

BUSINESS CREDIT MANAGEMENT ASSOCIATION

15755 West Rogers Drive, Suite 200, P.O. Box 510157 * New Berlin WI 53151-0157

(262) 827-2880 * FAX (262) 827-2899

www.wcacredit.org

Credit Fraud; What to Look For!

No company offering open account terms to new and existing customers is immune to credit fraud. However, there are a number of things that a prudent credit manager can and should do to reduce the chance that their employer will become the victim of credit fraud. Here is a list of some of the things the credit department needs to be aware of and look for as part of a program to reduce the risk of credit fraud:

- Always look a gift horse [and a gift order] in the mouth,
- Remember that COD orders are not risk free,
- Remember that Cashier's Checks are not risk free,
- Remember that requests to drop-ship products are not risk free
- Develop specific policies for scrutinizing new or relatively new accounts that suddenly want to purchase large amounts on open account terms. Most relationships start slowly, and large orders come only after the vendor has proven itself again and again,
- Be suspicious when a new customer needs large dollar orders delivered to them by overnight carrier,
- Watch the profit margins at which the sales are being made. If your company's profit margin is unusually high, it may be because the customer has no intention of paying the invoice anyway,
- Recognize that simply because a customer has enough money on deposit on a certain day to cover a check it has written does not mean that the money will be available when the check is presented for payment. By hand delivering the check for the first order to our salesperson late in the day, this customer was guaranteed at least one extra day of float on the check before it could be presented to its bank and ultimately returned due to insufficient funds,
- Make certain that your salespeople send checks to your lockbox, not to the main office. Since the check in question was mailed to our headquarters and then forwarded to our bank for deposit additional time was lost,
- When in doubt, ask questions - even if you feel uncomfortable or you think that it makes you look paranoid,
- Remember that unaudited financial statements made in support of a request for open account terms or in connection with a request for a higher credit limit may be a close approximation of the company's true financial conditions, or the financial data may be flawed, or the information provided may be pure fantasy,



BUSINESS CREDIT MANAGEMENT ASSOCIATION

15755 West Rogers Drive, Suite 200, P.O. Box 510157 * New Berlin WI 53151-0157
(262) 827-2880 * FAX (262) 827-2899

www.wcacredit.org

- Refuse to be rushed into releasing an order pending even when the order in question is a "hot, rush" order as this one was.

By Michael Dennis. Michael is a frequent Webinar presenter for WCA, and the author of the Encyclopedia of Credit, a fast, free, searchable online resource for credit professionals:

<http://www.encyclopediaofcredit.com/>. All Rights Reserved.

