



2011/2012

Creditreform Annual Report

Creditreform still just slightly below EUR 500 million turnover threshold

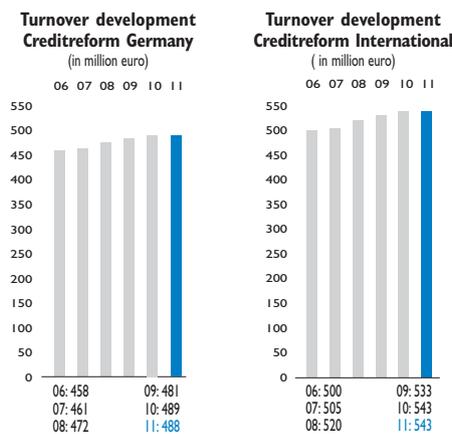
In 2011, Creditreform posted turnover of EUR 488 million (2010: EUR 489 million). Even though this was marginally lower year-on-year, it more or less maintained the generally high level of turnover in 2010 and remains just slightly below the EUR 500 million threshold. At the same time, the exit of a debt collection joint venture which the year before had made a contribution in the high single-digit millions range to Group turnover could be offset almost entirely.

With these figures, Creditreform continues to exhibit a business development in line with the course of the German economy. Looking back, 2011 can be seen as marking the transition from the height of a rapid economic upturn to an incipient cooling-down. The debt crisis in Europe has been generating uncertainty and has tended to make business firms act more reticently. As a result, German economic performance has been somewhat more restrained but has nonetheless been able to stabilise at a high level.

In relation to business information and receivables management – the traditional core services of the Group – and Creditreform AG, turnover divides up as follows:

- Business information: EUR 263 million (2010: EUR 260 million)
- Receivables management (incl. factoring): EUR 199 million (2010: EUR 197 million)
- The central service companies operating under the umbrella of Creditreform AG (beDirect GmbH & Co. KG, Creditreform Boniversum GmbH, CPM Creditreform Portfolio Management GmbH, Creditreform Rating AG, IMMO-Check GmbH and microm Micromarketing-Systeme und Consult GmbH): EUR 26 million (2010: EUR 32 million).

Turnover from the Creditreform Group's international business was also sustained at its high prior-year level. Aggregate turnover totalled EUR 543 million. Via subsidiaries, the Group is active in 22 countries.



Premium Commercial Report launched

Last year, Creditreform again issued 16 million commercial reports on German companies. This total is spread over the various product formats in the new generation of commercial reports which Creditreform has launched in the past two years.

In terms of quality, the new Premium Commercial Report, which has been available since August 2011, represents an upward rounding-off of the spectrum of products for assessing the credit-standing of business firms. As a detailed company dossier and a basis for a successful business strategy, the Premium Report brings together all relevant information on a firm's financial situation. Typical fields of application include bank lending, more thorough supplier credit decision-making, risk appraisal in project business, opportunities and risks analysis of key accounts, and competition analysis. It also forms a basis for initial analysis within the framework of external corporate ratings. No other Creditreform business information product permits such a detailed insight

into a company's solvency situation. Moreover, the trend analyses contained in the Premium Report also facilitate an assessment of how such individual parameters such as credit-standing, payment behaviour, balance sheets and profit and loss accounts, are likely to develop in the future.

Standard report expanded

Alongside the introduction of the Premium Report, the contents of the standard report have been broadened. For example, a section has been added which benefits participants in the DRD, the Accounts Receivable Register Germany, which is the Creditreform pool for the exchange of payment experiences. The payment experiences section is made available exclusively to DRD participants analogously to the Premium Report.

The up-to-date DRD payment experiences information gives users key ratios regarding a business firm's current payment behaviour and how this has developed during the previous twelve months. In addition, the new section in the report also provides DRD participants with data on the development of the average DSO in comparison with the payment target and the particular business sector. This extra information gives DRD participants added value by differentiating the credit-standing appraisal in respect of a decisive factor – actual payment behaviour.

Focus on receivables management

The focus of this year's Annual Report is on the Creditreform service area receivables management. Below, this is examined from different angles.

Receivables management for SMEs

The equity capital stipulations associated with Basel III could create enormous burdens for smaller financial institutions and the savings and cooperative banking segment which plays such an important role in Germany. As a result, their scope for lending is likely to be severely restricted. This development will also impact on the receivables management of German small and medium-sized enterprises (SMEs). When bank customers with a poorer credit rating find it more difficult to obtain loans, they will make increased use of supplier credits to finance their business operations. This makes great vigilance imperative – and not just where risk prevention is concerned but also and especially regarding systematic debt collection in order to guard against payment defaults.

A matter of timing

The best way of avoiding bad debts comprises a mixture of anticipatory caution and strict receivables management. In this respect it is definitely not sufficient to wait until goods or services have been supplied or – even worse – until payment is already overdue before addressing the possibility of a default. So in-house receivables management is not least a question of the right timing. Although there have been some improvements in this field, it is still a fact that receivables management at SMEs goes into action only at a relatively late point in time. This actually varies, though, according to a firm's size and age. The

Commercial basics frequently lacking

younger and smaller a business enterprise, the greater the likelihood that the issue of debtor risk will be handled unprofessionally. Often, there is a lack of commercial basics. Goods or services are invoiced too late, reminders are sent only on an irregular basis and formulated too cautiously. Sales staff – or the company owner – are very frequently worried that insisting too much on punctual payment could lose custo-



mers. But any firm which goes on supplying a customer when the previous invoice is already overdue is actually increasing the risk of total loss.

So small and medium-sized enterprises should definitely regard receivables management as a completely normal aspect of their relationships with customers. It is something that should be handled with the same degree of professionalism as submitting an offer or completing a contract.

Creditreform Debt Collection: 70,000 clients from all business sectors

If invoices remain unsettled despite all internal receivables management efforts, it is vital to engage an external debt collection service-provider as quickly as possible. Creditreform has more clients in Germany than any other organisation in this field: a total of 70,000 clients from all business sectors. More than 1,100 specialised staff are active in representing and successfully asserting the legitimate interests of creditors.

The chances of getting paid decrease steadily with the age of the debt; at the same time, the costs of collection increase. So it is important not to miss the right moment for passing claims on to Creditreform Debt Collection. By doing so, the client benefits from that is called the "third party effect": engaging an external third party regularly makes debtors

more ready to settle outstanding invoices and thus reduces payment delays. This is particularly so if the debtor knows that an unpaid bill can influence his credit-standing in a commercial report.

Full service for more liquidity

One prerequisite for passing on a claim to Creditreform is that it is uncontested. Accordingly, before any claim is pressed, it is examined thoroughly. Once that hurdle has been taken, the client benefits from Creditreform's very advanced specialisation and degree of process automation in all interactions. Debt collection orders can be passed to Creditreform online quickly and without any great administrative input. Once this has been done, Creditreform checks the debtor's financial situation by calling up a current report on the firm or private individual concerned. For the client, the advantage of this integrated credit-standing appraisal is that the chances of

Prior check of the debtor's credit-standing

recovering the money involved are checked before the debt collection machinery goes into operation.

The spectrum of services for potential clients comprises everything from commercial dunning, pre-judicial debt collection and accompanying judicial dunning procedures to long-term monitoring of enforceable claims. In addition, specialist offers include factoring and the purchase of distressed debts.

Market development and environment in debt collection

The needs of business companies in respect of receivables management are changing. One reason for this – among many others – is that the restrictions placed on telephone marketing are making it more difficult to win new customers. So as well as focusing on increasing their customer base by means of acceptable methods, firms are now looking more closely at how to keep their present customers.

For receivables management, this creates the need to maximise success rates in debt collection while at the same time maintaining present customer relations.



Alongside advice on alternative forms of contract, early, finely dosed escalation, from courteously formulated reminders to telephone dunning, can help to keep customers who are fundamentally willing to pay their debts but who are suffering from a temporary liquidity bottleneck. They can then return to the flock of normal customers enjoying normal service. Achieving this calls for the competence and sensitivity of professional debt collection agencies like Creditreform, who go into action as a mediator between the interests of the creditor and the debtor.

Extending product portfolio

On the basis of a recent market survey, Creditreform is aligning its receivables management product portfolio even more concisely than before to the needs of its

clients, designing further industry-specific solutions and expanding its international debt collection activities. The goal is to liberate clients as much as possible from the effort and – not least – the frustration and hassle connected with recovering unsettled claims. Behind the scenes, so-called shared services reduce the administrative input for the debt collection specialists, thus providing more time for direct contacts with the debtors concerned. In this way, Creditreform is improving its scope for handling individual cases and also for dealing with bulk small claims orders with the requisite process efficiency and professional competence.

Legislative initiative by the German Ministry of Justice

The German Ministry of Justice is currently preparing a draft version of a "Law against dubious business practices", to supplement the law passed in March 2012 aimed at giving consumers better protection from "cost-traps" in electronic business transactions. Proposals are being developed to provide more effective supervision of debt collection companies, more extensive information obligations in communications with debtors and for capping the extent to which precourt collection charges must be reimbursed. In this respect, lawyers will be placed on an equal footing with debt collection firms.

Creditreform supports the idea of tightening up the supervision of debt collection agencies. It is, after all, in the interests of any respectable debt collection organisation for regulatory authorities to have a graduated range of intervention possibilities enabling them to counter abuses and eliminate black sheep. In this connection, Creditreform points to the repeated proposals made by the German Association of Debt Collection Companies to adopt the stipulations – and the stated sanctions – of the Legal Advice Act (in the version valid up to June 2008) into the Law on Legal Services.

Greater transparency in dunning letters is intended to protect debtors from dubious claims. In regard to showing the breakdown of debt-related damages, Creditreform welcomes the stated approach and in fact already complies with the proposal: in its dunning letters it already provides details on the structure of the costs involved.

On the other hand, the plans to call for a depiction of the key circumstances surrounding the conclusion of the contract between the creditor and his customer impose more or less insurmountable difficulties on the overwhelming majority of debt collection clients and miss the actual target. Where internet transactions are concerned, full documentation is usually possible, but regarding transactions in the "old economy", this planned requirement impacts severely. In many cases, it will necessitate specific research and thus calls for manual intervention in structured processes. This bureaucratic burden is placed on all companies, even though detailed proof of a transaction is in fact actually necessary in less than one percent of all debt collection cases.

Creditreform rejects cost capping

Creditreform emphatically rejects any move to cap the extent to which prejudicial collection costs are eligible for reimbursement. Among many other things, it does not see any need for legislative action in this field since there is already a clearly defined upper limit on cost reimbursement. For instance, in a recently published judgement, the Federal Constitutional Court confirmed that the ceiling on reimbursable debt collection costs is defined by the fees a lawyer would have charged if he had handled the case.

One result of this proposal is that non-eligible costs will now ultimately have to be borne by those business enterprises and consumers who settle their invoices punctually.

For the first time Crefo Factoring handles invoices worth over one billion euros

In recent years, the demands made on firms granting credit have been steadily growing. As early as 2010, for instance, nearly 85 percent of the firms participating in a survey said that their banks wanted more collateral than before, while 57 percent stated that banks also required more

20 percent to generate external revenues of EUR 1,148 million (prior year: EUR 955 million). Turnover developed especially well in the third quarter of the year as the result of new business. This performance means that Crefo Factoring last year broke through the one-billion-euro threshold for

with the factoring client's sales revenues. One positive side-effect that deserves mention is that the client firm's rating is improved thanks to the increase in its equity ratio.

Developments in the German factoring market

The growing pressure of competition and costs in the German factoring market is now impacting on margins in the small-unit sector of business, too. Another aspect is the considerably higher input required to meet the demands of KWG, GWG and MaRisk. Against this background, the substantial year-on-year growth registered by the Crefo Factoring companies must be regarded even more positively.

The overall development of the member companies in the German Factoring Association also testifies to the increasing acceptance and significance of factoring as



information in connection with applications for loans. One consequence of this is that business enterprises are increasingly turning to alternative forms of financing, such as factoring, to make themselves less dependent on the lending policies of banks and also on the payment conduct of their customers.

This market development provides confirmation of the successful business model pursued by the 15 Crefo Factoring companies in Germany. By their revolving purchase of receivables, these companies provide their clients with more liquidity. At the core of the relevant credit decisions is a forward-looking, anticipatory analysis

Market development confirms Creditreform business model

based on the historical credit-standing of the customer concerned but with a particular focus on his or her future business prospects.

As a member of the Creditreform Group, Crefo Factoring and its services supplement the range of products offered by the Vereine Creditreform. In 2011, Crefo Factoring achieved growth of more than

the first time in its history. The average value of the bought-in invoices was EUR 1,446.

Business sector and credit risks continue to be broadly spread, with clients now coming from more than 40 different branches of the economy. As of 31.12.2011, Crefo Factoring had made credit lines totalling EUR 121 million available to the customers of its clients. The drawn-on proportion of this averaged 43 percent. This low level of utilisation is typical of factoring business, since the customers involved do not have any direct access to these moneys; access is initiated only after the factoring client has delivered the relevant goods or services.

How factoring functions

Crefo Factoring clients sell their claims / invoices to the company and immediately receive between 80 and 90 percent of the gross invoice amount. This facilitates reliable liquidity planning. The client receives the remaining money when the debtor has paid Crefo Factoring what he owes, or within 150 days at the latest if the invoice remains unsettled. Cooperation with Crefo Factoring creates debt financing which is independent of banks and which develops in line

Acceptance of factoring continues to grow in Germany

an alternative form of financing, particularly among German SMEs. The growth in demand for factoring (as measured by the turnover of the member companies in the German Factoring Association) led last year to a rise of 0.82 percentage points in the factoring ratio – the relationship between the volume of bought-in receivables and gross domestic product. This rose to 6.12 percent last year, in the third year-on-year increase of around one percentage point. In other words, the turnover of the member companies in the German Factoring Association now corresponds to over six percent of Germany's total GDP.

Crefo Credit Insurance – Systematic risk protection

The stricter lending policies of banks and the steadily growing demands made on firms seeking credit – in respect of equity ratios, collateral, transparency and documentation – has led to a further increase in the significance of alternative forms of

Supplier credits more important than bank loans

financing for small and medium-sized enterprises (SMEs). It is an ongoing phenomenon that business firms already grant their customers supplier credits totalling around EUR 300 billion. That has long since given such credits a more important role in financing practice than loans from a firm's bank. This stands in contrast to the frequent public perception of bank loans being the sole source of obtaining money for business purposes. One effect of this development, though, is that if supplier credits are repaid late, or even not at all, the creditor's liquidity can be endangered.

Protection from payment defaults

It takes only a few bad debts to cause substantial financial damage and bring a company into a difficult business situation, despite a full order-book and good earnings. So to stabilise the system of reciprocal company financing through supplier credits, it is vital to identify and manage the default risks involved. One approach in this connection is the use of trade indemnity insurance. It offers firms protection from bad debts arising from the supply of goods and services in Germany or abroad – in other words, the insurance coverage protects the supplier against the risk that his customer may fail to pay for merchandise received. So it gives a firm greater security in its business planning.

The principle is simple. Before an order is confirmed, the customer is checked either by the supplier himself, using a Creditreform commercial report for an internal assessment, or by the credit insurer. This provides the basis for deter-

mining the individual coverage in each case. In this, use is made not only of business data provided by such organisations as Creditreform, but also and especially of information drawn from the insurer's previous experience with the customer concerned and assessments of his future creditstanding. In the event of an unsettled invoice or in the unlikely case of an unforeseeable insolvency, the credit insurer has to go into action. Depending on what has been agreed with the policy-holder,



the credit insurer usually then pays out 70 to 90 percent of the money owing. This protects businesses from liquidity bottlenecks, loss of earnings or the effects of a customer's insolvency.

Nevertheless, up to now less than one third of all SMEs in Germany take out trade indemnity insurance to guard themselves against payment difficulties on the part of their customers. In contrast, virtually every large company in Germany concludes an insurance policy of this kind.

Combination of credit appraisal and debt collection

For SMEs seeking to guard against default on the part of their most important customers while at the same time keeping the costs of their trade payables as low as possible, one option is a combination of trade indemnity insurance, credit appraisal and debt collection of the kind offered by

Crefo Credit Insurance. It represents the result of cooperation between Creditreform and leading credit insurers. The aim was to develop needs-compliant insurance coverage for receivables to enable SMEs in particular to protect themselves from the default risks associated with supplier credits.

Crefo Credit Insurance offers its clients lumpsum insurance coverage on the basis of a Creditreform commercial report or the client's own positive experience with the creditor. This coverage is granted up to a certain self-review level. Beyond this, i.e. in the case of substantial risks which might threaten the client's survival, an application regarding a credit ceiling must be made to the insurer. If payment delays are incurred, Creditreform Debt Collection handles the assertion of the claim.

Safeguarding liquidity provides benefits when borrowing from banks

The most important advantage for Creditreform members using Crefo Credit Insurance is that this ensures ongoing liquidity and maintains the financial scope for doing business. Specially developed insurance variants enable company specifics to be taken into account. Then there is the fact that cooperation with a business information and debt collection organisation like Creditreform and with a credit insurer

Securing the financial scope for business action

strengthens a firm's negotiating position vis-à-vis its bank. A secured stock of receivables, combined with the professional ongoing credit appraisal of the firm's customers and Creditreform's debt collection services can be a weighty argument in obtaining more favourable borrowing terms.

Exports provide boost for Creditreform's international services

The German economy is traditionally highly export-oriented and thus also export-dependent. In 2011, the country exported goods worth a total of EUR 1,060.2 billion. That represented an increase of 11.4 percent on 2010 and was the first time that the total had exceeded the one trillion threshold. Around 71 percent of these goods "Made in Germany" were exported to European countries.

The other side of the coin is that many countries in Europe are still in the grip of the economic and financial crisis – this is something which German exporters quickly realise. This is shown, for instance,

Payment default risks in export business still exist

by the study "Länder- und Exportrisiken in Europa 2011/12" (Country and Export Risks in Europe 2011/12). The payment conduct of customers in other parts of the continent still leaves much to be desired. This means that extending business relations with existing customers or expanding into new markets raises the risk of bad debts. One firm in every seven of those surveyed suffered default losses up of to one percent; in the case of 7.6 percent of the exporters the total was over one percent.

International Services

Creditreform's international business is growing in line with the increased export activities on the part of German firms. As the European market-leader in the field of business information and receivables management services, Creditreform is represented in 21 European countries through its own subsidiaries. It also has a subsidiary in China. More than 4,500 staff in 177 business offices help to protect small and medium-sized German enterprises involved in cross-border business. Via www.creditreform.de, Creditreform members can obtain information on all active companies around the world. In addition, they have direct access to more

than 24 million commercial reports on firms in a total of 26 European countries.

International debt collection as growth field

With the exception of a dip in growth between 2009 and 2010, Creditreform has registered a steady increase in international debt collection orders from German firms. In just the period since 2008, for instance, the number of cases entrusted to Creditreform has risen by over 40 percent. On the other hand, the average amount involved has fallen, to just under EUR 4,500 at present. Taken together, these two developments show that it is not just large internationally active companies which are aware of the benefits offered by Creditreform's debt collection services; export-oriented SMEs have long since also been taking increasing advantage of international debt collection services in order to recover moneys owed to them by foreign business partners.

Three years on: European Order for Payment Procedure and European Small Claims Procedure

The European Order for Payment Procedure enables a creditor to obtain a title to an uncontested pecuniary claim within the EU swiftly and at reduced costs. The prerequisite is that the two parties involved are resident in different member countries. With the help of a standard form, an application can be paid to the creditor's local court for a payment order to be issued. As long as the application is not evidently unfounded, the court issues a payment order. The other party then has 30 days in which to oppose the claim. After that time, the court automatically declares the payment order to be enforceable. Ideally, the procedure results in a uniform title which provides for the recognition and enforceability of any claim, anywhere within the EU, regardless of the relevant national legislation. For Creditreform, this procedure has made international debt collection much easier,



since it is simpler to assert a European title than to have a German title recognised abroad. So Creditreform regards the European Order for Payment Procedure as a sensible development since it can save its members time, money and hassle.

In contrast, Creditreform considers the European Small Claims Procedure a failure. The idea behind it was to simplify and speed up cross-border claims litigation involving just small amounts of money. In practice, however, the procedure has largely proved to be ineffective. In those countries where the chances of debt collection were good anyway, the success rate using the new procedure is also good, but the procedure does not increase realisation chances much in those countries where the rate was low beforehand. In addition, in many cases the European Small Claims Procedure has not brought the hoped-for simplification. In most such claims, litigation still takes more than a year. Another factor is that in some countries, the enforcement costs are out of all proportion to the invoice sums involved.

Creditreform: Professional partner for safe business worldwide

Founded as a Credit Agency in Mainz, Germany in 1879, Creditreform has grown to now serve over 163,000 members from 177 offices across Europe and China as one of the leading international providers of Business Information and Receivables Management services. Creditreform provi-

des today a comprehensive spectrum of integrated Credit Risk Management solutions and services worldwide and provides members with more than 16 million commercial reports a year and assists members to realize billions in outstanding debts.

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