FECMA*Newsletter*

Federation of European Credit Management Associations

Number 13 **Spring 2005**

Share and share alike

The European Union has a new Commission, and FECMA has a new President, together with two new Vice Presidents and a new Treasurer. The timing of these occurrences may be coincidental, but the manner of appointment could not be more different. The new Commission actually fell at the first fence – approval by the European Parliament was initially not forthcoming. Not all members of the Commission as originally proposed met with the wholehearted enthusiasm of MEPs. Indeed, for a little while, European affairs hung in the balance as Parliament flexed its muscle, but the outcome of a new Commission agreed by Parliament was inevitable, and all's well that ends well, as W. Shakespeare would have said. FECMA, on the other hand, proposed, voted and installed the new officers with the minimum of conflict or confusion, though your *Newsletter* Editor could not help but observe that not all FECMA Council members were always on the same agenda item at the same time! Congratulations to our new President, Tom Fagerstrom (Finland), Jan Schneider-Maessen (Germany), Vice President, Northern Europe, Josef Busuttil (Malta), Vice President, Southern Europe, and Gerard Bekkers (Netherlands), Treasurer. We all look forward to the next two years under their stewardship. Our thanks too to Ludo for his exuberant Belgian hospitality and Ghent Business School for providing the excellent meeting facilities.

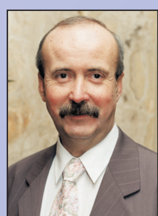
Mention should also be made of the fact that we had distinguished visitors from both France and Austria. France had always in the past been part of FECMA from its earliest beginnings, and it was hoped that that they would recognise the new focus of FECMA since reorganisation. I am pleased to say that they did, and we can now welcome France back as full members. There are seeds being sown of a new credit management association in Austria, and though these are early days, there is plenty of enthusiasm and commitment.

... there is plenty of enthusiasm and commitment.

The nice things said, I have yet again to send dire warnings to those countries who still seem unwilling or unable to make a positive contribution to this *Newsletter*. Here in the United Kingdom, we have a Government which wakes up every morning, and over the bacon and eggs, tea and toast, deliberates "what shall we do today?" Rather, it seems to us credit managers that it actually says "what shall we do today to make life more difficult for lenders and easier for borrowers?" At the same time, European Directives add to the burden, so that I find it hard to believe that partners in Europe do not have the same problems and concerns. That being said, where are all the articles and contributions from those countries who are nothing if not conspicuous by their silence?

I said in the last *Newsletter* Editorial that across Europe we have many issues that are having an impact upon the credit manager - late payment, data protection, audit threshold, competition, fraud, money laundering were mentioned, and more are on the way. Language may be an issue, of course, and articles in individual associations' magazines and newsletters may need to be translated into English for this Newsletter. Don't let that hold you back, however. Delegates in Ghent will be aware that I may have to spell Wien as Vienna, Bruxelles as Brussels or indeed Gent as Ghent. As I said last time, English remains the prime business language, so let us not use language as any kind of barrier to contributions.

You will have noticed that I will not leave this matter alone. As I wander around Europe, in both my professional capacity and as an eager visitor to all those attractions that Europe has to offer, I am constantly reminded of the need for us all to keep well informed. It is of no consequence to be the first, or the last, to experience that which all our national governments refer to as "reform". What is important, and of the greatest consequence, is that our experiences are shared. The more we understand, the more we know, and the more we know, the more we can both understand, and help each other. Come on then. Let's go for it.



Glen Bullivant
Editor, FECMA Newsletter

Contributions to the FECMA*Newsletter*

If you would like to offer material for publication across Europe in future issues of this newsletter, please email editorial@icm.org.uk
Please note, however, that space is limited and that we cannot therefore guarantee publication.

One voice
Together we can make the difference!

No one denies that competition within the EU market is becoming more intense and cut-throat. Eight eastern European countries and two Mediterranean islands, all enjoying low cost competitive advantage and all keen to exploit business opportunities from the European market, now form part of the EU.

Consequently, credit has become one of the most widely used, and effective, marketing tools to attract and retain customers. So much so, that 'debtors' accounts for one of the biggest assets on the balance sheet for every organisation that trades on credit.

However, despite its commercial importance, no serious attention has been given to the credit management function, and this has led to some hardship for credit departments.

... this Directive discriminates against certain commercial sectors ...

Two specific EU Directives affect us, Directive 2000/35/EC on combating late payment in commercial transactions and the Directive 87/102/EEC amended by 90/88/EEC and 98/7/EC on Consumer Credit. However, in both Directives there are anomalies that do not favour trade creditors in every commercial sector of the economy.

Analysing the effect of the Directive on combating late payment in commercial transactions, one would note that although it should have been implemented by all Member States by August 2002, not all countries have yet complied with this legislation.

If the aim of this Directive was to encourage more commercial transactions between EU Member States, shouldn't it be the case of what is good for the goose is good for the gander?

Second, the way this Directive was written, it can never prove to be as effective, especially in the Southern European countries where the culture of doing business is very much based on one-to-one relationship and is characterised by a sales-orientated approach. In fact, statistics confirm that the late payment periods in Southern European countries are much higher that those found in Northern European countries.

Furthermore, this Directive discriminates against certain commercial sectors, as not all creditors can retain title of goods. Service providers and suppliers in the fast moving consumer goods sector can hardly retain title to goods that are still not paid for!

Referring to Article 6 paragraph 5 of the same Directive, I expect the Commission to undertake a serious review in the very near future. This will determine the effectiveness of this legislation and I also hope that we – the European credit practitioners - will be given the opportunity to propose appropriate amendments which would improve the late payment situation in the EU market. FECMA can play an important role in this exercise!

... what is holding us back from lobbying these people?

Turning the guns onto the Consumer Credit Directive, in my opinion it is too biased in favour of the consumer. Although I totally agree that the consumer should be protected and the credit agreement should be as transparent as possible, creditors dealing directly with the consumers also experience financial losses due to defaults in payments.

But, aren't these creditors also traders who are also contributing towards a better economy? There should be an adequate legal framework to protected them against such abuses.

This Directive also limits the use of the bills of exchange, which for some creditors may be the only 'secured' method of payment, especially where the financial services sector's structure in a country lacks finance houses. This is the case in Malta.

Another issue that concerns the creditor is the free movement of resources within the EU. An individual may buy a luxurious car or a yacht, pay 30 per cent of the price and pay the remaining 70 per cent by instalments within an agreed period of time. So far so good! But this person may not honour the credit agreement and still be allowed to travel freely around the European Union leaving no trace. How is the commercial interest of this supplier protected? Should there be some legislation to ban the freedom of movement of unpaid goods?

And what about the issue of information needed by the creditor to evaluate the creditworthiness of the prospective debtor?

Creditors need information on which to base their credit decisions. They need to analyse full audited accounts of their credit applicants. They need to have information pertaining to past commercial history and payment records.

Unfortunately, the thresholds of filing audited company accounts are unrealistically set, allowing more companies to file abridged accounts instead. To add insult to injury, there are recommendations to increase these thresholds further. What are we up to?

The reason given to these highly set thresholds is to minimise bureaucracy and red tape for business, However, from my previous work experience as a banker, I could argue that the banks demand audited accounts from their business clients irrespective of them being SMEs or not, and so these companies still have to audit their accounts.

The Data Protection legislation is also limiting the information exchange and processing of certain data, which is extremely valuable to credit managers. Credit management information is becoming increasingly limited at a time when it is most needed to secure sound cash flow in the economy and help businesses to compete and prosper in the dynamic EU market.

The above may only represent some of our concerns, and I am sure that every country has its own particular difficulties relating to credit management. So, why not pull our socks up and work collectively for a better European business environment? We have just voted to elect 732 MEPs from all over Europe, and each EU Member State appoints an EU Commissioner. So, what is holding us back from lobbying these people for a more favourable legal framework within the EU market? Together we can make a difference!

Josef Busuttil
Administrator, Malta Association for Credit Management

The European Central Bank and expected inflation

The strength of the euro in recent months has also given the impression to the world of a hold on the cost of raw materials, the increase of which in the euro has not proved as strong when compared with the price in dollars. However, in Europe, prices have undergone an evident rise.

In the past, the prices of raw materials were affected by global demand, which actually reflected the cycle of the US and European economies, because of the small incidence of smaller countries on the whole world demand. Therefore, in each individual area, this acted as an automatic stabilising device. Periods of high growth result in rising prices, and vice versa. When prices do not reflect such a cycle it is because of the effect of unusual movements in supply, as happened with oil stocks.

Another feature of recent times is that the euro area has experienced a different cycle when compared with the other areas of world trade. This is the result of the different policies adopted. In the past year, the flux of liquidity put on international markets by the Federal Reserve has been countered by Asian banks by means of massive purchases of American securities, in an effort to protect exchange rates.

All this means that there has been a sort of game on the exchanges, in which only the euro area did not take part. As a matter of fact, the exchange rate of the euro increased. The inconsistency of such a mechanism became evident at the end of 2003, when the exchange rate continued to increase in areas of poor growth. This led to intense debates in Europe and to a non-declared rethink of the CEB's attitude towards euro exchange rates. Indeed, remember when the dollar-euro exchange rate approached a threshold of 1.30, and the opportunity of a cut of European rates was adopted as a suitable means of combating these fluctuations. Maybe, it is this very attitude that has led markets to reconsider positions over the last few months, when the exchange has fluctuated around 1.20. The present situation, however, is not easy to make out. This is because the pressure on import prices has also contributed to the changes in price dynamics. Inflation in the euro area has risen above two per cent, causing an uncomfortable situation for the CEB, which cannot let inflation move with the same ease as the Federal Reserve. An inflation rate that was steadily around three per cent would, in fact, be a success for the USA's Central Bank, which needs to finance a much indebted private sector, but not at all so for the CEB, which is already under pressure because of the rise of inflation, which the markets expect to exceed two per cent.

The result is that the CEB cannot raise rates, because they must prevent a new phase of a strong performance by the euro in the exchange rate. But it cannot consider reducing them either. Therefore we are in a situation in which there will be a long period of stability of rates, in the hope that the Federal Reserve raises its own rates again, followed by gradual increases of rates during 2005. An orderly and slow progressive rise in rates, with a stability of exchange, is obviously the preferable option, but it cannot be taken for granted.

Roberto Capraro
Vice President
Associazione Credit Managers Italia ACMI

Ireland - credit management study

The Irish Exporters' Association recently produced a wonderful "International Trade Finance and Credit Management Study" which was prepared by Goodbody Stockbrokers and The Institute of International Trade of Ireland.

Some of the key findings are as follows:

- According to the foreword written by Charlie McCreevy, Ireland's Finance Minister "The single most important trade finance issue on the minds of Chief Financial Officers is getting paid on time."
- When asked to rate the premise "Managing our cashflow is very important in achieving sustained commercial success", 91.2 per cent agreed with the statement.
- Irish Exporters are willing to offer generous credit terms, 59.2 per cent reporting average credit period over 60 days.
- Payment methods are moving more and more to open account which makes up 96.6 per cent of business in the EU, 92.9 in USA and 95.2 per cent in Australia & New Zealand
- A surprising 51.6 per cent of exporters reported that they had no bad debt experience.
- 55.9 per cent expect their business to increase in 2004 with 10 per cent expecting a decrease.

The report is full of information on world trade and covers trade credit, banking, insurance and services and is an essential guide to all involved in International Trade. If you require any further information please contact Declan Flood in the Irish Institute of Credit Management at iicm@indigo.ie

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Belgium	www.vlerick.be	**Italy**	www.acmi.it
Denmark	www.dkforum.dk	**Malta**	www.macm.org.mt
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Israel	www.bdi.co.il	**United Kingdom**	www.icm.org.uk

Third National Credit Management Symposium: Sufficient credit?

Late last year, the Hotel Figi in Zeist played host to the third National Credit Management Symposium, which was again organised by S&VG Management Consultants. The symposium centred entirely around credit management's role as an integral part of company's business processes.

Starting off, the chairpersons for the day, Mirjam Geerlofs (director in charge of secondment at Vesting Finance) and Peter Paul Leutscher (director of marketing & communications at Marsh), gave introductions based on the day's theme - trust, credibility and credit.

Theoretical discussion

Several of the speakers opted for a theoretical discussion of credit management. According to Leutscher, the staff manning the various departments within organisations can be divided into intuitive, rational and emotional people. Credit managers are thinkers and doers, whereas sales people generally act more on their feelings. It is important to realise that these departments need a different approach.

Professor Ludo Theunissen made a link between the balanced scorecard and performance measurements in credit management. He recounted the workshops he gave for a number of companies, after undertaking some thorough research. The critical success factors that emerged from those workshops were proper procedures and co-operation with the sales people.

Professor Ton Kuijlen discussed the marketing of credit. His lecture provided a profit-generating understanding of the product ladder within organisations. He recommended that delegates should "arrange your products and services in order of purchase volumes to be able to predict your clients' purchasing and payment behaviour." When he asked who among the audience already did this in their organisations, no one answered in the affirmative.

Practice and interaction

The other speakers chose a more practice-oriented approach to credit management. Mariëlle Kitsz of L'Oreal Nederland, spoke of her organisation's success in the International Credit Management Cup. Her team came third overall. The reason for this success was attributed to increased customer satisfaction and the significant reduction in L'Oreal's DSO in the Netherlands. Mariëlle told delegates that her department had been placed under 'Ordering and Control, allowing the credit department more direct influence on the quality of the organisation.

Rory Matthews, managing director of Experian Nederland, gave a speech about credit information in international markets. He gave the audience some valuable tips, such as the importance of properly screening clients. One way to go about this is to link national and international business information, for example from Graydon, to Experian consumer information.

Jos Meekel shared his experiences as a member of the management team of Hoffmann Investigations. He warned them: "In order to prevent fraud, it is important to monitor your organisation and apply rules. Before you know it, an authorised employee can transfer funds to a shell company as extra pocket money on top of his salary."

The day's interactive aspect was well presented by Liesbeth Mekkering-van Velzen, Director of Humatch. She asked the audience whether credit management departments should also receive part of the sales departments' turnover bonuses. One member of the audience replied that his credit management department controls the sales department and also determines their bonuses.

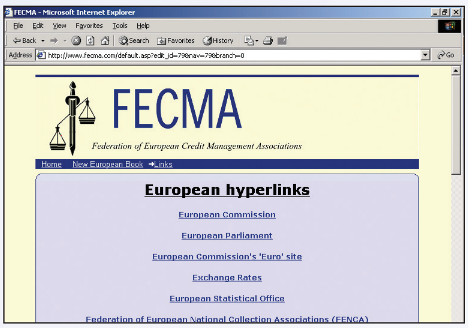
Finally, Evert-Jan de Zwart, credit management team leader at insurance company De Amersfoortse, related the procedures and processes his department uses.

More call for innovation

The symposium consisted of fascinating lectures and closed with a debate between five practice experts and five theory specialists. Two acts that were held between the presentations, and in which the audience were involved, provided some welcome relaxation.

However not everyone's expectations were fulfilled. One credit manager of a financial institution told me: "Next year I would like to see more current issues and innovative facts in the field of credit management." However, the chairperson for the day concluded that: "Credit management belongs at the heart of any organisation." In view of the applause that greeted that statement, everyone agreed.

Vera Aaldering
Editor of De Credit Manager, the magazine of VVCM
Dutch Association of Credit Management



FECMA Website

For full contact details of all member associations, European website links and to view last summer's newsletter visit www.fecma.com

This newsletter will feature on the website in due course, for distribution electronically if desired.

FECMA*Newsletter*
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