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## Businesses write off £245bn because of late payments

Businesses throughout the UK and Europe have written off £245bn over the last year because of late payments, new research has revealed.

The Swedish-based debt buyer Intrum Justitia surveyed 6,000 European companies including some from Britain. It found that the amount of debt that had been written off rose by £24bn to £245bn over the last 12 months.

It meant that 2.6% of transactions were written off compared with 2.4% the year before. The research also suggested that the situation is unlikely to improve in the near future. Only 10% of businesses were optimistic that conditions would get better over the next 12 months.

Looking specifically at the UK, the survey revealed that the percentage of debt written off remained at 2.4%. However, the number of invoices being paid within 30 days declined by 5%. A total of 54% of businesses reported reduced liquidity because of late payments and 41% were pessimistic about their chances of getting support from their banks.

Lars Wollung, the Chief Executive Officer of Intrum Justitia,



said: "With many European governments continuing to prop up their economies with cash injections, this £245bn wastage figure is truly worrying. It is extremely troubling to see how hard hit the SME market has been by non-payment and the lack of confidence that conditions will improve over the coming months.

"With banks continuing to lend cautiously, good cashflow management - which includes taking decisive action when faced with late or non-payment - is vital to help ensure the very survival of many small and medium-sized businesses."

The research highlights yet again the need for businesses to protect themselves by taking early action as soon as problems with late payments begin to arise. A solicitor's letter is often enough to secure payment as the debtor knows right

at the outset that you are taking the matter seriously and are prepared to take legal action.

For those who still don't pay, there are several more legal measures available to secure prompt settlement. Please contact us if you would like more information.

## Calls for debt advice 'at record levels' since Budget

The Debt Advisory Line (DAL) says the number of calls it receives from people in financial difficulty has been at record levels since the new Government's first Budget which announced stringent measures to tackle the current economic problems brought on by the worldwide recession.

The DAL expects that the coming rise in VAT, the freeze on child benefits and the restrictions on housing benefits will all have a major impact as they come

into effect. Martin Chapman, a spokesman for the DAL, said: "People are very concerned about changes to benefits and how this will affect the money in their pockets, as well as the rise in VAT which makes everyday living that much more expensive.

"Many simply don't have the disposable income for this kind of change and

even small changes can have a devastating effect on family finances."

He urged anyone needing help to avoid unscrupulous traders and loan sharks who may see the changes in the Budget as an opportunity to make more money from people who have got into difficulties.



## OFT warns against action outside debtor's jurisdiction

The Office of Fair Trading (OFT), which is drafting new guidance on debt collection, has issued a warning to the credit industry that it is unacceptable to take court action against consumers outside their home jurisdiction.

The warning follows an OFT investigation into the way the finance company Creation Consumer Finance Ltd was planning to issue proceedings against Scottish debtors in the English courts. The OFT believes such action is unfair because the debtors would be

unfamiliar with the law and procedures involved.

The OFT Director of Consumer Credit, Ray Watson, said: "Creation Consumer Finance has taken swift action to end the practice and has implemented more stringent procedures for appointing and monitoring solicitors acting on its behalf. We have imposed these requirements in order to ensure that the practice is not repeated."

Meanwhile, the OFT has confirmed that

it is drafting new guidance on debt collection.

It's expected that the revised guidance will look at issues such as data accuracy and problems in the way people may be pursued for debts following inaccurate information supplied by creditors to debt collection companies.

Once the main proposals are drafted the OFT will hold a full 12-week consultation.

# OFT wants insolvency reform to protect small creditors

The Office of Fair Trading (OFT) wants to reform the corporate insolvency regulatory regime to protect small creditors and deter "sharp practices" by Insolvency Practitioners (IPs).

The OFT carried out a market study which showed that although the system often works well, there are areas for concern that need to be addressed.

It found that secured creditors such as banks effectively appoint IPs and "have a strong incentive to control fees and

direct the activities of IPs in the 63% of cases where there are insufficient funds for secured creditors to recover all their debts".

In the 37% of cases where secured creditors are paid in full, unsecured creditors including SMEs are "often unable to exert influence on the IP whose actions are then mainly constrained only by regulation and ethics".

The OFT also found evidence that some IPs charge 9% more when it is

the unsecured creditors who pay rather than secured creditors. It says that reforms are needed to "increase trust in the system and deter IPs from sharp practices".

It has put forward various recommendations including an industry-funded independent complaints handling body with broad powers to review IP fees and actions, impose fines, and return overcharged fees to creditors. It also suggests streamlining the way in which the regulatory regime makes decisions.

## More rules and red tape could 'reduce availability of credit'

Yet more regulation of the finance industry could reduce the amount of credit available because of increased implementation costs.

That's the warning from the Finance and Leasing Association (FLA) which represents some of the UK's leading lenders. The FLA says that when considering new regulation, the Government should avoid doing anything that would have unintended but potentially damaging consequences for lenders and their customers.

The Director General of the FLA, Stephen Sklaroff, said the industry is still implementing the swathe of new regulation created by the last Government. That involved significant



cost which could in turn reduce availability and affordability to customers.

The FLA believes this is already having an adverse effect. In April, the amount of credit granted by FLA members was 9% lower than in April last year. Store card lending contracted by 14%, credit cards by 12%, store instalment credit by 19%,

unsecured loans by 42% and second-charge mortgages by 20%. Some people are finding it difficult to get credit in the regulated markets which raises the risk of them being financially excluded and driven towards loan sharks.

Mr Sklaroff said that the state of the markets meant that the Government should move carefully when making any changes to the current regulatory structure.

"If we are to avoid the serious social and economic consequences of a smaller, more polarised consumer credit market, a proper balance needs to be struck between consumer protection and maintaining a competitive market."

## Company insolvencies drop by 21%

The number of UK companies that became insolvent in the second quarter of this year fell to 3,467, according to figures released by PricewaterhouseCoopers (PwC).

That was a fall of 21% compared with the first quarter of the year. The figures show an 11% drop when taken on a 12-month rolling basis.

Mike Jervis of PwC said: "The reduction in insolvencies reflects the expectation and hope that more favourable conditions will return and a viewpoint

that alternative options to insolvency need to be considered.

"At PwC we are seeing a fall in the number of administrations as businesses are starting to look at other options before insolvency is used as a last resort.

"Financial restructuring, company voluntary arrangements and schemes of arrangement are now being used as businesses are now starting to realise that the sooner problems are identified, the quicker a solution can be found."

## Where next

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