Intrum MAGAZINE

THE CREDIT MANAGEMENT MAGAZINE FROM INTRUM JUSTITIA

NO.4 | 2009

CURRENCY TRAP

East Europeans battle with foreign currency based loan problems

ZERO ESCAPE

Getting tough on ex students not repaying state loans

HOT OR COLD?

Intrum Magazines checks the temperature of Europe's financial health

MADONNA INC.

Rock star, sex icon and now America's cash queen of the music business

Editorial:

Recovery talk premature

The good news is that in nearly every major economy industrial output is rising and international trade is starting to recover. The International Monetary Fund (IMF) has predicted the global economy will grow by almost three percent by the end of 2010. It is increasingly clear that the forceful efforts by governments to counter the global economic crisis have helped promote financial stability and rebalance growth, which bodes well for the future.

The bad news is that for all the talk of green roots of recovery, the evidence indicates it is still premature to believe recovery is secured. High unemployment and ongoing financial sector problems persist. And as you can read on page 18, our latest survey of over 5,000 top European executives reveals that Europe's economic recovery is being slowed by the disastrous €270 billion currently owed in unpaid invoices. It is unacceptable that a great many firms are being put at risk by having to wait up to three months and more for payment.

The lesson from the debt mountain is that enterprises of all sizes can benefit by implementing best-in-class credit management systems. The solution to bad payment does not demand a 'magic bullet', just a sharper focus on getting paid on time and – importantly – targeting the right customer able to pay from the start.

A good example of how credit management can pay off in hard cash is our story on page 12 about the success of the Swedish Student Loans Agency to get loans repaid by former students who had disappeared abroad. By outsourcing their collection to a professional organisation (ourselves, admittedly), they've pulled in €4 million in just two years.

Let's face it, money makes the world go round. Getting the business spin right is not easy, but having the right acumen and skills helps as you can discover in our article about pop icon Madonna (page 14). She's been called America's smartest businesswoman for her success in going after her dreams with total focus and an ability to respond to the changing needs of the market.

There is no doubt in my mind that the current economic crisis is a catalyst that will change the marketplace in which we all operate. Like Madonna, we must respond to the new economic reality, not only by living more within our means, but also through a focus on constantly improving our credit management processes.

LARS WOLLUNG, PRESIDENT AND CHIEF EXECUTIVE OFFICER, INTRUM JUSTITIA

IN THIS ISSUE:

HOW CAN WE HELP YOU?

We have several key reports, white papers and business cases that can give you insight into payment behaviour, 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 necessary information and/or reports..
Better business for all.

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intrum justitia

After the gloom

Intrum Magazine takes a fast look at how different business gurus think the world will change after the worst economic downturn in decades.

Few would disagree the business recession is a catalyst to a new world. Yet nobody really knows what this new world will look like, although a growing number of gurus are hazarding guesses.

One of Britain's top business environment strategists, Dr Robert Davies, believes this recession will inspire small companies and individuals to tighten their belts, save more aggressively and live within their means. He based his informed guess about the impact of the credit crunch on the next ten years on what happened after past, similar recessions.

But Dr. Davies's forecast is relatively unthreatening compared to what other leading trend-spotters are predicting elsewhere in Europe.

One of Holland's foremost futurologists is author Adjiedj Bakas. In his latest book, The Future of Finance, Bakas predicts Europe will be the big loser with failing industries unable to compete, higher rates of unemployment and with its people having to endure greater degrees of poverty. The winners, says Bakas, "will be China and India, because they now have the opportunity to move into the next technological phase". In the longer term, Bakas foresees a world tomorrow that is "a much more hybrid one, where hard science, economics and spirituality will mix more and more".

French economist Jacques Attali, the first head of the European Bank of Reconstruction and Development, has written a book foretelling with almost sublime confidence that the American empire will end in 2035, followed by planetary empire, then planetary war, then planetary democracy. Before pooh-poohing his ideas you may like to know that the French edition of 'A Brief History of the Future' – Brève histoire de l'Avenir, published in 2006 – had Attali predicting the financial crisis: "The credit pyramid, based on the value of American housing, will collapse".

And a final reality check from America where U.S. census data released in September showed the recession's effect on home and work life: People are less likely to move away and more inclined to put off marriage and buying a house. The findings come from the annual American Community Survey, a sweeping look at life built on information from 3 million households. Preliminary data earlier this year found that many Americans were not moving but staying put in big cities rather than migrating to the Sunbelt because of frozen lines of credit. Mobility is at a 60-year low, upending population trends. "The recession has affected everybody in one way or another as families use lots of different strategies to cope with a new economic reality," said Mark Mather, associate vice president of the non-profit Population Reference Bureau.

WORDS DAVID NOBLE

Where does 'bankrupt' come from?

The modern term "bankrupt" comes from an Italian word: banca rotta, a broken bench. The bench really existed: it was a money dealer's table (and, by the way, it's also the origin of our use of the word bank for a financial institution). Bankrupt arrived in English around the middle of the sixteenth century via the equivalent French form of banqueroute.

No red tape for auto-entrepreneurs

France has slashed red tape for would-be businessfolk in an initiative that is predicted to create about half a million new small businesses in 2009 alone. Launched in January 2009, the government scheme called auto-entrepreneur slashes the normal red tape needed to start a firm and dramatically eases the heavy taxes and social charges French companies normally pay. Auto-entrepreneurs – or single person enterprises – are only taxed on sales, staying red tape free until they grow enough to take on employees. So far two-thirds of those who have started such a business are men, aged 40 on average.

Recession, what recession?

Amid all the doom and gloom, a report in BusinessWeek Magazine found the recession has injected life into many small businesses, including pawn shops, thrift stores and firms specializing in personal credit counselling. Also profiting are domestic repairs operations such as auto mechanics, as people are hanging onto their cars and appliances longer, while fear of increased crime has sparked growing interest in home safes.

Q&A

ISABELLA LÖVIN

PHOTO: MARIA BENGTSSON

Sushi for lunch? You might want to think twice before you order that mouth watering salmon Nigiri because that little piece on the plate, together with all the other ones fished and consumed around Europe, is part of the problem of overfishing and the dramatic changes to our waters. Isabella Lövin, award-winning author of the book Silent Seas and new member of the European parliament's Committee on Fisheries, explains why the situation of overfishing is alarming but assures us that it's not yet too late to save our fish and wonderful life supporting seas.

Q: What is the current situation regarding fishing and what impact does overfishing have on the environment?

A: Almost 9 out of 10 commercially exploited fish stocks in Europe that we eat are overfished, and a number of them are on an endangered species list. When you diminish the top predators in the oceans there is a negative chain-effect happening in the ecosystem. For instance, increased numbers of tiny fish and crabs have led to the expansion of algal blooms.

Q: Are there any economic losses due to overfishing?

A: Last year the Food and Agriculture Organization (FAO) of the United Nations, together with the World Bank, published a report called "The Sunken Billions". It's an estimate on how much money we are losing due to overfishing, to the practise of dumping unused fish, and to catching them before they are mature enough to reproduce. We're losing billions of dollars, and billions of tons of protein.

Q: What is your opinion on the EU's current fishing politics?

A: It's absolutely destructive! The changes in the ocean have already taken place and we are one minute to twelve on being able to do something about it. And the ironic thing is that here in Europe where we have all the tools and means at our disposition, we are the worst in the world at managing our fish stock.

Q: Why has the process of protecting the waters been so slow?

A: Public opinion has not been strong enough to make it a priority for the politicians. The ones with the loudest voices are the fishermen and coastal communities, who always protest against every single limitation to fishing.

Q: What's the next step for you and the EU to help turn the situation around?

A: Our goal now is 2012, when the Common Fisheries Policy (CFP) is going to be reformed. Everyone is looking at this now and there is a big discussion going on about how this can be done. I want to contribute by being part of the discussion, helping define sustainable fishing criteria and trying to convince others that it should be an absolute principle that anyone who wants to get access to our commonly owned resource, the fish, must prove that he or she can fish in an environmentally sustainable way.

WORDS MARIA BENGTSSON

CURREN

CY TRAP

WHY ON EARTH WOULD A FAMILY IN BUDAPEST TAKE OUT A MORTGAGE IN JAPANESE YEN?

How currency fluctuations put Eastern Europe in a loan crisis

WORDS DAVRELL TIEN / PHOTO BJÖRN ENSTRÖM, SCANPIX

Taking out a mortgage in a foreign currency instead of your local one can appear a clever deal at first sight. If foreign interest rates are cheaper and exchange rates favourable, why not?

But since the roof over your head is an important long term investment, you would assume that someone taking such a speculative position would have some idea whether the local currency would appreciate versus the foreign one, a winning situation, or depreciate, a losing scenario.

For people across Eastern Europe the lure of cheaper loans in Swiss francs, euros and Japanese yen appeared the chance of a lifetime, but it has proven a dire choice for many.

Fortunately relatively few Hungarian households took the yen loan gamble, a market offering that was withdrawn as the credit crisis unfolded. Unfortunately, upwards of 80 percent had already taken them in the Swiss franc and euro, creating a mountain of debt.

To make matters worse, as in the US, some borrowers used loans to finance an unaffordable life style. Hungary's situation, though the most severe in Central and Eastern Europe, is not unique. Between 20 and 25 percent of Polish mortgages are in foreign currencies. In the Czech Republic the level is around 10 percent.

Households and non-banking sector businesses in Central and Eastern Europe owe 250 billion dollars in foreign denominated debt, according to Raphael Auer and Simon Wehrmüller, economists at the International Research Unit of the Swiss National Bank. And paying it back will be difficult.

In a paper presented in April 2009, Auer and Wehrmüller noted that in the previous 6 months the Swiss franc had appreciated by 31 percent against the Polish zloty while ▶

The pain of households that borrowed in foreign currencies has made it difficult for businesses in Central and Eastern Europe to evaluate the credit environment.

the forint had tumbled 14 percent against the euro, wiping out any possible advantages in interest rates. The cost of paying back the loans has skyrocketed.

The German current affairs magazine Der Spiegel writes that Western Europe's banks did not write subprime mortgages as in the US, but financed "something worse: subprime countries." In the emerging markets of the former Soviet economic space, the currency trap has added an extra twist to the world recession.

A McDonald's Big Mac costs one percent more in Hungary than in the US, according to the Economist's latest Big Mac index. With exception of the Czech Republic, the double patty burger with cheese was 13 to 49 percent cheaper in Poland, Estonia, Latvia, Lithuania and the Ukraine, the other countries of the region included in the index.

Ordinarily a country running a current account deficit and fighting recession – the plight of Hungary – would stand to benefit from a competitive devaluation of its currency. But if the Hungarian Central Bank (Magyar Nemzeti Bank) were to aggressively reduce interest rates to stimulate the economy, the resulting weaker forint would force even more households with foreign currency mortgages over the edge into insolvency.

An estimated 700,000 homeowners and one million vehicle owners today hold consumer loans in euro or Swiss francs. And an additional problem in Hungary is that foreign loan contracts seldom give the borrower the possibility to switch from a foreign to a domestic currency loan denomination.

To add to Hungary's woes the population is aging and the number of people on pensions, 3 million, exceeds those in the work force, 2.7 million. Instead of dynamic growth Hungarians face the danger of a contracting economy and shrinking incomes. For companies whose creditors have fallen behind in paying invoices the situation is fragile.

"Negotiating a repayment plan of 200 euros in monthly instalments may be useless if the debtor can only realistically handle 100 to 120 euros," says Peter Félfalusi, managing director of Intrum Justitia Hungary.

In terms of consumer indebtedness the worst still lies ahead, warns Félfalusi, estimating that job losses will continue during the third quarter and only stabilize at the end of 2009.

"The official unemployment rate is around 10 percent but the real figures are higher because entrepreneurs and the self-employed have fewer contracts," he notes.

> "NEGOTIATING A REPAYMENT PLAN OF 200 EUROS A MONTH IS USELESS IF THE DEBTOR CAN ONLY AFFORD 100 EUROS"

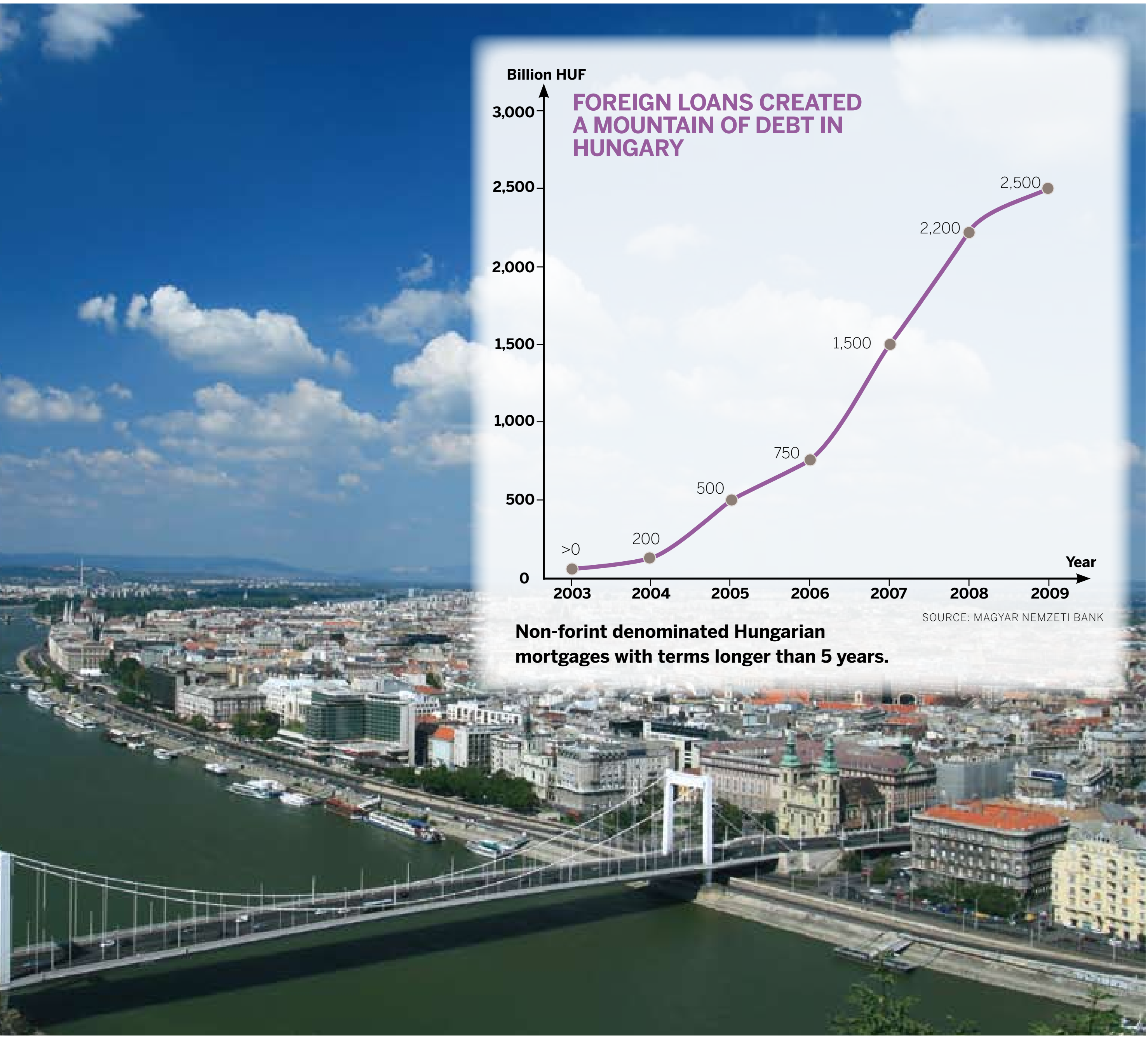
In the opinion of the credit management executive the high standard of living financed with loans has consumed the future earnings of the country for the next 5 to 6 years: "the real economy cannot flourish if consumers are bust."

Why did it happen? Beyond the obvious superficial favourable interest rate difference, there were probably multiple reasons for large numbers of consumers in parts of the Central and Eastern Europe taking risky loans in foreign currencies. Austria, from the safety of the euro, had already pioneered the Swiss franc mortgage deal on a large scale. Hungarians copied their neighbours, albeit from a much weaker economical position.

During the period of Soviet economic domination many in the region rented their homes. Many consumers thus had limited experience of mortgages. Following the collapse of the Berlin wall tenants were often able to buy their homes at artificially low, non-market clearing prices.

An apartment in a typical block of CEE flats built in the 70s cost roughly the same price as a new Volkswagen Golf car in the early 90s. Balázs Égert and Dubravko Mihaljek, two economists at the Bank for International Settlements, calculated that by 2006 the same unrenovated apartment had climbed in value to roughly four times the price of a Golf.

Prices were also pushed up by inelastic supply. Getting permission to build in or around historic cities like Tallinn, Budapest or Prague is no simple matter. And people tended to live in homes that they owned, reducing the availability of objects for sale. Furthermore, foreign investors, such as Irish speculators who, having seen their own property market rise dramatically, reinforced



Non-forint denominated Hungarian mortgages with terms longer than 5 years.

optimism unconnected to corresponding growth in underlying GDP.

Households in the CEE and Baltic states might rightly wonder when housing prices would peak, given that the "normal" annual rate of appreciation was in double digits.

Dashed illusions have created political pressures. The burst bubble has rocked the political elite. Hungary, Latvia and Lithuania have all experienced street riots fuelled by anger over the social costs of misgovernme-nt, including failure to regulate consumer credit markets. The pressure on politicians and bankers to find solutions at someone else's expense has not abated.

The troubles of Swedbank are illustrative. Originally a Swedish savings bank called Föreningssparbanken, the institution renamed itself and embarked on an ambitious Baltic expansion strategy, garnering 8.8 million retail customers and 441,000 corporate customers in Sweden, Estonia, Latvia, and Lithuania.

During the boom years business in the East boosted profits, but at the end of the second quarter of 2009 Swedbank announced that loan losses had soared from 423 million Swedish kronor in the same period a year earlier to 6.67 billion kronor. The Financial Times reported that about two-thirds of the losses were in the Baltics and a third in Ukraine. A net-writeoff of over a 0.5 billion kronor went on the books.

To adjust to the downturn the bank said it planned to cut staff by 3,600, about 16 percent of its workforce, over the coming year, with most of the retrenchment in the Baltic states. Sweden's papers quickly ran stories about parking lots full of high-end used-cars being sold in Latvia by the bank.

Intitially Swedbank denied that it needed fresh capital, but a month later in August 2009 it announced a 15 billion kronor (US$2.1 billion) rights issue to bolster its tattered balance sheet, even as the IMF transfused emergency loans into Latvia.

How much pressure can politicians take? In response to the crisis Hungary's lawmakers have enacted bankruptcy protection legislation, giving homeowners unable to meet mortgage payments three months to sell their properties instead of surrendering them to the banks to auction them off at less than ▶

Thousands of people massed in Riga, the Latvian capital, in January 2009 to demand snap elections and the resignation of the government in the face of a deepening economic crisis. The rally was one of the largest protests since the Baltic country won independence from the crumbling Soviet Union in 1991.

the market value. But debtors hope for even more relief. And the pressure is so intense that markets are betting that governments will resort to public financing to selectively rescue some businesses.

Financial market analysts anticipate that governments will ultimately bail out the private sector vis-à-vis its resident banks, thus also darkening the outlook for public finances and increasing fears of sovereign default, observe Auer and Wehrmüller, who base their observations on an analysis of rising credit default swap (CDS) costs in 8 countries in the region.

"CONSUMERS HAD PRECONCEIVED IDEAS ABOUT CURRENCY STABILITY AND THE RANGE OF FLUCTUATIONS"

The two do not believe governments will provide any relief to foreign banks or business that have lent funds in foreign currencies directly to consumers.

Banks are enduring the uncertainty. Consumers in Central and Eastern Europe cannot really afford reflexive populist hostility towards the banks, even the ones that sprung the currency trap, because there is often no alternative source of credit. Michael Frömmel, University of Ghent Department of Financial Economics, notes that in some Central and Eastern European countries foreign banks account for more than 90 percent of all bank assets.

Foreign banks, argues Frömmel, have made the region's financial sector more efficient while supplying otherwise scarce capital during the transition period of rapid growth.

"This is empirically confirmed," he says, noting that banks are most likely to withdraw from a foreign market because of troubles in domestic markets.

Oskar Kowalewski, an economist at the World Economy Research Institute at the Warsaw School of Economics, who tracks the bank industry in region says that in the first wave of the crisis foreign banks decided or debated withdrawal from Central and Eastern Europe.

"AIG sold its operation to Banco Santander in Poland and the Allied Irish Bank, Fortis, Citibank and Raiffeisenbank all discussed selling out," he notes, "However, we now observe that foreign banks are trying to keep their operations in the CEE countries, as they are in most cases very profitable and have great potential."

Foreign currency speculation by consumers has become an important subject for analysis. Austrian borrowers of Swiss francs were protected by the unwillingness of the Swiss to allow their currency to appreciate beyond a certain limit, but did Austrian consumers consciously take this into their calculations? Probably not, according to a 2005 IMF report that concluded the foreign currency borrowing was due more to herding behaviour.

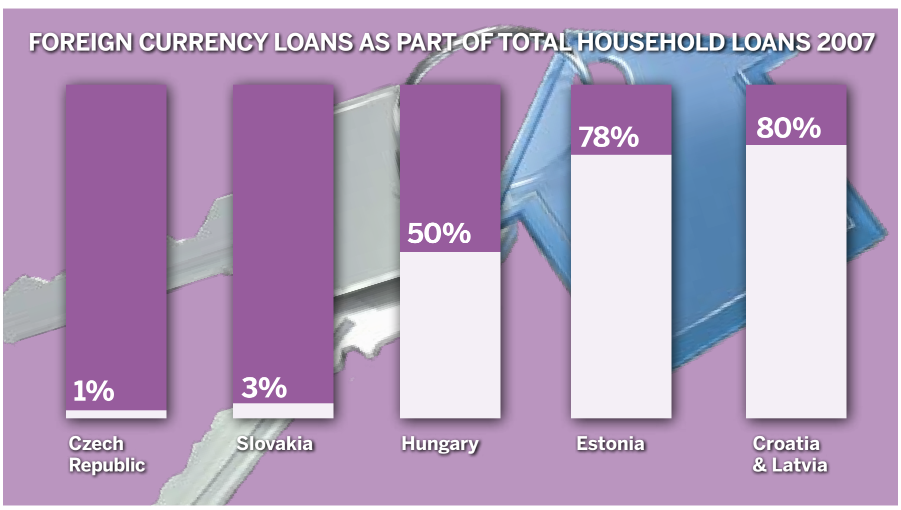
When foreign banks decided to enter the Central and Eastern European consumer credit markets, offering Swiss francs or euros, they convinced consumers to take a long term position betting on something about which the vast majority had no knowledge or experience.

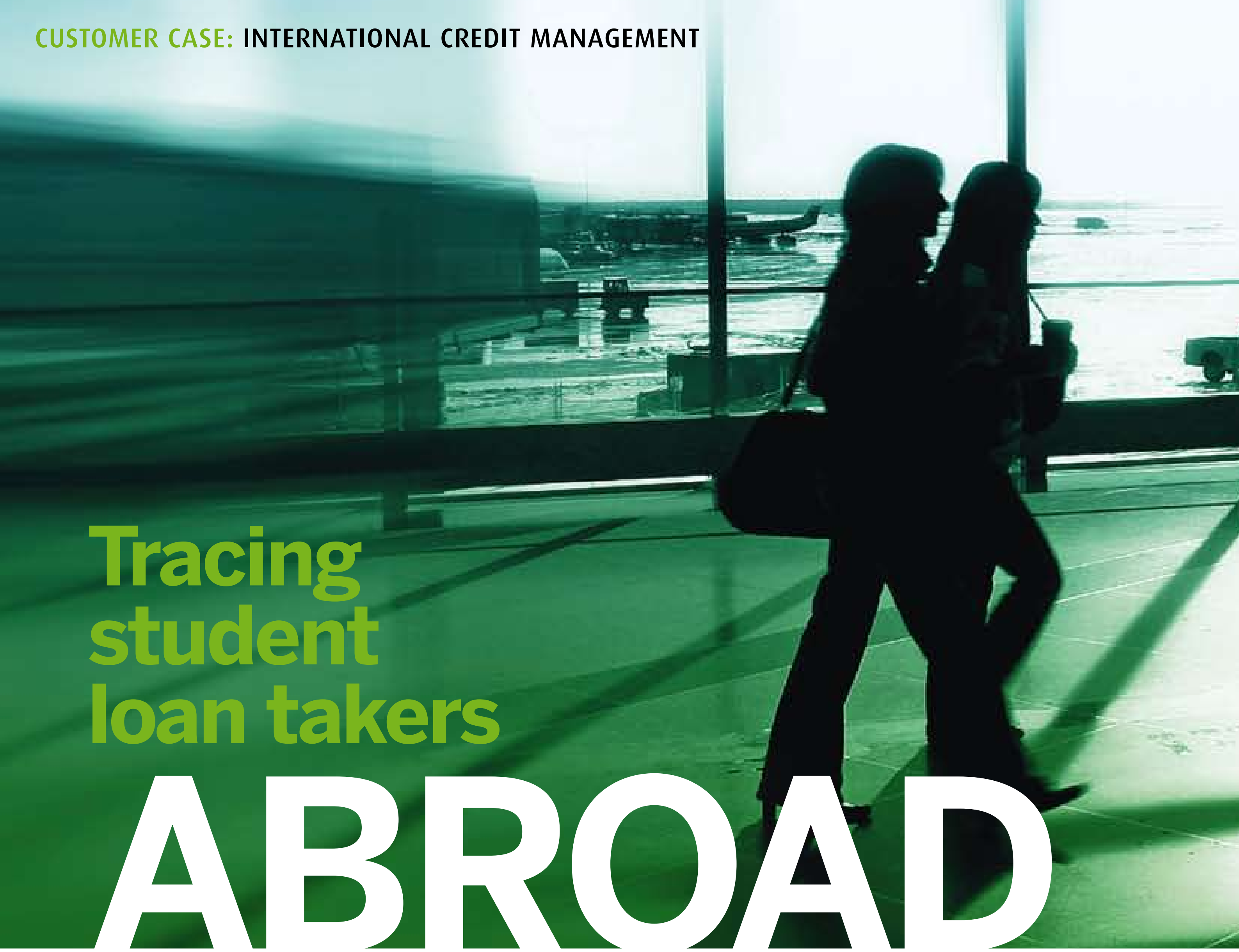
"Consumers had preconceived expectations about currency stability and the range of fluctuations and anticipated accession to the European Monetary Union," says Katharina Steiner, research assistant at Vienna University's Europe Institute. En masse these borrowers fell into what now seems an obvious trap. Most households lacked any hedging strategy. Some would argue that income in euro received from relatives working abroad could serve as a natural hedge for households, but Steiner's analysis of mechanisms driving foreign currency credit shows that those households are not the ones to assume such risky credit.

Asked if she would personally consider taking a mortgage in Swiss francs, she replied "no, it would only appeal if I had a regular income in foreign currency."

Comparing Central and Eastern European countries reveals that in 2007, foreign currency loans appealed least to Czechs and Slovaks, says Steiner. Less than one percent of all household loans are denominated in foreign currency in the Czech Republic and just three percent in the Slovak Republic, although the marketing regulations are identical.

"It's due to Slovakian caution," explains researcher Viktoria Muckova, a former researcher at the University of Bratislava and author of a paper about mortgage banking development in the Slovak Republic.





Tracing student loan takers ABROAD

When the Swedish student loans agency needed help tracking down debtors who had disappeared overseas, it turned to Intrum Justitia.

WORDS DAVID WILES
PHOTO OLA JOHANSSON

Each year the Swedish state provides billions of euros in financial aid to domestic students studying both in Sweden and abroad. While just three percent of student loan takers living in Sweden fail to pay back their debts, the figure for the 57,000 who live abroad is as high as 25 percent.

"Most of our customers live in Sweden and we know where they are," says Klas Elfving, spokesman for CSN, the Swedish Board for Study Support, which is responsible for distributing student loans and then handling the repayments.

"We can just send out a letter to their address saying how much they have to pay. The problem we have is with people who are living abroad."

CSN does not have an address for about 20,000 of the more than one million people it has given loans to, and believes that most of these are overseas. While the average debt with CSN is about 13,000 euros, some students and former students have debts of up to 200,000 euros.

"In general loan takers abroad have a larger debt," says Elfving. "And this has become a problem for CSN and the Swedish state because there are large amounts that are at risk of being written off."

While CSN has in the past been focused mainly on distributing money to students, it is now increasingly turning its attention to getting back what it is owed, and in particular from overseas.

"We have 50 people who send out letters and contact loan takers, but when that doesn't work we have to do something more," says Elfving. "CSN doesn't have the resources or the capabilities to do it ourselves, so that is why we approached Intrum Justitia."

Since 2004, Intrum Justitia has worked with CSN on debt collection, tracing, and, where necessary, pursuing legal action against debtors overseas. Stefan Lindberg, international production manager at Intrum

> Intrum know which strings to pull, and how to work in these different countries."

Klas Elfving, spokesman for CSN, the Swedish Board for Study Support

Justitia in Sweden, says there are a number of reasons why so many of CSN's loan takers abroad fail to pay back their debts.

"Some people think that distance can protect them," he says. "Some say they don't understand Swedish anymore and therefore don't understand the letters and other documentation they receive from CSN. Some have genuine problems with their personal finances and try to put off payment as long as they can."

While tracking down debtors in countries with centralised population registers is relatively simple, in others, like Britain and the US where thousands of CSN loan takers live, it takes more effort. For example, many Swedish dentists are lured to Britain by the relatively higher wages they can earn there, so a search of the British Dental Association's membership list can yield results.

"With countries that don't have the same well-functioning centralised databases that we have in bureaucratic Sweden, Intrum has people who travel around the country to look for people," says Elfving.

"They maybe check with the neighbours, knock on doors, speak to the Post Office and so on. While it is easier to find people in the Western world, that doesn't mean it is impossible to find people in the rest of the world."

In cases where the debtor is found but still refuses to pay back their loans, Intrum Justitia handles the legal action against them on CSN's behalf.

"They help us with documentation, they know which strings need to be pulled, and how to work in these different countries," says Elfving.

The collaboration to date has been highly successful; in the last two years Intrum Justitia has succeeded in retrieving about 4 million euros from CSN's debtors around the world.

"It's like a self-financing contract," says Elfving. "So this partnership is good value for us."

The collaboration with Intrum Justitia has been highly succesful, according to Klas Elfving, spokesman for CSN. So far Intrum has succeeded in retrieving about 4 million euros from debtors around the world.

FIND OUT MORE. **Watch our interview with Klas Elfving online: www.intrum.com**

THE MATERIAL GIRL

Music icon and smart businesswoman, **Madonna** has mastered the world of show business. Described as a model entrepreneur, Madonna makes no secret of what drives her: "I'm tough. I'm ambitious, and I know exactly what I want. If that makes me a bitch, okay." **WORDS DAVID NOBLE / PHOTO SCANPIX**

Madonna has been dubbed America's smartest businesswoman thanks to her complete mastery of the world of show business. Her business acumen led to Forbes Magazine describing her as the richest woman in music and placing her top of the list of Forbes.com's 'Cash Queens of Music' in 2007 and 2008.

According to Billboard Magazine, Madonna's Sticky & Sweet tour in 2008 brought in 230 million dollars in revenue, generating more than anyone else in the industry.

From arriving in New York aged 19 in 1977 with only 35 dollars in her pocket it took Madonna just three decades to move from a grungy rebel in her mid-twenties to become the Queen of Pop.

"I stand for freedom of expression, doing what you believe in, and going after your dreams," she once reportedly said.

Madonna has pursued her dream single-mindedly from the start. Simply being lucky has not gotten her to where she is today. Madonna's success as the ultimate 'material girl' is due to her vision, understanding how to exploit her strengths and protect her weaknesses in the competitive entertainment world and ▶

knowing how to implement her strategy and respond to changes.

At the beginning of her career she was asked by American Bandstand presenter Dick Clark what she wanted to do when she grew up. Madonna boldly replied: “I have the same goal I’ve had ever since I was a girl. I want to rule the world.”

Born Madonna Louise Veronica Ciccone in Bay City, Michigan, on 16 August 1958, the star and her five siblings were raised by her car engineer father after her mother died of breast cancer.

Her complex ambition was almost certainly forged at home by Mr. Ciccone’s strict Catholicism and a disciplinarian approach to life that apparently stretched to not allowing his children to watch television.

“MADONNA INSISTED ON PERSONALLY APPROVING EVERY CHEQUE WRITTEN”

Madonna first love as an entertainer was dance. And In 1978 she studied with the famous New York choreographer Alvin Ailey, a phase that led to the provocative stage moves and Marilyn Monroe-inspired clothing styles that made her a global sex goddess in the 1980s.

Holiday was Madonna’s first mainstream pop success in 1984, followed by a flood of hits like Crazy for You, Into the Groove and Dress You Up.

But what really set Madonna apart as a star was her commercial intuition and knack for publicity, skills she leveraged to keep herself on the front pages for reasons other than just her music. Describing her work ethos, she was quoted as saying: “I’m anal retentive. I’m a workaholic. I have insomnia. And I’m a control freak ... A lot of people are afraid to say what they want. That’s why they don’t get what they want.”

Madonna often gets what she wants – through hard work, planning, personal discipline and constant attention to detail.

Consider her desire to be a star of the silver screen. An early attempt in 1979 was the film A Certain Sacrifice. It failed and it sank without trace.

Never the quitter, Madonna tried again, saw success with Desperately Seeking Susan in 1985 and then hit pure gold with her amazing portrayal of Argentine heroine Eva Peron in Evita, a performance that won her a Golden Globe.

In the 1990s Madonna continued to further enhance her reputation as an enviable businesswoman, fully in control of her own career and professional destiny. She projected herself into a huge marketing success, making money from album sales, publishing, films, fashion lines, endorsements and concert performances.

Madonna was totally fearless in promotion efforts. Her Like A Prayer video, supporting the hugely successful Blonde Ambition tour, angered the Catholic Church because it included a kissing scene with a cross-burning black Jesus. But it got the headlines that helped rocket sales.

The star leveraged the publicity to launch a string of new hit singles like Vogue and Justify My Love and the spiritually inspired album Ray of Light. She also started her own record label and published several books, including the erotic photobook Sex, and a children’s book printed in 42 languages.

Today Madonna has achieved a status that is no longer defined by her work; as one music industry guru noted she is now famous for just being Madonna.

Madonna's estimated 850 million euro fortune does not just come from music. It also stems from tour merchandise, books and a business portfolio said to mostly feature ‘safe’ companies, property and art.

Madonna has so completely mastered the world of show business that she has been called America's smartest businesswoman.

A book by British business guru, Colin Barrow, visiting professor at the Cranfield School of Management, said the secret of Madonna’s success should be regarded as a blueprint for how to create a successful company. He described Madonna as a model entrepreneur in his self-help guide, called Business Plans for Dummies. ”Don’t laugh – this ambitious and complex entertainer has so completely mastered the world of show business that she has been called America’s smartest businesswoman,” Professor Barrow says in the book.

Madonna’s former manager of 15 years, Bert Padell, recalled how Madonna insisted

on personally approving every cheque written on a daily basis before it could be sent out.

More evidence of her business intuition and acumen came in 2007 when Madonna ditched her record label, Warner Music Company Corp, to sign a 120 million dollar, 10-year deal with concert promoter Live Nation. Madonna explained: "The paradigm in the music business has shifted, and as an artist and a business woman, I have to move with that shift."

At that point, Madonna acknowledged that artists were not making money from CD sales any longer.

A tiny concert in New York in May 2008 to promote her album, "Hard Candy," was part of a technologically sophisticated, twenty-first century product rollout that involved multiple media tie-ins. It was broadcast live on the Internet by MSN and on cell phones worldwide by Verizon and Vodafone.

"THE PARADIGM IN THE MUSIC BUSINESS HAS SHIFTED"

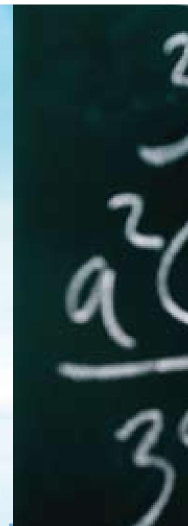
Beyond business, and perhaps because of her very middle, lower-middle class sort of upbringing, Madonna strongly identifies with people who've needed, at some point in their lives, to struggle to survive.

Madonna actively gives money to many causes. She is a Patron of the Children of Peace charity, which works to protect children from the violence in Israel and Palestine. She also helps with a volunteer organisation mission in Malawi, one of the poorest countries in the world and from where she has adopted children, to help orphans by providing water, food, medical care and schooling.

So, what is the message this lady of entertainments wants to send the world she once said she wanted to rule?

Maybe the following quote works best: "We are responsible for our own fate, we reap what we sow, we get what we give, we pull in what we put out."

TRAVEL
Business executives are travelling less and opting for economy class, while private consumers are shopping around or staying at home. Recsssion is not good news for the travel industry in Europe.



RECOVERY, WHAT RECOVERY?

Never have so many firms been owed so much money by late payers – soaring to a massive 270 billion euros in 2009. “The money being written off is hitting frightening levels” says Madeleine Bosch, group marketing manager at Intrum.

WORDS JOHN FRASER

Europe’s deep recession that hit early 2008 is costing more than millions of jobs. It is also transforming the economy and forcing many companies and public sector organisations to take a hard look at their finances.

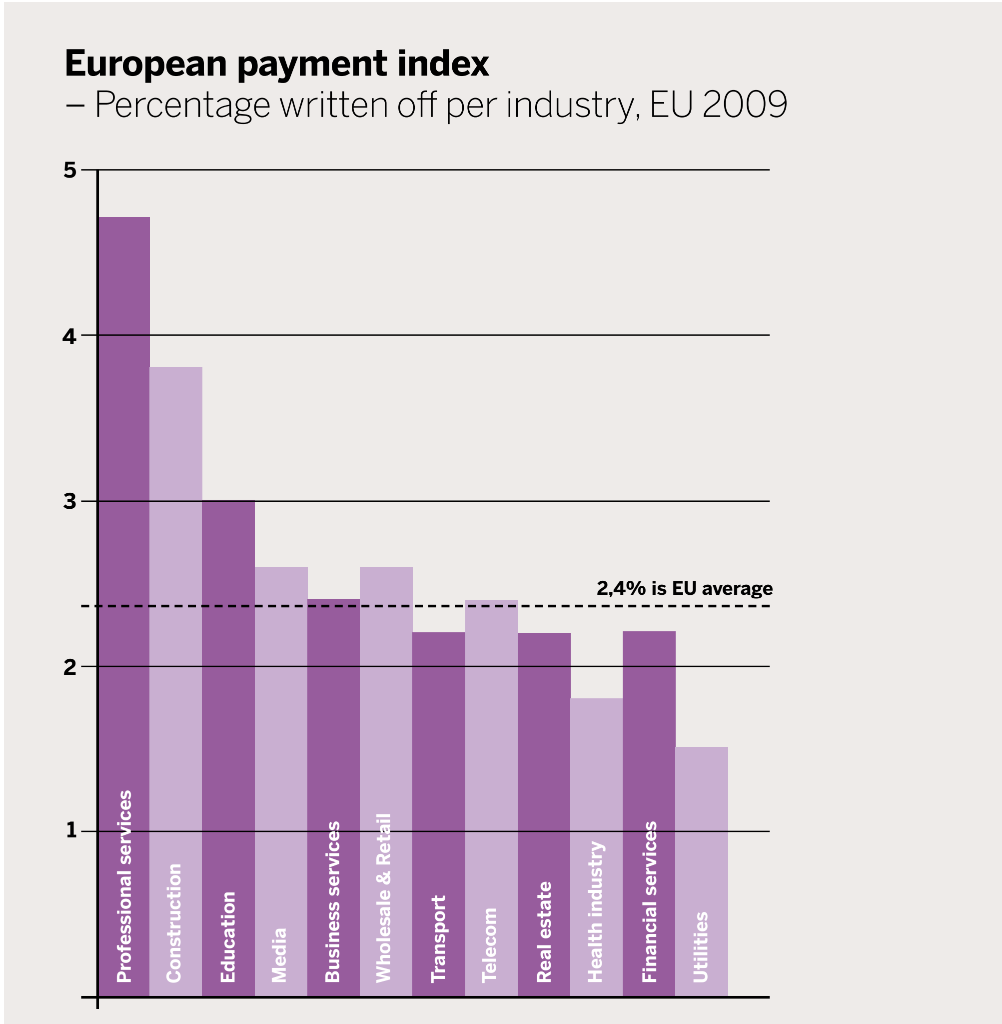
There are several ways to decode the consequences of a major economic downturn apart from job losses; one is the time it takes to get an invoice paid.

In a report, “The European Payment Index 2009: A White Paper,” released by Intrum Justitia, the data collected showed the professional services, education and media sectors are suffering most from late payment. Many firms working in such areas as real estate, travel, advertising, home building and private education are waiting two to three months after invoice due-by dates to get paid.

“Anyone selling to customers who can either put off their purchases or delay payment until times improve is having a hard time,” Madeleine Bosch told Intrum Magazine.

EDUCATION
Private sector education has taken a big hit from the financial downturn. Parents are taking longer than before to pay tuition fees.

REAL ESTATE
House sales and prices have plummeted in many European countries and major public construction programmes has slowed.



"Also important is the finding that many enterprises, private or public, have not appreciated that credit management starts at the prospecting stage of the sales process," Madeleine Bosch noted.

One of the sectors hardest hit by bad payment is professional services, which spans a spectrum of fragmented business activities often carried out by smaller companies and sole traders. It suffers the highest write-off percentage of any sector in Europe with a huge 4.7 percent expected to be written off in 2009 compared to the overall EU average of 2.4 percent.

In the healthcare sector some 63 percent of companies surveyed admitted to waiting an average 87 days before handing over their outstanding claims, while in the telecoms industry 90 percent of respondents waited an average of 85 days.

Madeleine Bosch says the evidence from the IJ report underlines the urgent need for improved credit management services. This includes such elementary steps as analysing a potential customer before doing business with them and extends to trying payment alternatives such as taking part payments or upfront payment from slow payers.

"Everyone in business understands the need to generate sales, but a sales should not come at the price of endangering profitability," says Madeleine Bosch.

Intrum's research (encompassing some 5,000 chief executives, corporate financial officers and experts in 25 European countries) concluded that bad debt contributes to driving up the price of goods and services. If companies did not have to allocate costs to get paid or have to write off huge sums of money, they would be able to lower prices, increase investment in research and development, technology and human resources and improve margins.

"Late payment will cost European business an unprecedented 270 billion euros in 2009 and is an obstacle to sustainable economic recovery in Europe," says Madeleine Bosch.

Powerful advice for a world in crisis

1. Analyse risk portfolios
2. Monitor customer creditworthiness
3. Review customers frequently
4. Open contact prior to invoice due date, discuss delivery, the invoice and payment
5. Follow-up directly after due date if invoice is unpaid, do not wait!
6. Use a professional intermediary to follow up claims

GET YOUR OWN FREE COPY

Want to get the full lowdown on the late payment situation in Europe? Get the Intrum Justitia 2009 White Paper on Late Payment in Europe on **www.intrum.com**

5 minutes on the recession

An economic downturn is ugly. Intrum Magazine puts five questions about the health of Europe's national economies to one of the region's leading economic experts, Per Strömberg, Director of the Institute for Financial Research (SIFR), and Professor of Finance, Stockholm School of Economics.

WORDS DAVID NOBLE
PHOTO BJÖRN ENSTRÖM

Q: Some global economics experts believe we need to stop focusing on the causes of economic recession and look at the benefits of the recession instead. What do you think about this?
A: The boom had to stop. Overspending in the West was not sustainable. Consumers will now increase their savings and reduce their debts, which they should have done long ago. Companies have been forced to become more efficient to survive, and will emerge from the crisis as stronger companies for this reason. Of course, some less long-term sustainable companies will be weeded out of the market. Unfortunately, some long-term sustainable companies that lack financial resources may disappear as well.

Q: According to some experts, bankruptcy isn't a death sentenc and should be seen as the saving grace for companies burdened with heavy debt. Do you agree?
A: Bankruptcy simply means that equity holders leave the company to debt holders. In a sense, the banks are now the new owners. Nothing needs to get lost in this process.

In many cases, financial distress can be resolved by equity holders putting in more money or banks exchanging debt for equity. In practice, these debt negotiations may not work out completely efficiently because of the complexity of the capital structures and lack of trust between companies and lenders, but many times they do. In addition, financial distress in highly levered companies forces them to deal with their problems earlier than they otherwise may have, before the operations are truly economically distressed and cannot be saved.

Q: These are worrying times for small business owners. What's your advice to smaller and medium sized firms about how to keep fighting fit?
A: Cut costs and try to become more efficient.

Q: The majority of small businesses can't get traditional financing, which means they cannot invest in product development, employing new staff and marketing? What are likely to be the long-term ramifications of this?
A: The credit crunch is most severe for small and medium enterprises (SMEs). Large companies can typically access financing through other means than banks – such as bond markets - and have better terms and relationships with the banks to begin with. As a result, we will see many fundamentally sound SMEs fail, unfortunately, with long-term impacts on the economy. Some "new Googles" may not survive.

Q: What do you think will be the long-term impact of the recession on business and consumer morality in paying their bills on time?
A: I think consumers and companies alike will be more aware of taking on debts for some time to come, and value their credit quality and bank relationships more than they have done in the last few years before the crisis.

WORDS DAVID NOBLE

€265bn

...what Britons owe on credit cards, overdrafts and other loans, according to the Bank of England.

US recession 'over'

US Federal Reserve chairman Ben Bernanke in September said the US recession is probably over, but the economy will remain weak for some time due to unemployment.

Less charity

Research in the UK has revealed that as Britons have tightened their belts through the recession one of the victims has been a sharp drop in the amount people donate to charity. In the first quarter of 2009 alone donations to the UK's 170,000 charities fell by 11 percent, equating to an estimated GBP 1.3 billion, according to the study by the Charities Aid Foundation and the National Council for Voluntary organisations.

Credit crunch humour

Humour can be a vital way of handling frustration in a crisis, according to some psychologists. So here are some favourite credit crunch stories we've heard.

Q: How do you define optimism?
A: A banker who irons five shirts on a Sunday ...
Q: How do you successfully freeze your financial assets?
A: Invest in an Icelandic bank
And one last one for the road ...
'The credit crunch has helped me get back on my feet... The car's been repossessed.'

Putting back the pieces. A year has passed since the collapse of Lehman Brothers.

One year into the recession

Just over a year has passed since Lehman Brothers imploded in the autumn of 2008, signalling a financial crisis that required financial fire-fighting on a global level. Looking back over the past eighteen months, the big question is: what can we learn from our mistakes?

The collapse of Lehman Brothers sent a clear signal that the global economy was facing meltdown. Next came the downfall of the two mortgage giants of the US financial world, Fannie Mae and Freddie Mac, which almost saw the destruction of the US housing market.

How on earth could two American lenders help send the entire world into recession?

The most simple answer is bad credit management: when the US housing bubble burst in 2007 millions of people defaulted on their mortgages and both mortgage providers racked up a USD14 billion loss in the year up to September 2008.

Fannie and Freddie were the two biggest financial institutions on the planet, owning half the mortgages in the USA to a value of USD5 trillion and financing 80 percent of all new mortgages in the US.

Fannie and Freddie bonds and securities were held by investors, including governments, around the world and to avoid total global financialArmageddon the US government stepped in to nationalise the two private enterprises.

Ironically, perhaps, Fannie Mae was a child of the 1930s Great Depression, set up initially in 1938 as a government agency to buy home loans from mortgage providers who would use the money they received to make more home loans.

So what's been the cost of the worst recession in over six decades? Several estimates put government spending to bail out failing banks and try to repair the financial system since the markets began to tumble in 2008 at almost USD11 trillion.

Nor is the world out of the financial cesspit yet.

In Europe a number of financial institutions like Holland's ING and the UK's Royal Bank of Scotland still rely on life support from the tax-payers. A board member of the European Central Bank, Jurgen Stark, has been cited as estimating that European-based financial institutions are facing total losses of around USD650 billion between 2007 and 2010.

But it is not all doom and gloom.

In late September, the International Monetary Fund issued its most optimistic assessment in many, many months. The Fund said for the first time that the world's financial system is now on the "road to recovery", estimating that the amount of wealth likely to be destroyed by the crisis has decreased from USD4 trillion ($4,000 billion) to USD 3.4 trillion.

One word of caution, though. The Fund maintained that banks around the world still need to shore up their balance sheets significantly to ensure their health in the coming years.

But let's try to end on a high note because not all news needs to be bad news. Some researchers are now claiming that recessions could actually be good for our health. A recent study by the University of Michigan's Institute for Social Research on life during the Great Depression concluded that during good economic times people worked harder and were more likely to become stressed. However, during a downturn despite worries about paying the mortgage or losing their job, health and wellbeing improves because people need to cut back on indulgences such as drinking, smoking and eating rich foods.

in brief:

WORDS DAVID NOBLE & PIA SKAERBAK

€8bn

...the amount the European Bank for Reconstruction and Development (EBRD) will invest in central and eastern Europe this year to tackle the economic downturn in the region. The money will go into infrastructure, energy, corporate and finance projects in countries like Estonia, Latvia and Lithuania, all of which are in deep recession.

Third wave of crisis

The global financial crisis is in its third wave with rising levels of unemployment, says Dominique Strauss-Kahn, the head of the International Monetary Fund. He told reporters in London last September that governments should not relax stimulus measures until recovery takes hold and unemployment levels recede. The IMF has emphasized that recovery will be sluggish and that a jobless recovery remains a risk with unemployment expected to rise for the next year.

Eurozone jobless at 10-year high

Unemployment levels across the 16 countries that use the Euro hit a 10-year high in July with 15.1 million people without a job, a seasonally-adjusted rate of 9.5 percent. The rate across all 27 members of the European Union was 9 percent - a total of 21.8 million people out of work. Unemployment was highest in Spain at 18.5 percent and lowest in The Netherlands at 3.4 percent.

... but signs of recovery emerge

European consumer spending increased in the second quarter of 2009 according to the EU Statistics Office and exports fell at a slower rate, signaling an easing of the worst recession in 60 years.

Good life sours in gaming mecca

Las Vegas calls itself the entertainment capital of the World but it is now also winning a notorious reputation as the USA's repossession capital. A report by the BBC said the city is one of the places hardest hit by the housing crisis and recession. House prices have fallen by almost a third in the last year alone, unemployment stands well above the national average at 13.1 percent, and the number of foreclosures, or re-possessions, is the highest of any large city in the United States. One in every 56 households in Las Vegas received a filing during the month of April alone, according to foreclosure listing firm RealtyTrac Inc.

Bankruptcy in history

Time Magazine described bankruptcy as 'American as it gets'. But history is full of stories about debt and the price to be paid for not being able to pay back what you owe. The ancient Greeks legislated that if a person had a debt that he was unable to pay, then he and his entire family became debt slaves, which could lead to a lifetime of harsh and unforgiving work. Laws set by Ghengis Khan apparently stated a man who was bankrupt three times should receive the death penalty, while debt ridden Romans were reportedly dismembered and their limbs distributed to the poor. Shakespeare wrote in The Merchant of Venice of Shylock demanding a 'pound of flesh' in return for an unpaid debt, but in reality an early English law from 1542 allowed for debtors to be put to death. By the mid-1800s the punishment was less harsh, although you still faced getting tossed into a filthy, nasty prison where the risk of death from disease was all too real. Thankfully, although bad debt still abounds, legislation over the past century has evolved to help creditors by steering individuals and companies back into the black.

Financial education hot topic

A highly successful conference, hosted by Intrum and the European Credit Research Institution, under the heading "Crisis never again – responsible lending and financial education" took place in October in Brussels. The well attended half-day conference (around 130 people) included speeches from the key note speaker Urban Karlström, Swedish Secretary of State for Financial Market Affairs, Intrum Justitia, officials from the Commission, the European Parliament, OECD, Citi and consumer organizations.

The lively discussions and questions that followed each presentation illustrated that the topic of financial education and the lack of financial literacy is beginning to be taken much more seriously in the wake of the financial crisis that we are experiencing at the moment.

Karlström told the audience that despite the fact that Sweden had a fairly good economy, recent forecasts had indicated that the unemployment rate would reach 11 percent and its GDP would drop by 5 percent. This had prompted Mats Odell, the Swedish Minister for financial market affairs, to increase the presence of financial education programmes in schools throughout Sweden.

The Swedish State secretary also put the blame of the current crisis on banks where their own CEOs did not even understand their financial products, hence it was not strange that the general public was also left confused and bewildered as to what financial products suited their needs best.

Karlström also pointed out that in late 2007 the Swedish government launched a comprehensive program of financial education to strengthen consumers' knowledge and understanding of financial issues. This programme now also includes banks' participation. Additionally, Karlström's department was also chairing a financial round-table with the banking and insurance sector. One of their top three priorities concerned financial education. Karlström hoped that some of the Swedish initiatives would inspire other European countries to do something similar.

During the Swedish EU presidency (ends on 31 December) the Swedish government hopes to be able to reach with the EU an agreement for a stronger European supervision of financial issues.

Bruno Levesque from the OECD made it clear that the practice of particularly East European countries to borrow in foreign currency should never have been allowed. As a consequence countries in that region have been particularly hard hit by the crisis. Levesque explained that had consumers understood the terms and conditions better, the number of foreign currency borrowing would not have been so high. In the same context he called for credit intermediaries to verify that consumers were clearly informed.

The issue of credit intermediaries was also brought up by the Commission official who said that the role of credit intermediaries should be introduced at EU level.

The consumer organisations' representative, Mick McAteer said that there was little evidence that financial education actually worked, although at the same time acknowledging that no proper evaluation or methodology existed to test if consumers behaved differently if undergoing financial education training. However, according to the OECD, the issue of developing a methodology of measuring and evaluating of financial education programmes was on the agenda of the OECD.

Lastly, many of the speakers reiterated that financial products offered by banks had to be made simpler, more transparent, better suited and most importantly undergo pre-approval before being put on the market, much in line with approval procedures for e.g. food and pharmaceutical products. The Commission official said that the issue of pre-approval procedures was also considered by his institution.

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