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## Get ready to batten down the hatches . . .

### ... the 'worst is yet to come'

Nearly half of all UK companies have been affected by the credit crisis, according to extensive research carried out by the trade credit insurer, Atradius.

What is perhaps even more worrying is that nearly two thirds of businesses fear that the worst is yet to come. Atradius questioned 2,500 companies in 14 countries across Europe, America and Australia. British firms were the most pessimistic of all with 95% believing there will be a slowdown in the national and global economies.

More than 70% of UK companies believe that an increase in payment defaults by customers will have the most significant impact upon them. They are also very concerned about their ability to increase sales, extend credit to customers and raise outside capital.

Shaun Purrington, Atradius Commercial Regional Director for the UK, said: "Atradius started seeing the ripple effects of the credit crisis on global economies in the fourth quarter of 2007. Since then, suppliers have been extending credit terms in an effort to maintain sales momentum. However, recently we have seen an increase in claims for bad debt and as the level



of unpaid invoices grows, businesses are likely to become far more restrictive in the terms they offer. The credit crisis is affecting growth and profitability of companies across a range of industries globally.

"Rising costs of capital, more stringent financing requirements and increased customer payment defaults can be catastrophic for businesses and awareness of the potential risks is essential to maintaining a healthy balance sheet as we operate in this higher risk environment." Clearly in this kind of worsening financial climate it is even more important than ever for firms to keep on top of late payments and take action to recover debts at the first sign of trouble.

### ... company failures could rise by nearly 20%

The number of company failures over the next few years could be much higher than expected, according to a report from the accountants and business advisers BDO Stoy Hayward.

The BDO Industry Watch predicts a sharp rise in the number of insolvencies.

A BDO statement says: "In December 2007 it was forecast that business failures would rise by 11.4% between 2007 and 2009. Only 6 months later, in the face of rising energy and food prices, decreasing consumer confidence, falling house prices and restricted availability of capital, the number of business failures between 2007 and 2009 is expected to increase by 18%."

There were 16,168 failures in 2007. BDO predicts that as economic conditions worsen this figure will rise to 17,874



by the end of this year. The number will increase to 19,124 by the end of next year. That will be the highest level since the end of the dot.com bubble in 2002. The gloomy predictions mirror the figures for the growth in profits. Last year, there was record profit growth of 9.5%. However, that figure is expected to dwindle to 0.9% over the next 18 months – the lowest since the early 1990s.

The malaise is affecting businesses in all areas of the economy. For the first time since the BDO reports began five years ago, no sector is expected to see a fall in the number of company failures.

Shay Bannon, Business Restructuring Partner at BDO Stoy Hayward LLP, said: "This is a sure sign that the impact of the credit crunch is going to have a bigger lag than expected on UK business.

"Six months ago there was hope that business would feel some respite if the

Bank of England slashed interest rates. But spiralling inflation figures now means that this is unlikely in the short term.

"With the number of business failures expected to decrease in 2010, there is light at the end of the tunnel. But until then companies need to batten down the hatches and put in place some tactics to weather the storm over the next eighteen months."

## Where next



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# Rising number of homeowners taking out IVAs

Research by the TDX group shows that there has been a dramatic rise in the number of homeowners taking out Individual Voluntary Arrangements (IVAs).

TDX says that between January and May this year, there was a 32.3% increase in the overall number of IVAs opened. However, there was a 47% increase in the number taken out by homeowners. IVAs taken out by people in rented accommodation rose by 26.67%. For those living with parents, the increase was 14.4%.

The majority of people taking out IVAs are still those living in rented accommodation but the proportion of homeowners has risen significantly. In January, 34% of IVAs were opened by homeowners. By May, that figure had risen to 38%. A spokesman for TDX said:



“The rising cost of living is fuelling strong growth in the IVA market. We anticipate that the number of new IVAs opened in England and Wales will continue to increase in 2008. However, the rising cost of living is not the only reason for this growth. More expensive mortgages help explain why more homeowners are taking out IVAs.

“However, the tighter lending practices of bank and building societies are also having a substantial impact on the

solutions available for people looking to manage their debts. It is now much harder to source refinancing solutions such as remortgaging and homeowner loans which in reality means more people have to choose repayment plans such as IVAs and debt management plans.”

The findings are based on figures provided by The Insolvency Exchange, the service provided by TDX for creditors to process their IVA applications. About four out of five IVA applications are processed through the Insolvency Exchange. It is a matter of concern to see the number of IVAs increasing so rapidly, especially among homeowners. Creditors should remain wary of IVAs because they can break down after only a few payments. Always seek legal advice before entering into an arrangement.

## UK suppliers plan to tighten their credit policies

Most British suppliers are tightening their credit policies which will make life even tougher for other businesses, according to research by the credit reference agency Graydon UK.

The company surveyed more than 400 suppliers throughout Britain. It found that 56% planned to impose stricter credit policies this year. Only 2% intended to relax their criteria. Martin Williams, managing director of Graydon UK, said: “Suppliers are looking long and hard at those companies who are asking them for credit and with business insolvencies increasing at an alarming rate the ‘safety first’ culture is spreading across all major industry sectors. This is entirely understandable in a market where the sound management of cash flow could mean the difference between success and going to the wall.”

It's likely that new and fledgling businesses will be the worst hit because it's thought they are the least likely to survive the

current credit crunch. “Some people are simply saying no to new businesses,” Mr Williams said.

Company credit departments are also likely to come under more strain as they face increased workloads with no increase in staffing levels to compensate. The research shows that 80% of companies intend to keep staffing levels the same and 10% plan a reduction.

Mr Williams said: “Pressure on credit departments is going to continue to increase along with the responsibility attached to ensuring that credit policies are applied rigorously and correctly at all times as the full extent of the likely downturn is unveiled. However, companies are seeking to avoid significant investments in additional staff.”



## Tough times ahead for debt collections industry

The credit reference agency Equifax has warned the debt collections industry that the current economic climate is going to make life much harder over the coming months.

The company believes that recovering debt will become more difficult because consumers will continue to struggle with increasing payments. Neil Munroe, the external affairs director for Equifax, told Credit Today magazine: “When collecting debt over the coming months,

companies should be aware that the behaviour of customers could be quite different to what they may have seen previously.

“Almost every credit option will be harder for consumers to get, especially those already experiencing some financial difficulties. For example, access to consolidation loans will be more restricted. And this means more debts are likely to fall into arrears. Re-mortgaging will also become more

difficult.” Equifax says the number of IVAs and bankruptcies could rise as more and more debtors become unable to cope with their payments. It will therefore become more important from now on to identify those who can and those who can not be relied upon to keep up with a debt repayment plan.

Mr Munroe added: “Debt collection departments and agencies will need to make use of the best prediction and tracer tools.”