FECMA
Federation of European Credit Management Associations

Newsletter autumn 2013 — number 31

From Glen Bullivant:

I don't know about you, but I am angry with politicians. It is not that I don't believe or don't trust them, it is just that they have no concept sometimes of responsibility. All credit managers appreciate the concept of authority and responsibility – if the Sales Director has the authority to override decisions of the Credit Manager, then he or she must take the responsibility that goes with it. Why cannot politicians do the same?

Just about twelve months ago, I wrote the Editorial for the last Winter Edition of the FECMA Newsletter and in that editorial I expressed my concern that Republicans and Democrats in Washington, DC were more interested in making political points than they were in the welfare of their nation, or indeed the rest of the world. In January, 2013, by failing to reach agreement on the US Borrowing Limit until the very last minute, they took the US to the brink of financial catastrophe, revealing both contempt and disdain for what is right and proper in the world of politics. Just when we all thought it was safe to go back into the water, the sharks are circling again in Washington. This time, they failed to agree President Obama's budget, leading to what amounted to a Government shutdown. Staff were sent home without pay, Federal offices closed and even national monuments and tourist attractions locked to visitors. Just imagine, symbols of liberty, honesty, decency and democracy such as the Statue of Liberty and the Lincoln Memorial denying access to ordinary citizens – don't imagine, it happened. Then taking the Debt Limit to the brink again, risking a ratings downgrade, a fall in the value of the dollar, US Government default, higher interest rates and perhaps even the end of the US Dollar as a reserve currency (to be replaced by the Yuan perhaps?) – it is almost beyond belief that grown men and women, elected by the people to safeguard their rights, freedoms and liberties should act with such reckless stupidity.

I only target American politicians in this tirade, not because they are worse than any others in Europe or anywhere else, but because the US remains the world's largest economy, and what happens there has a knock on effect on all of us. As we continue to slowly recover from the worst financial crisis in living memory, most of Europe relies on Germany to keep the Eurozone a reality, but even Germany would not be immune from a catastrophic US collapse. Having said that, I for one am pleased to see Angela Merkel re-elected – now would definitely not be the time for a change of direction or a weakening of the kind of iron resolve that she has consistently shown. On the contrary, the list of Eurozone countries holding out the hand for handouts (pun intended) illustrates the need for the only Eurozone economy with any sustainable momentum to proceed with both caution and determination. One cannot help but feel that Mrs Merkel would not tolerate the antics of the Republicans and the Democrats – that lady is not for turning. Where have I heard that before?

Events organised by and information of FECMA Members

MALTA
M.A.C.M. Seminar
Tuesday, 29th October 2013, 1:30pm – 5:30pm
Intercontinental Hotels & Resorts, St. Julian's, Malta

The Seminar will focus on:
Malta has recently transposed a number of EU Directives and will be transposing other Directives during 2014. These Directives are specifically related to granting and managing credit and payment procedures and processes which will have an effect on the modus operandi of businesses, their cash flow and profit.
This Seminar will methodically address these Directives and will inform the Maltese business community of any changes and how to prepare their business functions to meet the challenges faced by these changes in an effective and timely manner.

Who should attend:
This Seminar is intended for the Maltese business community, legal professionals, credit management practitioners, financial controllers, bankers, and students of business, commerce, banking and law.

IRELAND
IICM Credit Awards will be held on the 22nd of November in the Conrad Hotel, Earlsfort Terrace, Dublin 2.

7.30 pm	Champagne Reception with music by classical guitarist, Alan Grundy and Cellist, Anne Murnaghan.
8.00 pm	Main Meal
9.40 pm	Guest Speaker - Comedian, Writer, Actor and Broadcaster Alan Shortt
10.00 pm	Winners will be announced.
10.30 pm	Band - The Sugar Cubes until 1.00 am.

FECMA members:

Austria	www.credit-manager.at	Ireland	www.iicm.ie
Belgium	www.ivkm.be	Italy	www.acmi.it
Czech Republic	www.creditcee.eu	Malta	www.macm.org.mt
Denmark	www.dkforum.dk	Netherlands	www.vvcm.nl
Finland	www.luottomiehet.fi	Spain	www.gerentescredito.com
France	www.afdcc.com	Sweden	www.kreditforeningen.se
Germany	www.credit-manager.de	United Kingdom	www.icm.org.uk
Hungary	www.hcma.co.hu		

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VVCM VERENIGING VOOR CREDIT MANAGEMENT

NIBE SVV

Three excellent education programs in one curriculum as a base for professionalized Credit Management

Introduction
At the VVCM in the Netherlands, fruitful cooperation with their education partner NIBE-SVV, did result into new market standards within the broad field of credit management education. NIBE-SVV is the well renowned education institute for the Dutch banking - and insurance industries, rich of traditions over a century already. During the last year and a half, organization of all VVCM education programs has been moved from the VVCM office into the Amsterdam based NIBE-SVV. Students will continue to meet the same teachers and will continue to be delivered with the same study materials, maintaining CCP as-well-as CCM education programs at the usual high quality levels. Of course, some things have been changed meanwhile.

VVCM realized a still stronger training Committee of Education, the responsibility of the new board member, Mr. Eric van de Beeten. He will be supervising changes and innovations in education techniques etc. Late September 2012, we did formulate following requests:

1. Actualizing all education programs where needed;
2. Splitting-up the CCM education into CC (first year) and CCM (second year) programs;
3. Developing initiatives to realize an academic education program (Registered Credit Manager-RCM) in cooperation with the University of Leiden.

Mid-term goals and plans:
1. Realization of an English version of the Dutch education programs;
2. Introduction of Blended Learning;
3. Permanent Education: after successful of the studies, all students will have free choice writing in themselves into the Register. Including an obligation to follow a so-called PE program
4. Developing and offering several credit management training programs;
5. Initiate investigation into a ‘*sales-to-cash innovation platform*’ together with the University of Leiden.

All these issues have been formulated based upon a vision into future developments. Basically, education being an instrument leading into a goal. Doing so, we will develop credit management into a real profession containing serious career options. A wide basis of knowledge combined with deepened education on top of this, definitely will contribute into emancipation and ameliorated innovational capacities or our profession.

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Competition research
We did start an inquiry into our direct competitors at three levels, being a) content, b) completeness and debth of education programs, and c) pricing as-well-as certification. The outcome was, that we are, and definetely will stay, distinguished enough in nearby future. Investment in quality and visibility both will stay necessary to maintain this position within the education market.

Career path / learning curve
Meanwhile, a project group has been formed to realize these issues. Late February, 2013, the Board of VVCM and the management team of NIBE-SVV together did finalize their plans. Reasons for developing a new learning curriculum:

- Continued education for several credit management levels;
- Adequate connection onto career paths;
- Actualization of existing education curriculums;
- Applying new and innovating education techniques;
- Improved national reach.

To realize our goals, as-well-as to assure a consistent line in development, we did formulate some basic topics for continued testing of our ideas:

- total nominal learning curve (MBA excluded) of 2,5 years a;t a maximum;
- modular structure of education;
- all education programs are officially certificated (CPION and NLQF/EQF).

Professional domains
To realize our principles as mentioned before, we did divide our profession into so-called “domains of knowledge”. These domains will include professional credit management competencies and necessary technical and social skills. Learning targets, literature, and terms of examination were, and will continue to be developed. Intention is to introduce stronger self study and other study techniques.

Actualization and new input
A series of novelties have been introduced in practice modules, such as internet research at the Internet and from social media. New subjects of study:

- Recovery and (threat of) insolvency;
- Process management and Query management;
- Sarbanes Oxley;
- SEPA.

Assuring quality standards
An independent Advisory Committee, together with our Education Committee, critically will supervise all processes for development of training and (new) education programs. Above this, VVCM’s full cooperation with the Certification Team of NIBE-SVV will see upon total coverage of the credit management profession, while assuring professional examination terms and validation by NIBE-SVV.

For more information: www.vvcm.nl

CMI—Credit Management Index

CMI consists of ten factors: three of them are favourable and seven unfavourable ones. Favourable for example is the volume of sales or new credit applications. Unfavourable among others are payment delays, overdue or number of insolvent clients. Credit managers evaluate the ten components and all of them that will be used in calculating CMI with equal weight. Index of positive and negative factors can be expounded separately where favourable items have reference to shaping of business while unfavourable ones referring to changes of risk parameters.

Favourable factors	Why favourable?
Credit sales	Growth of credit sales means business expansion thus it has positive affect on the economic expectations.
New credit applications	Increasing in required credit limits forecasts higher demand that means growth in business volume.
Order book	Rise of orders reflects to better utilization of suppliers' capacities, greater volume of production and expansion of business activity.
Unfavourable factors	**Why unfavourable?**
Credit application rejected	Increasing number of rejected and decreased credit limits are indicating that less creditable customers will not receive the option for deferred payment and the risk level of clients are higher.
DSO	Higher turning period (Days Sales Outstanding) marks that customers are more dependent on suppliers' credit, suppliers have to finance their clients longer.
Overdue debtors	Increase in value of overdue debtors means that more and more clients are unable to pay in time i.e. having cash-flow problems.
Payment terms	Growing payment terms are reflecting to more favourable conditions have to be granted to customers.
Collections	Higher number of overdue accounts referred to third parties means that collection present difficulties for suppliers and number of non-paying customers is increasing.
Insolvencies	Raise in number of insolvencies is the result of higher number of companies can not solve cash-flow difficulties.
Disputes	Increasing ratio of unpaid amount due to disputes correlates with clients who have cash-flow difficulties and try to save some time with disputes.

CMI above 50 indicates economic expansion, under 50 contraction and narrowing of economy is expected.

CMI-Europe – Results of Q2 2013 FECMA

initiated by the
Hungarian Credit Management Association

European risk and prosperity forecasting indicator of FECMA (Federation of European Credit Management Associations).

Credit Manager Index (CMI) has been used for many years to predict the performance of the economy in many countries like US, the Netherlands or UK. Credit managers are focusing intensely on the future when estimating risk and business opportunities so CMI has been recognised as a quality economic forecasting tool. Credit managers would always like to see what is happening when the invoices are due in 30, 60 or maybe 90 days, therefore their attitude and anticipations can be interpreted as a prosperity and risk level indicator. Relevance of CMI was largely proved at forecasting the dramatic economic breakdown in 2008.
CMI-Europe, the joint credit manager index for the European credit manager community has been gathering data since Q2 2012 with the participation of the national credit management institutes of many European countries including Czech Republic, France, Hungary, Sweden, Italy, Malta, The Netherlands, United Kingdom, and since 2013 Q1 Germany.
Results of the CMI-Europe are published quarterly reflecting the judgement of around 1.000 credit managers of the continent. Questionnaire and results are regularly published on the official homepage of CMI-Europe (www.cmieurope.eu).

Results

Country	Index of favourable factors	Index of unfavourable factors	CMI
Italy	66,7	33,7	**43,6**
Malta	77,8	41,7	**52,5**
Hungary	62,3	49,5	**53,3**
Sweden	60,4	49,1	**52,5**
UK*	65,5	50,6	**55,0**
Germany**	55,9	43,7	**50,7**
The Netherlands***	54,8	43,4	**48,0**
CMI-Europe 2013 Q2	**63,9**	**49,3**	**53,9**

** UK CMI is published by the Institute of Credit Management (ICM).*
*** German CMI is published by Georg-August-Universität Göttingen*
**** In the Netherlands, CMI is published by BurlinQ B.V.*

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Detailed CMI figures

Question \ country	IT	MT	HU	SE	UK	DE	NL	FECMA
Credit sales	64,3	100,0	61,1	68,8	67,4			67,4
New credit applications	71,4	75,0	61,1	62,5	62,3			62,4
Order book	64,3	58,3	64,8	50,0	66,7			66,4
Index of positive factors	**66,7**	**77,8**	**62,3**	**60,4**	**65,5**	**55,9**	**54,8**	**63,9**
Credit application rejected	28,6	75,0	38,9	50,0	47,1			46,9
DSO	28,6	8,3	53,7	56,3	50,2			49,9
Overdue debtors	50,0	25,0	48,1	43,8	48,4			48,2
Payment terms / UK: Bad debt provisions	28,6	16,7	44,4	56,3	50,4			49,8
Collections	28,6	50,0	48,1	62,5	54,4			54,0
Insolvencies	21,4	41,7	53,7	25,0	51,2			50,6
Disputes	50,0	75,0	59,3	50,0	52,2			52,6
Index of negative factors	**33,7**	**41,7**	**49,5**	**49,1**	**50,6**	**43,7**	**43,4**	**49,3**
CMI Europe 2013 Q2	**43,6**	**52,5**	**53,3**	**52,5**	**55,0**	**50,7**	**48,0**	**53,9**

Comparisons

2013 Q2	FECMA CMI-Europe	USA NACM Credit Managers' Index*
Index of positive factors	**63,9**	**60,8**
Index of negative factors	**49,3**	**53,0**
CMI	**53,9**	**56,1**

**NACM CMI is published by the National Association of Credit Management, Columbia, Maryland, USA*

2013 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2
FECMA CMI-Europe	**48,7**	**49,8**	**50,8**	**53,9**
Eurozone composite Purchasing Manager Index (PMI)*	**46,1**	**47,2**	**46,5**	**50,5**

**Eurozone Composite PMI is published by Markit Economics*

2013 Q2 result of FECMA CMI-Europe has raised to 53,9 which is the most positive judgements of European credit managers last year. UK, Hungary, Malta and Sweden are optimistic about the economy in the near future, while Italy and The Netherlands are relatively pessimistic with results of under 50. Germany's opinion are slightly higher than neutral with an index of 50,7.
Index of favourable factors is 63,9: especially sales figures are all predicting expansion with the index of above 60. Credit sales is showing an upward trend the indicator of this quarter is even higher as it was in Q1 2013.

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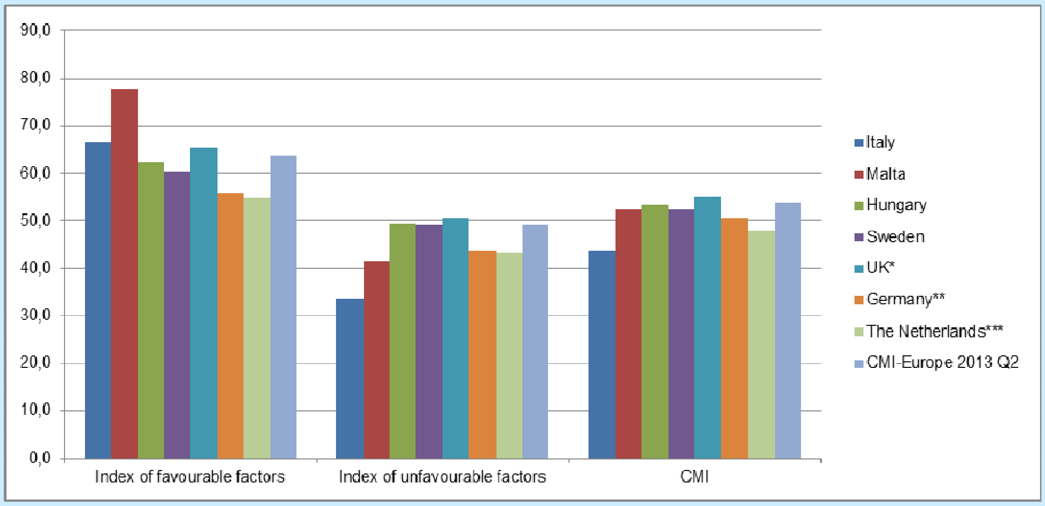
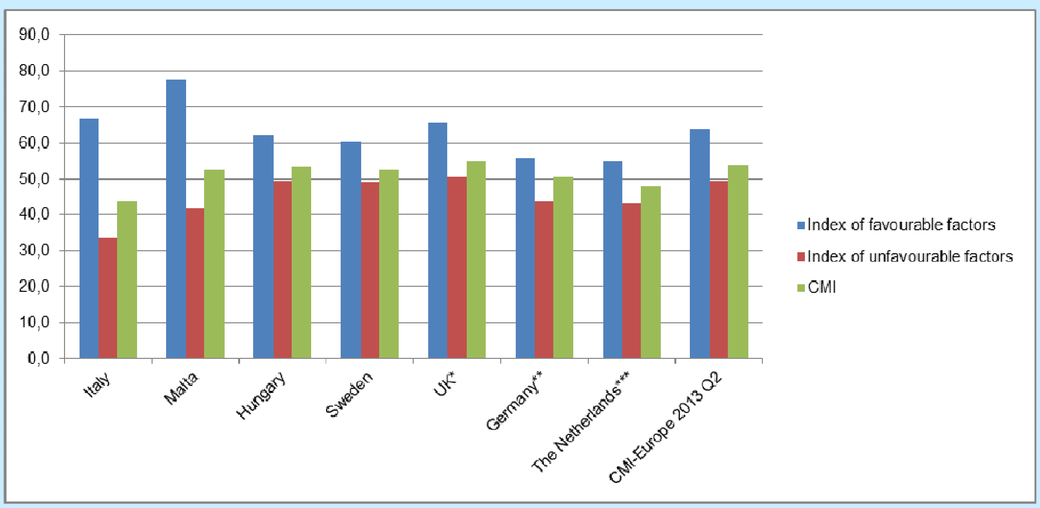
Outcome of unfavourable factors (49,3) is still under 50, but shows development. The number of rejected credit application is still the worst figure of around 47 which reflects a negative impact of higher risk level of debtors in all countries. The European credit managers are quite optimistic about collections with an indicator of 54.

Credit managers will be able to share their experiences about Q3 2013 from 1st October when new CMI-Europe data gathering survey will be opened. Please visit www.cmieurope.eu.





by Prof. Dr. Matthias Schumann

Meeting the requirements of compliance using IT-supported credit management

Compliance - what is it?

The German Corporate Governance Codex (DCGK) defines compliance as "the observation of regulations set down in laws and company-internal guidelines", and also says that ensuring compliance is the responsibility of the board of directors. But this definition is not only valid for PLCs. Generally, compliance is understood as the observation of legal and supervisory regulations, but it also includes standards and requirements set by the company itself. The task of ensuring compliance is generally categorized under the heading "corporate governance", meaning the management system for the leadership and monitoring of a company. This requires that suitable measures are taken, and in particular that a monitoring system is introduced, so that developments that could endanger the continued existence of the company are recognized at an early stage.

It is essential to identify risks effectively and efficiently, to evaluate them appropriately and to keep them under control. Thus a triad exists consisting of corporate governance, compliance and risk management.

Compliance processes form typical control loops. Once risks have been identified, deviation analyses are performed with comparisons between actual and target figures. If deviations are recognized, that lie outside the tolerance range, defensive or damage limitation measures must be taken. It may be necessary to escalate the decision-making process for particular cases and to involve higher levels of the company hierarchy.

In relation to credit management, the risks lie in the possible non-payment of claims against customers or the fact that the liquidity of the company can be massively impaired by overdue customer payments. From the point of view of compliance it is therefore necessary to specify clear rules for dealing with customer credit and to monitor the observation of these rules. The Federal Association for Credit Management (Bundesverband für Credit Management) describes this as the "minimum requirements for credit management".

Approaches to credit management

At the interface between sales activities and credit management there are many conditions, both general and legally required, that need to be fulfilled. An overview of these requirements is shown in table 1 (see page 8).

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Requirement	Explanation
Revocation List (Blacklists)	• Person blacklists for people excluded from supply • Anti-terrorism lists for companies and individuals who may not be supplied
Export embargo lists	• Countries that may not be supplied with certain products • Products to which an export ban applies
Identification of financial beneficiaries	• Disclosure of shareholding structures with connections data
Ensure data protection	• Regulate access rights for individuals/groups • Only relevant personal data may be stored

Table 1: General compliance requirements

Although there must be access limitations on particular information there must also be sufficient transparency, especially to guard against potential corruption. In credit management there is a danger that customers are allocated credit limits without sufficient checks being made, or are given limits of an amount that is not justifiable. If these decisions are clearly documented, it can be seen at any time who made such decisions. Additionally, it can be technically secured that above a particular amount the authorization of at least two members of staff is required.

On the basis of the estimated creditworthiness of individual customers, credit limits and payment durations can be controlled and the limitation of risk, or the risk capacity, for a customer, a company group or a particular group of customers can be defined. In order to limit the credit risk a credit policy must be determined and documented. Only such a policy can provide clear rules for the behaviour in dealing with the allocation of credit to customers.

Contributions of IT support

Flexible credit management software can ensure that the processes and checking routines set out in the credit policy are put into practice and/or monitored. The system performs defined checking stages (or stipulates these for the staff) and ensures that no relevant activity or customer check is forgotten. An important task performed by such a system is creditworthiness monitoring (rating) of the customers. If customer data is to be monitored continuously, this is usually only possible efficiently with a system that is at least partially automated. It compiles all the new customer-related information, evaluates it, and in cases of deviations or exceptions brings in the responsible member of staff (control loop). The principle of "information on exception" is thus followed for the staff.

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The documentation of the decisions requires that the credit management system automatically records which person made relevant decisions such as the setting of payment terms, the allocation of credit limits or the approval of customer orders despite the fact that the limit has already been exceeded. The responsible member of staff must document and justify decisions that deviate from the usual rules of the credit policy. An IT-supported system should also be able to carry out routine decisions within preset limits fully automatically. It is also necessary to document the information that led to each decision, together with the decision itself.

If new information becomes available, the IT system must recognize this automatically and it must be documented together with the cause and the decision-maker in order to ensure complete comprehensibility at a later time. This is necessary even when the new information does not make any actions or changes to the rating necessary. It is important to be able to fully understand decision-making situations, even at a much later date. On the basis of a complete historization of the situation, every decision-making situation can be reviewed at the press of a button. Efficiency of the compliance checks is thereby also provided.

The measures that are prescribed when customer behaviour deviates from expectations or agreements made are particularly compliance-relevant.

- What is the reaction when the credit limit is reached? Are further deliveries to the customer automatically blocked and/or is the situation communicated to the sales team and the credit managers?
- What happens when payment dates have been exceeded and how are the activities carried out documented?
- A well-set-up system will react as soon as deviations from the normal behaviour of the customer are detected and will inform the staff as "information on exception" so that time remains for an appropriate reaction.

Because the complete accounts receivable history and the evaluations of the customers in terms of their probability of default are documented in the system, this results in a comprehensible data basis for the general provision for bad debts. In the same way, provisions for specific bad debts can be ascertained using the customer file and the documented measures for the collection of amounts owed.

In many companies there are rules by which the credit management staff and sales staff make joint decisions about customer credit limits, or which specify that for higher limits multiple authorizations are necessary. This can also be controlled and automatically documented by an IT solution.

As soon as the master data is entered the IT system checks whether a duplicate file exists for the customer in question. If, however, multiple files are necessary or would make sense, the system can link them together so that a correct overview of the total customer credit limit and payments outstanding is maintained. Sophisticated systems can thus aggregate or limit risks for company groups and control the allocation of limits to company subsidiaries.

A further aspect in terms of the observation of compliance regulations is the use of securities. These must be obtained from customers according to the credit policy and then administered and their value checked. If they are of limited duration, a prolongation or a new security must be requested in good time.

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Personnel-group-related support

The compliance-relevant effects for various personnel groups in a company are summarized in table 2 below.

Group	Benefits
Management / Board of Directors	• Reporting (aggregated) on receivable management • Automatic reports on execptions • Involvement in necessary decision-making processes
Revision	• Complete data base for consideration activities • At audited IT processes the rule compliance is enforced. • Focus on the examination of human, not automated decisions.
Receivable management	• Routine situations automated by the IT system • Focus on "information on exception" or complex decisions • Complete and historicized data base to support decision making
Sales	• Ability to provide information to customers • Transparent coordination with receivable management • Possibly own leeway in decision making
Controlling	• Central data base and reports for necessary analysis

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Table 2: Personnel-group-related effects of IT-supported credit management

Summary

In many companies outstanding customer payments have a very significant impact on the balance sheet. In the wholesale business one often finds that up to 60 percent of the balance sheet total consists of accounts receivable. This makes it clear how important it is to deal very carefully with the activities associated with customer credit.

An IT-supported credit management system facilitates central storage of the relevant information and makes all activities comprehensible at any time. It also controls and monitors the processes according to the credit policy that has been set down. This contributes to ensuring that the credit policy is observed during business operations and that justified exceptions are sufficiently documented. The compliance of operational credit management can thus be checked at any time. The effort required for this is limited to the examination of a few predefined reports from such a system.

In total, this ensures that the managers of the company fulfil their obligation to make certain that credit risk management is appropriately organized in such a way that the compliance regulations are observed.

From the Secretariat

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

FECMA Pan European Credit Management Congress

On the 16th May 2013 approximately 200 participants came together at the Academy of Sciences in Budapest to attend the first FECMA Pan European Credit Management Congress. Under the motto "European Best Practices – Inspiration for Credit Managers". The FECMA had invited international Credit Managers to the Hungarian capital for two days to give them the opportunity to hear presentations on current trends in credit management, participate in discussions and engage in professional networking.

Glen Bullivant, President of FECMA, welcomed the credit managers, scientists and other interested parties from 18 countries to the first pan-European Credit Manager Congress. The event was hosted by FECMA with the perfect support of the Hungarian Credit Management Association.

During the two days several international speakers shared their Best Practices and the role of Credit Management in science.

The dazzling highlight of the event was the presentation of the first FECMA Lifetime Achievement Award to Drs Oswald F. Royaards from the Netherlands for his contributions to the industry. During a Gala Dinner, he received the FECMA award for his lifetime achievements in the field of European credit management from the hands of Glen Bullivant. "Nobody has given more to the Credit Management in Europe and nobody deserves this award more than Oswald," said Mr Bullivant.

After the Congress an evaluation was sent out to the participants, speakers and sponsors. 34% of the participants responded and valued the content of the Congress overall as very good. Also the speakers and sponsors evaluated the Congress very positive. Which is the best justification for organizing the FECMA Congress again in the future.

The second FECMA Pan European Credit Management Congress will take place on 20 and 12 May 2015 in Brussels, Belgium. Of course with a lot of EU topics on the agenda. We will keep you posted!

On page 12 of this Newsletter you will find a photo impression of the Congress!