ECGD gives short-term export finance a boost

ECGD, the UK export credit agency, has launched a letter of credit guarantee scheme to assist UK exporters by boosting the availability of short-term export finance.

UK exporters are looking for secure forms of payment from their overseas buyers, particularly those based in emerging economies.

One of the most secure payment mechanisms for foreign trade transactions is a confirmed letter of credit. Such an instrument allows the UK exporter to eliminate the risk of non-payment by its buyer.

Five banks – Barclays, Royal Bank of Scotland, HSBC, Lloyds TSB and Standard Chartered – are supporting the scheme and will be making arrangements to allow exporters to participate.

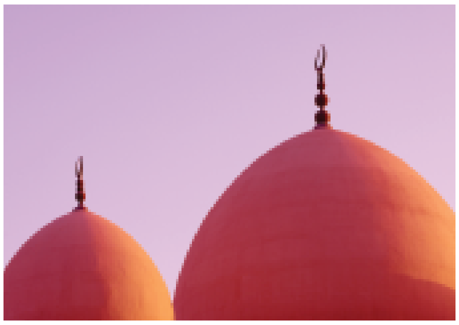
The guarantee scheme will cover 282 overseas banks in 36 export markets. More banks and export markets are expected to be added to the scheme.

The UK minister for trade, investment and small business, Lord Davies of Abersoch, said: "Letters of credit are a very well-established method of securing payment and an alternative to credit insurance.

"This scheme should increase banks' capacity, and is an excellent step forward."

ECGD will share up to 90% of the risk of non-payment on individual letters of credit.

ACTME reveals winners


Qatar and the UAE won ACTME's DOTY Awards

The ACT Middle East, which celebrates its first anniversary this month, has announced the winners of its Treasury Team of the Year and Deal of the Year Awards.

The treasury department of Abu Dhabi-based Etihad Airways, whose growing operations now span 45 countries and service 55 countries, was chosen as treasury team of the year.

In July 2008, Etihad announced a $43bn order for a total of 205 wide-body and narrow-body aircraft to cover its expansion programme for the next decade. Etihad's treasury team played a key role in the financial modelling and commercial negotiations for the transaction, and developed a detailed long-term capital plan that secured approval from the government of Abu Dhabi.

Qatar Telecom scooped the award for Deal of the Year. Its dual-tranche $1.5bn bond issue completed in June, with a five-year tenor to 2014.

Qtel is the first telecoms operator from the Gulf Co-operation Council area (a trade bloc encompassing Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the UAE) to access the global fixed income markets.

Its issue was massively oversubscribed, attracting more than 600 investors and a total in excess of $13bn.

The success of the QTel issue promises to open doors for the group in future debt capital market access. ■

Credit score service for SMEs

A new service launched by commercial credit reference agency Graydon UK is promising small and mid-size businesses (SMEs) greater control over their credit scores in return for submitting validated monthly management account information.

The firm said its research showed that 70% of SMEs which requested a review of their creditworthiness in 2009 saw their credit score revised upwards. Analysis revealed that 60% of SMEs in the UK fell into the category of "above normal credit risk".

The new service, named CreditPal, is a venture between Graydon and business data analytics group Future Route. ■

On the move...

- **Arun Aggarwal**, MCT, previously head of consulting practice at TCS UK, has been appointed managing director, UK, Ireland & Nordics, at SWIFT.
- **Deborah Black**, AMCT, has left her position as European treasury operations manager at Nortel and joined Chesapeake as corporate treasurer.
- **Tom Gilliam**, AMCT, has recently joined SABMiller as senior treasury accountant. He was previously a pricing analyst for Royal Bank of Scotland
- **Phil Gunter-Rees**, AMCT, has been appointed treasury manager, corporate finance, at Thames Water. He was with Future Capital Partners.

MEMBERS' DIRECTORY

Members' contact details are updated regularly at **www.treasurers.org**. *Email changes to Matthew Trickey:* **mtrickey@treasurers.org**, *or phone +44 (0)20 7847 2557.*

CAREERS

For up-to-date treasury vacancies and careers articles, log onto: **www.treasurers.org/careers**

- **Katherine O'Brien**, MCT, previously European treasury manager for Global Crossing, has been appointed VP treasury at AWAS.
- **Nicholas Redman**, AMCT, has joined AstraZeneca as global process owner, cash and banking. He was previously EMEA cash manager at Shell.
- **Justin Van Wijngaarden**, AMCT, has joined Numis Securities as chief operating and financial officer. He was previously chief operating officer and chief financial officer at Jefferies International.

Blue chip corporate treasuries 'unprepared'

The world's leading corporate treasuries are still ill prepared to cope with unexpected market events, says software group Wall Street Systems.

Its survey of 46 of the leading US-headquartered Fortune 500 multinational corporate treasuries found that 87% cited counterparty risk as a top concern and 28% cashflow forecasting. However, nearly nine out of 10 admitted that manual processes such as spreadsheets were still used to manage both. "This means they are without the real-time view and information needed in uncertain environments," said Wall Street.

Lewis: early warning system required

It added that treasurers' traditional reliance on credit rating agencies to measure credit risk was no longer an adequate strategy, and many have reduced their more risky exposures.

The supplier said that treasurers now required tools such as integrated treasury management systems (TMS) to help them view and manage their counterparty exposure and to maintain liquidity.

The study suggested that once widely accepted practice of spreadsheet management and other manual methods were also no longer suited to today's marketplace.

Mark Lewis, group director, corporate treasury at Wall Street said that treasury technology was no longer focused on cost savings but was "required to provide an early warning system in the event of a market event and address shareholder demand and protect against large-scale failure. Today, the cost of making an investment in real-time treasury technology does not compare with the size of a possible loss caused by a failed counterparty." ■

Rate of business failure slows

The number of insolvencies in the UK in August totalled 1,384, the lowest monthly figure since September 2008, and the downward trend is continuing, reports PwC.

The monthly total had steadily risen from 1,200 in August last year, just before the collapse of Lehman Brothers, to a 10-year high of 1,977 in March.

"We are finally seeing a tail-off in the huge numbers of insolvencies this recession has brought," said Mike Jervis of PwC Business Recovery Services. "If we look back at previous recessions, we can see that there is often a spike in the number of companies going bust as an economy recovers, simply because businesses take their eye off the key cash factor.

"There is no question that UK companies have been hit very hard by the recession: achieving 80% of budgeted revenue is now the norm. We would strongly advise companies that if they want to survive, they must continue to cut back on costs and concentrate on driving revenues back up."

However, Jervis expects the improving trend of recent months to extend into 2010.

Meanwhile, the British Property Federation said that many landlords felt "aggrieved" by the insolvency process, following news that retailer Clinton Cards made a £13.5m profit from buying back its Birthdays chain a month after putting it into administration.

The BPF, which represents landlords, investors and surveyors, called the move a "perfect example" of phoenix administrations, where a firm is put into administration to avoid losses and get out of contracts before the profitable portion is subsequently bought back.

"Insolvencies like this are a charter for failing businesses to walk away from legally binding contracts without paying a penny, while everyone else – like the 750 people who lost their jobs – has to accept the consequences of bad business decisions," said BPF chief executive, Liz Peace.

"No one is against being flexible, but when firms claim hardship and then buy themselves back, the likelihood is that landlords will stand firm because they don't want to annoy their other customers." ■

Financial services employees are the pension winners

Employers in the financial services sector make the most generous contributions to employees' defined contribution pension schemes, while those in leisure and travel are the least generous, according to a report from Aon Consulting.

The 2009 Aon Benefits and Trends Survey, based on responses from 650 companies across 13 UK industry sectors found that typically employers' contributions to defined contribution pension schemes represented 6.2% of salary. Average employee contributions are 3.5% of salary.

Employers in the finance, voluntary/charity and pharmaceuticals/healthcare sectors contribute nearly twice as much to their employees' pension pots as those in the travel/leisure, retail, media, professional services, telecommunications, technology and oil/gas/metal sectors.

Employers and employees in the consumer goods sector both contribute relatively generously. Both sides give 6%, for a combined pension pot of 12% of salary.

"There is still wide disparity between employer and employee contributions across all UK sectors, probably because employers benchmark their defined contribution schemes against their competitors," said Helen Dowsey (pictured), a principal of Aon Consulting. "Employers may also reward their employees in different ways, with the pension forming a small part of the overall benefits package.

"It is highly likely that many employers will redesign their contribution structure between now and 2012. Employees should therefore also be aware that any redesign may mean they need to pay more into their defined contribution scheme."

Moody's reports corporate default improvements

The European speculative-grade default rate increased to 9.3% in the third quarter of 2009, from 6.4% at the end of Q2, while the US rate rose over the same period from 11.5% to 12.9% reports Moody's.

The ratings agency predicts the European speculative-grade default rate will peak at 10.9% in Q4 before declining to 6.0% a year from now. Among US speculative-grade issuers, it forecasts the rate will hit 13.5% in Q4, and then fall sharply to 4.4% by Q3 2010.

Moody's expects the global default rate to reach 12.5% in Q4 before falling back to 4.5% by September 2010.

It said the forecast was consistent with previous credit cycles. Prior to the 1991 and 2002 peaks, default rates declined to close to their long-run historical average of roughly 5% in the following 12 to 18 months.

In the leveraged loan market 19 Moody's-rated loan defaulters were recorded in Q3 2009. All but one were North American, increasing the year-to-date total to 94. In 2008 only nine loan issuers defaulted in Q3.

Inflation alert for pension trustees

News that the consumer price index has fallen to 1.1%, its lowest level in five years, should not lull pension scheme trustees into a false sense of security, actuary and consultant Barnett Waddingham has warned.

Paul Jayson, a partner at the firm, said the threat of future inflation was "not high enough on the risks being identified and managed."

He explained: "To the fore are increasing longevity and the effect of reducing discount rates. The last risk does not actually affect the cost of providing pensions – all it does is change the present value ascribed to future liabilities and hence the funding required from the employer."

Jayson said many trustees had de-risked their schemes, moving investments from traditional long-term asset classes of equities and property to those that control current costs, such as equities and gilts. This had left many schemes "extremely unprepared to withstand inflation".

Finance bosses 'need to rethink' their priorities

The economic downturn has turned the screw on finance leaders, new research from KPMG suggests.

The group's report, "Thriving Not Just Surviving: Insights from leading finance functions", found that while many FDs and CFOs have clearly understood their business priorities, such as better forecasting, planning and budgeting, they must also now plan ahead to adjust to the new world order.

According to KPMG's head of financial management Rodger Hill, "the key factor will be enabling the business to be more flexible and agile. This will mean a much greater focus on forecasting and scenario planning, along with increased emphasis on cash and liquidity. In addition, helping the business to understand and manage risk will be much higher on the finance function's agenda."

Hill: forecasting, liquidity and risk to climb up finance agenda

Hill suggested that other success factors would include fully understanding what the "right information" is.

Finance leaders "need to invest time to understand what drives real business value, and then look to align data sets, systems and processes to ensure they can deliver the right information to the right people".

This would involve a move away from downloading and reworking numbers, and looking instead "to strengthen and cement ongoing relationships with the leaders of their businesses". ■

The report can be downloaded at **www.kpmg.co.uk/advisory/performance/fm**

Late payment interest charges rise

Pressure on cashflows has seen more businesses exercise their right to charge late payment interest on bad debt, according to law firm Lovetts.

Lovetts reported a 114% increase in the number of debts with late payment interest added during the second quarter of 2009, against the same period last year. The actual late payment interest amounts claimed also rose, by 37%.

Lovetts chairman and managing director Charles Wilson said the continuing reluctance of many firms to apply late payment interest could be the result of various factors – "not least the delicate balancing act of maintaining good relationships with customers while being firm about payment terms."

However, the tough trading conditions of the past year has persuaded others to reconsider.

"Any tool to help an invoice up the priority list for payment has got to be exploited and late payment interest is both clear and easy to use," he added.

Growth pause in UK buyout market

UK pension plans are likely to purchase more than £3bn of bulk annuities this year, and the long-term trend in the buyout market is upwards, according to pension consultancy Mercer.

Although the figure is "significantly less" than 2008, when sales were around £8bn, it remains well above the long-term historical trend of annual sales of around £1bn. Insurers' sales in 3Q 2009 were around £900m, bringing the total to date this year to more than £2.4bn. At least eight insurers have written bulk annuity business over the period, which the consulting and investment services group said demonstrates the choice available in the market for plan trustees and sponsoring employers.

"Taken against 2008, 2009 has been flat in terms of activity and down in terms of deals completed, but trustees and employers are right to have been cautious, given global events," said David Ellis, a principal at Mercer. "However, this is a lumpy business; for example, 25% of the value of deals in 2008 came from only two transactions. In 2009, clients are continuing to transact with insurers and there are good deals to be had."