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Regularising over-extended credit terms is no easy feat

The Malta Association of Credit Management is this year celebrating its 10th anniversary with a conference being held next month. In terms of credit management, however, the Association's

director general, Josef Busuttil, tells Christopher Sultana that unfortunately there has hardly been any improvement on late payments which remain a major concern for businesses.

MACM is celebrating its 10th anniversary this year. How did the Association develop throughout this past decade and what were the achievements?

The Malta Association of Credit Management (MACM) was officially established in June 2001 with the main objective being that to provide a central national organisation for the promotion and protection of all credit interest pertaining to Maltese businesses, a purpose it still retains.

When MACM was established, the Maltese business community were faced by a number of bankruptcies in the retail sector, a slowing down of payments by customers in all areas of our economy, and a large number of cheques were returned unpaid by the banks.

Challenged by such a hostile business environment and unhealthy credit culture, MACM was the catalyst and the pioneer in Malta to provide the necessary credit management tools and pertinent credit information to the local businesses with which they could manage the risk and cost involved in granting credit to their customers. Thus, protecting their cash flow and ensuring long-term profit.

To improve the local credit situation and to protect the cash flow of local businesses, MACM had to embark on a number of lobbying activities during the past decade. It was successfully involved in various fronts such as minimising the number of dishonoured cheques in the local market; promoting the introduction of credit-related legislation, such as The Company Recovery Procedure, The Late Payment in Commercial Transactions Directive, The Consumer Credit Directive, the Data Protection Act and the efficiency of the local Judicial system.

Thanks to all the stakeholders involved during our lobbying activities, the local credit scenario is now much healthier than it was a decade ago. The number of dishonoured cheques has gone down remarkably, the credit-related legal framework is now in place, the judicial system is more efficient and business organisations are making use of the tools and systems provided by MACM to protect their cash flow and secure their long-term profit to the benefit of our economy at large.

Nevertheless, MACM is aware that late payment is still a major concern for the local businesses. It also believes that the enforcement of court judgements is far from being effective. Besides, MACM still notes that some local firms may not be deploying the proper credit management practices when granting and managing credit. These are some of the challenges that MACM is currently addressing.

Since its establishment, MACM worked hard to change the culture of the local credit scene. But culture cannot be changed overnight. Therefore, it also embarked on an educational role. MACM continuously strives to promote good credit management practices by organising events throughout the year. The primary aim of these events, which include workshops, seminars, conferences, in-house training and lectures, is to educate the credit practitioners employed by local businesses.

Firms that participate in these activities are enlightened by best credit management strategies and tactics that would assist them in their managing of cash flow – the lifeblood of a business. These educational activities also promote responsible credit to the benefit of both the supplier and their customers alike.

MACM has since developed training courses in the credit function. What levels are students achieving and are these courses recognised abroad?

Besides the seminars, conferences, workshops and in-house training, MACM is the accredited

training centre in Malta of the Institute of Credit Management (ICM) of the UK.

Founded in 1939, the ICM(UK) is the largest professional credit management organisation in Europe with 9,000 members and students, and is the centre of expertise in the United Kingdom for all matters relating to credit management.

MACM delivers lectures to local students who work or would like to pursue a career in the field of credit management. These training programmes lead to recognised ICM Diploma in Credit Management at levels three and five.

We are pleased to note that MACM students are doing exceptionally well in their studies and a number of local students have been awarded prizes for their excellent results achieved.

Nevertheless, thanks to MACM educational initiative, local businesses are now in a position to employ competent and highly skilled employees to manage their Accounts Receivable, which very often is one of the largest assets on their balance sheet. Other businesses are taking this opportunity to invest in their credit staff training to secure sound cash flow, while gaining competitive advantage in their market through long-term credit customer relationship.

Credit control is an important function of any business. How does the Association support this sector?

Cash flow is the lifeblood of a business. Besides, no business can survive long without granting credit in today's competitive world. This entails businesses to deploy good credit management practices and also to take proactive and profitable credit decisions.

To assist the Maltese business community, MACM provides the necessary tools and up-to-date databases of credit information that would assist the local creditors to take such profitable credit decisions in a proactive manner at low cost.

Thanks to today's technology, MACM members avail themselves of comprehensive credit information and reports on every entity registered in Malta. MACM collates information both from its members by means of exchange of information and also from a number of reliable sources on a daily basis to ensure that its members are well informed and equipped.

MACM members can access this information online, 24 X 7 in order to minimise the risk associated with trade credit; avoid bad debts; be consistent in credit decisions; control of credit management procedures and processes; monitor the Debtors List on a daily basis; improve the performance when granting credit to gain competitive advantage in the market and make better profit; enhance long-term customer relationship, thus improving customer retention; identify financially solvent prospects, turning credit risk into credit rewards; maintain sound cash flow; and sustain long-term profitability.

Therefore, through its website, www.macm.org.mt, MACM members have unlimited access to information pertaining to credit. Additionally, MACM provides a system by which members are able to monitor their existing credit accounts on a daily basis. The MACM system automatically informs its members of any news received on any particular credit customer of its members.

Sample Copies of various credit documents used in the day-to-day duties of the credit function are also provided to its members. These documents include the Credit Application Form, Invoice, Monthly Statement, Part-payment Receipt, Collection Letters, Stop Supplies Letter, and other documents with specific wording referring to local legislation and other caveats to ensure better effectiveness in the credit management process and the collection of money.

Being a member of MACM, the credit practitioner will also have the opportunity to meet and discuss credit issues with his / her peer group during the meetings and events organised by the Association.

Thus, an MACM member benefits from taking effective and competitive credit decisions; enhancing the internal credit processes and procedures; reviewing and monitoring the existing credit facilities; evaluating the creditworthiness of their customers on an ongoing process; converting credit into cash in a timely basis; reducing the risk of delinquency and bad debts; helping the sales team to ensure better profitability from their sales, and gaining and sustaining competitive advantage in the market.

The aim of MACM is not to make a profit out of its unique services and products but to improve the Maltese credit environment to the benefit of the Maltese economy at large. All the MACM systems have been developed with the needs of the local business community in mind. MACM offers these information systems at the lowest cost possible to ensure that every local business organisation selling on credit will be able to make use of its systems irrespective of the size or industry.

For the local exporters who sell to foreign companies on credit, MACM is the distributor of Graydon International Credit Rating Reports for the Maltese market. Therefore, MACM can provide Credit Rating Reports on any company registered anywhere in the World. These Credit Rating Reports are issued by Graydon International, a leading credit rating company in

the world.

Late payments were a major issue over the past few years. What are the issues affecting late payments and have you seen a trend of improvement?

Granting credit to customers is healthy for both businesses and the economy in general. It is the oil that keeps the wheel turning. But credit costs money and should not be abused in any way. If it is not managed diligently by the supplier or the credit customer does not adhere to the agreed credit terms, it can have negative impact on the cash flow of the supplier, especially if the supplier is an SME.

People in business know well that in Malta, customers request long credit terms from their suppliers, sometimes running to 120 days – depending on the industry – and still fail to honour these credit terms by paying later than these agreed credit terms, or even worse issue post-dated cheques upon due date. Hence continue to benefit from the suppliers' money.

In some industries, the government is not leading by example. Some local suppliers are owed substantial amount of money from the government with the consequence that they are unable to restructure appropriately in order to face the new challenges and opportunities of today's market demands.

Additionally, late payment causes cash flow problems leading to bankruptcies, loss of jobs, financial uncertainties to businesses and discourages entrepreneurs to invest in their business. Thus, restricting the economic growth which is much vital to the economy.

In my opinion, the principal reasons that are contributing to the late payment problem in the local market are:

- Under-capitalisation of businesses which consequently rely on their banks' and trade creditors' capital to pull them through. A number of shell companies are opened with the minimum amount of authorised share capital and with the minimum amount of paid capital are hiding behind the limited liability shell that the Companies' Act provides.
- Poorly managed businesses, which in some cases inefficiency and / or fraud may be the primary cause of distress. This is often a result of lack of basic management, accounting or business training. Some business owners may fail to manage their personal interest separate from those of their business.
- Overtrading, occurring when the business's turnover increases faster than its cash profits, so that eventually it becomes unable to obtain the extra capital required to finance the expansion, thus having huge cash flow problems.
- Intense competition, leading to unsustainable price wars through a gross misunderstanding of the company's cost base which affects the profits of any business in the long term.
- Government is mopping up liquidity from the economy through its attempts to maximise efficiency in timely collection of taxes and other charges, including the utility bills.

It is quite obvious that these measures are hampering companies' liquidity and adversely affecting the consumer expenditure.

It goes without saying, credit management is a chain. If a supplier is not paid on time or is not paid at all, such payment default will affect the cash flow of this supplier, which would in turn make the supplier unable to honour his commitments and financial obligations towards his own suppliers or the government in terms of taxes or charges due.

Unfortunately, there has been no improvement in late payment. It is still one of the major concerns of businesses. MACM notes that late payment is increasing and the first quarter of this year has been one of the most difficult times for many local businesses.

An EU Directive came into force recently. Has this directive impacted on credit terms issues? What are the issues affecting credit terms between government and business and business to business?

Late payment is not a challenge of the local market only. Having had the opportunity to meet with business people from the Americas, The Middle East, Asia and of course Europe, I can conclude that late payment is an issue across all continents.

The EU has been working to combat late payment in commercial transactions for a long time now. The recently introduced Directive 2011/07/EU has replaced 2000/35/EC. It came into force on 16 February 2011 and Member States (including Malta) will have to transpose this law within two years.

The main scope of the new Directive is to change the current commercial culture of paying late. This Directive is intended to serve as a deterrent for business customers that pay their

suppliers late. It applies to all commercial transactions including all the transactions carried out between undertakings or between undertakings and the public authorities. The government, the local councils and other public bodies are therefore included whenever a public procurement contract is signed with the private sector.

As a general rule, both public and private sectors have to pay their bills for goods and services provided by their suppliers by not later than 30 days. Nevertheless, in business-to-business transactions, the Directive allows credit to be extended up to 60 days if both parties so agree. However, extending credit beyond 60 days is only permissible if "expressly agreed" by the creditor and the debtor in the contract of sale and provided that it is not "grossly unfair" to the creditor. This provision is aimed to protect SMEs that in many cases are forced to agree on longer credit terms, especially when they deal with bigger firms.

This means that if the date or period for payment is not fixed in the contract, the creditor is entitled to eight per cent plus the ECB intervention rate for late payment following 30 calendar days from the date of invoice or from the date of delivery of the goods or services. The creditor is also entitled to obtain from the debtor a minimum sum of EUR40 as compensation for recovery costs incurred. In addition, other expenses incurred by the creditor due to the debtor's late payment can be claimed. These expenses may also include legal and debt collection agency fees.

Why is the EU Late Payment directive so difficult to enforce? Is this trait particular only to Malta or is it inherent to Europe or the Mediterranean countries?

In my opinion, I still believe that this new Directive will not be as effective as it is desired for a number of reasons.

Many businesses may find this Directive intrusive and confusing. One can observe that the EU is trying to persuade Members States to accept an EU-wide 30 day rule but it still allows the private sector to agree on longer payment terms subject that both parties sign to such payment agreements.

In today's commercial world, firms are competing aggressively, products and services are becoming homogenous with little scope for differentiation and in some industries supply is exceeding demand. Therefore, suppliers are using credit as an effective tool to compete in the market and to differentiate their products and services in order to gain and sustain competitive advantage. In such a business scenario, extending credit may well be expected without charging interest on late payment unless legal action is necessary to be taken against the debtor.

I am also concerned about sending the wrong message to the business community relating to good credit management practices. A supplier should determine the payment terms according to the risks involved in that particular credit sale and the cost of the products / services at point of sale. Standardised credit terms of 30 days do not make much business sense!

Questions should also be made in respect to certain commercial circumstances which happen quite often in the day-to-day business. For example, what will happen if there is a dispute between the creditor and the debtor and an invoice remains unpaid either justly or simply to avoid payment?

The Directive also refers to the right of the supplier to include a "Retention of Title" clause in the contract. How effective will this clause be in our local case? It is important that the government looks into the implications of this law and ensures that our legal system supports all aspects of this directive to make it more effective.

Additionally, the Directive obliges Member States to ensure that an enforceable title will be obtained, irrespective of the amount of the debt, within 90 calendar days of the lodging of the creditor's action or application at the court. In Malta, we have the judicial letter system, a fast track system to recoup money, commonly known as 166A. But to date, it does not cater for all amounts of debt and the court may also find difficulties to notify the debtor and hence the creditor will not be able to get an executive title on time. Here, MACM suggests that Judicial Letters will be applicable to any amount of debt and that the court marshal system will be privatised for better effectiveness and efficiency.

You are publishing a credit reference manual in the next few days. What is the scope of this manual?

To mark the 10th Anniversary of MACM, a full-day conference is being organised on 12 May at the Radisson Blu Resort, St Julian's. During this conference, The MACM Credit Management Reference Book is being launched and every delegate attending the Conference will be given a copy of this book.

This reference book is not an ordinary book. The main scope of this concise publication is to serve as a quick credit management manual. It focuses on the practical issues and tactics in the process of granting and managing credit in order to protect cash flow and secure profit, while gaining and sustaining competitive advantage in today's hostile market environment.

A number of diagrams and business models have been included in this reference book to make it both easier and also quicker for the credit practitioner to refer to and to understand the various concepts throughout the whole process of managing credit.

The world is changing, customers' demands and expectations are changing and hence, the way we do business with credit customers is also changing. In today's business environment, credit has become not only critical but it also plays an important part in the selling process. Therefore, it is imperative to manage this key liquid asset effectively to meet today's market needs efficiently.

What issues will be addressed during the MACM National Conference of 12 May?

The current international financial and economic situation is not at all rosy and it is having a negative affect on the cash flow and profit of businesses. Maltese firms do not operate in a vacuum and are also being affected.

In today's commercial world, selling on credit is a must but credit is not only risky but also expensive to granting and managing it. Only good credit management practices can secure sound cash flow and long-term profit, whilst gaining and maintaining competitive advantage in the market. With these topical matters in mind, Maltese and European speakers will address a number of credit related matters.

Dr Gordon Cordina and Joseph FX Zahra will analyse the current economic scenario and how the local credit environment is being affected.

Philip King, chief executive of the Institute of Credit Management of the UK and Greta Rapinett, an experienced credit manager, will suggest strategies and tactics to how businesses should build long-term customer relationship and when businesses should say 'yes' to credit sales.

Dr Salima Paul, a senior lecturer at Bristol University (UK) will present the results of its recently conducted survey on Late Payment and how late payment affects SMEs, while Mr Glen Bullivant, a credit guru and consultant will suggest how businesses should manage credit effectively.

Prof. Albert Fenech, a leading cardiologist will suggest how to manage stress and Prof. Ludo Theunissen, lecturer at Ghent University and University of Antwerp, will address the importance of measuring the performance of the credit function.

Karmenu Vella, shadow minister of finance will open the conference and Prime Minister, Dr Lawrence Gonzi will make the closing speech.

This Conference is ideally suited for the Maltese business community, credit management practitioners, financial controllers, accountants, bankers, ICM students and students of business, commerce and banking.

Further details about the MACM Credit Conference can be obtained from the MACM Secretariat on telephone: 2142 3638 / 9

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