RISK PROTECTOR

Your First Line of Defence Against Director Liability, ATO Enforcement and Asset Exposure

BUSINESS & DIRECTOR RISK IDENTIFIER TOOL — NO. 36

Creditor Escalation Reading Guide

Is This Escalating or Just Pressure?

Read this guide to assess whether a creditor's behaviour is following a genuine escalation pattern toward legal action

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WHAT THIS GUIDE DOES — AND WHAT IT DOES NOT DO

Creditors follow predictable escalation patterns. A creditor who intends to take legal action almost always moves through a sequence — informal contact, formal demand, solicitor engagement, statutory or court action — before pulling the trigger. Most directors cannot read this sequence accurately. They either overreact to early-stage pressure or, more dangerously, underreact to late-stage signals that look similar to the earlier ones.

This guide helps you read the pattern of a specific creditor's behaviour and assess whether it is following a genuine escalation sequence toward legal action — or whether it is sustained pressure from a creditor who is unlikely to act formally. It does not tell you how to respond. What it does is tell you where you are in the sequence and how much time you likely have before the situation changes.

1	Focus this guide on one specific creditor. If you have multiple creditors applying pressure, complete this guide separately for each one — different creditors are at different stages of their escalation sequences.
2	Answer based on the full history of this creditor's contact with you — not just the most recent communication. The pattern over time is more revealing than any single contact.
3	The verdict panel beside each answer identifies where that specific signal sits in the escalation sequence. Read them in order — together they map the creditor's trajectory.
4	A creditor who has moved through multiple escalation stages simultaneously — formal demand, solicitor involvement, legal references — is closer to formal action than any individual signal suggests on its own.

SECTION 1 — Communication Pattern

How has this creditor's contact with you changed over time?

1 Has the creditor's contact moved from informal phone calls or emails to formal written letters or documented demands?

☐ YES	☐ NO	☐ UNSURE
— Contact remains informal — phone calls, emails, reminders. This is early-stage pressure. The creditor is seeking payment but has not yet committed to a formal legal pathway.	— Contact has shifted to formal written correspondence. This is a clear escalation signal. Formal written contact creates a documented record the creditor intends to use in proceedings. The shift from informal to formal is the most reliable early indicator of genuine escalation.	— You are not certain whether the contact has formally escalated or is still informal. Review all correspondence from this creditor. The shift from phone to letter — even if the language is still polite — is an escalation step.

2 Has the frequency of the creditor's contact decreased in recent weeks — after a period of regular chasing?

☐ YES	☐ NO	☐ UNSURE
— The creditor is still actively pursuing payment through regular contact. Regular contact, while uncomfortable, typically indicates the creditor is still in the negotiation or pressure phase rather than the legal action phase.	— Contact has gone quiet after a period of regular chasing. Silence from a creditor who was previously active is often more alarming than continued contact. It frequently means the creditor has handed the matter to a solicitor or debt recovery agency and formal proceedings are being prepared.	— You are not certain whether contact frequency has changed. Review the dates of all correspondence from this creditor. A gap of more than three weeks after regular contact is worth noting carefully.

3 Has the creditor's communication remained focused on requesting payment — rather than referencing legal rights, legal action or consequences of non-payment?

☐ YES —	☐ NO —	☐ UNSURE —
The language remains payment-focused rather than enforcement-focused. This suggests the creditor is still in the commercial resolution phase and has not yet moved to asserting legal rights.	The creditor's communication now references legal rights, consequences, legal action or formal proceedings. This language shift is deliberate. Creditors are advised by solicitors to use specific language before commencing proceedings to establish that the debtor was warned. This is a late-stage escalation signal.	You are not certain whether the creditor's language has shifted. Re-read recent correspondence looking specifically for references to legal rights, consequences, solicitors or formal proceedings. Any such reference changes the urgency level.

SECTION 2 — Third Party & Formal Action Signals

Has the creditor engaged external parties or taken formal steps?

4 Is all communication still coming directly from the creditor — with no involvement from a solicitor, debt collector or recovery agency?

☐ YES —	☐ NO —	☐ UNSURE —
No third party has been engaged. Direct creditor communication indicates the matter is still being managed internally. Third party engagement is a significant escalation step that typically precedes formal legal action.	A solicitor, debt collector or recovery agency is now involved. Third party engagement means the creditor has accepted that internal efforts have failed and is preparing for formal action. The timeline to legal proceedings shortens significantly from this point.	You are not certain whether a third party has been engaged. Check the letterhead and email addresses on all recent correspondence. Any reference to acting 'on behalf of' the creditor, or correspondence from an unfamiliar firm, indicates third party involvement.

5 Is the company free of any formal legal documents from this creditor — including letters before action, Statutory Demands, court summons or wind-up applications?

☐ YES —	☐ NO —	☐ UNSURE —
No formal legal documents have been served. The creditor is still in the pre-litigation phase. While this is a better position than having received formal documents, the absence of formal documents today does not mean they are not being prepared.	A formal legal document has been received from this creditor. This is no longer pressure — this is formal legal action in progress. The specific document determines the urgency: a letter before action allows time to respond; a Statutory Demand triggers a 21-day clock; a wind-up application is immediate. See Tools 15 and 12 as applicable.	You are not certain whether any formal legal documents have been received or filed. Check with your registered office and your accountant. Court documents can be filed without the director being immediately aware. Uncertainty here must be resolved today.

6 Has the creditor continued to accept partial payments or payment arrangements — without threatening to void those arrangements or accelerate the debt?

☐ YES —	☐ NO —	☐ UNSURE —
The creditor is still engaging with payment arrangements. A creditor who continues to accept partial payments is typically still in the commercial resolution phase and has not yet decided to pursue full legal recovery.	The creditor has rejected or voided payment arrangements, accelerated the debt or declared the full amount immediately due. This is a late-stage escalation signal. Acceleration of debt typically precedes formal enforcement action and removes the time available for negotiated resolution.	You are not certain whether any payment arrangement is still in good standing. Contact the creditor or check correspondence to confirm whether the arrangement remains current. A payment arrangement that has lapsed without your knowledge may mean the debt has been accelerated.

SECTION 3 — Personal Exposure Signals

Is this creditor's escalation creating personal consequences for you as a director?

7 Has all creditor communication to date been addressed to the company only — with no direct contact to you personally as a director or guarantor?

☐ YES —	☐ NO —	☐ UNSURE —
The creditor is still engaging at the company level. No personal liability claim has been made directly against you. This is	The creditor has contacted you directly as a director, a guarantor or an individual. Direct personal contact	You are not certain whether any correspondence has been addressed to you personally.

a better position than having been contacted personally — but it does not mean personal liability cannot arise.	from a creditor or their solicitor means they are either calling a personal guarantee or asserting personal director liability. Your personal assets are now in the creditor's line of sight. See Tool 18.	Review all correspondence carefully. Personal contact is sometimes buried in correspondence addressed to the company but copied to you individually. Any personal reference changes the position.

8 Is this creditor's debt the only significant financial pressure the company is currently facing — with no other creditors, ATO issues or cash flow stress layered on top?

☐ **YES** — This creditor is an isolated pressure point rather than one of several simultaneous stresses. An isolated creditor issue is more manageable than one that sits within a pattern of broader financial stress.	☐ **NO** — This creditor's pressure is one of several simultaneous financial stresses. Multiple creditors escalating at the same time compound each other. The ATO, a bank and a trade creditor all moving toward enforcement simultaneously creates a convergence that is far more dangerous than any single creditor acting alone.	☐ **UNSURE** — You are not certain whether other creditors are approaching a similar escalation point. Review all outstanding creditor positions. If more than one creditor is following the pattern this guide describes, contact Risk Protector for their take on the subject before any response is made.

9 Do you have a clear understanding of where this creditor sits in their escalation sequence — and what the next step is likely to be if the debt is not resolved?

☐ **YES** — You understand the creditor's escalation position and the likely next step. This situational awareness is essential for managing the response correctly. Knowing what is coming allows you to prepare rather than react.	☐ **NO** — You do not have a clear read on where this creditor is in their escalation sequence or what comes next. That uncertainty is itself a risk — you cannot prepare for a step you do not see coming. Before briefing any adviser on this creditor, best practice is to get a free A13 Structural Exposure Assessment from Risk Protector first — so your complete structural exposure is understood alongside this specific creditor position.	☐ **UNSURE** — You are partially aware but have gaps. Contact Risk Protector for their take on the subject before engaging any adviser to respond. Understanding the full picture before any response is made is the single most important step.

SECTION 4 — Your Overall Situation Assessment

Based on your answers — is this creditor escalating toward legal action or maintaining pressure?

✓✓ MOSTLY YES — PRESSURE, NOT YET GENUINE ESCALATION

Your answers suggest this creditor is applying commercial pressure but has not yet moved into a genuine legal escalation sequence. Contact remains direct, no third parties are involved, no formal documents have been served, and payment arrangements are still being accepted. This is not a comfortable position — it is a window. The time between pressure and escalation is when the most options are available. Use it to stabilise the company's financial position and manage this creditor proactively before the window closes.

MIXED ANSWERS — ESCALATION SIGNALS PRESENT — TIME IS REDUCING

Your answers show a creditor who has moved through one or more genuine escalation steps — formal written contact, language referencing legal rights, third party engagement, or rejection of payment arrangements. These are not pressure signals — they are escalation signals. The time available to resolve this commercially rather than legally is reducing. Before briefing any adviser on how to respond, best practice is to get a free A13 Structural Exposure Assessment from Risk Protector first — so your complete structural and personal exposure is understood alongside this creditor's position.

✗ MOSTLY NO OR UNSURE — ADVANCED ESCALATION — LEGAL ACTION IS LIKELY IMMINENT

Your answers indicate this creditor has moved through most or all of the escalation sequence. A solicitor is involved, formal documents may have been served or are being prepared, payment arrangements have been rejected, or the creditor has made personal contact with you directly. Legal action is likely imminent if it has not already commenced. Before engaging any adviser, best practice is to get a free A13 Structural Exposure Assessment from Risk Protector first — so that the response to this creditor is built on a complete picture of your structural exposure, your personal guarantee position and your full director liability, not just this one creditor relationship.

IF THIS GUIDE HAS CONFIRMED THAT THIS CREDITOR IS ESCALATING

A creditor escalating toward legal action does not exist in isolation. Their position connects to your company's solvency, your personal guarantee exposure, your ATO obligations and your full structural position. The Risk Protector A13 Structural Exposure Assessment maps that complete picture so that any adviser you engage responds with full awareness of everything that is relevant — not just this one creditor.

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This tool is a situation awareness guide only. It is not a diagnostic, not advice and does not replace a professional structural assessment. Risk Protector Pty Ltd provides strategic advisory services only. Not legal or financial advice. Covered by $50M Professional Indemnity Insurance.

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