

# Hynek Rasocha, Euler Hermes Čescob: A bigger wave of insolvencies is yet to come

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## **What is the payment discipline in our country today?**

The average maturity of our clients' receivables is about 45 days; the average delay of payments ranges between 15 and 30 days. However, there is a general declining trend in the payment discipline and a gradual increase of invoice maturity in the whole economy, even by the state and its institutions.

## **Which sector is affected most of all in this respect?**

Primarily construction, especially investments with longer maturity times of receivables. However, we cannot help in this regard; we can only insure the supplies of construction materials - in the field we also have many clients.

## **What do you think is the reason of the problems in construction?**

The decline in demand in the construction sector has reached 50% in some areas, and this also applies to construction materials; it mirrors a major slump in housing construction in particular. Another factor is the difficult access of property developers to funding, which is vital for them, because of the changed behaviour of the banks in the crisis. This further deepens the decline in demand for materials and construction work in the whole economy.

## **We can expect that there is a lot of interest in credit insurance at the time. What is the demand for your products like in reality?**

The demand for our products has grown at least by 100%, even in sectors that had no interest in the past as they did not fear insolvency - the automobile industry is a prime example. A few years ago, nobody would think that renowned companies such as Opel or General Motors could have problems or even go bankrupt.

## **How does the segment of small and medium-sized enterprises respond to the concept of credit insurance? After twelve years of existence of this type of insurance on the Czech market, we suppose it is not necessary to explain the concept in bigger companies any more - but what about the smaller ones?**

A small or medium-sized enterprise is often struggling for survival - a delay in payment of a larger receivable can be lethal for it. Unfortunately, the owners of smaller businesses often underestimate credit insurance or even do not know about it. But to some extent we are also at fault because of little promotion, and it is also true to so far our existing products have been mostly targeted at large corporations. Compared to the West, credit insurance in our country is still used to a very limited extent.

## **You probably know the reasons?!**

It is caused by the fact that especially small companies underestimate financial management. Businessmen still tend to think that having a competitive product and the needed volume of purchase orders are the most important for their business. It is a bit of a mistake - money is existential for each firm. In other words - the company's priority has to be, at any given moment, to secure enough money for operation,

purchase of the necessary materials and services, payment of its own receivables and, of course, development.

**The guard period, i.e. the time between the occurrence of the damage and its payment by the insurance company, can be a huge burden for smaller companies with financial reserves. Why are such guard periods applied?**

The delay of the insurance benefit has two main reasons. In the first place, attempts are made with our help to recover the receivable and, if successful, the client gets back the whole amount. In case of immediate compensation, he would have to do with the loss of a part of the receivable, in the form of co-participation. The other reason is that payment of the compensation shortly after the maturity of the receivable would actually constitute the funding of the receivable - the way that banks and factoring companies do it. Of course, that involves a much higher price than in case of insurance, and sometimes significantly higher. But we are trying to accommodate the segment of SMEs even in this respect - in some cases the guard period can be shortened from the usual 6 or 9 months to only one.

**A crisis is usually a time of low demand and, accordingly, price decline. Your sector seems to experience something else - the demand is growing, the prices rising?!**

Credit insurance in the region of Central and Eastern Europe, namely its price, has declined by 50% in the last approximately four years. Right now it is lower than in the neighbouring Austria. The current crisis necessitates a turnaround because the number and the financial volume of insured losses, and therefore insurance benefits, have grown by more than 100%. For example last year we paid benefits of CZK 130 million to our clients, i.e. three times as much as in 2007. And we also have to count in the price of insurance, which has recently grown by tens of percent.

**What is the price of a standard credit insurance policy?**

It is very individual, the basic margin is 0.4 to 0.6 of the insured turnover on average.

**At the end: what is your estimate of the economic development in the Czech Republic this and next year?**

I personally think that the biggest wave of insolvencies is yet to come. I do not expect any principal change in the recession soon and the behaviour of the banks will not change too much, either. Many companies are living off their reserves, but the weaker ones will start falling off.

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