



Credit risk management without the risk

Spring/Summer 2007

The rise of spring



Since the beginning of the year there's been a deal of speculation on the likelihood of further interest rate rises.

It began with better-than-anticipated January retail spending figures, combined with strong service sector data and buoyant news from regional manufacturers.

Now, in a move to mitigate inflation risks, the Bank of England has fulfilled the prophecies and raised it's main interest rate to 5.5 percent - a six-year high.

According to Richard Marriage of CIFS, it's important that companies don't restrict their analysis of the impact of rate rises to cost hikes.

"Suppliers with high levels of debt will be affected, too, and higher bank costs could impair their ability to pay bills promptly. A little research on the indebtedness of regular suppliers could help protect your cashflow."



Not so rosy

Latest analysis of administration figures by Deloitte has shown that UK businesses suffered in 2006 with an increase of 26% going into administration compared with 2005.

Say Deloitte: "Many businesses have shown signs of distress over the past year. Our research shows that the worst hit were in the recruitment and business support services (up almost 90%), hospitality & leisure (over 50%) and financial services sectors (almost 50%). The overarching theme of increased costs appears to have hit a large number of the businesses. In the financial and recruitment sectors we have seen an increased regulatory burden and in hospitality & leisure - a typically high cost environment - we have seen businesses punished by their thin margins when volatility occurs. Overall, the figures suggest the economy is not as healthy as it might seem on the surface."

Commenting on the key drivers in the sector Deloitte say: "The costs associated with running an IFA practice - such as FSA regulation and professional indemnity insurance have increased significantly in recent years making it more difficult for the smaller businesses to absorb these costs. The increase in failures in financial services could also be a sign of a gradual shift away from the typical high street IFA in favour of large providers, such as banks and internet buying. Increased compliance costs is a theme which has affected recruitment businesses as well. The last year has seen a number of regulatory changes creating an additional

Further key facts for your management team

Regional increases in companies going into administration:

Midlands	+60%
Wales	+50%
South West	+27%
London and the South East	+25%
East Anglia	+19%
Yorkshire & Humberside	+17%
North West	+15%
North East	-2%

audit burden, which may have pushed a number of the smaller operators over the edge."

And on the hospitality & leisure sector: "Most of the businesses affected are operated from leased premises and therefore heavily operationally geared. Earnings appear to be becoming more volatile in competitive leisure businesses and relatively high gearing in a leased business gives scope for error in achieving forecasts. Often the smaller businesses lack access to capital to invest in their properties and customer offerings, compared with the bigger players who are able to tap into funds and keep their offerings fresh and interesting."



"What we need is another Rover"

A rather bleak item for a wish list, perhaps, and you could certainly find people ready to give you a powerful counter-argument in the West Midlands, but when it comes from a leading credit insurance broker, you can see where he's coming from.

CIFS recently undertook a research project amongst specialist brokers. We found a surprising degree of unanimity - all opined that interest in credit insurance had not been as high for many years.

Twin pressures were cited: first a climate of growing uncertainty about trading conditions going forward. There appears little doubt that the demise of Rover and

a number of high-profile collapses have had a lasting impact on the UK's corporate psyche. As one broker put it: "We're now seeing the 3rd or 4th phase of the Rover debacle, with companies going down who were several links away in the trading chain. In consequence many are considering credit insurance for the first time."

In addition, it's clear that many financial institutions are now sharing this mood of caution. Brokers reported that companies - especially newer businesses with a limited track record - are increasingly looking to purchase credit insurance, removing the risk to their current assets, as a tool in their negotiations with banks and other finance providers.





New fast track claims service

At CIFS we're constantly monitoring our claims performance, particularly in terms of speed of settlement. Our statistics show that claims received in 2006 were concluded on average 19 days faster from date of receipt to the payment date, compared to the average in 2005.

To improve this performance still further we've now launched a Fast Track service for claims with a settlement value up to £5,000. In future such claims will not automatically require confirmation of debt from the insolvency practitioner before being paid, but will be settled on receipt of satisfactory evidence of debt by way of copy invoices and delivery notes. Although the same general procedures will apply in examining smaller claims our focus is on paying them as quickly as possible.

If you have any queries regarding the Fast Track service contact Sue Morley, Director of Client Services on 020 7903 0502

Buncefield rebound



The aftermath of the massive explosion at the Buncefield storage site near Hemel Hempstead is set to place a new burden on land developers.

Under new government proposals housing and warehouse projects near to hazardous sites will need to be covered by extra safety measures.

Money required for them is set to be split between developers and plant operators in an economically rational way. But the government's proposals do not specify precisely how this will be done leaving developers facing seven-figure bills.

And their suppliers with a new level of uncertainty in assessing trading risk.



No relief



Ford Motor's Leamington Spa plant, described by trade unionists as one of the most productive in Europe, is to close with production shifted to Eastern Europe.

The move follows recent closures and job cuts at Peugeot and General Motors and, of course, the demise of Rover.

Though Ford says there will be no compulsory redundancies amongst the 387 staff there's little doubt this development is a significant blow to suppliers and the wider West Midlands economy.

Cause for concern

Continuing concern over the prospects for Britain's beleaguered poultry industry was immeasurably heightened by the outbreak of bird flu at Bernard Matthews operations in Suffolk earlier this year.

Though, mercifully, the virus appears to have been contained for the present, the longer-term impact on businesses both in and serving the sector from plummeting consumer confidence in poultry products is yet to be felt.

Now comes news that Indonesia has confirmed two more deaths from H5N1 and China has said a teenage boy has died from the virus. Indonesia – with 71 deaths – has more than any other country and has only just resumed sharing samples of the virus, which has been found in more than 50 countries.



Novae reports "highest-ever" profitability



CIFS' parent company, the Novae Group, has reported exceptional results for 2006.

Operating profits came in at £53.3 million, compared to a loss of £0.1 million for the previous year. Profits before tax and exceptional items stood at £32.8 million (2005: £17.9 million loss), the Group's highest ever level of profitability. With a combined ratio of 81.4% (104.6%), Novae delivered earnings per share of 3.8p (loss of 4.8p).

Commenting, chairman Paul Selway-Swift said: "This was an excellent performance, which reflects the commitment, resilience and patience of Novae's employees, business partners and capital providers. We owe a particular debt to our employees..... who have delivered a market-leading performance in each of the past four years."

The company intends to return to the dividend list in the next 12 months, added Mr. Selway-Swift.

N2 Check joins D&B

CIFS' credit information partner, N2 Check, has been acquired by information industry leader, D&B Group.

N2 Check will operate as a discrete unit within D&B with account management and executive teams continuing in their current role.



Commenting on the move Sue Morley, CIFS Director of Client Services, said: "We identified the attractions of N2 Check's innovative approach to product and service delivery at an early stage and many of our policyholders have found them to be an extremely cost-effective source of credit data.

"Now they have access to far wider sources of business information as well as the financial strength of a major corporation like D&B and we look forward to working with N2 Check in its next stage of development."

Service return

Britain's seemingly inexorable mutation to a service economy is underlined by DTI statistics for 2004 which show that company start-ups in business services were the highest of any sector.

At the year end 531,900 UK businesses were in services, nearly 150,000 more than any other sector.

Businesses are at their most vulnerable during the first three years of their existence, when management inexperience and financial stresses are likely to have their greatest impact. So while the entrepreneurial spirit that drives individuals to try their luck in the business world should be applauded, companies trading with them should not let their commercial judgement be clouded – it's important that credit management disciplines are applied to them without favour.

Interestingly, though we hear so often of the imminent demise of the manufacturing sector, just fewer than 10,000 new companies commenced operations in this area, say the DTI. Existing businesses considering trading with them need to ask why they're entering a shrinking market.



Pensions may give deals the boot

News that concerns over pensions liabilities were a potential stumbling block in the private equity-funded move to take over Alliance Boots should give us all pause for thought.

City house Morgan Stanley estimates there could be a £2 billion "black hole" in the Boots pension scheme. And while the focus on the withdrawn CVC bid for Sainsbury's was on disagreement on price, many observers felt that the reported £3bn shortfall in its pension funding was a significant contributory factor.

If such high-profile bids could be hampered by a pensions shortfall, it's inevitable that less well-publicised deficits will be impacting the financial health of companies throughout the food chain.

When you're looking to take on a major new account, or to ramp up your relationship with an existing trading partner, it's only prudent to look into their potential pensions liabilities and take any significant deficit into account when assessing their overall creditworthiness.





Caught on camera



"It's either going bust or worth substantially more," says analyst Christian Koefoed-Nielsen about Jessops, the photographic retailer, in the Financial Times.

Jessops has been squeezed by intense, internet-inspired price competition and the development of improved-quality 'phone cameras. Although seeking to compete on service it has not had the confidence to avoid chasing prices downwards to try to protect sales volumes.

The market appears to be taking a less ambivalent view than Koefoed-Nielsen – Jessops' share price has fallen by 90 per cent since the start of this year.

Food for thought



At a time when the Financial Times has produced counter-intuitive research showing that private equity deals are generally positive in employment terms, it's revealed that Blackstone, the US firm has borrowed approaching \$80 billion over the past three years.

As the respected Management Today magazine points out, the modus operandi of private equity firms is to load companies with debt and claim tax relief on the interest payments – so heavy borrowings are to be expected. But, says MT, even given the weak dollar, the Blackstone figure equates to very nearly as much as the entire UK trade deficit for 2006!

Food for thought for businesses trading with private equity-owned businesses.



Competition - win an iPod

Here's another chance to win a state-of-the-art iPod 80GB, courtesy of Credit Indemnity & Financial Services.


All you have to do to enter is answer the following question (the answer can be found in the Newsletter) and email your response to: info@creditindemnity.com.

First correct answer out of the editor's electronic hat wins the prize – to be announced in our next issue.

Question:

"Where is the Buncefield oil storage depot?"

Best of luck.



Novae Syndicates merge

Novae Syndicates Limited, the Lloyd's platform for the Novae Group through which CIFS' policies are underwritten, has merged its Syndicates 1007 and 2147, with effect from the 2007 year of account.

The newly merged entity - renumbered Syndicate 2007 - has a merged capacity for the new year of account of £360 million, and an AM best rating of A (Excellent).

By merging its two syndicates Novae aims to provide a larger, more resilient underwriting platform to the benefit of clients, brokers, rating agencies and regulators, according to Chief Executive Matthew Fosh. In addition, he said, reducing the reporting and regulatory burden will deliver economies of scale.