

Intrum

MAGAZINE

THE CREDIT
MANAGEMENT
MAGAZINE FROM
INTRUM JUSTITIA

NO. 4 | 2008



Investment wiz kid
and shareholder
Christer Gardell:

'DARE TO INVEST NOW'

LAW OF SURVIVAL

Getting paid on time is a matter of survival for many smaller firms

EFFICIENT PARTNERSHIP

Rescue service cuts costs by outsourcing collections

FINNS PAY FAST

Discover why Finns rank as Europe's best payers

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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.

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Editorial:**Firm credit management essential**

'Regular accounting preserves long friendships' wrote Fra Luca Pacioli, mathematician and close friend of Leonardo da Vinci, in 1494.

Over five hundred years later those wise words remain as true as ever. And are particularly relevant today and for long into tomorrow in our world of credit crunch and volatile economies. A firm, efficient credit management process, internal or outsourced, will distinguish the companies that successfully survive recession from those which suffer due to not getting their invoices paid on time. Our job at Intrum Justitia is to help you to be one of these winning companies.

Strict credit management processes and behavioral scoring are equally vital for financial companies such as banks. That was one key conclusion from a wide-ranging analysis we implemented in close cooperation with the renowned consultancy agency Oliver Wyman. During the autumn road-shows were staged in a number of European countries that provided the opportunity for us to meet and engage in discussion with financial leaders about future retail credit trends.

Future growth always depends on cashflow, whatever the size of a company. However, many small and medium sized companies are now finding

their cashflow being squeezed when dealing with larger companies. Research by the Federation of Small Businesses found that some large companies wait to 105 days before settling bills with smaller firms. Fortunately, more and more medium sized companies are requesting our help to get paid and negotiate payment terms on their behalf for future deals with large enterprises. Payment terms are increasingly seen as a differentiator and an ever more important part of a contract or formal agreement. If you need more information on this, you may want to request our EPI white paper on industry payment terms via intrum.com.

Last but not least, I strongly recommend you read the fascinating interview with Christer Gardell, Managing Partner of Cevian Capital, which he co-founded in 2002.

I hope you enjoy reading this issue of our magazine and I would like to wish you the season's greetings and a very happy, healthy and prosperous new year.

MICHAEL WOLF,
PRESIDENT AND CHIEF EXECUTIVE
OFFICER, INTRUM JUSTITIA

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We have several key reports, white papers and business cases that can give you insight into payment behavior, trends and risks. We can also assist you in the acquisition stage.

Want to know more? Email us at intrummag@intrum.com so we can send you the information and/or reports needed.

Better business for all.

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LONELY ISLES, HIGH CREDIT RISK

The Faroe Islands, situated between the Norwegian Sea and the North Atlantic, has the highest payment risk in the Nordic region. Though unemployment is low among the 50,000 inhabitants, the country's finances are vulnerable as the economy almost entirely depends on fishing. To make the economy more stable, the payment risk in the country should be reduced, according to Intrum Justitia's European Payment Index report.

Credit Management in general and debt collection in particular is not new to the Faroe Islands. However, previous companies have not succeeded in becoming established there., and so, when Intrum Justitia decided to launch two years ago, no one thought it possible.

"Faroes companies will never use a credit management company as it will destroy the relationship with their

clients", was a common comment.

Today's figures show that Intrum Justitia has contracts with 40 per cent of all Faroes companies, providing firm evidence that Intrum Justitia's approach to helping both business and consumers with their finances is a success.

The Faroe Islands are progressing. For example, the banks have just issued their first credit cards,

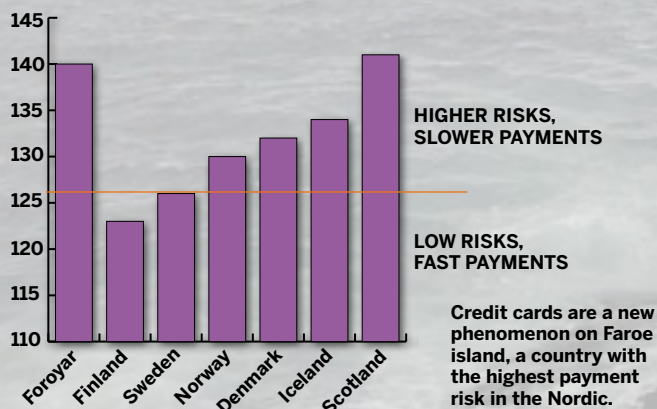


Jakup Bech Jensen.

in a country where debit card is the norm. Jakup Bech Jensen, MD at Intrum Justitia Foryar, says:

"We have many examples of debtors who with help from Intrum have managed to repay their debt and due to our professional procedures have asked us to help them to collect money."

PAYMENT RISK IN THE NORDIC REGION



Consumer debt serving in UK 'unsustainable'



The number of people in UK spending more than 50 per cent of their income on unsecured debt payments has tripled in the past year according to credit reference agency Callcredit.

It says six per cent of the population now spend more than half their income on repayments, while the proportion of people spending over 30 per cent has doubled over the past year to 14 per cent.

The problem affects women more, said Callcredit. Almost

one in ten women (nine per cent) spent more than half their monthly income on unsecured debt repayments, compared to four per cent of men. Men and women aged 35 to 44 years appear to be struggling the most.

Owen Roberts, head of Callcredit Check, the consumer arm of Callcredit, said: "The increasing proportional spend on unsecured debt paints a concerning picture of consumer finances within the UK and this level of debt servicing would appear to be unsustainable."



55 per cent rise in US home seizures

According to US analysts Realtytrac, over 272,000 people in the US received a foreclosure notice in July, a rise of 55 per cent on a year earlier. Some 17 per cent of all homes for sale in the US are repossessed properties.

\$107bn boost for Japan's economy

Japan's government has unveiled a stimulus package worth \$107bn to boost the country's economy. Japan's economy is verging on recession as it struggles with consumers facing high energy prices.

Q & A

PIA SKAERBAK



Are any pan-European laws in place when it comes to the debt recovery and credit management industry? And what does Intrum Justitia do to lobby the EU to get stronger and better legislation?

We asked Pia Skaerbak, public affairs consultant at Intrum Justitia's Brussel's office.

A: In Brussels, we are ideally positioned to have direct contact with key EU decision makers. We advise, inform

and indicate ways to strengthen and improve current and upcoming EU legislation that impacts the business of Intrum Justitia. Also, we work on attending and raising issues relevant to our industry at conferences, seminars and other gatherings in Brussels and elsewhere across Europe.

Q: Why is legislation important for the credit management services industry and companies and consumers alike?

A: Without effective legislation that is drafted to conform to the smooth and unhindered operation of credit management services, companies and consumers would suffer the negative consequences; hence it is our job to ensure that laws and regulations being considered by Brussels do not have an unintended indirect or direct negative impact on Intrum Justitia's activities.

Q: What EU legislation are you currently focusing on?

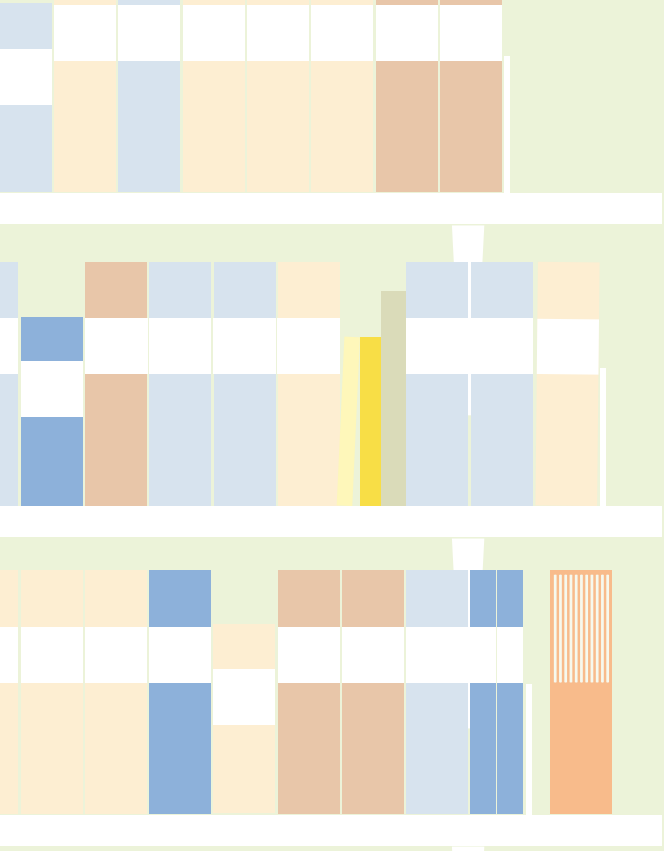
A: We are focusing on the Late Payment Directive that is up for revision. The Commission has acknowledged that the Directive's intended purpose to reduce late payments between companies has only had a very limited impact on reducing payment delays overall. A proposal to amend the existing Directive is currently being drafted by the Commission and is to be forwarded to the European Parliament early 2009. Other EU legislative acts we follow are the Small Business Act (SBA); the pre-legislative drafts on Attachment of Bank Accounts; the draft on Transparency of Debtors' Assets; the Consumer Credit Directive and several other dossiers.

Q: Are there other issues you lobby about?

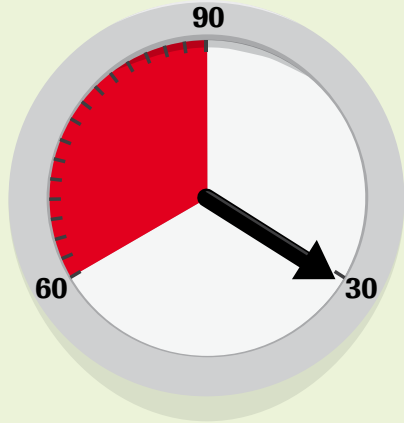
A: Yes, we are also active in pushing the issue of introducing debtor fees as well as changing the monopoly of bailiffs and the very strict data protection laws that exist throughout Europe. It is important to keep in mind that lobbying the EU is arduous work as the EU machine is a slow moving institution that demands a lot of patience in order to see your issues being addressed.

Q: Do you have examples of where you have managed to apply pressure?

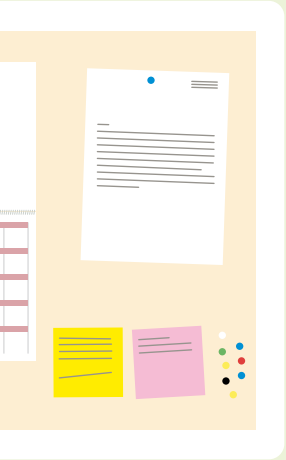
A: We believe that the inclusion of the Late Payment Directive in the recently launched SBA would not have taken place without our strong efforts in addressing and raising this issue. In addition, we are encouraged greatly by the fact there is growing interest and recognition among EU decision-makers in consulting us due to the fact our name and professional reputation are steadily growing in Brussels circles.



• DAYS •



DR

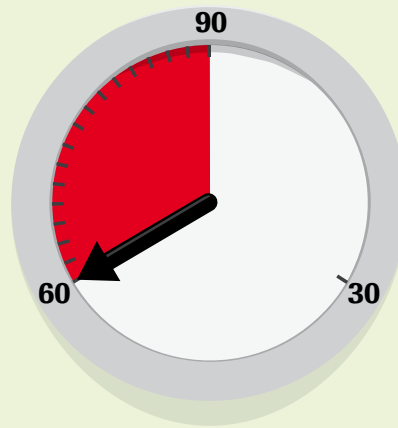


Waiting to get paid?

EAM ON

More and more big companies are taking longer to pay their bills, and might even charge a commission for paying. **Extended payment terms** is not a small problem – countless companies go bust because they simply can't survive when the **cash comes in too late.** ▶

WORDS WILLIAM ROSS / ILLUSTRATION CALLE ENSTRÖM / PHOTO MIA LIND



It may have a purely bureaucratic name, but EU Directive 2000/35/EC was something that surely brought smiles to small and medium-sized enterprises (SMEs) throughout Europe. Coming into force in 2002, the Directive provided for mandatory interest to be paid when payment is late, as well as setting a basic payment period of 30 days.

Following the Directive, 28 European nations enacted national laws that also designate 30 days as the basic payment period, with the potential for late fees and legal redress for late payment. Welcome steps toward establishing standards for a more global marketplace, right?

The problem—particularly with many slowing economies—is that many purchasers are paying later. The EU Directive, in fact, states that the supplier, “has a statutory right to interest 30 days after the date on the invoice, unless another payment period has been negotiated in the contract.”

“Most companies, if they sell, want short credit terms, while most buyers want longer terms,” says Robert Möller, Operations Manager B2B at Intrum Justitia. “The more powerful of the two can dictate the terms.”

Many small companies, particularly those dependant on a few or just one purchaser, are reluctant to press for shorter terms, or to take action, even when these longer terms aren’t met. This has become especially true recently in the UK.

“Big companies appear to be aware that small companies are afraid of confronting them about

payment terms, and are abusing their power as a result,” says John Wright, National Chairman of the UK’s Federation of Small Businesses (FSB). The FSB was especially alarmed over a major pharmaceuticals chain which, at the end of 2007, notified its suppliers that as of April 2008, all bills would be paid not in 30 days, but up to 75 days from the end of the month of invoice, with a 2.5 per cent settlement fee added on.

“Making small businesses wait 105 days for payment and charging them for the privilege of doing so is nothing short of outrageous,” Mr. Wright said. “At a time when small businesses are finding it difficult to deal with a slowing economy and rising costs, it is

shocking that large companies think it is acceptable to use them as an unofficial source of credit.”

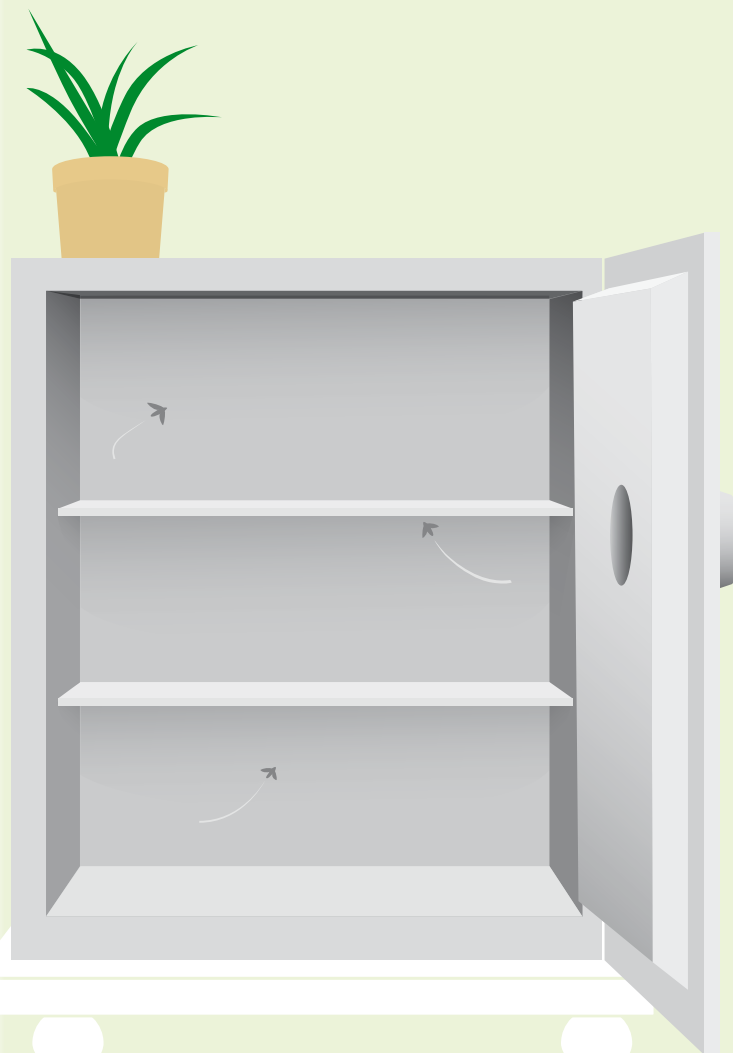
The public sector, too, has its late payers. “Authorities are normally imposing long payment terms

on SMEs,” says Luc Hendrickx, Director for Enterprise Policy and External Relations at the European Association of Craft, Small and Medium-Sized Enterprises (UEAPME) in Brussels.

Tradition and culture also play their part; the Nordic nations have the shortest terms, often under 30 days (sometimes even 10 or 15 days); southern Europe has the longest, with terms of 60, 90 and even 180 days.

Of course, big companies are not always the bad guys; buyers and sellers enter into agreements with many different kinds of allowances and incentives included—and payment terms are still, legally, one of them.

‘BIG COMPANIES ARE ABUSING THEIR POWER BECAUSE THEY THINK SMALL FIRMS ARE AFRAID OF CONFRONTING THEM ...’



DIFFERENT COUNTRIES, DIFFERENT PAYMENT HABITS

Sweden

"Normally it's 30 days, but it's tending to become prolonged, especially when the client suppliers are international companies. We have to become accustomed to the payment terms in the south of Europe, which are significantly longer."

Niclas Berg, analyst, "Federation of private enterprises", Sweden

U.K.

"The British average is 44 days, but unfortunately we are expecting it to increase."

Stephen Alambritis, Head of Public Affairs, Federation of Small Businesses, U.K.

Belgium

"46% of the companies are applying the 30 days rule, as the Directive says, even if we are heading towards longer payment terms."

Luc Hendrickx, Director Enterprise Policy and External Relations, UEAPME (European Association of Craft, Small and Medium-Sized Enterprises)

Spain

"Several investigations demonstrate that the current payment terms of 90 days are tending to be drawn out with the prospect of up to 120 days in the near future."

Carlos Ruiz, Chief Economist at CEPYME, (Spanish Confederation of Small and Medium-Sized Enterprises')

LEGISLATION FOR THE FUTURE

The 2002 enactment of the EU Directive on late payment has provided a legal framework for companies to help ensure they get paid in time, and, overall, has helped to improve payment times in Europe. Still, many businesses have complained that these and the respective national laws have too many loopholes to really be effective.

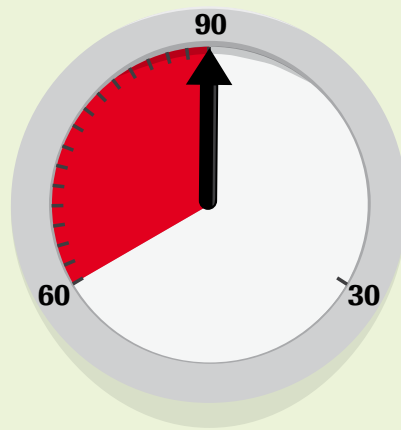
"The EU Directive hasn't been applied properly in all member states, and needs to be improved," says the UEAPME's Luc Hen-

drickx. "The aim of the Directive is to find a good balance between contractual freedom and regulations." The problem, of course, is that buyers continue to take advantage of the contracts to lengthen their payment after receiving invoices, while suppliers are reluctant to use 2000/35/EC's provisions to ensure payment.

The EU has made a proposal for a regulation creating a European order for payment procedures. Officially known as Regulation

1986/2006/EC, it is intended "to simplify, speed up and reduce the costs of litigation in cross-border cases in uncontested pecuniary claims by creating a European order for payment procedures; and to permit the free circulation of European orders for payment throughout the Member States."

"When the law is implemented in each member country (except Denmark), this will make it much easier and faster to become legal," Robert Möller explains.



“Payment length all depends on different countries and the different clients, and what relationship we have with them,” says Mårten Wikforss, Head of Media Relations at Volvo Group.

“The payment terms are an important element in the negotiations.” Per-Ove Erlin of Sandvik adds, “Payment terms are also a competitive, economical means.”

Being Swedish, these two companies are also likely to pay on time, whatever the terms—the Nordic and Baltic regions are the best payers in Europe. “I believe that some countries could solve their problems by applying the Scandinavian legislation on collections, bankruptcy and reconstruction of companies,” Robert Möller says.

This is the second part of the equation—regardless of the contracted payment term, too many suppliers are being paid way too late. The EU’s current online report on late payment paints a sombre picture:

“One out of four insolvencies is due to late payment. This leads to a loss of 450,000 jobs each year, adding to the high unemployment level in Europe. In addition, outstanding debts worth €23.6 billion are lost every year through insolvencies caused by late payment.”

It’s not all bad news.

“Since the implementation of the EU Directive in 2002, the situation has improved,” says Luc Hendrickx at UEAPME. “But late payments are still a huge problem for European SMEs.”

As Mr. Hendrickx points out, the situation “is very different in north and south Europe.

In the southern countries the delays can be very long, even up to three or four months.”

Mr. Möller of Intrum Justitia agrees that, overall, the situation has improved.

“According to the European Payment Index (EPI), payment times are getting shorter,” he says. “The European average has been reduced by three days, to 55.5 days, compared to 2007. Scandinavian countries have the shortest payment times; Cyprus, Spain, Portugal, Italy and Greece have the longest.”

Almost all experts add that, while 2000/35/EC may not be perfect, the SMEs must take more responsibility, and more actively implement its provisions.

“Many SMEs can worsen their commercial relationship with the larger company if they tighten their payment conditions,” Mr. Hendrickx says. “This is why we would like the introduction of an automatic interest to be

applied for late payments. At the company level, SMEs need to have better access to financial information about their clients—when a new client turns up, they should check that the company is financially healthy. That will reduce their risks. Also, they should really adapt clauses in their contracts to match EU legislation.”

Mr. Möller provides Intrum Justita’s advice:

“We always recommend to our customers that they get an agreement on payment times, and try to make them as short as possible,” he says. “Act immediately when any invoice isn’t paid.”

“SME’S NEED TO HAVE BETTER ACCESS TO FINANCIAL INFORMATION ABOUT THEIR CLIENTS”



Be tougher:

Use all your payment tools

Keep badgering late payers and get tough even with big customers in other countries. Those are two key lessons learnt by Swedish software company Sitoo about getting paid.

Jens Levin, Managing Director of software producer Sitoo (formerly Effective Studios) in Stockholm, knows how important payment is for a fledgling firm.

“A lot of our partners are in southern Europe, where the usual terms are at least 60 days and often 90,” he says. “When you’re a small company it’s hard to grow, because not only do you have costs to pay, but you want to be able to expand. Then you face cultures where, if you don’t follow up, that could easily rise to 100 or 150 days! It was really tough for us.”

Mr. Levin learnt a simple approach early on: “We badger our partners from day one when we have to,” he laughs. “A pit bull never gives up! When our partners in southern Europe understand this, then they are usually good about paying on time. It was something we learned the hard way—sometimes you have to be tough with your bigger partners if you want to get paid.”

Mr. Levin’s company sells web development and other software, both online and also as a boxed product—and often under other names—in other countries. Founded in 2004, the company has some 10,000 customers in 45 countries.

Fortunately for Sitoo, most of its payments are now made online.

“Working with our partners, however, we issue traditional invoices,” Mr. Levin says. “If we’re working with a smaller partner, sometimes we won’t ship the product until we get paid. With new partners, we do a credit



Jens Levin says there are 'always people who won't pay if they don't think you're tough!'

check using the D&B (Dun & Bradstreet) ratings. It also helps to have a partner like Intrum Justitia, who handles our invoicing and helps with late payments. No matter what, there are always people who won’t pay if they don’t think you’re tough enough.”

Mr. Levin has a rather chilling late payment story that, unfortunately, may become more common in this increasingly online world. “We had one customer who simply wouldn’t pay,” he says. “We turned the issue over to Intrum Justitia, who issued him with at least

five notices. But when they took action to garnish his wages, he decided to take revenge.”

The man posted negative comments about Sitoo on some 25 web communities. “We know the Internet, so we immediately went to the communities,” Mr. Levin says. “They’re serious about their content, so most removed his comments—but comments like this still linger in.” In this case, he says, the majority of damage was repaired—although Sitoo, with Intrum Justitia’s help, is about to take the man to court. ▀

'Being there' for customers

For the Danish rescue service Falck the focus is on its primary core services. Underlying functions such as debt collection, for example, are ideally outsourced to specialists like Intrum Justitia.

TEXT TORBEN JASTRAM / PHOTO KARIN MAJLAND



Europe's largest private ambulance company, Falck also provides business and consumers a wide range of health, safety, road assistance and other services.

The four business areas – Assistance, Healthcare, Training and Emergency – between them represent the Danish Falck Group's activities, which are aimed at preventing accidents and illness, providing assistance during disaster, accident and emergency situations, and helping people to recover after illness or accident.

The Emergency service is also a supplier of a large number of services in the areas of health, security, roadside assistance and other kinds of assistance to companies and private citizens in Denmark, Norway, Sweden, Poland and Estonia. As the biggest ambulance operator in Europe, Falck provides ambulance services for residents of seven countries in close collaboration with the authorities, and also performs a number of tasks for the police and the road authorities.

But the main country is of course Denmark, where two thirds of the total of 15,000 employees are based.

"In general terms our credit risk is considered low, because by far the majority of our biggest customers are public authorities," explains chief accountant

Martin Ahlgreen from his office in Århus, Denmark's second largest city.

This is one of the reasons why they decided against having an in-house debt collection department in the company. Another reason is that at Falck they want to maintain a focus on key services and instead let external specialists take care of some of the underlying functions.

"We have a good partnership with Intrum Justitia as regards debt collection matters. They don't actually do anything that Falck could not do itself. But we felt it was the right move to outsource this element to Intrum Justitia, because they have the experience, the whole setup and are professional," explains the chief accountant.

One of the areas where many of the debt collection cases originate is roadside assistance. This is where Falck is called out to car drivers who have broken down, run out of petrol, had a puncture or have other mechanical problems.

"Some customers are subscribers, so our service is of course covered. But non-subscribers also call us, ►



Martin Ahlgreen says outsourcing collections frees up time for Falck to focus on assisting its customers

How the partnership between Falck Denmark and Intrum Justitia works



1 If a payment for a service is not made on time, Falck sends out reminders. Approximately 1,000 new reminders are sent out every two weeks.



2 If the first reminder is not paid two more reminders are sent out.



3 After that, there are still 50-100 non-paying customers left in the system every other week. These are now transferred to Intrum Justitia, which takes over the case.





Falck's rescue service vehicles provide help in 12 European countries as well as in Brazil and Malaysia, for example.



'Intrum Justitia has the experience, the organisation and are professional'

and even though we try to obtain payment on site, it's not always possible. If the customer is already short of money it can happen that our bill doesn't get paid. In such instances, Intrum Justitia is good at setting up repayment arrangements, so that we get what is due to us," says Martin Ahlgreen.

A typical debt collection case starts once Falck has sent the customer three reminders.

"We send about 1,000 new reminders every two weeks. After three reminders this figure has been reduced to between 50 and 100. At this point we have no more contact with the customer, and Intrum takes over. In most cases, the payment comes in straight

away, or another scheme is arranged, and we're very satisfied with that," he says.

It happens quite frequently that Falck is requisitioned by the Danish police because a broken down car is causing disruption or even posing a threat to the safety of other drivers. It may be a breakdown on the motorway, or perhaps poorly parked cars at festivals and the like, where fire service access or evacuation routes are obstructed.

"In such cases, the police ask us to remove the cars, and of course the car owner must pay for this. But there can be a few people who are unhappy with the course of events and refuse to pay the bill. As a rule, these

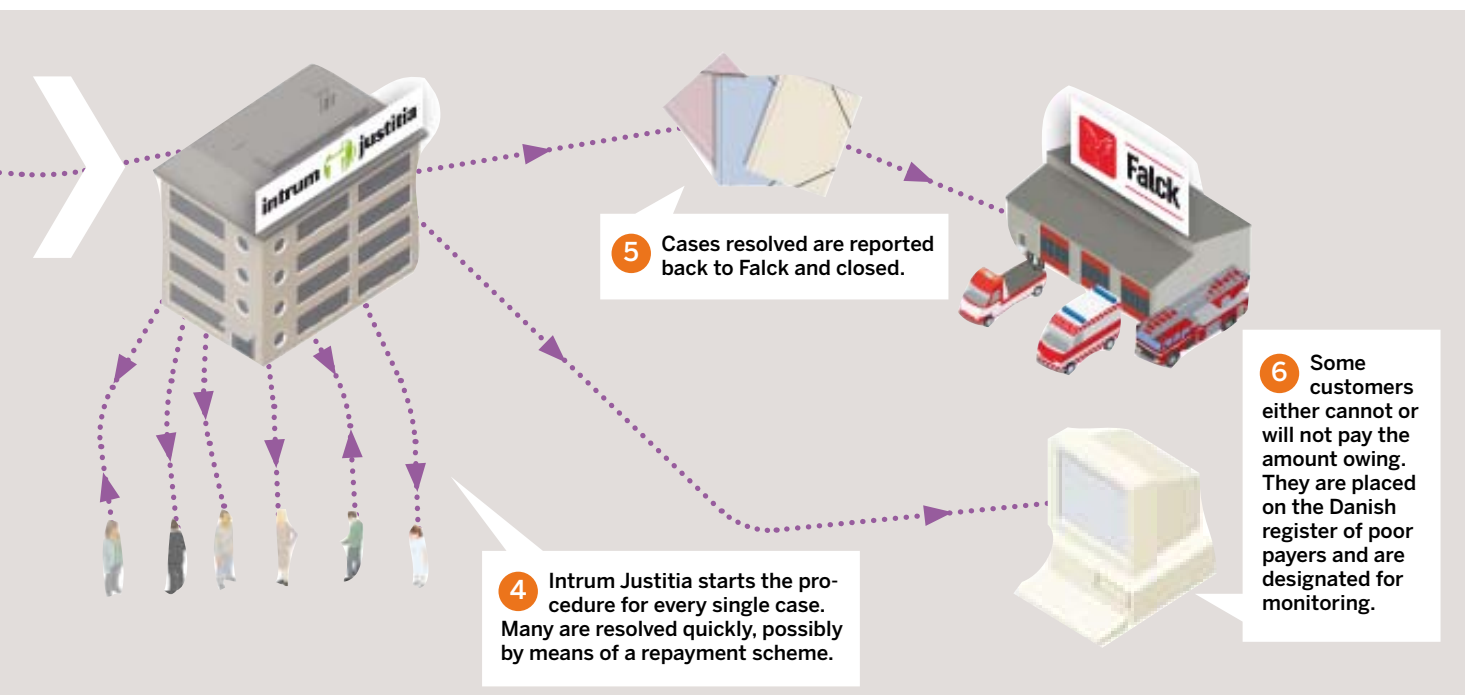


ILLUSTRATION SVENSKA GRAFIKBYRÅN

cases are usually settled amicably thanks to the way they are handled by Intrum,” explains the 44 year-old chief accountant, who has held his position for five years.

But there are also “hard-core” poor payers, determined cheats who consistently refuse to pay what they owe.

“After a period when Intrum has tried in vain to collect what we are owed – perhaps because the customer actually has no money – these people are designated for monitoring. This means that we stop the dialogue, but still keep an eye on them. At the same time, these people are registered in a public register of poor payers. So if, for example, a few years later they want to buy a flat or something similar that requires creditworthiness, Intrum Justitia moves in once more and resumes the debt collection process,” says Martin Ahlgreen.

It is not only Danish car drivers who end up as debt collection customers of Intrum Justitia. Falck also has cases in which private individuals or companies hire a so-called safety package consisting of fire extinguishers, fire blankets and so on.

“Some of these customers forget to pay their subscription. If it’s a company that has gone bankrupt, of course we can’t do anything. But if the company closes down and is not bankrupt, the owner occasionally forgets to return the hired equipment. And this can end up in a case for Intrum Justitia,” he explains.

Falck also provides assistance in the event of damage to buildings. Global warming appears to be having the effect that we are experiencing more extreme weather situations, with storms and high volumes of rain and snow. In Denmark in recent years there have been a significant number of floods in residential areas because of high rainfall or storm flooding. This has resulted in lots of flooded cellars in Danish houses, and here too Falck has been called out to help.

“After a flooded cellar has been cleared up we can supply a dehumidifier that removes the last traces of moisture from the foundations and walls. But in some situations the customer has to pay to hire the dehumidifier, and we have some debt collection cases as a result of failure to pay for this service. Some customers are covered by insurance, while others aren’t,” says Martin Ahlgreen.

The partnership between Falck and Intrum Justitia has been in progress since 1999, and the chief accountant feels that this will continue in the future.

“We buy a service that we’re very satisfied with. I doubt that we would be able to achieve the same results ourselves with the same staffing level,” he confirms, adding that by far the majority of debt collection cases involve smaller sums of DKK 1,200-1,500 (EUR 160-200.) ▶



Falck’s professionals help prevent accidents and provide assistance to people in need.

ABOUT FALCK

- ▶ Nordic-based rescue service with headquarters in Denmark.
- ▶ Operates in 12 European countries as well as in Trinidad & Tobago, Brazil and Malaysia.
- ▶ More than 15,000 employees, of which 9,750 in Denmark.
- ▶ Four core areas: Assistance, Emergency, Healthcare and Training.
- ▶ Net revenues in 2007: DKK 6.2 billion.
- ▶ First ambulance acquired in 1908. Now, exactly 100 years later, Falck has at its disposal more than 900 ambulances in seven countries, which run more than one million journeys every year with critically ill patients.
- ▶ See more at www.falck.com.




‘I doubt we could achieve the same results with the same staffing level ... as Intrum Justitia’



“We’re buying a service we are very satisfied with,” says Martin Ahlgreen.



“

Winners are often those who dare to invest during an economic downturn.

The stock market will soon be taking off, and if you want to succeed in the next economic upturn the time to invest is now. But it demands courage, according to **Christer Gardell**, Managing Partner of the venture capital fund Cevian Capital.



WORDS MARKUS WILLHEMSON / PHOTO MATTIAS WENBLAD

BE DARING

Christer Gardell is the founder and one of the two part-owners of the venture capital fund Cevian Capital, which owns ten per cent of Intrum Justitia and is also a major shareholder in Telia Sonera and Volvo.

Gardell is well known in Sweden for his competitive instinct and his great love of tennis; he is mortified that he recently lost to tennis legend Björn Borg in a veterans' competition.

"I played really well. But I was still thrashed 6-0, 6-0," he confirms.

Things have gone far better for Christer Gardell in his work, and he is happy to share some of his thoughts about how to succeed in an economic downturn.

"Winners are often those who dare to invest in a weak economy. That's when it's cheaper to build and to buy. When you've finished building, the economy has had time to recover once more."

You have said that this economic downturn is unique, and that you cannot draw any historical parallels. What do you mean?

"The global relationships are totally new. In the past it was Western Europe and the USA that defined the economic trend, and we largely traded with one another. If things were bad in one market, the other would probably follow. We have no map and compass for this situation. We have three billion so-called new people. People who are becoming urbanised and are starting to demand things. These new markets are becoming accessible to our companies, and with more regions being included in the global economy the risk is diversified, and economic cycles should not be as dramatic."

How does the economy affect a company's ability to get paid?

"In a weaker economy there is even greater

reason for many companies to start looking at the possibility of outsourcing their credit management departments, so that they can focus on their core business and work more efficiently."

You have spoken about Russia as being the most exciting market. Is there reason to reassess this following the war in Georgia, which will presumably affect Russia's relations with the outside world for many years?

"I don't believe that the political unrest will have very much of an effect on economic integration. Raw material and energy assets have made Russia wealthy, growth in GDP is high and Moscow is one of the fastest-growing major urban regions in the world. It's a big, important market, and there are already so many companies with a presence there. It's a trend that I don't believe can be stopped."

How do you see the trend in the area of credit management services?

"Since we went into Intrum in 2004 we have seen the industry develop from a large number of small players to major industrial initiatives across national borders. Intrum has a theoretical potential to expand as much as possible. The company is in a very attractive position compared with many other companies in the industry."

How will Investor's 50 per cent acquisition of the receivables management company Lindorff affect Intrum Justitia?

"It is nothing but positive for Intrum that two major companies in the Nordic market are going out and building businesses on an international level. Two dominant players can encourage one another to create additional growth and success. Just look at Volvo and Scania. Investor's move into the sector is also a sign that more people are seeing the opportunities." ▸

How your company should deal with an economic downturn

1. Make decisions based on the big picture and try to ignore short-term disruption. We are in an historical phase of significant growth in new markets, which will push up demand in a global perspective.

2. Treat the negative tone of the news with caution. News reporting is taking on something of a 1930s tone. The impact has never been as great as is the case now because of the Internet.

3. Be aware of competition from the new markets. We cannot assume that we will simply be able to export to the new countries and that they will just sit and wait. They are creating companies that will be our competitors of the future. Ericsson suddenly had a Chinese company as its main competitor. Enter into alliances or set up partnerships with them instead of letting them become tough competitors.

4. Don't do what everyone else is doing, but the opposite. It is all about courage, daring to think for yourself instead of copying what everyone else is doing. The ones who earn money are those who dare to make their own decisions.

5. Don't become obsessed with the mortgage crisis in the USA. The USA's role in the global economy is already far less significant than before, and it will continue to decline. Economic power will shift towards the new world.

FINANCIALLY RESPONSIBLE FINNS

Finland lies in the far north of Europe. It is a country of harsh winters, midnight sun summers and people who are the best in Europe at paying bills on time. Finnish businesses take just 28.6 to pay an invoice, public authorities speed payments through within 25.8 days and consumers take just 19 days to settle their bills. What makes Finns so nice people to do business with?

WORDS RUSSELL J.T. DYER

One reason for the excellent credit figures coming out of Finland is its economy

“The main reason for Finland’s strong economy is the ‘steel bath’ that began during the deep recession in the early 1990s,” says Richard Brander, a researcher at the Network for European studies at the University of Helsinki.

“We had the deepest recession among all OECD (Organisation for Economic Co-operation

and Development) countries, but on the other hand there was plenty of ‘Schumpeterian creative destruction’. Companies that weren’t competitive went out of business. There was a very strong will after this period to make the structure of the Finnish economy better.”



Finland will continue to be a credit risk safe-haven

In addition to this house-cleaning that came from the recession, Brander says that joining the EU in 1995 helped a great deal. He says that “the EMU-membership in 1999/2002 stabilised the economy even more. And of course, we had

and still have Nokia, the mobile phone giant that has created a tremendous amount of direct and indirect wealth in Finland.”

Another possible reason for Finns being so quick to pay their bills, while western Mediterranean countries (i.e. Portugal, Spain, and Italy) take around 90 days, might be cultural attitudes. If that’s so, why are Finns this way?

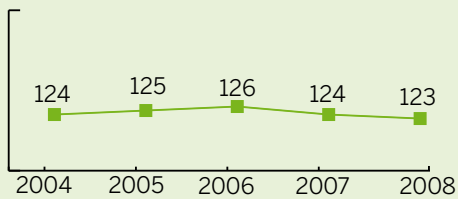
“The whole question is in a sense absurd for a Finn: of course you pay your invoices when they are due. In Finland we think that we are the normal case and people who don’t ▶

Finland is a country with long winters, great summers and a deep-rooted cultural ethos that frowns on not paying off debt, whether in business or privately.

ECONOMIC DEVELOPMENT (%)

	Finland	Average EU27
GDP per capita	US\$ 35.000 (est 2007)	
GDP growth	4.4 (2007)	2.9
Unemployment Rate	6.5 (2007)	6.8
Inflation	2.7 (2007)	2.1

PAYMENT INDEX FINLAND



Payment Index shows that Finland has the lowest payment risk in Europe, where the average index number is 150 (2008).

*Payment index: A value of 100 means that there is no underlying credit risk. 101–124 points means that one should be cautious and implement control mechanisms. From 125 points, measures to reduce the risk -profile become increasingly more important, while from 175 points this is a total necessity.

► pay their bills on time are a bit unreliable,” says Brander.

”The Finns as a people are very concerned about good credit and it shows not only in their behavior, but in their laws. They’ve enacted various laws and regulations regarding debt collections and bankruptcy designed to discourage bad credit behavior. Regulations allow for lenders to be reimbursed for costs associated with reminding the borrower, collecting on bad debts, as well as interest on principal. While they have acts which govern the relations between creditors, debt collectors, and debtors, the goal of collectors is generally to get debtors to pay their debts voluntarily without involving law enforcement authorities: to bring the rare bad debtor in line with the cultural norm.

The interesting thing about the culmination of this cultural attitude and economic growth is that they complement and feed each other nicely. A country with a good banking system, good creditors, and responsible borrowers helps to strengthen and improve its national economy. Brander feels that “this [all] is linked to the fact that Finland has very little corruption.” According to Transparency International (a global organisation against corruption), Finland has one of the smallest ‘black economies’ among EU countries.

With this outstanding credit market in Finland, one then has to question if it will last given the influences of other cultures and the general economic problems currently starting to be experienced by other countries, particularly those to which Finland exports. Brander points out that “individual debts are on the rise – especially for young people who have taken big housing loans and are facing falling prices. Credit card debts are also on the rise. A big plus for Finland is that our public sector debt is limited.”

Basically, standard precautions are always appropriate when dealing with individuals, particularly inexperienced borrowers. Howe-



In Finland we think people who do not pay their bills on time are unreliable.



PAYMENT DURATION OVERVIEW	Consumer B-2-C	Business B-2-B	Public Authorities
Average payment term in days	14	21	20
Average payment duration in days	18	27	24
Average delay in days 2008	4	6	4

SOURCE: EUROPEAN PAYMENT INDEX 2008 (FINLAND).

ver, overall, maturer clients seem to be much less risk in Finland than in most of Europe.

“I think Finland will continue to be a safe-haven when it comes to credit risk. Our political system is very stable. The biggest problem in my view is that the Finnish economy has been strong for so long that most Finns believe we won’t see a recession again, ever,” Brander cautions.

He goes on to say, “it seems to take a long

time for Finns to understand that there are serious economic problems in the world at the moment. Nokia is also a problem in the sense that its success has lasted for so long that Finns don’t believe that it could go badly for Nokia.”

Nevertheless, while no culture or country is ever free from economic or credit cycles, lending certainly looks much better in Finland. Other European countries can learn from their example. ►

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Loan lender uses Facebook

US student loans lender Sallie Mae use social networking sites such as Facebook to communicate with its customers.

The move is the start of a trend that experts believe most lenders will shortly follow.

Technology provider Thunderhead is

working with Sallie Mae to launch the facility next year. It is keen to use the channel to send messages to its customers and cross sell to them. Sallie Mae's student customer base is 18 to 22 years old – a target audience that are heavy users of social networking sites.

Chris McLaughlin, Chief Marketing Officer for Thunderhead, said the channel would not replace print, email and text message communication. "The addition of a new channel is not necessarily a replacement – electronic channels are low cost and instantaneous." Source: Credit Today

Euro credit crunch deepens

Jean-Claude Truichet, Head of the European Central Bank, told the BBC the credit crunch is continuing and it is not evident that the worst is over. He said we were seeing "an ongoing, very significant market correction," and compared recent rises in energy and food prices to the 1970s oil shock.

Credit insurance more popular

More British companies are turning to credit insurance to protect themselves during the economic downturn, according to the Association of British Insurers (ABI).

Figures show the number of companies taking out credit insurance increased by 10 per cent during 2007.

SOURCE: CREDIT TODAY

Sensible spending, responsible lending

Believing that prevention is better than cure, several Intrum Justitia offices across Europe are pro-actively raising consumer awareness of how to spend sensibly and avoid debt.

Intrum Justitia offices in six countries – Switzerland, Scotland, Sweden, Norway, Finland and The Netherlands – run various financial education programmes aimed at promoting sound credit management and payment behaviour.

In Switzerland today some 30 per cent of young people between the ages of 12 and 18 are already in debt, due to easy access to mobile phones and credit cards. To slow the tide, Intrum Justitia runs a much-acclaimed project called 'Swiss School Award – Students, Debt and Money', now in its third period. With the support of consumer organisations, media, politicians, teachers and teen idols, the project gets young people involved at a personal level in understanding both money and spending habits by participating in various competitions. The youth project has proved so successful that it has been widened to encompass talks on managing personal finances to company trainees and targeting older consumers via a unique website with general spending information and money management tools.

In Sweden, the recently launched website my.money.se is also



Easy credit card access together with the desire to own the latest brands puts younger persons at debt risk.

geared to educating consumers and answering their money questions. The site is the result of a growing need to get information about handling your private economy all

in one place. Intrum Justitia hopes that by communicating with end-customers and private persons, the company will get a deeper insight into their needs and issues.

CUTTING BACK IS THE ONLY OPTION

An Intrum survey of 500 former debtors in Switzerland reveals that many prefer to solve their financial problems without outside help – indicating debt is still a substantial taboo for the country's 7.5 million citizens. Luxury goods and vacations are the first items to go for Swiss citizens struggling to reduce their debts, although men in particular are loathe to sell their cars except as a last resort. The study showed that the 18-to-30 age group presents a dramatically higher credit risk than the older population due to their spending habits. The most frequent causes of financial problems for men and women in Switzerland

are unemployment, sickness and divorce rather than just bad money management.

Yet indebtedness remains a taboo subject for a large number of people according to the poll. The study reveals that the increased urbanisation, of the population is increasing the chances of people falling into financial problems. One conclusion was that the lack of social control and the anonymity of city life, as well as a higher proportion of younger people, are key reasons behind the growing indebtedness trend. In family-strong rural areas, the debt risk continued to decline.

Bank losses forecast to increase significantly

Total European retail credit losses by banks are forecast to increase by at least 50 per cent and possibly even by a massive 100 per cent in the coming three years to 2010. This will test the market to an unprecedented extent.

Those grim figures emerged in research carried out by Oliver Wyman, the management consultancy, and Intrum Justitia, the Credit Management Services Group. The figures underline how the credit crisis and liquidity crunch have created substantial volatility in European credit markets.

The UK, Spain and Ireland will be particular black spots due to a mix of aggressive lending by the banks and significant worsening in their local economic environments. It is predicted that the largest impact will be in 2009 when losses on consumer credit and mortgage lending in the UK could be more than €21bn – €6.4bn higher than 2007 levels. Similarly, losses in Spain will be €2.1bn higher than 2007 and in Ireland by €400m more than 2007's levels.

Growth in most developed markets over the next 36 months will be weak, except Germany where growth rates are forecast to pick up slightly compared to low historic levels. In emerging markets, growth is expected to remain strong with mortgages overtaking consumer credit, and Russia and Poland especially witnessing the highest growth rates.

The comprehensive research was supported by primary and secondary research and qualitative analysis from such sources as the World Bank, IMF, official national data agencies and published reports. It also encompassed an extensive survey of credit risk management teams at more than 40 European financial institutions covering all key aspects of the credit value chain.

The results demonstrated that



European bankers gear up for the worst as credit crunch hits markets.

banks rarely invest in the correct areas and, even when they do, they fail to fully exploit new capabilities.

One clear conclusion of the study is that huge potential benefits exist for banks that adopt best practice in retail credit management. It is estimated that opting for such an approach could lead to a potential profit increase of between 10 per cent and 20 per cent on total Europe-wide profits.

The report states banks need to focus more on the medium-term and on effective management across the economic cycle. It says the pain being felt in rapidly deteriorating credit environments is largely the result of over-zealousness in better times.

"On the other side of the coin,

the research indicates banks in stable credit markets should avoid bating down the hatches too tightly, instead seizing the opportunity to selectively grow their business by building on developing best practice capabilities," says Sean Cory, partner at Oliver Wyman.

Michael Wolf, CEO and President of the Intrum Justitia Group added: "Traditionally European banks have not been keen to outsource credit management and pre-legal collection. However, we believe that this research gives strong evidence that there are also benefits for the banking sector to use professional partners in credit management who can add information and knowledge of consumers payment behaviour."

Intrum Justitia has extensive ex-

perience of credit management systems (CMS) that builds on a scoring method to predict the likelihood of getting paid. The scoring methodology uses internal and external information from various databases, along with experience, evaluation potential and reproducibility, all of which is fed into a statistical model that helps show which measure works best to achieve payment from an individual or company.

The amount, source and age of the debt as well as the debtor's financial situation are all key factors. By using proprietary knowledge and information when developing scoring models, Intrum Justitia has built an enviable reputation for helping clients get paid quickly and efficiently.

New European direct debit scheme will enable individuals and businesses to manage cross frontier payments more efficiently.



European direct debit scheme forges ahead

The Commission and the ECB support the launch of pan-European SEPA Direct Debit. The European Commission and the European Central Bank (ECB) have encouraged the European Payments Council to move ahead with the launch of the SEPA Direct Debit scheme. Direct debit schemes will allow bank customers in any of the 31 European countries participating in

SEPA (Single Euro Payments Area) to give companies or organisations authorisation to take money directly from their bank accounts to pay their bills (e.g. gas, electricity, telephone). Currently there are separate national direct debit schemes and it is not possible to establish direct debit arrangements across frontiers in Europe. EU Commissioner Charlie McCreevy said in September that

“The SEPA Direct Debit scheme offers enormous potential for individuals and businesses to manage cross frontier payments on the basis of a single bank account. Most national direct debit schemes are free and I expect that the introduction of SEPA Direct Debits would not involve any increase in fees for customers.” SEPA Direct Debits will be introduced by November 2009.

EUROPEAN E-INVOICING FRAMEWORK IN THE MAKING

Considering the fragmentation in the EU of standard e-Invoices, the Commission has established an Expert Group on e-Invoicing. The group will also see that e-Invoices for legal, financial and administrative purposes still follow national rules, coupled together with a general lack of trust. The Expert Group is charged with the task of creating a European e-Invoicing (EEI) Framework by the end of 2009.



Commission welcomes payment via mobile phones

Two EU Commissioners have welcomed the announcement by GSMA, the global trade body for the mobile industry, and the European Payments Council (EPC) to promote the use of mobile payment services. EPC and GSMA have agreed to accelerate the deployment of services that enable consumers to pay for goods and services in shops, restaurants and other locations using their mobile phones.

Deep woe for European banks

According to data from the Institute of International Finance, a Washington-based banking group, European banks have now suffered considerably more losses because of the credit crunch than their US rivals, even though the turmoil was first triggered by problems in the US subprime mortgage market. Of the \$387bn in credit losses that global banks have reported since the start of 2007, \$200bn was suffered by European groups and \$166bn by US banks.

Small Business Act fails on late payments

Intrum Justitia has welcomed the EU Commission's launch of the Small Business Act (SBA) that seeks to considerably improve the business environment for SMEs. However, on the issue of late payments, the SBA did not propose any new measures that would markedly improve the existing Late Payment Directive, other than repeating that it was to be revised.

Zut alors 1 ... French banks stumble

August saw the credit crunch continue to take its toll on European banks and insurers, with Cr dit Agricole, France's biggest retail bank, reporting a whopping 94% slump in profits and a further €1.34bn (£1.08bn) in write-downs. And smaller French rival Natixis has announced a €1bn loss.



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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.

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