FEDERATION OF EUROPEAN CREDIT MANAGEMENT ASSOCIATIONS

FECMA

Newsletter summer 2010 — number 26

From Glen Bullivant:

The crisis following the financial meltdown of 2008 and 2009 has continued to hang over the world's economies like an ash cloud from an erupting volcano. Governments from north, south, east and west are all in budget deficit mode, putting forward cuts in public expenditure the like of which have not been seen since the Great Depression of the 1930s. On the other hand, against this background, the various industrialised economies slowly emerge from recession. That emergence can hardly be likened to the beautiful butterfly appearing from the confines of a less than attractive chrysalis, but nevertheless does give some grounds for continuing optimism in some quarters. As this editorial is penned, it remains to be seen what the ultimate fate will be of the Euro, with the Greeks having cooked their books, Spain, Portugal, Ireland and Italy looking a little frayed around the edges, and the UK in a situation not experienced since 1945. The Euro itself had been in question in some quarters, but in others confidence remains, with Estonia now set to join in 2011.

I refer, of course, to an indecisive General Election in May, and the first UK coalition government since that bout of unpleasantness some 70 years ago. For several days, following the election in May, Messrs. Brown, Cameron and Clegg circled each other – not like matadors at a bull fight, but rather more along the lines of teenage lads at their first grown up dance, trying to decide who to ask to get up and boogie with them. The land mass of the European Continent (often cut off when there is fog in the English Channel) is quite used to the experience of coalition – the various voting systems in European countries tend to generate such happenings quite regularly. The Brits, on the other hand, find the spectacle rather novel – the old fashioned "first passed the post" electoral process has very rarely resulted in what is referred to as a hung parliament, and more often than not, one party or the other has secured a working parliamentary majority, in some cases almost irrespective of the number of votes actually cast by the great British public. All that could now change.

As part of the "will you dance with me" deal, the Conservative Prime Minister and the Liberal Democrat Deputy Prime Minister have agreed a revue of the voting system, probably along the lines of the "alternative vote", and have also agreed that parliament should have a term fixed for five years. This is designed to prevent the sitting PM from using his or her own judgement as to the right time to go to the country and remove all the speculation which preceded the May 2010 election as to when and if Gordon Brown would seek dissolution and call an election. That agreement out of the way, David Cameron and Nick Clegg get down to the business of cutting budget deficits, which brings them into same arena of likely public conflict facing governments all across the globe. The general consensus would suggest that we all know that it has to be done, but that we all hope that it will be fair and across the board – in other words, if there is pain to be endured (and there is), then we all share that pain, and that includes the rich bankers and speculators, and not just the guy in the factory or the girl in the call centre.

Continue on page 2…….

There has never been a better opportunity than now for empowering the credit profession right across Europe. The credit manager, controlling as he or she does the largest current asset on any company's balance sheet, is at the centre of profitable business growth, customer service, and cash flow enhancement. Any company which seeks to be seen to be fair when downsizing across the whole organisation is being foolish at best and financially suicidal at worst if it cuts deep into its credit and cash management operation. It might make economic sense to reduce the number of crew on board the 747, but making the pilot redundant is not really the right thing to do if you want to keep flying.

FECMA remains at the forefront of credit management in Europe, with a number of initiatives ongoing at the present time – an active council meeting regularly is the tip of the iceberg. More important is the work going on in between meetings of council: an enhanced website with a growing content of tips and information for credit managers from Barcelona to Berlin; the sharing of knowledge and experience beyond the confines of national boundaries; and the growing involvement in important issues at European as well as national level. There is a resurgence of interest in a stronger, more influential FECMA, with the beginnings of credit management associations in countries like Hungary and the Czech Republic. They were welcomed at the last FECMA council meeting in the Dutch capital of The Hague, along with our colleagues from Spain who are coming back into the front line of European credit management.

Governments, coalition or otherwise, may come and go but we are all faced with a financial mountain of unprecedented proportions to climb – as one who has lived through a number of recessions of varying degrees of severity over the years, I am convinced that it will only be by working together that we will achieve our goals. Those goals are sensible, pro active, sales enhancing credit management practices across the whole of the Continent and the credit manager acknowledged as the one who got the company through the dark times. This column has said many times before that the commercial credit manager remains the key to commercial success, with the banks at best playing a secondary role – if only credit managers had been listened to in 2005, 2006 …… no point in going over old ground, but every point in learning the lessons and listening in future.

FECMA members:

Austria	**www.credit-manager.at**	**Ireland**	**www.iicm.ie**
Belgium	**www.ivkm.be**	**Italy**	**www.acmi.it**
Denmark	**www.dkforum.dk**	**Malta**	**www.macm.org.mt**
Finland	**www.luottomiehet.fi**	**Netherlands**	**www.vvcm.nl**
France	**www.afdcc.com**	**Sweden**	**www.kreditforeningen.se**
Germany	**www.credit-manager.de**	**United Kingdom**	**www.icm.org.uk**

FECMA Prospective members:

Spain **www.gerentescredito.com**

Czech Republic

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Review: Lecture „ Credit Management – the right balance between opportunity and risk“ at the **VfCM Federal Congress**

Credit Management: supporting pillar of corporate success in times of crisis

The management of credit risks is one of the most important corporate tasks in times of crisis. As efficient credit management in a customer relationship perceives risks as well as potentials, consolidates the same and thus makes an active contribution to corporate success. This is the conclusion of Dr. Michael Sauter, CEO of the GUARDEAN GmbH, in his lecture at the most recent VfCM Federal Congress.

Under the title „**Credit management as lifebelt in times of recession**“, also this year the VfCM Federal Congress was the central event for all topics regarding the granting and management of credits in everyday business. In his lecture „Credit Management – the right balance between opportunity and risk“ Sauter described the modern credit management as supporting pillar of corporate success in times of crisis: „Credit management offers new ways to ensure turnovers, thereby ideally exploiting the potentials of existing customer relationships and developing new turnover potentials.“

Furthermore, Sauter said that „the close integration with other departments in the company like sales is essential for a functioning credit management. Only these synergies help all departments to fully unfold their achievement potential in dealing with new and existing customers.”

In preventing risk, credit management would be one of the most important tasks. However, in order to also work value-enhancing beyond risk prevention, in future the credit decision would not only have to focus on the risk but also on the customer wish. Therefore, the credit managers´ task has to be the sounding out of possible opportunities and risks of the business relationship in a way that the customers´ purchase intention can be met. The synergy effects of this integrated credit management may significantly contribute to the enhancement of corporate success. Sauter presented in his lecture the following theses and in particular focused on the processes along the customer life cycle:

1. Currently, for corporate success a risk-oriented alignment of the companies throughout all phases of the customer life cycle is more important than ever

Given the current economic situation companies are confronted with an increasing number of insolvencies, a declining payment behavior as well as augmented bad debt losses. For companies this means that they have to identify risks at an early stage in order to be able to take immediate actions.

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This is the only way to still achieve their revenue targets and to ensure liquidity. For the early diagnosis of risks a reliable and professional risk management in all stages of the customer life cycle is essential: ranging from lead management through the management of existing customers to the claims management and the transfer to collection. This means: risk management is not restricted to downstream functions of the financial area but already starts with the identification of potential customers in the sales department. Not the turnover generated with the respective customer should be the measured value of a risk-oriented alignment but the returns generated with him.

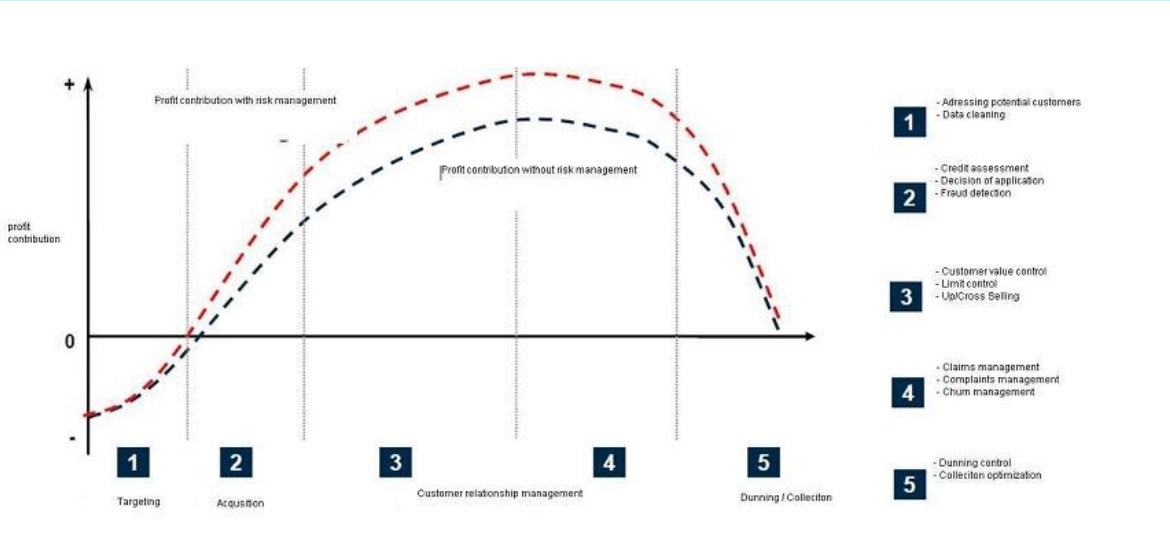

figure 1 „Profit contribution with and without risk management“

2. The balance of customer risk and customer potential is crucial for an optimum achievement of company goals

Although the companies´ risk orientation is essential in times of crisis, each customers´ potential must not be disregarded. With an integrated approach to the customer and the aligned processes the optimum balance can be created.
In the course of the customers´ life cycle, in particular the following processes should be viewed regarding the customers´ value and the risk aspect:

- The determination of the correct target group and transfer in reliable leads in the process of customer acquisition is as important as the early identification of risks in the decision of application, e.g. by application scorings, credit agency requests and blacklist checks.

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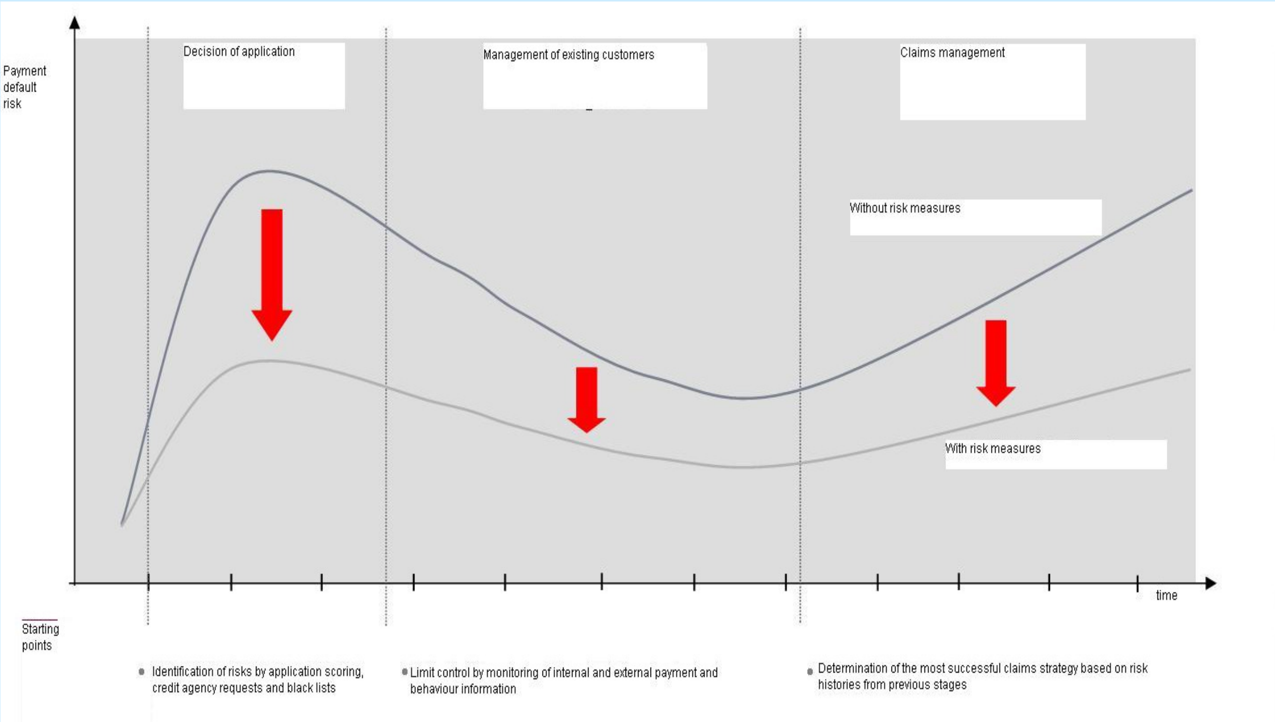
- In the management of existing customers the customers´ opportunity and risk may be optimally balanced through pro-active limit control as well as its monitoring. The credit manager knows by the limit exhaustion in combination with the customers´ rating class whether this is a case of cross and up selling or if there is an increased risk potential. In this way, targeted sales actions as well as preventive measures may be taken in order to early and pro-actively avoid payment defaults.
- Particularly, in the claims management processes, the weighing up of potential and risk plays a key role. Here, it is necessary to develop a successful claims strategy based on risk histories of earlier stages in the customers´ life cycle and on the basis of the likeliness of a payment. From the respective customer segmentation the communication strategy, the intensity of support as well as the intensity and duration of the default action can be derived.
- Also in case of the traditional value-oriented processes like customer loyalty and customer retrieval the customer analysis should be integrated in the process with respect to the risk aspects as well. The effort of the measures has to be in the right balance to the customers´ value but also to the risk potential.

(See figures 2 & 3 „Analysis of default risk and customer value without and under consideration of risk measures).



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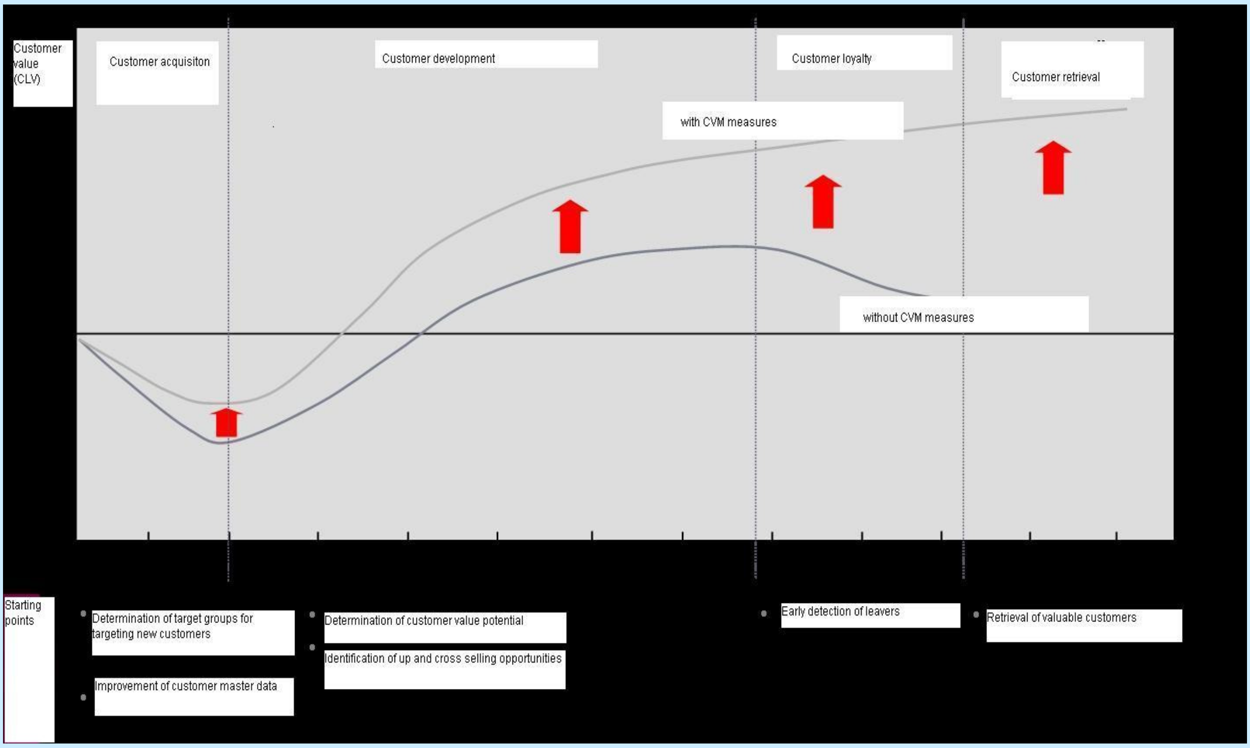

3. The credit manager in his customer analysis combines both sides – opportunity and risk – and is ultimately supplement to the sales department instead of opponent

The holistically customer analysis under the aspects of potential and risk can only be provided in close cooperation between credit management and sales department. The credit manager hereby ensures the optimum combination of risk and opportunity by a pro-active identification and control of risks and by its advisory function in the company.
For an efficient cooperation of sales department and credit management Sauter emphasizes the following approaches:

- The definition of common objectives.
- The joint analysis of customer segments according to risk and potential.
- Efficient processes as well as the use of IT-systems between sales and credit management.
- Understanding – On the part of both the sales department and the credit management – for the perspective of the other and readiness to corporation in the interests of the company.

These starting points offer a holistically view on the customer and the focusing on its buying desire. In this way, a company also in times of crisis can act value-enhancing – and all this at reduced risk.

If you are interested in a documentation on Dr. Michael Sauter´s lecture please send an email to: info@guardean.com

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By Søren Kargaard, CEO
Chairman of the Danish Credit Management Association

Turning the roles – is your bank at risk?

The financial crisis has shaken traditional beliefs and demonstrated that all things are not necessarily what they appear to be. This article puts the spotlight on the company's banking relationship – a relationship that can mean life or death to companies in times of credit squeeze.

In order to be able to produce and sell goods, most companies need liquidity. There are numerous ways to obtain liquidity, but it would be fair to estimate that a majority of companies make use of a bank to provide the necessary credit facilities.

So far so good – unless the company operates with an unusually positive liquidity in a cash-based environment, all transactions pass through a bank account, very often in combination with an overdraft facility, enabling the company to equalize all payments operations over time, regardless of any differences in the timing of the in- and outgoing cash flows.

Most companies will treat their bank account accordingly, i.e. as a debt or a liability in the books. More important – mentally the banks are considered as creditors.

This is probably the first mistake. The bank could easily be one of your most important debtors, but you do not encompass the relationship with the normal governance of credit management.

Your traditional suppliers will offer you credit simply because they want you to buy their goods. Maybe it has become a custom in their industry, maybe you have negotiated some favourable payment terms. Under all circumstances, the credit is given to facilitate both parties' interest in trading. The size and extension of the credit is relative to your importance for your business partner.

Banks provide credit for a living. Their interest income is determined by the total size of their loan portfolio, and you are only a very small part of it. In other words…you depend more on them than the other way round. The relationship is and will never be fully balanced.

Mistake number two is linked with your free, disposable liquidity. The free and disposable liquidity is the surplus liquidity needed to balance the cash flows of your company. Very often more than 90% of a companies' free liquidity is represented by the difference between the actual level of debt on the overdraft facility and the credit maximum of the credit line.

How do you then treat this free, disposable liquidity ? Try to imagine that this liquidity was cash, gold or a bank deposit. How would you protect it ? In the first two cases, presumably through keeping cash or gold in a safe with an alarm, in the last case through evaluating if the bank is sufficiently solid. If in doubt, you would maybe tend to use more than one deposit bank.

Synthetic balance sheet. Is the bank a creditor or a debtor?

ASSETS		*LIABILITIES*	
Non-current assets	*50*	*Equity*	*25*
Inventories	*15*	*Bank debt*	*50*
Trades receivables	*35*	*Trade payables*	*25*
TOTAL ASSETS	*100*	*TOTAL LIABILITIES*	*100*

Note: Unused credit lines: 30

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Most companies will regard the bank as a creditor, when in fact the bank is one of the most important "debtors" of the company.

So back to the question – how do you secure the company's liquidity, if it only appears as a small note in your annual accounts?

A potential answer could be; "we have a written credit agreement with the bank, so we are not at risk". Well, maybe you are right. But in most cases you are probably wrong. And even if you have a strong legal credit contract, it is of no use if the bank faces a severe liquidity shortage, suspends its payments or goes bankrupt – as seen in some cases during the current crisis.
Banks are usually professionally run companies. Credit management is a key skill, and the reaction patterns are typically quite quick. In normal circumstances you can rely on the fact that your lines of credit in the bank are intact (or even growing), as long as you keep your part of the deals, and as long as you can show a healthy P&L and balance sheet development.

The agenda is changing

In times of crisis the agenda is changing. The current financial crisis has been characterized by a shortage of liquidity, which automatically leads banks to optimize the use of their disposable liquidity and strengthen the quality of the assets (loan portfolio). Some of the classis tools are

- Limiting lending to new customers
- Limiting the future exposure vis-à-vis customers through tougher credit policies for new lending
- Limiting existing exposure vis-à-vis customers through reduction (or removing) of already existing credit lines
- Implementing stronger financial covenants, to speed up reaction pattern
- Demanding new or additional security

When the tide is turning, do not expect to be called for a meeting with 2 weeks notice. Lines of credit may be cut away over night or with extremely short notice.

A decision within your bank to cut down your line of credit is not necessarily linked with bad performance on the side of your company. The key factor in banking is equity. The necessary level of equity is regulated by law, and will typically follow international capital adequacy rules. Should the level of equity decrease below the threshold, the bank will be forced to report to the national Financial Services Authority (FSA), who in turn will put up a (typically very short) deadline to restore the appropriate level of equity. The purpose is clear; to protect customer deposits. Unfortunately, protecting you line of credit is not part of this mission.

Not only actual balances on credits go into the equation, when bank calculate their equity ratio. Also unused, promised credit lines are subject to equity requirements,
Hence the incentive for a distressed bank to make quick reductions on unused credit lines.

How do you protect your company?

First of all…take the matter seriously. A credit squeeze can mean life or death for a company. Second - make your "contingency plan". The following elements may be useful:

- Avoid mistake number one - regard your bank as a creditor and a debtor at the same time. Acknowledge that a bank is a privately owned and run company, operating on very dynamic (sometimes risky) markets and subject to detailed regulation, due to a very low capital base - in comparison with other industries. Their responsibilities and duties towards private customers, shareholders and regulators sometimes force them to act in a way that does not seem logical from your point of view.

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- Evaluate the relative risk level of your bank as a debtor on an ongoing basis. Look for gearing ratio, large exposure towards single industries or customers, and benchmark cost of risk level versus the industry and - not the least - equity ratio requirement (if published) compared to industry average.
- Avoid mistake number two - protect your "free credit line. Read the terms of the credit contracts and determine the reaction time, you can expect from your bank.
- Consider using more than one bank. But be aware - unused credit lines tend to be closed over time. Bank no. 2 will also require to participate to the management of your companies cashflow, investments etc.
- Optimize the use of credit lines from your suppliers. If the size of credit is negotiated - make sure that the lines are sufficient.
- Consider not netting deposits and debt! From a pure financial point of view, cashpooling is the cleverest way to minimize capital cost. But putting all your eggs into one basket may turn out to be risky….

If you are a credit manager, and the management of the credit risk related to your bank is not already under your scope, you could either hope that some one else in your company is managing it - or you could start doing it. The choice is yours, the reward could be substantial.

From the Secretariat

by Pascale Jongejans,
From SecretariaatsBuro B.V.
Bussum, the Netherlands

Fecma council meeting on 28th May 2010

The Netherlands hosted this spring the Fecma Council meeting. On the 27th May, Mannes Westhuis, retired as the chairman of the Dutch Credit Management Association (VVCM) and with a beautiful reception and dinner in the Nieuwe Kerk in The Hague we said goodbye to him, together with a lot of members of the VVCM.
On Friday the 28th the Fecma Council meeting took place. As you could read already in the Presidents column we welcomed three prospect members: Hungary, Czech Republic and Spain! On page 10 you will find a short introduction of all the three of them. Amongst the agenda items was the discussion about a questionnaire which was filled out by each Fecma member concerning the value of the Fecma membership. The overall impression is quite positive, bearing in mind that motivations for membership of any organisation, national or international, are often driven by individual aspirations and not necessarily by wider considerations.

The crisis in Greece has far reaching implications for all credit managers, not least those who manage portfolios which cross those national borders. The Euro may well have to be "redrawn" (indeed, global economists are already talking of 2 or maybe 3 countries leaving the Eurozone within the next 5 years), and national debts, both inside and outside the Eurozone, are in need of urgent and immediate attention. Credit managers, through FECMA, can advise of their experiences, assist others in overcoming problems and difficulties and discuss all pertinent issues they come across in their working days. FECMA is there as the meeting and distribution point.

Some Fecma members mention closer working relationships with other bodies, such as FENCA. We have made a good start there by joining them in December 2009 for their EU Parliamentarians meeting. This clearly illustrates the main point – it is not the twice yearly FECMA Council Meetings which achieve the results, but the work of national associations in Germany, Belgium, Malta, Holland, UK etc. which support their involvement for the common good.

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The next **Fecma council meeting** will be on Friday 19th November 2010 in Paris! Valérie Collot, Vice President of Fecma is arranging a meeting in Strasbourg with the EU Parliamentarians to discuss Legislation, Data protection and other issues which all Credit Management Associations have in common.

On the picture below you see the Fecma council (with the prospective members).

Information on the FECMA Prospective members

Spain

The AGC, Asociación de Gerentes de Crédito has a history of 30 years controlling Risk – AGC is a senior Association in the Finance Sector. It was born when a group of professionals and executives in Credit Control and Risk Assessment with similar concerns, after taking part in one of the firms seminars in Spain about the functions and the figure of the Credit Manager, decided to join and create a professional association following the same lines as the Credit Managers Associations in Europe; some of them had been running already for a few decades. The representative for Spain is Araceli Fombellida.

Czech Republic

There is not yet an Association in the Czech Republic. Mark Harrison, involved in Credit Management for more than 20 years is setting up an association and he wants to join the Fecma as from the start as there is a need for European support and commitment. Their goal is to have their first meeting in the Czech in March 2011.

Hungary

The Hungarian Credit management Association is young and developing. Also they want to join Fecma for the benefit of the network, the European contacts and to professionalize the Credit Management Branch. Both Czech and Hungary are also looking at educational programs for Credit Managers. George Ivanyi is the representative for Hungary.

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Contribution by ACMI
Associazione Credit Managers Italia
By Antonella Bandello Credit Consultant Lecce

Crisis Management in Companies

Insolvency minors: Plans of reorganization and debt restructuring agreements 182/Bis LF.

Bankruptcy law (No. 267/1942), which was reformed in 2007, allows companies to address the crisis before ending up in court.

The major new features are:
Plans for debt adjustment, letter "d" art. 67 of the Bankruptcy Act, is the first solution to the crisis, initially recognising the complete autonomy of the sole entrepreneur, who then eventually, in case of failure of the rescue strategy, may decide to move to debt rescheduling agreements under Article. 182a L.F.

You set up a "plan" to redress the financial situation, as evidenced by an auditor or an auditing firm appointed by the company and reviewed and approved by creditors, which can provide guarantees on the debtor's assets, payment of claims even in percentage terms, deferred payments, agreements of remission and deferment.

With the introduction of the rescue plan as the cause of the Warranties set aside, lawmakers have prevented the businessman from dying alone, because due to the recall risk, no one (especially banks), would come to his aid.
These programs, by constituting a proper act of the entrepreneur, sees the major creditors and especially the banks involved. So it is the banks that decide whether a particular company is worthy of being saved or not.
If the company moves from a situation of great difficulty to a state of crisis, namely it becomes insolvent, the solution of the debt restructuring agreement, Art. 182/bis LF, aims to enable better management and private negotiation of the crisis, thus creating a viable alternative to the instrument of arrangement with creditors.

The positive aspects of the agreements:
• It is a competitive tender for small/medium sized enterprises;
• There must be agreement with more significant creditors, for at least 60% of total debts;

It opens a wider scenario of the possibilities of credit borrowing for the entrepreneur who, with expert advice, ensures its viability and will meet its commitments, including through the sale of future income or assets, or through a third party acting as guarantors, even with the provision of specific assets;

• it is not subject to being set aside for bankruptcy, but is scheduled for publication in the register of firms and the approval of the Court by motivated decree.

Instead, the agreements restrict their use to:
• fiscal problems, because if windfall profits resulting from remission of debt (which almost always accompany such arrangements) are not excluded from taxation, as is the case of estimated agreements, this creates strong limits on the convenience of very high costs. (Art. 88 paragraph 4 TUIR).

A brief mention of art. 182-ter of the new bankruptcy law, which allows for a partial or instalment payment of taxes administered by the tax agencies if the proposal is submitted together with a plan referred to art. 160 (estimated agreement)
In the current economic climate this will be appreciated by consultants, temporary managers, capable of restructuring debt, and mediation between companies and banks.

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By Josef Busuttil, Malta

MACM Celebrates its 10th Anniversary

This year MACM will be celebrating its 10th Anniversary and this success story could only have happened thanks to the continued support of its esteemed members. During the past ten years, MACM has achieved its objectives and has now established itself as the central national organisation for the promotion and protection of all credit interest pertaining to Maltese businesses.

MACM has been the catalyst to suggest good credit management practices within the Maltese business environment. It provides the right tools and systems, which assist businesses to act proactively when granting and managing credit.

MACM was also the pioneer to offer training and education in the field of credit management, hence supporting the Maltese business community. This was only possible thanks to its affiliation with FECMA. Strong relationship with other European Credit Management Associations was build throughout these years and MACM is the accredited Training Centre of the ICM (UK) in Malta. MACM believes that credit management education would present skilled credit controllers to local businesses.

Through its consistent lobbying activities, a number of pertinent issues have been addressed with the respective stakeholders and the local business community can now enjoy a safer credit environment.

Notwithstanding the above, the Council of MACM believes that there is always room for improvement and is committed to continue working towards a better credit environment in Malta. **Therefore, to mark its 10th Anniversary, MACM will be embarking on a number of initiatives which should help further MACM Members to protect their cash flow and ensure long-term profit**.

In the coming year, MACM pledges to continue enhancing its existing systems and services, whilst introducing other services to its members.

MACM is in the process of signing partnership agreements with Maltese and foreign institutions to provide new services to its Members. The objectives of these services are to help creditors, members of MACM, to grant and manage credit in a more professional manner.

During the course of this year, in-house credit management training, tailored to meet the needs of our Members, will also be provided. This service would help members train their employees at their office environment. These training programmes aim at sustaining long-term customer relationship, closing more profitable credit-sales, gaining competitive advantage in the market, whilst securing sound cash flow, which is the lifeblood of a business.

The Council and the Secretariat of MACM would like to thank its esteemed Maltese Members and FECMA counterparts for their continued support over the past years.

MACM Council & Secretariat

www.macm.org.mt