**# Successfully carry out the necessary credit checks and authorisation procedures .**

Any retail store’s primary objective is to enhance profits. Therefore, there is a need to identify the potential customers for making credit sales. Keeping this in mind, creditors must conduct credit check in order to understand whether customers have repaying capacity or not. This can reduce the risk of bad debts for the retailing firm.

**Meaning of credit check**

Credit check is a sort of search performed by the retailer to evaluate a customers’ creditworthiness. After a credit check a retailer is able to assess whether a customer can handle his or her money matters and fulfill the requirements for credit.

**Need for credit checking**

There is a need for credit check as it helps the retailer to assess if a customer is creditworthy. Given below are some of the reasons for conducting a credit check.

Credit check protects the interests of parties. It also ensures that each party has the capacity to enter into a transaction.

Retail firms should run a credit check on customers any time whenever the customers apply for a loan, hire purchase, credit card, store card or line of credit.

A credit check provides information about the customer’s mortgage, credit cards, arranged overdrafts, personal loans, car finance, hire purchases, and repayment history of customer’s phone accounts, etc.

A credit record is basically an account of any type of credit of the customer given for the last six years. It reveals how much money is being accessed by the customer and if the customer has failed to make any obligations, etc.

When applying for credit, a customer is asked by the lender for his consent to check the customer’s credit file. This allows them to see a number of things, such as address of the customer, current commitments and reliability of the customer.

The criteria vary from customer to customer. It is based on the financial profile and credit history.

**Positive credit reporting**

In the past, credit check included ‘negative’ behavior, which took place when customers failed to meet his obligations in financial dealings. The credit score is now calculated on the basis of this information, together with other credit activity in the customer’s file, such as previous enquiries from credit providers. This provides a clear picture of the customer’s finances, and shows if the customer’s have recovered from any credit difficulties in the past.

**Procedure for credit check on a prospective customer**

Checking credit is an important step before issuing credit, and allows you to make an informed decision about the level of risk associated with extending credit to the customer. Before retail firms extend credit to a customer, it is an important step to check a customer’s credit history.

Before offering credit, the retailers gets a credit

application form filled and sign by the customer.

**The information to be collected from the customers**

**for credit check is as follows:**

**Release of information:** In order for the retailer to do a complete credit check on a customer, they will need the customer’s permission.

**Signature**: A signature on the credit application form means that the customer has read and understood all the terms and conditions listed and also agrees with them.

**Address**: Having the correct address will assure

that a credit check pulls up the right information.

**Employment:** Accurate employment information of the customer allows retailers to take a look into the customer’s employment history to see how long he or she were at each job.

**Legal and company procedures for getting authorisation -**

A person’s credit history is private. Therefore, a retail firm needs to seek permission from the customer before accessing any information legally.

**How to get credit report**

Customers provide the necessary information for credit purchase. A retailer accesses the information and makes a report. The retailer can directly ask the customers for their credit worthiness and write it in their credit report.

**Steps to follow before granting a credit**

If a business firm decides to offer credit terms to the customers, it should try to ensure that these customers will be both willing and able to pay in accordance with the agreed-upon terms. It is recommended that the firms follow a structured process for this. Therefore, a firm may consider the following steps.

**Create credit policy:** Every retail store must create their credit policy. It will help them in running the retail business. It includes payment policies and expectations.

**Customers must complete the credit application:** The application should provide key information about the customers.

**Check the customer’s references:** Asking customers to list references also helps.

**Run credit check:** It will help in revealing any

outstanding payments against the customer.

**Request personal guarantee from customer:** It is not necessary in the case of a retail store, however, it is a personal guarantee from the customer.

**Take security interest in products:** As customers can refuse to pay according to agreed upon terms, a retailer should ideally charge security interests.

**Set credit limits and payment terms:** Set limits for the customer who seem to be creditworthy. Also decide how many days after the delivery of the products the full payment will be made.