FEDERATION OF EUROPEAN CREDIT MANAGEMENT ASSOCIATIONS

FECMA

Newsletter summer 2008 — number 20

From Glen Bullivant:

2008 started off a little gloomy, and that was not just the weather (always a concern for UK citizens and usually their most important topic of conversation). The global fall out from the US sub prime mortgage continued to spread, with banking institutions from the US to Europe revealing holes in their accounts, larger than anticipated write offs and calls for cash help from shareholders and governments alike. 2008 has got worse, with record prices on the commodity markets for oil, grain and other basics. The weather has not improved either and now that has become more than just the usual British moan – oil, gas and hence electricity prices have increased at such a rate that millions now struggle to meet their heating bills. No joke at the best of times but cruel when June feels more like March. The energy costs to industry cannot be absorbed, resulting in higher factory gate prices right across the globe. Even the booming Asia – Pacific economies are feeling the pinch. The banks are still licking their sub prime wounds, inflation is rising, money supply is drying up and our elected leaders are scratching their thinning hair lines in confused bewilderment.

Before we all decide that enough is enough, and throw ourselves into the nearest river or canal, could I urge all professional credit managers out there to stop and think. First – who started all this? The US banks and their irresponsible lending? Probably. If so, who made the lending decisions? Answers on a postcard to all the bank chief executives from Houston to Hong Kong. Note to all said chief executives: to avoid such situations in the future, employment of professional credit managers is strongly recommended. Second – as a credit manager, I am now not even more important for my company's well being than I have ever been? No postcards this time, please, because the answer is a glaringly obvious yes. Making the right risk assessment and risk management decisions is the key to both profit and survival. It always has been, of course, but now even the chief executives will recognise that he or she who manages the huge asset of receivables adds far more value than he or she who counts the beans or chairs meetings about meetings. Thirdly – the skill sets of the credit manager will need to be honed and continuously improved. We are the bankers in the world of unsecured lending, the ones who negotiate and persuade, listen and assist, the ones who meet the customer face to face daily and have to be ready to adapt to every changing circumstance. Note to all CEO's everywhere: do you really understand credit management and what are your plans for empowering the function in your organisation in 2008?

The trials and tribulations of the financial and commodity markets around the world, pale into insignificance for the Eurocrats in Brussels. If anyone thought that things could not get much worse in 2008, they clearly reckoned without our friends in Ireland. No does not mean no (ask Robert Mugabe in Zimbabwe – he has experience of that) and the Irish will have to come to their senses otherwise there is little chance of Croatia or Turkey joining the EU in the foreseeable future. The Irish may well say why not the other 26 (or 24 if you remember France and the Netherlands) come to their senses. Far be it from me to make any comment.

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

FEDERATION OF EUROPEAN CREDIT MANAGEMENT ASSOCIATIONS

FECMA

Newsletter summer 2008 — number 20, page 2

PRESIDENT'S COLUMN

by Jan Schneider-Maessen B.ec,CCM,
President of the Federation of European
Credit Management Associations
Vorsitzender des Vorstandes
Verein für Credit Management e.V.

Non-availability in times of abundance, pouring milk into the drains, rising interests and falling stock exchanges wherever….

Interesting times for all of us. Whereby, we certainly may note that our colleagues increasingly respect our decisions.
Does this depend on the currently general insecurity or does it depend on our competence?

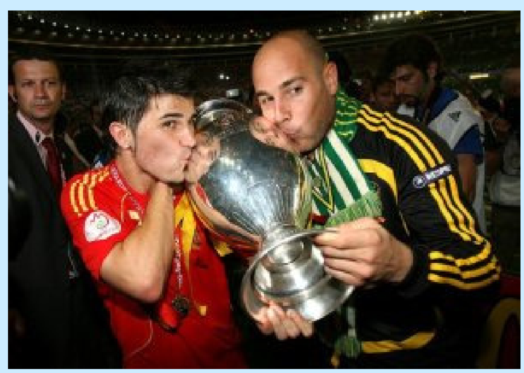
Among others, it is certainly crucial that we say what we do and do what we say.
Compared to one or two colleagues of the financial services sector to whom we owe today`s financial crisis. However, we do not dislike, on the contrary- the trade credit never has been as solid and sustainable as today. Also the risk spreading has never been as easy as today- thanks to the globalisation.

Nevertheless, we enjoyed the European Championship and unfortunately not one of our member associations countries became European Champion. Let's go to Spain for our holidays!

Have fun!

Collegial greetings

Jan Schneider-Maessen B.ec, CCM



Guidelines for the FECMA Newsletter
Articles of about 500 words, if possible with graphics or pictures.

Deadline for the autumn 2008 edition
15th September 2008. Contribution expected from France, Malta and United Kingdom to write an article for this edition. Other countries may feel free to contribute as well.

Contribution from Ireland

ATTACK

Whatever experts you listen to the UK & US economies are experiencing a soft landing, a slowdown or a recession. This will have a huge impact on the business world over the next couple of years. This slowdown coupled with rising oil prices, rising interest rates, falling stock markets and the fall out of the American sub prime lending disaster will slow down economic activity in the short term.

In times of growing economies and rapid growth, businesses tend to relegate their credit management function to the lowest level - seeing the function as administrative and bureaucratic. The thinking being, that accounts will be paid eventually and money is freely available and interest rates are low. The focus of business is on growth and growth is achieved through selling more and more wherever they can, up to now getting paid has been of secondary importance.

These two realities combine to raise the importance of the Credit Management function within every business to day. We are entering a new era – the question is are you ready? There are a number of steps you have to take to protect your business from the worst excesses of the current obsession with growth at any price.

1. Raise your own profile to board level – Power is never given it is taken. Take ownership of your companies profitability and take responsibility to ensure all other departments get it right first time – every time. No one else has the same vested interest as you do – no body is better placed than you are to make sure rules and procedures are in place to eliminate incorrect invoices and other documentation being sent to your customers.
2. Know your customer – make sure you have complete Credit Account Application Forms that ask the right questions – if a multinational make sure you know the exact entity you are trading with. If a small customer make sure you know the trading style and legal entity – it is absolutely vital.
3. If your customer can't pay you due to lack of money – and this is happening more and more – you have to know how to deal with it, and how to continue to trade while reducing your exposure.
4. We have developed, what we call an ATTACK model to explain the different components within the Credit Function they are:
   - **A** – Assessment – know who you are doing business with – know can you trust them? How much can you trust them with? And for how long?
   - **T** – Terms and conditions - make sure they are clear, communicated and serve you.
   - **T** – Teamwork – you have to create a business where you are all working together to achieve a common goal.
   - **A** – Administration - Get it right first time - every time
   - **C** – Collections – Have a tailored approach to collect all the money that is due on the day it is due.
   - **K** – KPI's and reports – make sure you are

If you would like to receive any further details on any of the above elements contact the author Declan Flood Chief Executive of IICM – info@iicm.ie.

FEDERATION OF EUROPEAN CREDIT MANAGEMENT ASSOCIATIONS

FECMA

Newsletter summer 2008 — number 20, page 4

Typically Belgium : chocolate, beer and .... notional interest

by Ludo Theunissen
Instituut voor
Kredietmanagement vzw

No this is not a 'typo', we did not mean 'national' interest..... although : the system seems to be quite unique, just like the word 'notioneel'. The word 'notional' exists in English (meaning 'not based on fact; unreal'), but its transcription 'notioneel' did not exist in Dutch.

What is it ?
The technique is quite simple : a given percentage (determined by government) of the total book value of equity is calculated as the 'notional interest' (in 2008 the notional interest rate, based on the cost of government bonds, will be 4.3 %, and 4.8 % for SME's). This amount is tax deductible, resulting in a reduction of the total tax amount.

What is the objective ?
In fact there was a double objective in introducing this system :

- The coordination centres, a very attractive type of company (only existing in Belgium), accessible exclusively for multinational companies, will loose the important tax advantages they have, due to a decision of the European union. This means that some kind of compensation had to be found for the corporate word. A direct tax reduction for companies was not possible (with the socialist party in the government), so an indirect way of tax reduction had to be found.
- A secondary objective was the reinforcement of the financial structure of companies : the average Belgian company traditionally has a financial structure that consists of lots of liabilities, combined with a much smaller amount of equity. For about 25 % of the Belgian corporations equity represents not more than about 10 % of total assets, and the median value lies around 30 %. (figures for 2006) There are of course multiple arguments to explain this situation, but one element is of course the existing tax discrimination between equity and liabilities. Interest costs are tax deductible, the dividends that represent the equivalent reward for equity have to be paid from the after tax result.
- So the idea arose for a tax deduction for equity. Through a kind of 'virtual' interest cost on equity there would be at least a partial elimination of the tax discrimination. The word 'virtual' was not appropriate for several reasons, so a new word was translated from the English original: 'notionele interest' was born.

Did/does it work ?
Definitely. The result has been tremendous. At least if you ask the corporate world : we have in deed seen a massive response. Many SME's have increased the value of their equity. This was the effect that was intended by the Belgian government : reinforce the financing structure of the companies, increasing their robustness and their resistance to temporary problems. At the same time it also brought a relevant reduction of tax rates.
However,.... there was also a massive reaction from multinational companies: they also used this as an interesting element in their worldwide tax optimisation strategy. And it worked. However the result is that in stead of the original estimate of about € 500 in tax reductions, the latest estimate comes to an astonishing € 2500 mio!

Continue on page 5…....

…….. Typically Belgium : chocolate, beer and .... notional interest

Well done ? Not really. The effect is of course that quite some parties in the economic and social playing field feel a bit frustrated and even cheated on. So in the current negotiations within the new government (we have a government but some of the more difficult matters still have to be determined, one of them being the social-economic policy) the Socialist party may want to do something about it. They definitely didn't like the effect, and even less the amount of this notional interest thing (though they were part of the government that introduced it).
Anyway the system seems to be under pressure. But every reasonable person can see that it would be a very bad idea (actually it would be disastrous for the credibility of this country) to break down or even to reduce the effect of this system. Some corrections may take place, trying to avoid abuses or at least to make them a bit more difficult.

But we believe that notional interest is here to stay.

Fraud prevention in Germany

Initiatives and solutions for the fraud defence.

Author: Silvia Rohe, Senior Consultant
Compliance & Fraud Management at
Verband der Verein Creditreform e.V.

"Cars are not stolen anymore but financed"
The economy is booming - and fraud prevention or in neo-German "fraud management" plays an increasing role for the financial services providers. Many of the financial service providers, however, have not yet installed a professional management for the fraud prevention. Creating and encouraging the staffs´ awareness and sensitivity for white-collar crime within the institutes is an essential condition.

Regulatory framework
The influence of compliance guidelines is increasing and forces the companies to improve their risk management processes. Regarding the banking supervision the necessity of fraud prevention and fraud detection arises, particularly according to the provisions of § 25a, section 3, no. 6 Credit Services Act (CSA). Within the MR Risk (minimum requirements for the risk management - BTR 4 operational risks) also fraud specific obligations arise. Further regulatory framework like the KonTraG (Control and Transparency in Business Act) and the Sarbanes Oxley Act form a good basis for the fraud prevention. However, the simple adherence is not sufficient.

General starting position
According to the Federal Republics´ current situation white-collar crime 2006, from the 6,3 million criminal offences documented by the police in Germany 95.887 cases (3%) account for the category "white-collar crime". In comparison to the previous year a slight increase in the number of cases (of 7,5%) can be registered. In 2005, the damage caused was at 4,2 billion Euro. The figures of 2006 have not yet been available upon issuance of this article. The clarification rate was at 96,4% and was significantly higher than for the total crime (rate) (55,4%).
According to the German Federal Criminal Police Office (BKA) a considerable dark figure is assumed. Therefore, the official number of cases and the registered amount of loss will not illustrate the effective extent.
Particularly, the reputation damage cannot be registered demonstrably in the statistics.
"The high loss at comparatively low numbers of cases makes obvious that the fight against the white-collar crime is a task with high priority".

FEDERATION OF EUROPEAN CREDIT MANAGEMENT ASSOCIATIONS

FECMA

Newsletter summer 2008 — number 20, page 6

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Leasing in the focus of defrauders
Particularly, for the leasing companies the following question arises at increasing intervals: “Are leasing vehicles preferred realization objects for internationally acting criminal organizations?”
According to the PCS survey 2006 the theft of automobiles in 2006 (-16%) again decreased. Since 1993 the theft of automobiles in total could be reduced to less than one fifth. This is also confirmed by the statistics of the Association of German Insurers (AGI).
However, in return the cases of fraud suspicion and cases of fraud continuously increase at the financial services providers. Affected sectors predominantly are movables leasing: construction machines, machines, musical instruments etc, IT leasing as well as automotive, finance and capital goods.
According to the Federal Republics´ current situation OC (organized crime) 2006, the property crime presented the second largest area of crime. The explicit emphasis is formed by the automobile material asset delicts (international fixing of automobiles).

The third largest area is represented by the criminality in context with the economic life. Financing delicts (like e.g. obtaining credit by false pretences) were committed most frequently. In 2006, according to the PCS (police criminal statistics 954.277 cases of fraud were registered. These are 0,5% more than in the previous year.
The conclusion: Automobiles are not stolen anymore but financed or leased.

Phenomenons of fraud
In this article we do not want to go into detailed descriptions of the fraud patterns but particularly in the industrial sector there is a considerable amount of fraud phenomenons which are organized professionally.

How can the fraud prevention be organized?
In cooperation with the automobile banks and the leasing companies related to the manufacturer and leasing companies independent from the manufacturer the Organization of the Individual Associations Credit Reform has developed initial data-based approaches to a solution for a possible early diagnosis of increased fraud probability and for the fraud prophylaxis. First starting points and patterns may be derived from the so far existing comprehensive insights of the forensic investigation of the reported and identified cases of fraud.
These approaches are continued and intensified in an enduring working group of affected companies and the associations (“Bankenfachverband e.V.”, Federal Association of German Leasing Companies).
In the long run the Organization of the Individual Associations works on the creation and operation of a credit data segment and on an anonymized recognition of fraud patterns as well as the integration of a “risk indication” within the credit check processes of the financial services providers.
There are defrauders busy with deceiving/defrauding systematically and their tricks become more and more sneaky/clever. Fraud patterns move with the course of time and spread. Only by means of a collective effort and the targeted application of effective measures for fraud prevention fraud may be curbed.
Also the targeted and regular exchange between financial services providers and the development of measures for the early fraud recognition belong hereto.

Alienation of the leasing object (in whole or in parts) to third parties
Alienation of the leasing object to more leasing companies (sale-and-lease-back)
Identity fraud (lessee in reality does not exist or front man activities

Relatively few cases with high loss
Criminal and systemic intelligence

Delivery fraud by air financing (object does not exist) or deception on scope of delivery
Value fraud: financing of scrap, accident or journal objects to excessive values
Inadmissible subletting or pledge