

Good Payment History Element

Users can build up Good Payment History by paying monthly invoices on time. The amount of cover that can be earned will differ between distribution services areas but can build up to 60 months' worth. Where Late Payment of an invoice occurs all Good Payment History is lost.

In the examples below £15,000 has been used as the monthly amount of Cover earned:

Timeframe (months)	Cover Earned
1	£15,000
12	£180,000
24	£360,000
36	£540,000
48	£720,000
60	£900,000

The potential to earn a maximum of £900k worth of Unsecured Cover does not seem appropriate when taking into consideration the number of relatively recent supply business failures.

Option 1 (current proposal)

The Good Payment History earned could be reduced to a maximum of 24 months which still provides the potential to earn £360k worth of Unsecured Cover.

Within 6 months of earning 24 months' worth of Cover a form of secured Cover must be used e.g. Letter of Credit / Parent Company Guarantee.

A common payment matrix could be introduced to show the impact late payment has on the Unsecured Cover that's been earned.

Option 2

The Good Payment History earned could be reduced to a maximum of 36 months which still provides the potential to earn £540k worth of Unsecured Cover.

Within 6 months of earning 36 months' worth of Cover a form of secured Cover must be used e.g. Letter of Credit / Parent Company Guarantee.

A common payment matrix could be introduced to show the impact late payment has on the Unsecured Cover that's been earned.

Option 3

Another option could be that 60 months remains the timeframe, but the value of Cover earned diminishes over the five years, for example:

Timeframe (months)	Cover Potential	Cover to be Applied (%)	Cover Earned
1	£15,000	100%	£15,000
12	£180,000	100%	£180,000
24	£360,000	100%	£360,000
36	£540,000	60%	£324,000
48	£720,000	30%	£216,000
60	£900,000	0%	£0

By the five year point a form of secured cover must be used e.g. Letter of Credit / Parent Company Guarantee.

This may require changes to systems.

A common payment matrix could be introduced to show the impact late payment has on the Unsecured Cover that's been earned.

Summary

