Preparing for the Pre-Action Protocol

On October 1st, the Pre-Action Protocol for debt claims comes into force. Credit managers need to consider how this will impact their business process, recovery rates and risk profiles.

Implications stretch beyond the credit function, so a coordinated approach is needed.

By taking action now, credit managers can involve colleagues and ensure a smooth transition once the changes come into force.

6 Top Tips:

Segment your ledger. The PAP applies to individuals, including sole traders but not partnerships or companies. If your ledger is a mixture of debtor types, isolate the individuals to enable you to apply different litigation processes to each segment.

Identify required information and documentation. Ensure it can be cost effectively extracted from its current location and added to the Letter of Claim.

Tackle any process issues within your company. Where data is missing, set up processes to capture required information. Verbal contracts are a particular challenge. Co-ordinate with colleagues to ensure requirements are met.

Communicate with colleagues. Revising processes is collaborative, so involve colleagues early, explaining the need for change and potential benefits. Use the opportunity to improve your profile by showing that you are informed and proactive.

Speak to your suppliers. The Letter of Claim is lengthy, and many law firms will increase costs. Consider issuing the paperwork yourself, or work with suppliers to keep the additional overhead to a minimum.

Review your credit policy. Where legal costs increase or data is missing or expensive to extract, legal action may no longer be cost effective. Find alternative options for low value or difficult debts. Update your policy to reflect changes.

In addition to current LBA information, the Letter of Claim needs to contain:

- an account statement
- Contract date
- Contracting parties
- Debt assignment information
- Verbal contracts need to say who, what. where, and when the agreement was made

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