

FECMA *newsletter*

Federation of European Credit Management Associations

Number 14

Autumn 2005

The challenges ahead

At Credit Expo 2005 in Amsterdam on 24 and 25 November 2005, one of the topics to be aired will be the challenges facing credit managers in 2005 and beyond. Without wishing to pre-empt such a distinguished gathering of international credit management brain cells, it seems to me that the changing world is the greatest challenge. Things are happening in Europe – the euro carries on, but there are rumblings and mutterings from such diverse economies as Germany and Italy. France and Holland have voted down the European Constitution (a great relief to the UK's Mr Blair who still regards the prospect of putting it to the UK electorate in a referendum as his Arnheim - "A Bridge Too Far"). True, Luxembourg have given it a resounding thumbs up, but their decision equates to turkeys voting for the abolition of Christmas – the income from Euro bureaucracy is a major boost to the Lux economy. Notwithstanding the assimilation of the new 10, "old" Europe is beginning to see great shifts in working patterns, and some rather surprising things are happening. What is more surprising is that none of this has in reality anything to do with 9/11 or 7/7.

Take France and the United Kingdom for example. London in the first decade of the 21st century is now described as the cosmopolitan city full of opportunity, a description given to Paris in the 1920s. Back then, Paris was the destination for the young and the hopeful, the entrepreneurs and the thinkers, the free spirits and those determined to make something of themselves. In 2005, the educated young are leaving France in ever-increasing numbers (reckoned to be around 1,250,000 in the last 10 years) with the UK high on their destination list. True, the British are flocking to France in their droves, but as the outgoing French Prime Minister, Monsieur Raffarin, remarked wearily to Mr. Blair in 2004 "we send you all our young people and we are getting all your elderly". I've got news for you, Monsieur Raffarin, a bit on the autumnal side I may be, but I am very much in possession of all my faculties! The truth is that French employment laws, the strangling 35 hour week, the bureaucracy and the titanic 60 per cent tax and social security burden are sending the movers and shakers across the English Channel. French companies are eager to snap up British companies, from water companies to plasterboard manufacturers, in order to find ways of stimulating both growth and profit, at the same time as British companies find the going tough with their French subsidiaries.

For somebody who has had a career dominated by multinational employers and global players, it does not take a crystal ball for me to look at a situation where the parent company in Wisconsin, or wherever, looking to reduce costs and over capacity,

decides to close its UK plant, rather than go through the expense and trauma of trying to close works in France or Germany. The knock on effect of that is demise in the UK of "big" business and an explosive growth of small and medium sized enterprises. Yet again, the UK is fast becoming the leader in another Industrial Revolution, this time reverting to the individual entrepreneur. Perhaps it is this which is really attracting the best brains in Europe to head for Dover's white cliffs.

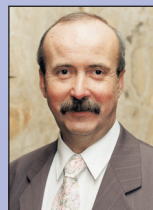
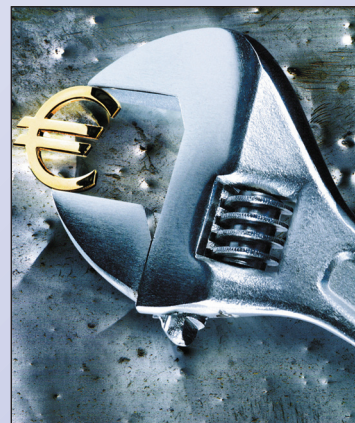
**Yet again, the
UK is fast
becoming the
leader in another
Industrial
Revolution ...**

No doubt in Amsterdam, they will talk about all those issues which dominate the credit manager's life today – outsourcing, credit insurance, factoring, call centres, shared service centres, electronic data, the Internet, and many other major topics. Perhaps the biggest challenge, however, rests in the temptation to say "I am not re-inventing the wheel any more", pull up the drawbridge and retreat to the Languedoc with a cellar full of Merlot. It is a fact that the world in which we live is smaller by the day, and the sneeze on Wall Street may well have us all reaching instantly for our handkerchiefs. The credit manager, however, is the company's radar screen, picking up the incoming dangers long before the rest of the business community has any inkling of corporate missiles or storm clouds. It is the credit manager who not only knows more about customer service than most people in customer service, but puts it into practice in order to ensure both satisfaction and payment. This radar screen is picking up a seismic shift, spreading throughout Europe and beyond – the next 10 years will provide a whole new meaning to the phrase "Chinese Take Away".

On a less serious front, I read that in Dresden, Hamburg, Dusseldorf, Munich and Cologne courses are being run by an outfit called The German Holiday Academy to teach workers how to leave work behind when on holiday and have fun with the family. Leave the mobile phone and the laptop at home; forget the personal organiser and get down to the real purpose of a family holiday – sandcastles, ice cream and rides on roller coasters.

Actually, the more I think about it, the more I wonder if that is not actually the most serious challenge of all.

Glen Bullivant
Editor, FECMA Newsletter



CREDIT EXPO 2005, Congress and Exhibition Amsterdam RAI

24-25 November 2005 - see www.creditexpo.nl for more information

Celebrating 15 years of VVCM

Although the credit management function is rapidly growing in Europe, there are few opportunities for European credit managers to meet each other and share knowledge and experience. This is why I am so delighted to invite you to Credit Expo 2005, a truly pan-European congress hosted in the Amsterdam RAI by the Dutch Credit Management Association. All those involved in credit management are warmly invited to join us for this event, where numerous topics relevant at both the micro and the macro level will be on the agenda. Credit Expo 2005 will also feature a special exhibition for suppliers of various credit management services. Our fifteenth anniversary celebration will help expand your network of European partners: I hope you choose to join us!

Mannes Westhuis, VVCM Chairman

What is Credit Expo?

Credit Expo is an initiative of Amsterdam RAI, the Dutch Credit Management Association (VVCM) and the Federation of European Credit Management Associations (FECMA). The conference is intended to become an annual credit management event and is designed for a wide audience, including non-professionals. It will

feature the following highlights:

Keynote congress

To commemorate its fifteenth anniversary, the Dutch Credit Management Association, VVCM, is organising a European Credit Management Congress together with FECMA and the Amsterdam RAI. The congress will focus on international credit management professionals, with various keynote speakers from the Netherlands and abroad sharing their knowledge, vision and experience. Over 500 participants are expected.

Comprehensive exhibition

More than 30 leading companies will present their products and services in the field of credit and cash management. Meet and network with exhibitors from all market segments, including bailiffs' officers, factor companies, software suppliers, insurance companies, credit information agencies, outsourcing experts, professional education providers, banking institutions and recruitment agencies. Visiting the exhibition is free of charge.



Audit requirement in Sweden - to be or not to be?

Whether or not there should be a requirement to audit has been verified. The background is that a new law for limited companies will be implemented in year 2006 and this means that all limited companies will continue to be audited. The audit requirement for all companies was introduced in 1983. This was approved by most relevant bodies.

In Europe, there is a possibility for member countries to allow an exception from the audit requirement for companies with a turnover of less than 7.3m euros that employ less than 50 staff. This is an option that most countries have chosen, although the limit for what is considered to be a small company varies between these countries. In other Nordic countries that have an audit requirement there is a similar debate going on. The debate has also been held in the press and by the industry organisations.

Following an investigation, the Confederation of Swedish Enterprise has concluded that the audit requirement cannot be defended for small companies.

The question is very complex and there are a number of factors to take into consideration. The Swedish Credit Association is presenting the arguments used in the debate and the factors that should be considered to allow the Association to be able to decide for or against.

Arguments AGAINST an audit requirement

- For small companies, the cost for audit exceeds the benefit.
- The audited annual report is of marginal value when making a credit decision. Credit information, other information and requirements of security from the owners are more important.
- Banks may require the company to audit as a condition of giving credit without this being a legal requirement.
- Most countries in the EU have taken away the audit requirement for small companies.

- Most countries in the EU have today are working hard to simplify matters for small companies.

Arguments FOR an audit requirement

- An audit contributes an element of 'business competence' to each company.
- The accountant guarantees compliance with laws and rules.
- The accountant guarantees the standard of auditing.
- The accountant's reporting assists in obtaining capital.
- The audit means that competition may be held under fair conditions.
- Credit information companies use the information from the annual reports and audit statements in their analysis of each company. Suppliers to small companies demand a basis for the credit evaluation of the company.
- More than half of the companies with a qualified audit statement had gone into liquidation within five years, compared with 20 per cent of companies with an unqualified audit statement. The earlier the risk of insolvency is identified, the greater the chance of avoiding liquidation.
- The presence of an accountant in a company has a preventative effect on economic crime.
- Since the formation of a limited company implies freedom from liability, a closer form of independent control is needed. If the company does not want to be audited, the activity may be run in the form of a partnership or single proprietorship.

There are many arguments for and against an audit requirement in small companies. A complete analysis of the different arguments used in the debate has not yet been made. Until such a comprehensive analysis has been made in cooperation with relevant interest groups such as suppliers, customers and creditors, a final decision may be difficult to reach.

Malta has joined ERM II - but there's still a long way to go!

Together with Cyprus and Latvia, Malta was approved to enter into the ERM II from 2 May 2005.

The ERM II is one of the four nominal Maastricht convergence criteria that must be met before a country can adopt the euro. Entry into ERM II implied re-pegging of the Maltese lira from a three-currency 'basket' (US\$, GBP and euro) to a single currency 'peg' – the euro. However, the Maltese lira remains the sole legal tender currency in Malta and the Euro is still a foreign currency like any other.

To adopt the euro is surely not an easy task for Malta and its authorities. Malta has to work hard to meet the requirements before it can join the euro zone. The Maastricht criteria state that:

1. the inflation rate, observed over a period of one year before the examination, cannot exceed by more than 1.5 percentage points that of, at most, the three best performing EU Member States in terms of price stability;
2. the government, at the time of the examination, should not be in an excessive deficit position. In principle this means that the ratio of government deficit to GDP should not exceed 3 per cent, or it should be close to 3 per cent, but approaching 3 per cent steadily and continuously. Higher deficits will only be considered if the EU considers them exceptional. Additionally, the ratio of government debt to GDP should not exceed 60 per cent, or it should be close to 60 per cent, but approaching 60 per cent steadily and continuously;
3. the Member State should have respected the normal fluctuation margins provided for by the exchange rate mechanism of the EU without severe tensions, especially without devaluing against the euro, for at least two years before the examination; and
4. the average nominal long-term interest rate must not exceed that of the three best-performing Member States in terms of price stability by more than two percentage points.

In order to satisfy the Maastricht criteria, the Maltese authorities committed themselves to pursue sound policies and to monitor closely any macroeconomic developments to maintain stability. This would mean a high degree of budgetary discipline from the government side to identify any defaults at an early stage and to take corrective measures accordingly and timely.

Quoting from the news release issued by the National Statistics Office – Malta on 8 March 2005, it transpires that, in

2004, the general government net borrowing (or deficit) was equivalent to 5.2 per cent of the Gross Domestic Product, and at the end of 2004, the nominal general government gross consolidated debt amounted to Lm1,868.9m, or 75.0 per cent of the Gross Domestic Product. Still a hard nut to crack!

The competitiveness of the Maltese economy is another area that must be addressed. Economic growth is critical. The figures show that total industry turnover dropped by 0.3 per cent in the first quarter of this year when compared to the same period last year. At the same time, employment was up four per cent and wages and salaries climbed by 5.1 per cent.

Nevertheless, after a period of two years in the ERM II, Malta will be examined by the ECB and the European Commission to determine whether it meets the Maastricht criteria and whether its economic and monetary legislation is in line with that of the EU.

Moody's Investors Service was reported to have said in a recent credit report on Malta that "Malta's hope of being able to adopt the euro in 2008 should be achievable, assuming that the government remains committed to its programme of fiscal consolidation".

Moody's also said that Malta also enjoyed relatively low inflation and unemployment, which averaged 2.7 per cent and 7.3 per cent respectively in 2004.

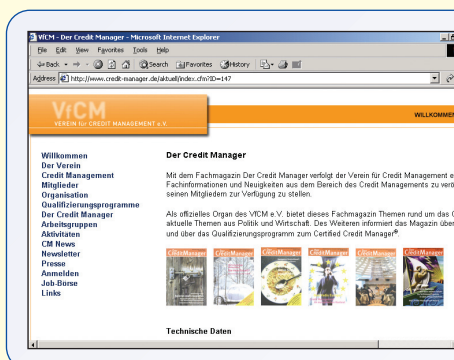
Malta's rating, the agency added, was constrained by a number of factors, of which the most important was the high and rising level of public debt, accumulated through years of fiscal slippage. At the end of 2004, the government's gross direct debt amounted to 75.6 per cent of GDP, the highest level among the new member states. The fiscal deficit is only expected to dip below the Maastricht criterion of three per cent of GDP in 2006.

Furthermore, Moody's said that the rating could improve with a sustained improvement in fiscal performance leading to a significant decline in the public debt and the rating would deteriorate if there was continued fiscal slippage leading to the further accumulation of public debt.

It said the entry into ERM II increased the likelihood that Malta would be able to adopt the euro by the beginning of 2008 but only if the government remained committed to its programme of fiscal consolidation.

Whether Malta fulfils Maastricht criteria and adopts the Euro by 2008 may be a political objective and a debatable matter, the critical economic issue for the well-being of Malta is surely for the government to reduce the public debt and to ensure that the competitiveness of the Maltese economy is improved and sustained.

Josef Busuttil, Malta Association of Credit Management



FECMA Members

Belgium	www.vlerick.be	Italy	www.acmi.it
Denmark	www.dkforum.dk	Malta	www.macmi.org.mt
Finland	www.luottomiehet.fi	Netherlands	www.wcm.nl
France	www.afdcc.com	Norway	www.dbpartner.no
Germany	www.credit-manager.de	Spain	www.gerentescredito.es
Ireland	www.icm.ie	Sweden	www.kreditforeningen.se
Israel	www.bdi.co.il	United Kingdom	www.icm.org.uk

Finnish credit businesses seek clearer rules for debt collection concerning under-age persons

In Finland each year, enforcement authorities claim millions of euros in debt from thousands of under-age persons.

Finland's Consumer Ombudsman has issued a set of guidelines relating to good consumer debt collection practices, including a recommendation that under-age persons should not be the subject of debt collection practices. According to the guidelines, this can be justified on the grounds that persons under 18 years of age cannot become indebted pursuant to any contract and cannot therefore be subject to debt collection measures. The guidelines state that the ban on purchasing on credit applies to all income of under-age persons, meaning that they cannot even use their earnings to purchase on credit.

Requirements set in the guidelines regarding good collection practice must also be complied with when undertaking collection procedures as, according to the guidelines, these requirements can be considered a part of a debt collector's public liability.

However, according to a report published recently by the Ministry of Justice, enforcement authorities in Finland annually claim millions of euros of debt from thousands of under-age persons. The majority of under-age debtors are 15-17 years of age, around 800 are under 15 years of age and of these some 300 are under 10 years old.

Luottomiehät-Kreditmännen ry, the Finnish member association of FECMA, and the Consultative Committee for the Credit Business consider that it is contradictory that a public authority denies

creditors and their representatives the right to collect a legally created debt from an under-age person, while an organisation that is part of the state's judicial system is allowed to enforce collections on even very young indebted persons.

An under-age person can become indebted for a number of reasons. The debt may be based on damage compensation liability, permission issued by a guardianship authority, or a liability for legality of purchase. Under-age persons may have incurred tax debt or raised study loans guaranteed by the state on their own account without the approval of a guardianship authority. It must also be noted that the Guardianship Services Act allows persons under the age of 18 years to conduct court action that can be considered routine and of minor importance.

An under-age person may freely conduct court action with funds earned through work or granted for use by the person's legal guardian. Such court action may entail various responsibilities.

Since persons under the age of 18 years may legally become indebted in a number of ways, creditors must be entitled to demand payment for what they are owed. It can be deemed obvious that if an under-age person is liable for a debt, collection should be targeted at this under-age person instead of his/her guardian.

Luottomiehät-Kreditmännen ry and the Consultative Committee for the Credit Business consider that the ban on collecting from under-age persons is not based on law and that the Finnish Government should therefore ensure that those parts of the Consumer Ombudsman's guidelines are revised.

From Ireland:

The European Enforcement Order for uncontested claims Regulation (Council Regulation 805/2004)

This Regulation, which has been adopted and signed into law in Ireland, comes into effect throughout the Union (except Denmark) on 21 October 2005.

There are already various conventions for example Brussels, Lugano and San Sebastian covering most countries of Europe as well as Council Regulation 44/2001, which enables a judgment of a court in one country in a civil or commercial matter to be turned into a judgment in a second country in which it is to be enforced.

The new Regulation 805/2004 relates specifically to uncontested claims and creates a European Enforcement Order (EEO). Where a claim is made in one court the procedures of that court are followed, judgment obtained and, provided certain minimum requirements are met, the court in the state where enforcement is sought cannot query it later. The court issuing the judgment can also issue a EEO which can be sent with a copy of the judgment, which must be in the defendant's language or have a translation, to a court in the state in which the EEO is to be enforced.

The European Order for Payment Procedure Regulation

Towards the end of 2004 there was a great deal of publicity in legal circles about this draft regulation which it was proposed should come into effect on 1 January 2006 and that each member state should make key decisions with regard to the implementation by July of 2005.

The draft Regulation set out a skeleton which was to be fleshed out by the law of the implementing member states and the essence of the Regulation is to provide a process whereby a judgment can be obtained simply and quickly in respect of an uncontested claim in civil and commercial matters.

Our Government advises that negotiations on the draft Regulation, including an agreement on an implementation date, are continuing, and that it cannot give any definite indication when negotiations are likely to conclude.

Other sources advise that there have been various representations made by interested parties around Europe, many of whom have recommended that this regulation should apply only to inter-state debts and not to intra-state debts.

Jim Logue FIICM, Chairman Technical Committee, Irish Institute of Credit Management