

FECMAnewsletter

Federation of European Credit Management Associations

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Something for everyone

Welcome to the FECMA Newsletter. The Council of FECMA, in its infinite wisdom, saw fit at its last meeting in Oslo to hand me the role of Commissioning Editor, which may, or may not, prove to be a decision of some importance. UK readers may well remember that in my two years as ICM Chairman, I stood on a soapbox every month in the ICM magazine and expressed opinions on everything from emails to call centres. I am not about to change the habits of a lifetime and, if this is seen to be deliberately provocative, so much the better.

The aim is to have everyone involved - talking, arguing, debating and above all contributing to a European forum for, and about, credit managers. Some countries have been somewhat silent following my request for contributions for this *Newsletter*, and if you are a credit manager in one of the countries that does not appear to be mentioned in this issue, then put fingers to keyboard and email your credit management association demanding to know why.

I begin as I intend to go on, with a warm welcome to the Maltese association and congratulations to the German association for making such excellent progress since its formation in 2001. The niceties thus dealt with, down I plunge into the murky depths of the euro controversy. Reactions to Sweden's fairly comprehensive refusal to join the money club (56.1 per cent against, 41.8 per cent for, turnout 81.2 per cent) have been both swift and predictable. The European Commission "noted the result of the Swedish vote, but still hoped that Sweden would keep the euro project alive". What part of the word 'no' do they find difficult to understand? In the UK, earlier in 2003, the Chancellor of the Exchequer, Gordon Brown, had confirmed that the UK Government's policy of 'wait and see' as laid out in 1997 and repeated in 2001, was again re-affirmed. The time was still

not right for the UK - yes, no, probably, sometime, not now, perhaps, maybe - all in the same sentence.

Again, what part of the word 'no' do they find difficult to say? The fact that public opinion means that any euro referendum in the UK would replicate the Swedish result is probably as good a reason as any for the British government

to put the matter on the back burner for the foreseeable future. How far in the future? Well, the Swedish Prime Minister, Goran Persson, has indicated that another referendum in Sweden is unlikely to be held for another ten years. Tony Blair, the British Prime Minister, will have a lot more on his mind over the next few years, not least of which will be a General election by 2006, so I think we can safely say that the UK and the euro are unlikely to be bedfellows for some considerable time to come.

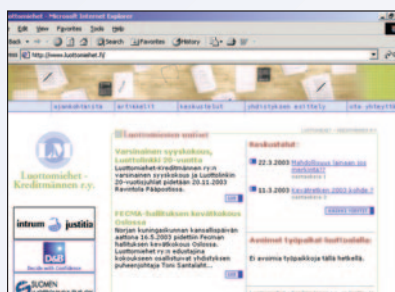
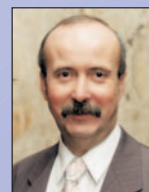
On the other hand, Estonia has voted overwhelmingly to come in from the Eastern European cold, with Estonians, on a 63 per cent turnout, giving a 66.9 per cent thumbs up to EU membership against a 33.1 per cent thumbs down. So for Europe, its good news and bad news - or is that bad news and good news?

We are up and running - I want to see a contribution from every country NOW. The next time I will name and shame, so you have been warned.

Glen Bullivant
Editor, FECMA Newsletter



Sweden - a spanner in the euro works



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FECMAnewsletter

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The Delay-in-Payment Carnival



Pere Brachfeld, President of FECMA, describes how his countrymen bring a little fun to the collection process.

The appearance of a great variety of **collection-of-uncollectables** companies in Spain and also in some Latin American countries has been a real social phenomenon. Their main "modus operandi" is the use of disguised collectors - collectors dressed in tails, as Pink Panthers, or Franciscan monks - and whose tactic is based on making the debtor feel so embarrassed that they feel there is no alternative but to pay.

These companies are unquestionably "typically Spanish" and base their business on the theory that, if the defaulter's habit of not paying is known, nobody will grant him credit. As a result, the debtor would rather pay than see his image harmed.

The users of this type of collection service are those businessmen that haven't succeeded in making debtors pay them back and - in a state of helplessness and despair - are ready to appeal to any method to recover their money.

The first disguised collectors in Spain were tail collectors. It is thought that the idea originated in Argentina in the 1960s, when a collection company in Buenos Aires hired university students, dressed them in morning coats and top hats, gave them shiny red leather briefcases with the inscription "collection of defaulters" and sent them in antique carts to visit debtors. These smart collectors were called "The Knights", and their mission was to put the debtor on the spot in front of his neighbours and encourage him to pay the debt.

In Spain people now associate the image of a gentleman dressed in tails, top hat and black briefcase as the persistent collector who is devoted to chase up the elusive - and cheeky - debtor. Because of this, at a popular level, the image of the top hat has become the icon of the defaulter's pursuers.

In the last few years the tail collector has had a number of competitors. Other companies have disguised their collectors as French bagpipers, Scottish bagpipers, knights in cloaks, rascal university students, Franciscan monks, or as godfathers of the "cosa nostra". In some other cases garishly bright clothes have been used. One recovery agency used the "red collector", while others sent collectors dressed in bottle green or bright yellow. There was even one agency that used a collector disguised as the Pink Panther, and this attracted much publicity outside Spain.

Theory is one thing but reality is another, because too many disguised collectors can lead to indifference. In such cases a debtor could be walking in the street, being chased by a costumed group of disguised collectors, but people would think that it was all part of a carnival party in the street and the

defaulter would go unnoticed.

In the last few years a new collector has emerged. This is the "defaulter's bullfighter", complete with light suit, and bullfighter's hat. Even though one could think that the bullfighter's costume is only a new version of the disguised collector, this has a special irony. Professional defaulters are real experts in bullfighting their creditors, they are masters in the fighting art and, after several series of passes, they leave their poor creditors exhausted and without having collected a cent. The creditor's revenge is sending the debtor a collector disguised as a bullfighter. This has a special meaning because it follows the principle that "he who lives by the sword shall die by the sword".

But so far collection agencies seem not to have used what seems to me the best disguise for chasing up defaulters, that of "Lieutenant Columbo". Nobody would be better than that inexhaustible, annoying and irritating TV detective, dressed in his creased, dirty raincoat. Out of exhaustion debtors would surely give up and pay their debts!

Among all the European countries, Spain is different in the bizarre methods used to pursue defaulters. It is forbidden in most European countries (and in some American ones) to use disguised collectors because it is considered to be harassment and an injury to the image and rights of citizens.

Nevertheless in Spain this kind of company has multiplied. Spanish people love costumes and disguising has become part of the popular culture. Even important businessmen have used disguises to recover their debts. In one case Mr Ruiz Mateos used them (as well as assaulting a socialist economy Minister on telecameras) to call attention to his claims when the Rumasa case was still a burning question. By these means Mr Mateos gained both publicity and popularity.

All this contrasts with the situation in Spain in the middle ages. In those days it was the debtor (and not the collector) who had to walk in the street wearing a bright costume so that everyone knew that he didn't pay his debts. The medieval tradition forced defaulters to take a walk through the city on donkeys and dress with a *sanbenito* with big red crosses and a hooded straw cape on their heads. During this walk, the whole town could mock the unlucky debtor, insult him, or even throw things at him. The mockery of the public was used to punish defaulters and persuade other citizens from falling into temptation and becoming slow payers. Even so, in those times there were still debtors who ended up in prison or, worse, on the gallows.

Pere Brachfeld is Vice President of the Spanish Association.



News from Finland

In Finland, the issues under the EU directive combating late payment on commercial transactions (directive 2000/35/EC) have centred mainly around the laws relating to interest for late payment, which were brought into force on 1 July 2002.

Because existing Nordic legislation relating to interest was considered when the directive was prepared, the new laws have not brought about major change to Finnish legislation. The new rate of interest for late payment is seven percentage points higher than

the existing reference rate. The new rate, which is determined using the reference rate of the European Central Bank rounded up to the nearest half percentage point is currently 10.5 per cent. This is, according to the directive, the minimum interest that the debtor has to pay, if the parties have not agreed otherwise. When the credit in question is consumer credit or housing credit, the above interest rate is binding.

Timo Maki
Luottomiehet Kreditmannen ry

The euro and its effect on prices - the perception v the reality

The introduction of the common currency in January 2002 had an important impact on day-to-day life for consumers. They had to adopt a new reference, a new scale to compare and evaluate the value of goods and services.

In Belgium, the National Bank has kept track of all of the price evolutions, and it also organised several consumer surveys before as well as after the introduction of the euro.

Some facts:

- ❖ The euro transition was, in most cases, well prepared by the business world, and price structures were already adapted well before the actual introduction.
- ❖ Most companies made - or intended to do so a neutral price transition. This has also been confirmed by post-transition analysis. There are no reasons to suspect that the euro had a significant impact on the general price levels. Despite important price increases for specific product categories, the overall effect of euro on inflation was calculated not to exceed 0.2 per cent. This figure will not be totally accurate, since it is quite difficult to separate the different reasons behind any price increases, but it is accepted as a good estimate, and it is also confirmed by Eurostat. It seems to be valid for several other countries, if not for all members of the eurozone.
- ❖ In 2002 there is an increasing difference between the real inflation rate and the inflation as it was perceived by consumers. The perceived inflation rate was seen to be increasing, while the actual inflation rate was going down. This phenomenon occurred in Belgium as well as in other countries of the eurozone. Interestingly, in Denmark, not a eurozone-member, where inflation rates were comparable with the average Eurozone inflation, and where the currency evolution was comparable to the euro, the same perceptions did not occur.

So the facts appear clear - the euro had a minimal impact on inflation, but the perceived impact by the consumers was an important one.

Why did this happen?

There are several possible explanations, as follows:

Decimals: In the case of Belgium, one of the changes introduced by the new currency is the appearance of decimals in the prices. As a reminder one euro equals 40.3399 Belgian francs. So, before the introduction of the euro there were very few prices that were not expressed as francs and that needed decimal figures (there was still a 50 centimes coin, but this was becoming quite rare). The official rule for price translation was that the euro prices had to be calculated with two decimal figures. In the first month after the transition, more than 85 per cent of prices had at least 2 decimal figures. By September this had stabilized at a lower level of around 75 per cent. Prices rounded to the first decimal figure were very close to the level that existed for Belgian franc prices.

The number of possible prices: Out of 100,000 products and services that were measured every month there were around 4,000 different prices in 2001. However, this increased to 7,500 in 2002. A bigger variety in price levels for the same number of products may lead to confusion for the consumer. This effect, combined with the

decimal figures, makes the adaptation to the new reference a lot more difficult, and may contribute to the negative perception.

Transition towards 'attractive' prices: For many products or services there exist 'attractive' prices. There are to main reasons for a price to be more attractive. The first one is a practical reason - a rounded price (full euro or 50 cents) makes cash payments easier, because there is less change. As an example, this is often the case for pubs and restaurants. The second reason has more to do with marketing and price perception: they are the 'shoe prices' that we knew in Belgian francs:



there were lots of shoes that cost 2699 or 2999 francs, but none with prices like 2701 or 3005 francs. Here again, the transition to the euro had as a result that the 'attractive prices' dropped from a share of 72 per cent in francs to 35 per cent immediately after the transition. The evolution was very quick - by September 2002 the number of attractive prices had already reached 61 per cent.

High increases for specific products: Although the overall price increase was limited, there were some specific products that had higher increases. A typical example is the price of a glass of beer in the pub. The maximum increase that was measured in one specific pub was 26.1 per cent. This was an exceptional (although not unique) case, since the average price increase by September, after the transition to an 'attractive' price, was 6.8 per cent, still a lot higher than overall inflation. Other exceptional increases were found in parking space and tickets for (public!) swimming pools.

A limited number of high increases for very visible products will certainly have contributed to the overall perception.

Communication: The communication by European authorities, especially the European Central Bank, was not really a very good example. They were very reluctant to admit any effect on price increases. The euro was also used as a scapegoat for normal price increases in 2002.

Conclusion

Despite there being a definite problem with the perception of price increases and although many consumers still translate prices to the franc for reference, they are getting more used to the euro. The perception of price increases is now a lot more realistic given low inflation rates - in July 2003 the inflation rate in Belgium over the previous 12 months was 1.49 per cent.

The advantages of the euro for the consumer are also becoming more visible, for example, when people travel abroad.

In conclusion, Belgium's transition to the euro was technically very well organised, but the transition required quite some adaptation for the consumer. Although this has taken some time and although it will take quite some time before the Belgian franc has completely disappeared from our minds, the euro has certainly been accepted as the new currency.

Professor Ludo Theunissen
Instituut voor Kredietmanagement

Creditors - Protect Your Cash Flow

'Money is needed to make money'

The highly competitive business arena in some of the European Countries is dominated by an unbalanced financial situation where suppliers, in all sectors of the economy, are paying high interest rates to their respective banks for their required loans and overdraft facilities. These loans or overdraft facilities are extended sometimes beyond logical consideration since the need to win extra sales in such difficult market situation exceeds financial considerations. Additionally, the suppliers are then being asked to provide merchandise on credit by some of their clients who would resell the stock to the end-consumer on cash basis. This results in exposed positions with resellers or customers, more often than not on an unsecured basis.

To make matters worse, as a credit squeeze affects the market or a particular economic sector, the suppliers increasingly employ more of their resources to recoup their dues from their customers.

Ensuring that invoices are paid on time becomes a priority, because from bitter experience creditors know well that their profit margin will shrink drastically if invoices are not paid on time and ultimately will effect their cash flow, which is the lifeblood of every business. Moreover, small companies are more vulnerable since they cannot employ dedicated resources to collecting their outstanding amounts, and cash flow difficulties will soon effect negatively their day-to-day operations, especially when their relative economic sectors are also in difficulties.

Therefore, the mission for trade creditors should be to ensure that they do not over-sell without giving due attention to the financial position of the person/company they are lending their money to. In concept, there should be no difference between the money provided by the trade creditors or by banks. What applies for banks should equally apply for the trade creditors. So, adequate security protecting the trade credit should always be provided by the applicants.

First, trade creditors should ask for the client's business plan before granting any credit. This plan should help the suppliers to know the objectives of their (prospective) clients and how their respective businesses are being financed. The amount of money borrowed from the bank and the total amount of trade credit in relation to the capital invested in the business by their shareholders/owners is to be considered by the suppliers.

Second, building a trade credit relationship based on a formal document, such as an appropriate credit application form, should result in better understanding of the client's business aims and financial needs, thus a better credit limit can be set satisfying both the needs of the client and the corporate credit policy of the supplier.

A prosperous business environment can only be guaranteed if credit is given to those clients who are creditworthy and considered to be long-term business partners.

Credit is not a divine right. No credit applicant should expect to be granted a credit facility without providing adequate guarantees

to the trade creditors.

Thirdly, trade and/or bank references may also be useful for further evaluation. A client's failure to provide such information ought to throw a negative reflection on the client's application for credit facilities.

After all, *what is a sale if it is not paid up on time?*

The creditor needs to take a proactive approach in credit management. Cash flow controls should be evaluated by reviewing their credit policy on an ongoing process, and by keeping eyes open to any information pertaining to credit problems. In fact, there are various early 'warning signs' which may trigger future payment problems and which the creditor should promptly identify and address. The list below, by no means complete, indicates the most significant 'warning signs':

- a) *Customer issuing post dated cheques,*
- b) *Dishonouring cheques issued,*
- c) *Customer changing his banker,*
- d) *Changes in payment pattern,*
- e) *Low stock levels,*
- f) *Signatories away from the office for long periods of time,*
- g) *Customer cannot be reached by telephone,*
- h) *Customer failing to return calls,*
- i) *Lack of filing of accounts as required by the Registrar of Companies.*
- j) *Rumours in the industry, etc.*

Finally, another effective means of being proactive is to form part of an Industry Credit Group. Although a fair trading environment should be maintained, creditors coming from the same trade and sharing common customers can benefit from exchanging details of slow payers and defaulting accounts. Thus, having information about these defaulters should result in minimising the risk associated with credit and enhance the profitability of the supplier.

The Malta Association of Credit Management (MACM) was established in Malta primarily to foster and facilitate the exchange of credit information, while promoting honest and fair dealings in credit transactions. MACM members share mutual goals and credit problems, and by meeting with their peers in an Industry Credit Group they receive advance notice of problematic accounts and follow the payment patterns of common customers. Timely information regarding 'warning signs' may enable credit decisions to be taken more wisely, saving the trade creditor both time and money.

Josef Busuttil
Administrator, Malta Association of Credit Management

News from Denmark

In Denmark, interest rates are still low and although there are more unemployed than last year this doesn't seem to be causing huge concerns. Although the number of bankruptcies is falling, more people are registered as having problems with paying their debts. On closer inspection, this appears to be due to a lot of unpaid mobile telephone bills.

Our association is running "business as usual", which

means that the members seems to be happy with what we have to offer. To increase our recommendations for membership, we plan to improve contact with our members by implementing an e-mail group. This will enable us to send short e-mails with a link to our web-site when new information appears there.

Jan Rasmussen
Dansk Kredit Forum

