, benchmarking against other customers or benchmarking against competitors
- K6 how to use financial information to determine credit limits and manage customer credit activities
- K7 how to monitor and control customer credit facilities
- K8 how terms and conditions can be used within customer credit agreements
- K9 how to notify customers of credit decisions whether the decision is positive or negative

Industry/Sector specific knowledge and understanding

- K10 legislation relating to customer finance arrangements, including Data Protection legislation and Financial Services legislation
- K11 credit arrangements appropriate to the industry
- K12 the ways in which other suppliers provide and assess the creditworthiness of customers

Context specific knowledge and understanding

- K13 organisational policy and procedures for offering credit to customers
- K14 organisational procedures to assess a customer's creditworthiness
- K15 the documents your organisation uses to establish creditworthiness
- K16 financial tools used to carry out financial assessments
- K17 service standards for providing customers with decisions about credit applications
- K18 measures for monitoring customer account activity including debtor age and number of credit chases
- K19 how to determine the appropriate frequency for monitoring customer accounts
- K20 organisational procedures for feedback to customers about credit accounts

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- K21 terms and conditions applied to customer credit accounts
- K22 who in your organisation makes the final credit decision
- K23 who in your organisation to go to in order to appeal against a customer credit decision

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Additional Information

Behaviours

1. you are sensitive to customers at all times
2. you follow organisational policies and procedures for credit checking
3. you comply with legal and regulatory requirements including data protection legislation and financial services legislation
4. you work within the limits of your own authority
5. you use credit agency services effectively
6. you communicate effectively with all internal and external stakeholders
7. you balance the risks and benefits of different credit rating decisions that you might make
8. you work co-operatively with the accounting function

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