

SOP Template: Late Payment Reminder and Penalty Enforcement Process

This SOP describes the **late payment reminder and penalty enforcement process**, outlining steps for timely notification of overdue payments, communication protocols with customers, calculation and application of penalties, and documentation requirements. The purpose is to ensure consistent handling of late payments, encourage prompt settlements, maintain financial discipline, and reduce outstanding receivables effectively.

1. Purpose

To outline a standardized procedure for managing late payments, communicating with customers, applying penalties, and documenting relevant actions to support efficient accounts receivable management.

2. Scope

This SOP applies to all receivables due from customers where payment terms have not been met as per the agreed contractual conditions.

3. Responsibilities

- **Accounts Receivable Team:** Monitor overdue accounts, issue reminders, calculate and apply penalties.
- **Customer Service Team:** Communicate with customers regarding overdue payments and penalties.
- **Finance Manager:** Approve penalty waivers or escalations as needed.
- **Documentation Officer:** Maintain records of all communications and actions taken.

4. Procedure

Step	Description	Responsible
4.1	Review aging report to identify overdue accounts (daily/weekly basis).	Accounts Receivable Team
4.2	Send 1st late payment reminder (email/letter/call) to customer upon missed due date.	Accounts Receivable Team
4.3	Issue 2nd reminder if payment is not received within 7 days of 1st reminder.	Accounts Receivable Team
4.4	Send final demand notice after 14 days overdue, including penalty details.	Customer Service Team
4.5	Calculate late payment penalty according to contract or standard rate (e.g., % per month on outstanding balance).	Accounts Receivable Team
4.6	Apply penalty to customer's account and send updated statement.	Accounts Receivable Team
4.7	Document all communications and penalty applications in the system.	Documentation Officer
4.8	Escalate unresolved accounts (e.g., over 30 days overdue) to Finance Manager for further action (including possible legal collection procedures).	Accounts Receivable Team / Finance Manager

5. Communication Protocols

- All reminders must include invoice details, due date, total outstanding, and clear payment instructions.
- Penalty details and applicable interest rates must be communicated transparently.
- All customer communications should be professional, accurate, and documented.

6. Calculation and Application of Penalties

- Penalties to be calculated as per contract or agreed terms (e.g., 1.5% per month on outstanding balance).
- Update penalty in accounting system upon application and reflect in next customer statement.
- Penalty waivers or adjustments require Finance Manager's approval.

7. Documentation Requirements

- Maintain copies of all reminders, notices, communications, and penalty approvals.
- All records should be stored securely and retained as per company policy (e.g., minimum 5 years).
- Ensure data privacy and confidentiality in line with legal requirements.

8. Review and Updates

- This SOP must be reviewed annually or when there are changes to company policy or legal requirements.
- Updates must be communicated to all relevant personnel.