

# Intrum

## MAGAZINE

THE CREDIT  
MANAGEMENT  
MAGAZINE FROM  
INTRUM JUSTITIA

NO. 3 | 2008

## WHO PAYS ON TIME?

European survey reveals  
deteriorating payment risk



**FRANCE**  
– We pay,  
but delay.



**SWEDEN**  
– We pay  
on time.



**GREECE**  
– Slowest  
payer in  
Europe.



**ITALY**  
– It takes long  
to get paid.

### HOW TO SURVIVE THE FINANCIAL TURMOIL

Fewer debtors for top  
Portuguese telecom firm

**Huge savings from  
new SEPA system**



[www.intrum.com](http://www.intrum.com)

## BETTER BUSINESS FOR ALL

We're best known for debt collection, but we offer much more. Our complete line of credit management services not only free up time and energy, they also help you work more efficiently, find new customers, build long-term relationships and improve your cash flow.

For individuals, companies and society alike – when we say we want everyone to come out ahead, we mean business.

**intrum**  **justitia**

**Editorial:****New opportunities, new offerings, new profile**

**The first part** of 2008 has been characterised by continued unease on the financial markets around the world. The American credit crisis is creating ripples on the water and historically high oil prices are also having an impact. For us at Intrum Justitia, this financial scenario means new business opportunities. Not because more people are having trouble paying their invoices or because more companies are going bankrupt. It is rather a case of creating new income because our customers need us in a more innovative and preventative way. Intrum Justitia's extensive experience of credit management combined with a solid knowledge of the market is an enormously valuable tool for our customers. By coming in at an earlier stage in the value chain and helping in the credit management process, we can reduce the risk of our customers ending up in financial difficulties. Companies often react quite late during a dip in the economy – when the credit losses are increasing, liquidity is worsening and the damage is done. The time factor is extremely important to prevent financial difficulties – both for our customers and their customers.

**Through our database** we can also predict payment patterns and in this way minimise the risks for our customers so that in the end they are paid for their products and services. This is work that has many winners. You can read more about this in the article on our European Payment Index. Our survey clearly shows that more and more people are paying their invoices late, which means that European companies are losing out on a total of €250 million a year. This makes late payment one of the greatest obstacles to continued economic growth in Europe.

**Exciting times lie ahead** for Intrum Justitia. We have just taken the next step in our change process, where we are continuing to develop our offerings. In addition, we have recently launched a new graphic profile with the purpose of showing that Intrum Justitia is an up-to-date company - where the focus lies on being more than just a debt collection business. Much more!

**MICHAEL WOLF,**  
**PRESIDENT AND CHIEF EXECUTIVE**  
**OFFICER, INTRUM JUSTITIA**

**IN THIS ISSUE:****HOW TO SURVIVE THE FINANCIAL TURMOIL**

Five top European businesspeople from very different backgrounds outline their views on the possible credit crunch consequences.

**PAGE 6****CONNECTING WITH LATE PAYERS 12**

Top Portuguese telecom firm Sonaecom relies on Intrum Justitia to recover debt from its 2.8 million users without antagonising anyone.

**HUGE SAVINGS AHEAD 16**

A new pan-European payment system will bring massive savings for companies and private citizens alike, says Deutsche Bank's Martin Ronow.

**EUROPEAN PAYMENT RISKS INCREASE 18**

Intrum Justitia's latest European Payment Index survey of thousands of European businesses reveals late payment fears.

**RESULTS: PRECIOUS TIME SAVED 04****IN BRIEF: BIG FIRMS DELAY IN IRELAND 21****IN BRIEF: YOUNG EUROPEANS TO SAVE SMARTER 23**

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# results:

BETTER RESULTS WITH INTRUM JUSTITIA

**Name:** Joe Meade  
**Title:** Financial Services  
Ombudsman, Dublin, Ireland.

**Meade says that recovering payments for EUR 125 is a matter of principle, setting standards for the future.**

✓ **Out of invoices for EUR 3.5 million, bad debts amounted to just EUR 44,000.**

✓ **Using an external expert freed up precious working time and resources**

**Joe Meade is Ireland's Financial Services Ombudsman. He handles consumer complaints related to financial services companies, charging each company an annual fee. For banks, insurance companies and credit unions this is not a major administrative problem, but it is a burden for small brokers and intermediaries, says Meade.**

**In 2006,** Meade's organisation levied notices to all brokers and intermediaries for the first time. Following the issue of a second warning letter, a percentage of those levies remained unpaid and he decided to engage the services of a professional credit management company. Intrum Justitia was chosen to handle the assignment.

"They did a very good job and overall at the end of 2006 we had bad debts of €44,000 out of the total collectable income of €3.5 million," Meade recalls.


One year later, €4 million needed to be collected, including around €450,000 from brokers. Feeling that it was not cost-effective to collect the money itself and to pursue non-payers to court, the Financial Services

Ombudsman decided to use Intrum Justitia for the whole collection process.

"I am very pleased with the job they have done and they are now proceeding with 100 cases through the courts," Meade says.

Taking non-payers to court to recover a €125 fee may sound like a waste of time and money. Meade agrees.

"But I also believe that it's important that customers realise that they must pay their lawful debts and that organisations – will pursue them even through the courts for small amounts. Secondly, organisations must realise that credit management companies or financing companies have the power to act on behalf of their clients."

A close-up portrait of Jacek Krupa, a man with short brown hair and glasses, wearing a dark suit, light blue shirt, and a brown and white striped tie. He is looking slightly to the right with a neutral expression. The background is blurred, showing what appears to be a modern office interior with white architectural elements.

✓ **High rate of regained debts, unpaid debts reduced**

✓ **Higher customer satisfaction with the payment process**

**For almost six years Polish telecom company Telekomunikacja Polska SA has worked with Intrum Justitia to handle all customers who do not pay their invoices on time and to settle outstanding payments.**

**Jacek Krupa**, Branch Deputy Director, at the Warsaw office, is in charge of invoicing and settlements. So far he is pleased with the results achieved since 2002.

"Thanks to the debt collection service and liability transfer agreements, we've greatly decreased the level of outstanding payments and number of terminated agreements," he says. "We get paid quicker and we pass the risk of regaining the debts on to the purchaser."

As for many other companies, the main challenge for Telekomunikacja Polska, he admits, is trying to implement the most effective method of debt collection while at the same time keeping customers happy. However, he feels that this balancing act is working well these days.

"Intrum Justitia is a professional partner who is always flexible towards our requirements," Krupa says. "The cases are done on time and according to our standards meaning a pleasant working system for us and for our customers."

One trend Krupa has noticed in Poland is that the number of credit management companies specialising in buying and collecting liability packages is increasing.

"People seem to understand now that comprehensive services offered by credit management companies have an influence on regaining more debts," he explains.

And in line with this trend, Telekomunikacja Polska will continue to work with such specialised companies, searching for new, and different ways to manage debts, invoice customers and settle payments.

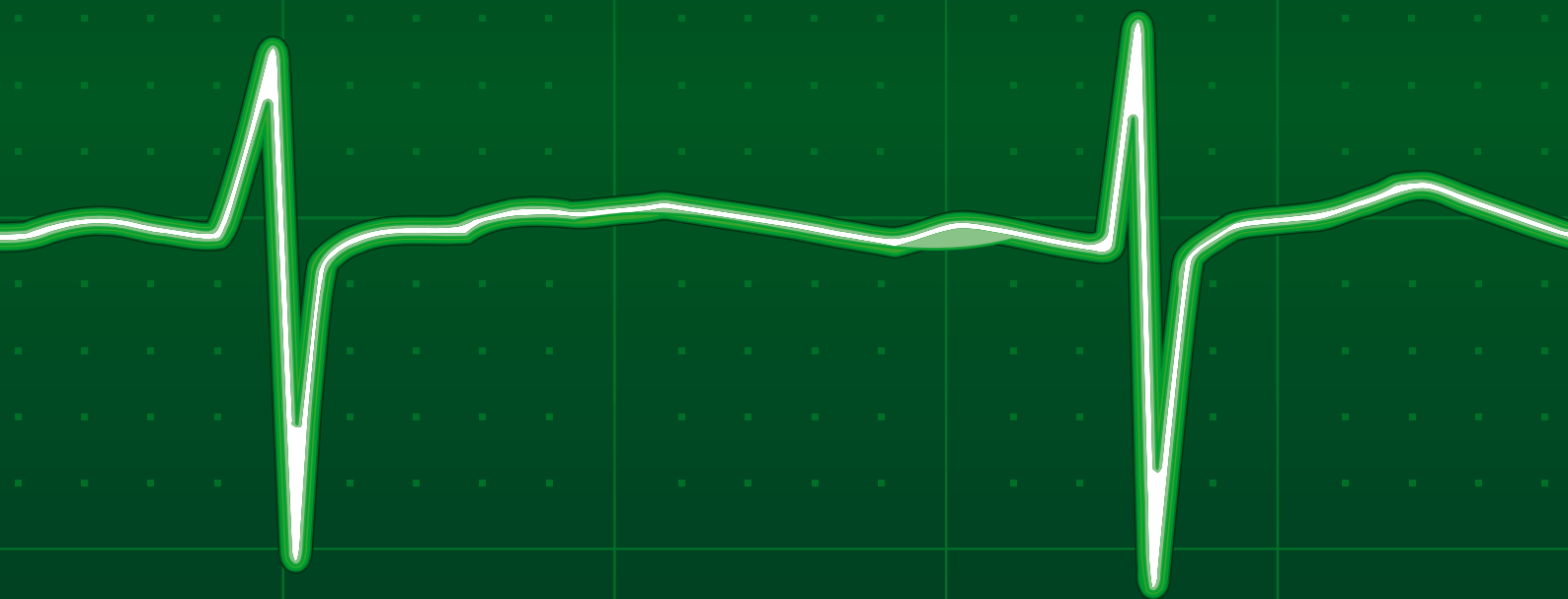
"It's important, not just for us, but also for our customers. Simply speaking, we need to give customers more comfortable, friendly opportunities to pay outstanding invoices."

**Name:** Jacek Krupa  
**Title:** Branch Deputy Director  
at Telekomunikacja Polska,  
Warsaw, Poland.

**Jacek Krupa insists that it's essential to offer customers more comfortable, friendly ways to pay outstanding invoices.**

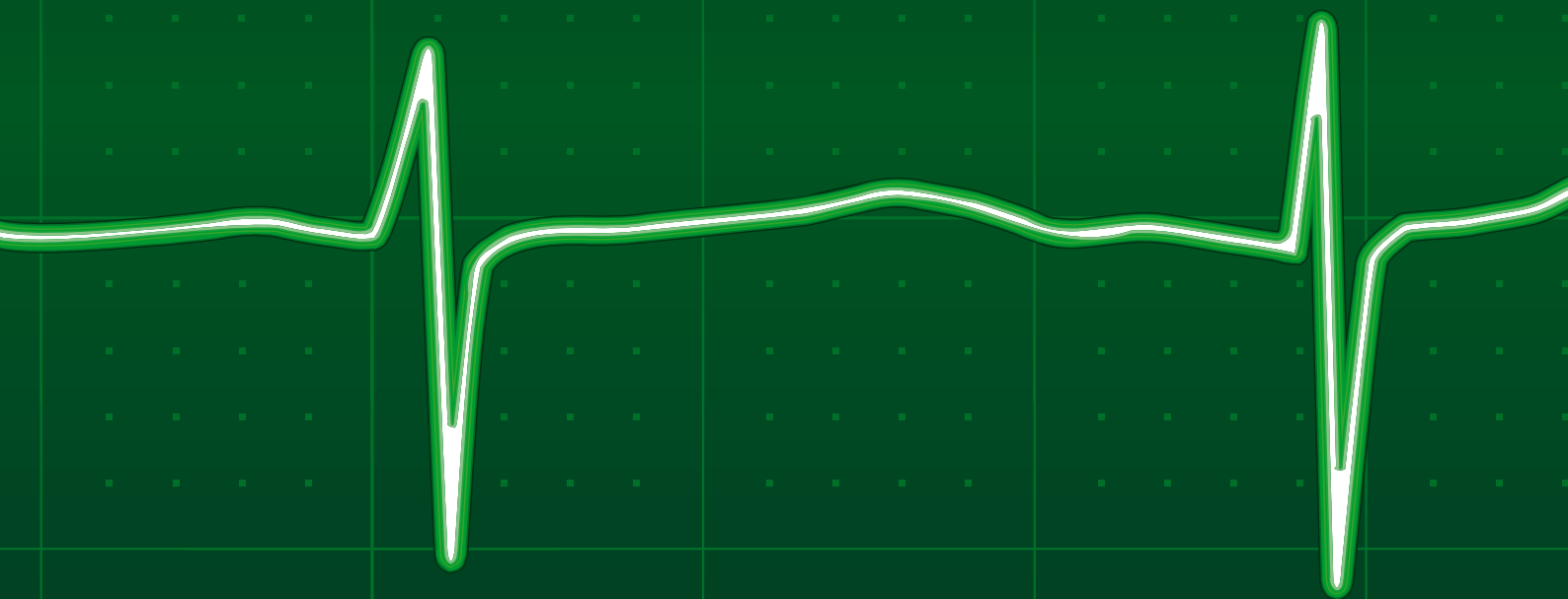


How to  
**SURVIVE**  
the financial turmoil



“Expect inflation, not another Great Depression.”  
That’s the feedback from five very different top  
European business people asked for their view of  
the credit crunch. ►

WORDS DAVRELL TIEN



In this article, Intrum Magazine gets to the heart of the credit crunch sweeping Europe.

**“How do we get through the crisis?”** That question is answered by a German economist, a Norwegian CEO, a Spanish banker, a French top manager and a British insolvency expert.

# 1 UNDERSTAND THE REAL ECONOMIC CONDITIONS OF YOUR CUSTOMERS

There is no disputing that the credit crisis has given the world a great shock. Banks have collapsed and shareholder wealth has vanished. However, the gut conviction of Diemo Dietrich, Senior Economist at Halle Institute for Economic Research, is that European central bankers will not allow their countries near the abyss.

“Back in the '90s the bad-loan meltdown of Japan took a decade to repair. It was the world's second largest economy and yet we did not sink into a global depression,” says Dietrich, who maintains that his profession is not in general agreement

“EUROPEAN BUSINESSES SHOULD EXPECT HIGH INFLATION”

# 2 THIS IS NO TIME FOR MESSY EXCEL SHEETS

In tough times, reliable and up-to-date information about debtors is vital. Not least because the financial health of a business can deteriorate much more quickly in a strained market than a healthy one, observes

Nick Hood, a partner at Begbies Traynor, one of the UK's largest corporate rescue and recovery specialists.

“You should have two worries: first, if the banks don't like the sector, there's a good reason why you should also be careful and second, your credit policy needs to be a balancing act between reducing your risk and pushing your debtor over

the edge into insolvency by being too tough when you know that their bank may be reducing their facilities,” says Hood.

**Besides recommending** that risk managers pay attention to the conditions in which a debtor operates, Hood suggests that firms evaluate the value of the debtor's business in terms of profitability.

“Just about the worst sin in a recession is giving extended credit to customers from whom you only earn marginal profits, especially if they are large customers who are using up your working capital and not paying for the privilege,” he warns.

Risk managers now need to keep their desks in order. Reading and interpreting clean data is much less stressful and much more productive than sifting through a jumble of chaotic figures.

“Make your own life as easy as possible by cleaning up your debtor records. Write off irrecoverable old balances, clear up disputes and sort out misallocated cash,” he advises.

“LISTEN WITH A SYMPATHETIC EAR, BUT KEEP AN EYE ON THE BOTTOM LINE”



about the fundamental factors that led to the current troubles. As an example of complexity, he cites the role of reserve currencies.

**“Ten years ago,** Asian central banks had 80 per cent of their reserves in dollars, but today that has fallen to between 50 and 60 percent, which is still considerable” observes Dietrich.

By exporting capital to the US, China contributed to the extremely low interest rates that stimulated greed and misjudgement in lending. He does not foresee China shutting off the export of capital to the US.

“Supposing China were to shift its capital toward Europe or keep more of it at home, they would still contribute to global demand,” he adds.

But even if the world’s desire to do business remains strong, Dietrich recognises that the subprime crisis has damaged the credibility of the banking industry itself.

“Some AAA-rated institutions sold re-packaged debt that turned out to be worthless. When someone dealing with a respectable name is left with nothing, that is very bad for trust, but the involvement of most European banks was minor.”



**Diemo Dietrich, Senior Economist, Halle Institute of Research**

The credit risk decisions of European banks are based on superior information about their customers in his opinion. With the exception of the UK and Spain, recent data shows that bankers have not harshly restricted lending.

**European businesses,** he warns, should expect higher inflation to continue. The cost of food and fuel are currently rising at around 20 per cent annually, while other goods and services are increasing at less than one tenth of that rate. Monetary policy, he notes, cannot reign in grocery and petrol station prices without causing deflation for other goods.

“That would be more damaging to real economic activity,” he says. The economist expects the central bank authorities to modify inflation targets, rather than risk shock deflation.

But if the macroeconomic picture is not bad, the German economist says that the subprime crisis may have wounded particular regions, sectors and companies.

“Businesses must understand the real conditions of their customers, and failing to do that elevates credit risk dramatically,” concludes Dietrich.



Small debts should not be a priority as economic conditions deteriorate.

“When credit management gets more difficult wasting valuable time on small debts is not intelligent. Concentrate on larger debtors and on problem payers,” he adds, but warns against hostile discussions.

“Most executives in struggling companies feel very isolated and will welcome the opportunity to discuss and share their problems, which means that you may find out vital information before other creditors do, giving you an advantage,” he notes.

**Keeping a channel** of communication open with debtors who are showing signs of difficulties is smart business. While listening with a sympathetic ear, risk managers must keep their eye on the bottom line.

“Think twice and then think twice again before you give extended credit terms,” says Hood, “In hard times, it is almost never a good sign when a customer asks for help in this way.”



**Nick Hood, partner at Begbies Traynor.**

If after careful consideration a credit manager decides to help, the risk should be compensated by higher prices to improve margins. The firm should protect itself by, for example, securing third party collateral or taking out credit insurance. Credit insurance, which may seem expensive, is not just protection but a source of credit information.

“If, like the banks, the insurers won’t cover the risk, you should assume that there is a very good reason why continued trading with the customer is a bad strategy,” he suggests.

Some credit risk problems are caused by macro factors beyond a manager’s control. The current lopsided inflation, pulled by rising prices for raw materials and energy, is hurting both businesses and consumers. But credit remains tight, so the opportunities to pass on cost inflation through higher prices are limited.

“Profits get badly squeezed and the result is more insolvencies,” he concludes.



Matías Rodríguez Inciarte, Chairman of Risk Committee, Banco Santander, S.A.

### 3 STICK TO PRUDENT RISK MANAGEMENT TO ACHIEVE LONG-TERM GROWTH.

Spain may be in worse shape than the US.

Insolvency has struck major property companies, threatening to drag their creditors under. But the country is also home to Grupo Santander. Now the eurozone's largest bank, Santander sidestepped disaster.

"Santander is now the world's fifth largest bank in terms of profit," declared Chairman Emilio Botín.

That profit exceeded €9 billion last year.

"WE HAVE DELIBERATELY LIMITED OUR MARKET SHARE IN HIGH-RISK SEGMENTS"

Matías Rodríguez Inciarte, head of Santander's Risk Committee, has minimised the damage.

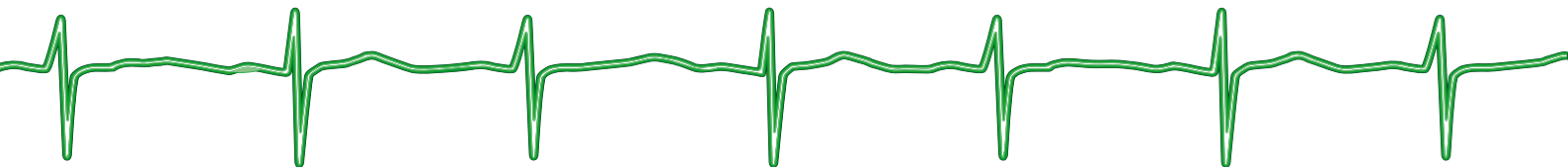
"In the Spanish real estate market, we have always acted prudently and have deliberately limited our market share in high-risk segments," he explains.

The bank's risk management principles mandate independent oversight, daily review of compliance and collective decision-making. Santander has generic provisions of €6 billion.

The Spanish bank had zero risk in subprime mortgages and avoids the esoteric, strictly limiting exposure to hedge funds, monoliners, etc.

In 2007, 3,032 employees attended 32,872 hours of classes on risk.

"We want to make certain that when we talk internally about risk we speak the same language and share homogeneous criteria," says the spokesman.



### 5 MAKE EARLY CONTACT WITH CUSTOMERS WHO FALL BEHIND IN PAYMENT

RCI Banque, automaker Renault's finance company, can see the pain of recession in some parts of Europe. But by taking action early, it is often possible to avoid unpaid instalments piling up to the point that repossession becomes a necessity.

RCI is still lending money as usual to Europeans who want to drive their cars through purchase or leasing. Spain, where the collapse in property market prices has caused job losses, is the exception.

"RCI Group's credit risk policy has remained stable in Europe, but like all banks and finance companies, we have tightened our credit policy for the UK and Spanish markets," says Frédéric Renaud, Senior Vice President, Credit Risk.

"Today, RCI Banque probably accepts some customer applications declined by banks, but nevertheless expects to maintain its risk level," says Renaud, who believes European finance companies have a good knowledge of their customers.

The Spanish market has been "severely affected" by the crisis. The used car market has tumbled by more than 25 per cent. But even if the rest of Europe has not suffered a blow, inflation is eating away at discretionary spending. Renault and its partner Nissan now expect to sell more fuel stingy vehicles.

"We want to keep our customers mobile, so when we detect a problem we proactively open up a line of communication with the customer to find out the reason. Often we can reschedule the instalments and most customers tend to adjust their budgets and repay their loans normally," he observes.

Renault's finance company uses credit management services as a complement to its in-house staff.

"At times, the firm may resort to selling off bad debt, but this is not a 'normal' policy for us," adds Renaud.



Frédéric Renaud, Senior Vice President, Credit Risk, RCI Banque

"WE HAVE TIGHTENED OUR CREDIT POLICY FOR THE UK AND SPANISH MARKETS"

# 4 NOW IS NOT THE TIME TO ACCEPT OLD RISK ASSUMPTIONS

**Making fat** profits selling flat screen televisions over the internet is like trying to make premium ice cream out of skimmed milk. However, by offering customers purchasing plans of between 12 and 36 months, Komplet ASA, an Oslo-listed consumer electronics retailer, has created a profit stream from its fast growing business.

Komplett's CEO Ole Vinje calls his company, (with revenues of over NOK 2.25 billion in 2006,) a logistics machine. Offering customers credit to stimulate sales can increase both volume and profits, but the Norwegian businessman sees a need for caution.

"We sometimes use an outside company for collections, but we have not tried selling debt yet," says Vinje, whose firm cannot accept high levels of unpredictable bad debt.

In the Nordic region, customers who fall behind and reschedule payment simply add more cream. Vinje is moving cautiously as his firm extends into new European markets. The firm now has web stores in ten EU countries. Sales are strong. In April, after more than a year of disaster headlines from Wall Street, the firm moved NOK 308.5 million worth of goods, an 85 per cent increase over the same month last year.

But despite the strong figures, Komplett senses a slight slowdown.

"Perhaps it is due to rising interest rates or the slope of the business cycle," says Vinje, who declines to speculate how the credit crisis may play out.

**Business is presently** strong in the UK, Ireland and the Netherlands, but the company has not yet introduced payment by instalment to those markets.

"We must understand consumer attitudes towards credit before we make that move," he says, underlining the need to avoid additional risk in times of uncertainty.

"WE MUST UNDERSTAND CONSUMER ATTITUDES TOWARDS CREDIT"



Ole Vinje wants to avoid risk in uncertain times.

## DID YOU KNOW THAT ...

... The average American household has 8 credit cards, while the average German household has just 0.8?

... When the credit crisis negatively affects a competitor, it may be time to examine your own business. Their troubles may offer insight into undetected weaknesses in your sector of the economy.

... Increased market share is desirable, but not if it brings a large percentage of customers who create bad debt.

... The world economy is global but central banks are regional and central bankers have a limited ability to influence the interest rates actually paid by private individuals and companies.



# Connecting to Portugal's late payers

Leading Portuguese telecom operator Sonaecom provides a wide range of cutting-edge mobile, fixed and internet services. To collect subscriber payments in a country prone to late payment, it relies on the proven expertise of Intrum Justitia.

WORDS PETER WISE / PHOTOS RACHEL TORRES

When it comes to getting paid, Sonaecom, one of Portugal's top three telecommunications companies, faces a double challenge. The first is to manage the collection of monthly payments from more than 2.8 million users of its wide range of mobile and fixed voice, internet and TV services. The second is to do this in a cost-effective way in an economy where it takes longer to get paid than in almost any other European country.

"The majority of customers in Portugal do not pay their invoices on time," says Luís Costa, the director of Sonaecom's payments division, which employs a full-time staff of 90 to run the company's credit management and payments system.

In this challenging climate, Sonaecom has developed a long-standing relationship with Intrum Justitia Portugal, on which it relies to recover part of its overdue payments.

"We have been working with Intrum Justitia for eight years and we are very happy with the relationship" says Mr. Costa. "We have stayed with them because they deliver the best results. Intrum Justitia

is the benchmark against which we judge the performance of other credit management companies. As a result, we have increased the amount of business we give to Intrum Justitia, which now handles more than 70 per cent of our overdue payment collections."

**The relationship began** in 2001 when Intrum Justitia bought the European Receivables Management Services of Dun & Bradstreet, the company that Sonaecom had been working with up to that point.

Sonaecom is the telecommunications, media and software and systems integration sub-holding company for the Sonae group, Portugal's biggest private-sector conglomerate. Its payments operations focus on the 1.5 million people who subscribe to its mobile telephone service known as Optimus, together with 750,000 users of its Novis and Clix internet service-provider brands, 350,000 subscribers to its Optimus Home fixed-line voice service and about 200,000 users of its Kanguru mobile internet service. Its services also include "triple-play" voice, internet and TV products.

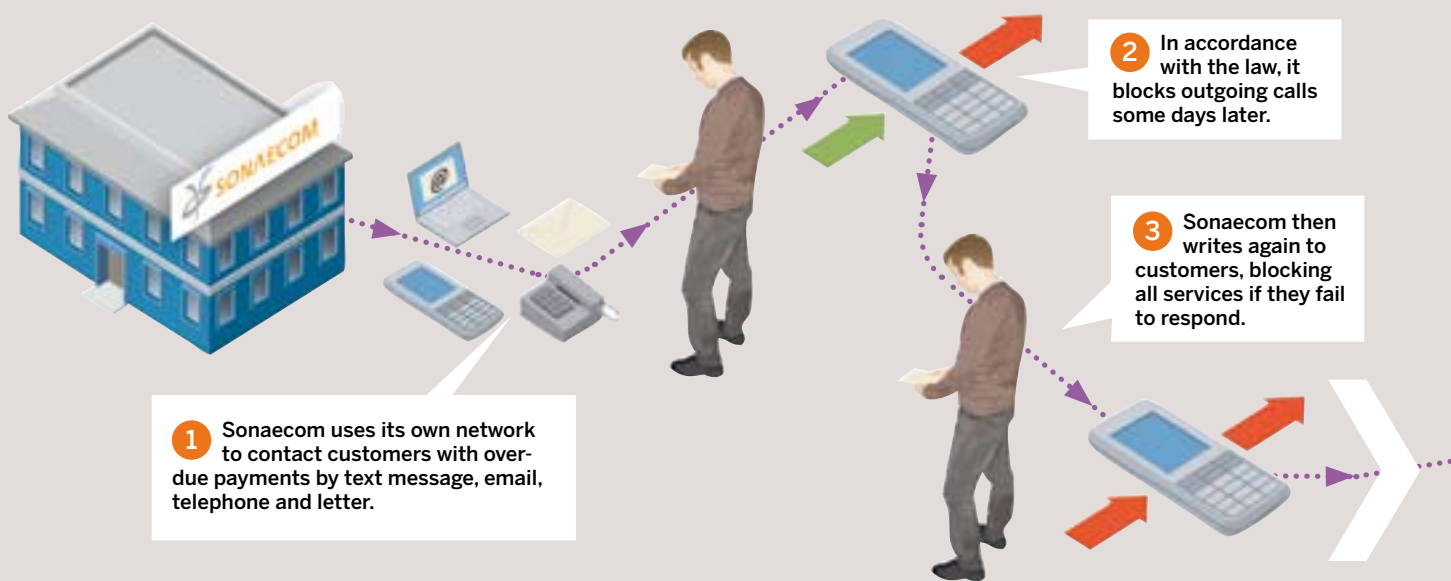
Although most Optimus subscribers prepay for ▶





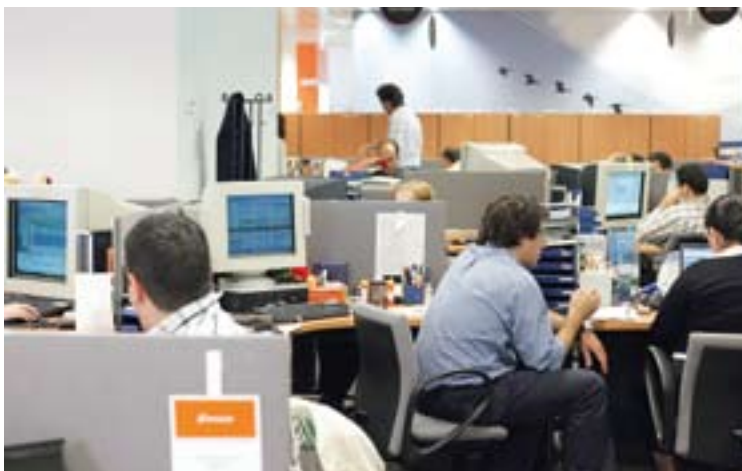
Sonaecom, one of Portugal's leading telecom groups, uses its own networks to contact late payers. "The cost to us is virtually zero," says Luís Costa.

## This is how the cooperation between Sonaecom and Intrum Justitia works



“

There is a strong tendency in Portugal not to comply with payment deadlines



In Portugal, where the average payment period is three months, Sonaecom employs a staff of 90 to run its credit management and payments system.

mobile phone services, Sonaecom invoices and manages payments for roaming charges that do not come directly out of their prepaid accounts. It also collects payments from the ten per cent of Optimus customers who prefer monthly invoices to prepayment.

“In fact, we prefer non-prepayment customers, because they feel less restrained and generally generate higher revenues,” says Mr. Costa.

Although Portugal benefits from an advanced electronic payments system and ATM network, known as the Multibanco system in which all banks participate, only about 30 per cent of Sonaecom’s customers pay by direct debit.

“Technologically, Portugal’s payment systems work well. Customers can even set up direct debit payments on the internet or at ATMs,” says Mr. Costa.

“The problem is cultural. Most Portuguese people prefer not to use direct debit, but to pay themselves each month using their bank cards. We run a lot of campaigns encouraging our customers to use direct debit and we consider 30 per cent to be a very good level in Portuguese terms.”

Because the cost of phone calls, text messages and emails is close to zero for a telecommunications company like Sonaecom, the group handles all the initial dunning process of resolving accounts receivable in-house.

“We have in the past given serious consideration to involving Intrum Justitia at this stage of the collection process, but we have so far concluded that the extra cost would not be justified since the cost to us of contacting late payers with text messages,

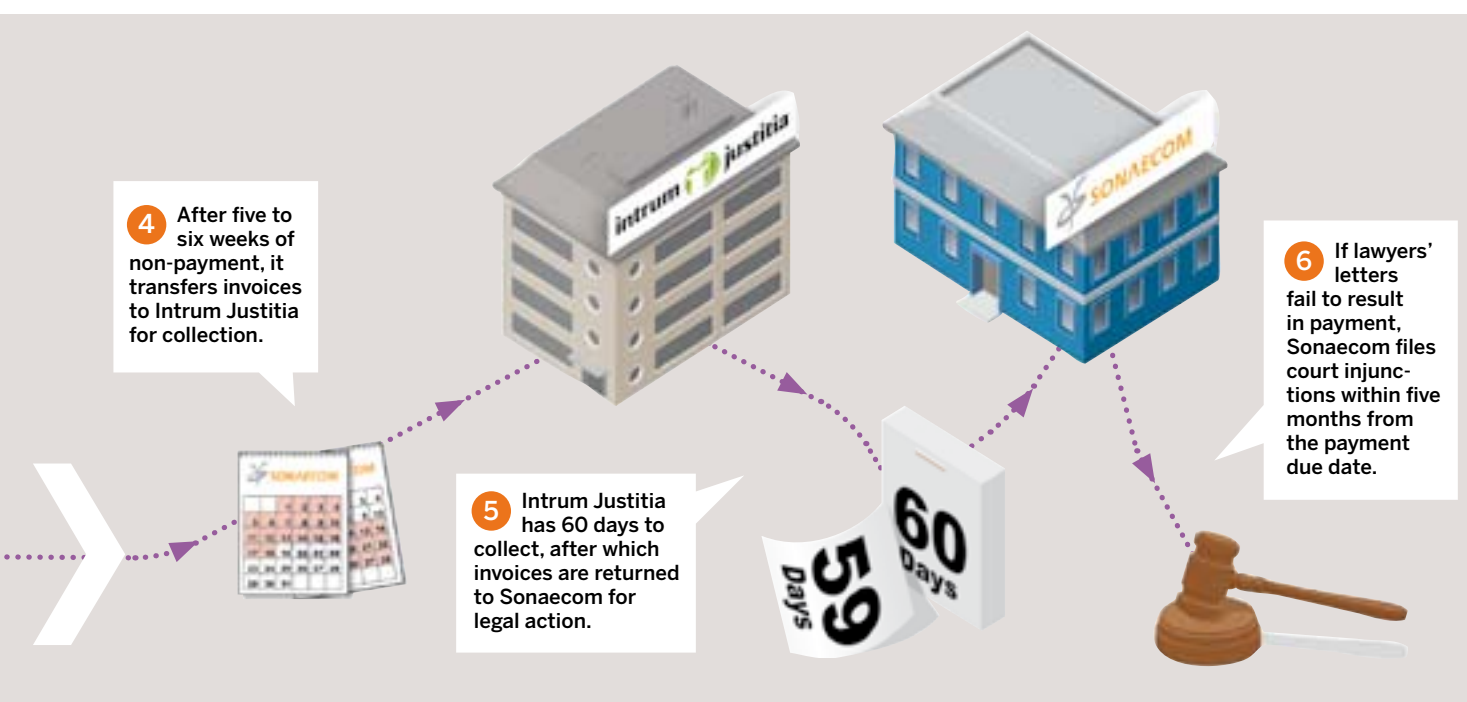


ILLUSTRATION SVENSKA GRAFIKBYRÅN



automatic phone calls and emails is virtually nil,” says Mr. Costa.

**Sonaecom reminds customers** in this way as soon as the last day for monthly payments expires and keeps up the pressure through text messages, emails and phone calls. It handles key business accounts manually through personal contacts from a specialist team. Dunning for other customers is automated, according to a computer matrix based on risk profiles.

“Careful segmenting is vital to our business as it enables us to focus our efforts on the most problematic customers,” says Mr. Costa.

The company is legally obliged to give subscribers a minimum of ten days warning in writing before it can block services. In the case of mobile phone services, it begins by barring outgoing calls and, if customers fail to respond, later blocks all services. It is at this stage – about five to six weeks after the expiry date for payment – that Sonaecom passes on its unpaid invoices to Intrum Justitia for collection.

“We send batches of debt to Intrum Justitia each week by category of customer,” says Mr. Costa. “Perhaps 1,000 Optimus invoices one week and 600 outstanding Kanguru payments the next. Intrum Justitia sends us weekly reports so that we can track progress and we hold monthly meetings to review performance.”

He says Intrum Justitia has in the past had higher success rates in collecting payments from residential customers, but has more recently achieved comparable levels of success in the business sector.

“I’m very happy with Intrum Justitia’s performance,” says Mr. Costa. “They have a competitive edge over the competition. We find them to be more organised, more structured and more reliable in terms of achieving targets.”

Despite this praise, he stresses that Sonaecom carefully monitors the performance of competing credit management companies against each other.

“We give Intrum Justitia the bulk of our business because they produce the best results. But we are always testing one or two other companies to see how their performance compares. We would not consider giving one company a monopoly of the collection process.”

A new Portuguese law came into force on 26 May that will considerably tighten up payment deadlines. It classifies telecommunications as “essential services” on a par with water and electricity and requires operators to bring debt cases to court within five months of the payment expiry date. There had previously been no official limit.

“Over the medium to long term, I think the new law will produce positive results,” says Mr Costa. “The big question is how the court system will deal with the immediate big increase in injunctions.” ▶

“Careful segmenting is vital to our business as it enables us to focus our efforts on the most problematic customers,” says Luis Costa.



## SONAECOM

▶ Sonaecom is one of Portugal's leading telecom operators, offering telecommunications, media and software and systems integration. It is a sub-holding company for the Sonae group, Portugal's biggest private sector conglomerate.

▶ Sonaecom was created in 1994, and assumed its current name in 1999.

▶ Number of customers: a total of 2.8 million.

▶ Number of employees: 1960.



We give Intrum Justitia the bulk of our business because they produce the best results.



Portugal's culture of late payment means Sonaecom has to bar a large number of customers from making mobile phone calls every month.



## SEPA FACTS

► The Single Euro Payments Area is run by the European Payments Council (representing all European banks) and sponsored by the European Commission and the European Central Bank, to create a common infrastructure for euro payments in Europe.

► SEPA currently covers 31 countries (EU 27 plus Iceland, Norway, Switzerland and Liechtenstein). Launched in January 2008, SEPA is expected to be ready by 2012.

► SEPA deals with transfers, direct debits (delayed until November 2009) and credit cards. When SEPA is in place, companies and individuals should only need one central bank account to transfer money anywhere in the euro zone. Regulatory frameworks, formats and technological infrastructures will also be harmonised and simplified.

► SEPA is expected to save millions for companies and private individuals.

“Europe’s new single euro payments area – SEPA – means large savings for companies and individuals. Companies should now review their payment procedures,” says **Martin Runow**, Senior Product Manager at Deutsche Bank in Frankfurt.

WORDS TOBIAS HAMMAR / PHOTO KARSTEN THORMAEHLEN



# Large savings with SEPA

It has been in action since January – the European Commission, the European Central Bank and the European banks’ project for creating a common area for euro payments in Europe. SEPA – Single Euro Payments Area – has been called the largest payments project so far in the history of the continent.

**Martin Runow, you are an expert on SEPA: how would you describe the project?**

“The purpose is to make it as cheap, simple and easy to make payments between two countries as it currently is to make payments within an individual country. We have free movement of goods, services and people within the EU but each country still has its own system for electronic payments. Companies that do business in Europe must therefore use different formats for each country. With SEPA this will disappear.”

**What are the advantages of SEPA?**

“SEPA has, among other things, a rule forbidding deductions from credit transfers. This means that all the middlemen will disappear: the entire sum that the payer deposits should also reach the recipient. Another point is that a maximum permitted clearing cycle will be introduced. It must not take more than three days from paying a sum to the recipient receiving the money. By the year 2012 the time limit will be just one day.

“The third major change is that we are now introducing a single standard for electronic payments throughout Europe. This will greatly reduce the costs of cross-border pay-

ments. The price for a single foreign payment is currently set anywhere between 8 and 50 euro. When SEPA is in place, we are talking of prices of a few euro cents for the same procedure. The direct debits offer the same advantages, but for this we have to wait until the pan-European legal framework is in place (November 2009). But one obvious effect is that it will be easier to plan your cash flow with SEPA Direct Debit.”

**So what should companies do in order to benefit from these advantages?**

“Depending on what systems you currently have, you might need to update your software to get started. You will also need new information, like your customers’ IBAN and BIC codes (International Bank Account Number and Bank Identifier Code).

“How much each company needs to invest to be SEPA-enabled is hard to say. If you need to create new formats and upgrade databases and software, the costs may be considerable. This is why we tell our customers that they have to start looking into this now.”

**Does SEPA already work?**

“The SEPA Credit Transfer (SCT) is already up and running. We currently have 4,300 banks that can receive and execute credit transfers in Europe. The number of payments made per day is almost 200,000, but this figure is greatly increasing.

“2012 might seem like a long way off, but you have to remember that SEPA requires companies to make major adjustments in order to benefit from the advantages. ■

## CHECKLIST: How to prepare your company for SEPA

- 1. Speak to your bank.** Ask what is required for making euro payments under the SEPA scheme and what charges the bank makes for handling them.
- 2. Analyse your account structure.** How many accounts do we have at present? How many will we need within the framework of SEPA?
- 3. Try and collect all your customers’ IBAN and BIC codes.** They will all have these on their invoices. The information exists, but you have to gather it and enter it into the system.
- 4. Analyse your software in order to be SEPA-enabled.** A lot of companies have different systems for different types of payments. Most of the major systems, such as Oracle and SAP, can already handle SEPA. If you are planning to invest in new systems for invoicing or payments: make a ‘SEPA check’ to avoid upgrading later on.
- 5. Ask other banks what offers they have in connection with SEPA.** The system is new, which means that prices may vary greatly between different banks.
- 6. Appoint a person at your company** to be responsible for keeping up-to-date with SEPA developments. New information may arise that is beneficial for your company.



# SLOW TIMES IN PORTUGAL

## — pay later culture

Despite economic growth in the European Union and the promising outlook of Portugal before switching to the euro in 1999, their economy is lagging. More importantly to creditors, Portuguese private and public sectors are getting worse at paying on time. On average, Portuguese consumers take 53.3 days to pay loans. Worse still, the government waits an average of 137.8 days to pay invoices.

WORDS RUSSELL J.T. DYER / PHOTO GETTY IMAGES

First, there has been a rise in public debt. According to Sebastian Dullien, Professor for International Economics at the FHTW Berlin, University of Applied Sciences, “the increase in the government debt was mainly a consequence of the dire economic situation after 2001: as tax revenues fell in the downturn, the deficit grew larger. The government tried to limit the deficit with tax increases and expenditure cuts, but this only made the downturn worse.”

In contrast, “wages in Portugal have been growing much faster than productivity, so the country has lost competitiveness,” says Dr. Dullien (eurozone-watch.eu). “The government

has made things worse...by using the savings they had “thanks to lower interest rates” for wage increases in the public sector, which has further fuelled wages economy wide.” Spending more on wages has also strained government cash flow, making it more difficult to service debts.

Besides these factors, there are more basic reasons involved. Years ago the government owned or controlled the major banks of Portugal. They were required by law to give preferential treatment to the government and its scheme, including lower rates and flexible terms. Although there has since been a privatisation of the banks, the culture of the public sector



The government has made things worse.



Portuguese citizens are laid back, especially when it comes to settling outstanding invoices.

does not seem to have become accustomed to a free market. Their previous relationships may have spoiled them.

As Michael Wolf, CEO of Intrum Justitia suggests in the EPI report, the poor example set by the government and the resulting strain on the credit market is repeated in the



private sector. “You can see the emergence of a vicious circle in which [in Portugal’s case] the government is the first to start to pay more slowly.” From there consumers and “smaller businesses follow suit. This has dramatic effects on economic development. Company cash is ‘frozen’ in unpaid invoices.” ▶

#### PAYMENT DURATION OVERVIEW

	Consumer B-2-C	Business B-2-B	Public Authorities
Average payment term in days	34.1	47.1	57.4
Average payment duration in days	53.3	80.1	137.8
Average delay in days 2008	19.2	33.0	80.4

SOURCE: EUROPEAN PAYMENT INDEX 2008 (PORTUGAL).



# Stability in late payment trend in Europe

**The 2008 Intrum Justitia Payment Risk Survey indicates that payment risk among consumers, businesses and public authorities are expected to deteriorate over the next 12 months, despite the stabilisation seen during 2007 on a pan-European level.**

The European Payment Index report indicates that the fundamental changes required to combat late payment are still missing in the majority of countries. The economic uncertainty facing Europe in 2008 due to the credit crunch and rising oil and food

prices points to a period ahead when it will be even harder to get paid on time. Payment risks have already increased in Switzerland, Spain, Italy, Ireland and France. The Nordic countries remain stable at their traditional low levels of payment risks, while the UK remains relatively stable. The actual survey was implemented during January and February 2008, (involving several thousand companies in 25 European countries), so the broader effects of the US credit crunch have yet to fully reveal their impact on the European economies.

Payment duration decreased on a pan-European level compared to previous years:

55.5 days in 2008 compared to 59.2 days in 2006. Portugal, Greece and Cyprus are the countries where it takes longest to get paid, while the fastest is Finland followed by the other Nordic countries.

Payment delay increased from 16 days in 2007 to 17 days in 2008 – the highest level since 2004. The public sector is still the slowest payer in many countries.

Some 55 per cent of the companies surveyed expect it to get harder to receive payment. Businesses in Hungary, Ireland, Portugal and Spain are the most pessimistic.

## Different countries, different payment cultures. Five young Europeans describe how bills get paid at home.

### Frédéric Daumas, France.

"I think it can be hard for younger people to pay their bills today. Unemployment is high among them and they earn less than older employees."

### Ermis Klempetsani, Greece.

"It takes quite a long time to get paid in Greece, which is bad news for any company, but especially smaller ones."

### Vanessa Panettieri, Italy.

"Italians are used to paying their bills through their bank account or at the post office and buy new products with cash. I think handling credit cards is a new experience for many."

### Hanna Larsson, Sweden

"I think Swedes are quite good at paying on time. A lot of people have internet banking, which makes it easy."



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**15%**  
Russia's level of inflation  
in May, the highest  
for 5 years.  
(Bloomberg News)

## Nordics unite to end Iceland's financial chaos

► The central banks of Norway, Sweden and Denmark have joined forces in an extraordinary move to rescue Iceland, offering a credit line of €1.5 bn to beat back speculators and shore up the battered krona. Iceland's central bank described the deal as a 'precautionary measure' to stabilise the currency, which has crashed 25 per cent this year amid projections that the country's external debt had reached €62 bn, five times the size of the economy. Iceland's banks have borrowed massively on the global capital markets to launch raids on companies across Europe.

## Worst credit crisis since 1930s

► The world is enduring its 'worst financial crisis' since the Great Depression in the 1930s according to George Soros, one of the world's most powerful financial traders. In his new book, *The New Paradigm for Financial Markets*, the billionaire investor says the "current crisis is the culmination of a superboom that has lasted 25 years" and "the worst of the credit crisis could be yet to come".

## Consumer confidence plunges

► The European Commission reports eurozone consumer confidence plunged in May to its lowest level in almost three years.



# Big firms delaying payment in Ireland

**A new trend by some large companies in Ireland to formally delay paying their invoices is causing concern for the country's 260,000 small businesses.**

One of Ireland's largest prestigious newspapers *The Independent* highlighted the problem in a recent article examining how some large firms are now formally extending the length of time they take to pay their invoices – and charging suppliers a 2.5 per cent 'settlement charge'.

The newspaper cited one

example where a retail giant with 44 stores across Ireland has written to its suppliers saying it is extending its payment terms to 75 days from end of invoice, instead of the normal 30 days. According to *The Independent*, this means that if a supplier issues an invoice on the first day of the month it could have to wait a minimum 105 days to be paid.

**Although the EU** has said companies should charge interest of European Central Bank (ECB) rate + 7 per cent on delayed payments, the Irish

newspaper questioned how many small businesses in the current economic climate are going to risk alienating a key customer. The EU is currently reexamining its initiative and reviewing the situation.

Commenting, IJ's Brussels-based Public Affairs Consultant Pia Skaerbak, says:

"This lax attitude very clearly illustrates why the EU has to work out a much stronger directive that can prevent this type of negative behaviour because it puts SME's in a very difficult economic situation."

## CREDIT CRUNCH COSTS \$1 TRILLION

The International Monetary Fund (IMF), which oversees the global economy, has warned that potential losses from the credit crunch will reach €607 bn – and could be even higher. Blaming lax regulation by governments and poor supervision by banks for allowing the situation to develop, the IMF says that losses are spreading from subprime mortgage assets to other sectors, such as commercial property, consumer credit, and company debt. The IMF's Global Stability Report warns that

"despite unprecedented intervention by major central banks, financial markets remain under considerable strain, now compounded by a more worrisome macro-economic environment, weakly capitalised institutions, and broad-based deleveraging." The IMF says that the effects of the credit crunch are likely to be "broader, deeper and more protracted" than in previous downturns, due to the "degree of securitisation and leverage in the financial system."

## Management jobs go, as crunch bites

More company executives in the UK are being made redundant than at any time in the past seven years, new research by the Chartered Management Institute shows. About three per cent of those in senior management teams are losing their jobs, twice the rate of a year ago, a study of 40,000 executives found.

**\$1.4 trillion...**  
...the net worth of Europe's  
298 billionaires  
(Forbes Magazine)

## Putting retirement on hold

The economic downturn is hitting middle-aged and older American workers hard, forcing more than one in four to postpone retirement, according to a new survey. AARP, a lobbying body for older citizens, says that 27 per cent of workers aged 45 and older had told its researchers they had put retirement plans on hold because of immediate survival and long-term financial security fears.

## IMF urges interest rate caution

The International Monetary Fund (IMF) has said eurozone interest rates should not fall because inflation is at "uncomfortably high levels". Eurozone inflation was 3.6 per cent in May, well above the European Central Bank's (ECB) target rate of about 2 per cent and representing a 16-year high.



New corporate colours attract visitors at Slovakia's top trade fair.

# Walking the IJ brand talk in Bratislava

**Intrum Justitia Slovakia successfully unveiled the company's new corporate identity at Slovakia's largest exhibition, the 29th annual Coneco Fair.**

**Held at Bratislava's** Incheba exhibition hall in early April, almost 210,000 people visited the fair that had almost 900 exhibitors. The exhibiting companies from 14 European countries, Canada and the Philippines showcased a wide variety of products in the 60,000 m<sup>2</sup> exhibition space. The fair comprised several specific sections encompassing

construction, energy, real estate and investment designed to highlight innovative technologies and service solutions.

"This was the first time IJ Slovakia has participated in the fair, which is not only the largest of its kind but also now matches the highest European quality standards in terms of exhibits and visitors," says Viktoria Grossova, Managing Director of IJ Slovakia.

**She says IJ's** presence represented the first time a company working with credit management had participated.

"We were overwhelmed by the interest shown in our product and service offering and we were really pleased to be able to use the opportunity to present our new corporate identity," Viktoria tells Intrum Magazine.

"The success of our participation was underscored by the fact that we not only made a substantial number of new contacts but also that we actually signed new contracts during the five-day event. We certainly put IJ on the Slovak business map as a company with a new, yet proven approach to successful credit management."

## EUROPEAN ECONOMY FEELS CREDIT PINCH EFFECT

**Although the eurozone** continues to escape the worst of the subprime crisis, signs are emerging that the credit squeeze is catching up with Europe. Between January and March, the eurozone grew at an annual rate of 2.2 per cent but a survey by KPMG shows tumbling confidence among European service

sector companies amid fears that tighter credit will hit profits. And the European Central Bank's latest survey of commercial bank credit controllers, released last week, showed a savage tightening in lending conditions in April, combined with a much weaker demand for loans.

# Helping young Europeans save and invest smarter

**The Commission has launched a new €1 million project to help young Europeans make the right savings and investment choices. The two-year project is aimed at young people and their teachers incorporating financial matters into their classes and evaluating students on these topics.**

**Financial education** is promoted across the EU by a range of other projects, including Dolceta (Development of Online Consumer Education Tools for Adults), an interactive website that provides information on consumer rights and financial services.

Commission initiatives cannot go any further due to the provisions of the Treaties, which leave educational qualifications to the Member States.

Meanwhile, in late May the Commission organised a conference entitled, "Financial inclusion: improving access to basic financial services". The conference drew a number of high-level representatives from the EU, financial service industry, consumer organisations and national ministries. Some of the comments at the conference called for financial service providers to take on social responsibility both collectively and individually to decrease the number of consumers excluded from basic



**Keeping purses filled demands smart investment and savings choices.**

financial services, and that the road to financial inclusion should also go through financial education. It was furthermore emphasised

that a good CSR policy among financial service providers could act as an attractive tool to draw top-quality employees.

## CONTROVERSIAL CONSUMER CREDIT DIRECTIVE ADOPTED

**A revised Consumer Credit Directive** to harmonise laws and regulations has been adopted by the EU and must be transposed into individual national law by 12 May 2010.

The Directive is being revised due to the growth of new ways of obtaining credit such as instalment loans, deferred payment/credit cards, cash credit and overdraft facilities.

The new Directive also harmonises the method used to calculate the annual percentage rate (APR). The Directive gives consumers the right to receive specified

information prior to contract regarding fees, monthly repayments and APR; withdrawal from a contract in the first 14 days; early repayment options (subject to 'fair and objective compensation' to cover lenders' costs); and to withdraw from a contract if the purchase is cancelled.

Creditors will be granted a limited right to compensation for early repayment of credit. Compensation may not exceed 1 per cent of the amount of debt that has been repaid early. If debtors repay within a year before the sums are due, compensation is brought down 0.5 per cent.

### **Need to reinforce EU risk management**

Charlie McCreevy, EU Commissioner for Internal Market and Services, has said the EU needs to reinforce the prudential framework and risk management in the banking sector through a targeted revision of certain aspects of the Capital Requirements Directive (Basel II). Changes would include new rules to limit the risk stemming from large exposure and capital requirements for default risk in the trading book. The EU Commissioner wants an agreement between the Council, European Parliament and Commission by April 2009.

### **Protecting debtors privacy while recovering debt**

The Commission has launched a broad public investigation on how to improve the transparency of debtors' assets in the EU.

"The objective is also to find possible measures at a European level to improve the right of creditors to obtain information while at the same time respecting the principles of protection of the debtor's privacy which counterbalances the creditor's right to efficient recovery," says the Commission.

### **Improving the rules to combat late payment**

To revise the Late Payment Directive – viewed as ineffective – the Commission has launched a public investigation exploring improved rules to combat late payment between businesses or between public authorities and businesses within the EU.

Stakeholders were asked if they agreed with introducing late payment fees such as an automatic minimum amount based on the size of the debt, in addition to an interest rate of approximately 11 per cent.

The Commission will probably propose a revised directive in early 2009.

WORDS PIA SKAERBAK





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## 90,000 CLIENTS. 24 MARKETS. 1 COMPANY.

Intrum Justitia is the leading provider of credit management services in Europe for a simple reason – we combine local expertise with the muscle of a true pan-European company. We not only know local legislation and payment patterns, we know how to make business work across borders.

Wherever you do business, Intrum Justitia is there to turn credit from administrative expense to profit centre.