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## LockFinance



## Word from the GM

### The Sprint to Xmas:

This is the time of the year that a number of your / our clients are finalising their importing programs for the stock build up to Xmas and or summer sales.

So that means your clients are collecting final orders and making arrangements with overseas suppliers about quantities and delivery times and payment.

Hopefully your existing financiers are happy to finance it all. If you are lucky enough to have supportive bankers then congratulations. You would most likely have already offered your residential property as security and provided your end of year accounts and future cashflows to show your ability to repay the financing.

However a number of businesses may not have those personal assets or wish to pledge their personal assets to supporting their funding request. Or your bankers may have said they will not support.

What will your client do ? They need to be able to fund these imports or they will loose the sale and this can have a serious impact on your clients business.

If this is a scenario that a client of yours is experiencing then please give us a call, we may be able to assist.

Also at the time of putting this newsletter together the All Blacks have won the Rugby Championship for 2013 and now looking to make it a clean sweep of tests for the year after the end of year tour. **"GO THE ALL BLACKS"**

This is a sign of a very impressive organisation, from the management team showing very good governance, staff management through to the players and reserves who are all highly skilled and all know their individual roles. They have a high level of leadership, commitment and ability to create the desired end result.

This could be the same for any number of businesses out there making, importing and selling their own special products. Something that we can all take a leaf out of their book.

I would also like to bring your attention as existing and potential introducers of business to Lock Finance to our Special Offering:

#### Refer to WIN

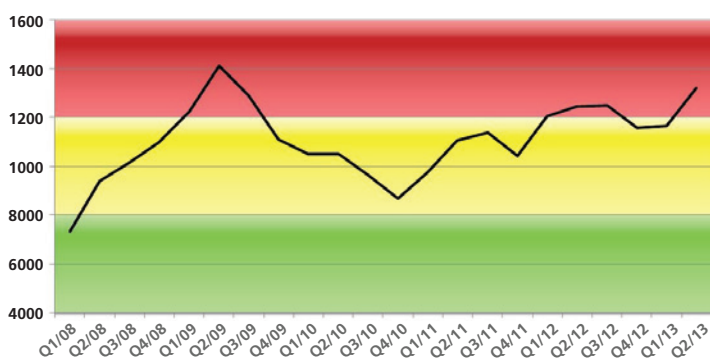
Refer your client to Lock Finance and you will receive a "Samsung 32" HD Smart LED Television.

Terms and Conditions apply. Your referral must turn into a new Client for Lock and there are 20 TV's to be won so be in quick to win. Offer ends 31/12/13.

**Craig Brown**

General Manager Lending

# Credit Risk is still in the “RED”



SCORE Q2 2013 = 13188

## Trade credit risk still in the “red zone”

NCI's quarterly trade credit risk index is a score created to assess the changes in the credit risk environment. At Q2 of 2013, the NCI index indicated a risk score of 13188 which has been increasing since the final quarter of 2011. The index is 13% higher than Q1 2013, confirming a worsening of the current credit risk environment.

NCI's trade credit risk index is based on a number of factors including the volume of trade credit claims being received, the number of overdue debts put for collection, credit limit assessments and levels of overdues being reported. A number of senior national credit managers are also consulted with their thoughts on credit conditions.

Credit insurance claims have increased by 16.5% since Q1 and there has been a 9% increase in the number of overdue debts reported. The number of claims being submitted are still well above the levels prior to the GFC.

This year has seen an increasing number of company insolvencies in our largest trading partner Australia with 1,556 insolvencies registered in May 2013, the highest amount of insolvencies recorded since March 2009.

While the construction industry in New Zealand begins to show signs of growth we have still seen several large insolvencies with Mainzeal and Starplus Homes in the first half of 2013. Many long-established companies have faced insolvency confirming the notion that it is dangerous to assume the resilience of mature companies in the volatile economic environment.

50% of credit managers surveyed have experienced 5 or more insolvencies in the last 3 months. The NCI trade credit risk index aims to assist businesses to not only review historical and current conditions, but use this data

to monitor and adjust credit risk assessment accordingly to the market trends.

**“Credit insurance claims have increased by 16% since Q1 and there has been a 9% increase in the number of overdue debts reported”**

National Credit Insurance, (NCI) is a specialist broker of credit risk management solutions, including Trade Credit Insurance.

While its common around the world for businesses to protect themselves from debtor risk using credit insurance as a tool to grow safely, it's not a subject well understood in NZ or Australia.

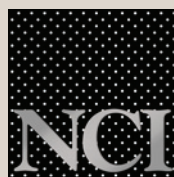
Despite this NCI are currently handling over \$50,000,000 in bad debt claims as businesses realise the 'hand shake deals' of yesteryear no longer provide any comfort in today's trading environment.

Since the GFC, Phil Ashby NZ manager of NCI has seen many businesses re-evaluate their treatment of debtors and the real risks of buyer insolvency.

In many cases the common response to NCI's offer to provide quotes to transfer credit risk are “We regret we didn't know about it sooner credit insurance sooner”

By protecting your business against the cost of a Bad Debt through Credit Insurance, you can:

- Preserve profit - Too often and too late businesses realise that a bad debt is really lost profit.
- Protect liquidity and cashflow – The proceeds of a credit insurance claim inject liquid funds back into your business
- Confidence to expand – Knowing that the cost of potential failures has been covered
- Strengthen credit management – Firm credit limit decisions are provided on larger debtors based on sound analysis and information
- Add security – Insuring your ledger often provides a new source of security to offer financiers



For more information on the NCI trade credit risk index or to find out more about credit insurance please visit: [www.ncinz.co.nz](http://www.ncinz.co.nz),

Or call 0800 442 556, for a no obligation review of your credit risk profile.

## Case Study

# Walker SEP Surveyors & Planners

Bruce Walker founded Walker SEP Surveyors & Planners 30 years ago. Since then, the company has been a key player in a number of New Zealand and international projects. From 18 years of expansion and terminal building projects at Auckland International Airport, roading and airport in American Samoa, the Marshall Islands and Tonga. Plus heavy industrial projects like New Zealand Steel at Glenbrook and most of Auckland's key landmarks including the Aotea Centre, Sky City Casino Botany and Sylvia Park Shopping Centre.

"While we have been established for 30 years, the last 5 years of the global financial crisis and our link in the chain of the building industry has put pressure on our debtors ledger.

Our bank – the ASB put us on to Lock Finance and we're very glad they did. The transition has been seamless. The Lock team has been brilliant to deal with and being able to continue to deal with our own creditors has been great. We have had and continue to have very positive relationship with Sean, Shanil and the rest of the team at Lock.

We won't need their services forever but we couldn't have found a better fit to meet our current needs."

## The Kiwi has staged a remarkable comeback...

...in the last month, with the market turning its back on the USD and propelling the NZD back to levels the currency enjoyed at the start of the year. The key market mover has been the US Federal Reserve, who was widely tipped to begin tapering their quantitative easing in mid-September; an expectation that saw the USD strengthen broadly when the idea was first mooted in May this year. When September's Fed meeting came and went without a firm commitment the market's disappointment was shown through the USD being dumped – a move that sent the Kiwi surging back to the levels we're seeing now.

As we look forward to the next three months expect the Fed to remain in the spotlight; September's meeting didn't give the market what it wanted, but there are still two more meetings this year (culminating on October 30th and December 18th respectively) and either could see the announcement of tapering. This move would be seen as being USD-positive, though the recent US government deadlock may provide a good enough reason for the decision to be pushed into early next year.

The outlook for the other major's remains optimistically mixed for the Kiwi; the market focus on the US has seen other areas of the world being relegated to the back page, which has given the NZD some support. Europe

continues to struggle, with concerns over the state of the sovereign-debt crippled nations rightly keeping the EUR currency under pressure. The UK appears to be slowly turning the corner, though it will be a long time before the Bank of England has reason to increase interest rates. The Japanese government has committed to keeping the Yen weak in the hope it leads to an economic recovery, so the Kiwi has a chance at gaining further. The Australian dollar has been punished lately – a move that may have been overdone; China appears to be slowly growing (by Chinese standards) and the AUD will draw support from this.

If nothing else, the NZ interest rate outlook should continue to work in our favour, with the RBNZ likely to put our cash rate up sometime next year – a move that sets NZ apart from the other majors and one that will prop up the Kiwi.

As we've seen the FX markets have the potential to move rapidly and this can have a significant impact on your bottom line. Protecting yourself from paying more or receiving less when dealing with volatile foreign exchange rates can be a daunting process. However, there are many tools to help you manage this process;

**Set Goals.** The first step is setting goals – usually the focus is mitigating FX risk, avoiding FX speculation, and locking in FX contracts to protect your business. This will often include setting a budgeted rate.

**Identify Exposures.** The next step is identifying the best timeframe for your exposures, and the value of the exposure. This might be on a contract by contract basis, invoice by invoice basis, or across all of your stock.

**Choose FX Contract Type.** FX contracts come in many shapes and sizes, and finding the best fit for your business is important. The most common type of contract available is a Forward Exchange Contract.

- **Forward Exchange Contract:** This fixes 100% of the contract value, at the contract rate, at the maturity date. It therefore protects you from adverse movements in the currency, but offers no participation in the spot market if the spot rate was to move favourably
- **Vanilla Options:** These offer 100% protection, but allow for the holder of the option to walk away from the contract at any time. This means if the spot market moves unfavourably – you are safe – you use

your contract, if it moves favourably – you can deal on the spot market at better rates. To secure this type of contract, a non-refundable premium is payable up front – usually a small percentage of the contract value.

- **Structured Options:** These offer the unique combination of protection from unfavourable spot rate movements, participation in favourable spot rate movements, for nil premium. An example of a structured option is a Participating Forward. This offers 100% protection of the contract value at the contract rate, however the holder of the contract is only obligated for 50% of the contract value if the rate moves favourably. This means if the spot market moves unfavourably – you are safe – you use your contract. If it moves favourably – you can deal 50% on the spot market at better rates. There is no premium for this style of contract, however the protection rate is typically lower than what is available on a Forward Exchange Contract.

The key to successful hedging is ensuring you have the ability to secure FX contracts at your budgeted rate or better. Any flexibility you can achieve through the use of options can provide a more suitable balance to your hedging, and help reduce the impact of volatile FX markets.

**Execute.** It is important to stick to your guns and execute on FX contracts whilst you have the chance. The most common mistake made by businesses, is to “see where the spot rate goes first”. 50% of the time businesses get this wrong, and the opportunity to secure the budgeted rate is lost.

**Review.** Your policy should be reviewed frequently to ensure you are achieving your goals, and getting the most out of your FX hedging. You may find that the policy is working well, but often tweaks can be made to improve outcomes and keep in touch in a competitive environment.

If you are looking for assistance in managing your FX risk, feel free to call Phil Lynch – Corporate Hedging Manager at Western Union Business Solutions, 09 300 3562.



# Financial commentary

The Reserve Bank is doing the best it can to give economic growth a chance by using bank lending restrictions to cool house price inflation. But OCR hikes have probably just been delayed no cancelled or scaled down.

Stronger population growth, Canterbury rebuilding, high export prices and a rebound in agricultural production point to economic growth accelerating to around 4%.

4% or so economic growth will consume the relatively small amount of spare capacity in the labour market reasonably quickly. This means token OCR hikes next year to moderate economic growth even if house price inflation wasn't a problem.

The Reserve Bank (RB) perceives the 9.5% increase in the national average house price in the last year to be a sufficient threat to financial stability to warrant the introduction of the 1 October bank lending restrictions.

The RB estimates the restrictions will result in around a 5% fall in the number of dwelling sales. This means around 340 less per month versus recent experience of around 6,850 per month.

I estimate it will require around a 15% fall in the number of dwelling sales to achieve the cooling in house price inflation the RB desires (i.e. slowing it to 5% by March 2015).

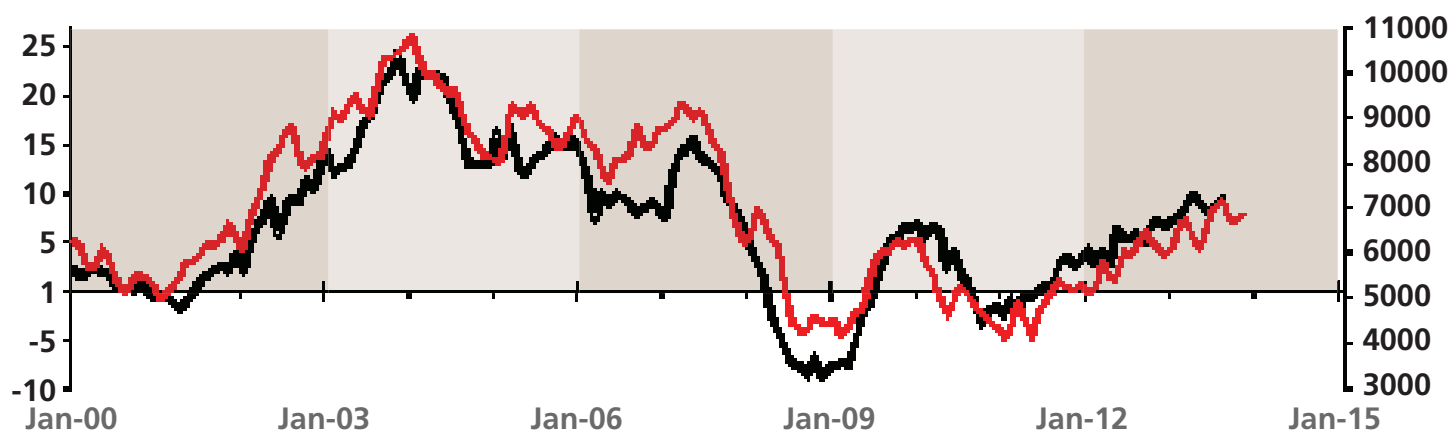
The chart can be used to make a rough assessment of how much the number of sales needs to fall to achieve the desired cooling in house price inflation.

My assessment that sales will have to fall around 15% is based on a more detailed analysis of the demand-supply balance in the housing market than offered by the chart.

If the RB's 5% assessment is roughly correct the bank lending restrictions won't do enough. In addition, would-be borrowers will view the lending restrictions as unjust and with the help of financial innovation will in time find ways of circumventing them.

The RB's new experiment has at least delayed the start of OCR hikes, but probably not changed the ultimate result much.

Written by Rodney Dickens, Economist. Visit [www.sra.co.nz](http://www.sra.co.nz) to learn about SRA Ltd's services.



The chart shows the annual % change in the stratified median house price reported by REINZ (black line, left scale) and the two month average of the seasonally adjusted monthly number of dwelling sales reported by REINZ (red line, right scale).



# Tax Solution Eases Provisional Pain

**Provisional tax can be a headache for taxpayers because it's often difficult to predict what the final payment will be.**

If you don't pay enough, the IRD charges high interest rates. If you pay too much, your money is locked up at the IRD earning lower interest than at the bank. And if you're late paying because the due date doesn't suit your cashflow, you're hit with late payment penalties.

But a great solution from the tax innovators, Tax Management New Zealand (TMNZ) lets you take control of provisional tax payments using Tax Finance and Tax Purchase. These products are available through a new app, Pay My Tax which helps avoid the IRD's painful use of money interest and penalties. It also gives businesses breathing space by shifting their payment dates to suit their cashflow, not when the IRD demands it.

By deferring provisional tax payments until the end of the year, there's no guesswork involved. Taxpayers know their exact income so they can pay the actual amount required. They also have the security of knowing the tax is reserved in case they need it.

Anyone can use Pay My Tax on the website, [www.paymytax](http://www.paymytax) or download the Pay My Tax app to a preferred mobile device.

Chris Cunliffe, CEO of TMNZ says the Pay My Tax facility is the ideal arrangement for an app. "TMNZ is registered with the IRD and will make the tax payment to IRD for the customer. So there's no need to do any credit checks or have face-to-face discussions with customers. It's available for a very competitive rate and the finance fee is tax deductible. With the increasing demand from customers for self-service, the app was the obvious way to go."

Feedback from clients has been overwhelmingly positive:

- Quick and easy to use; a great way to aid cashflow – Reliance Transport
- Allows clients the breathing space their cashflow needs and flexibility when tax estimates are being used – Simple Strategies Ltd

TMNZ has long been renowned for providing New Zealand business with better tax solutions. It is New Zealand's original and largest tax pooling intermediary; led by former corporate tax managers. The company has unmatched knowledge and experience in tax. Founder, tax specialist Ian Kuperus helped the Government design NZ's tax pooling system for the IRD in 2001 when they sought ways to reduce compliance costs for business.

Tax pooling was designed so instead of paying provisional tax direct to the IRD, large depositors place money for their provisional tax payments into a tax pool account held at the IRD. It lets them earn higher interest than they would by leaving their money at IRD. When it's time to file a tax return, depositors transfer their tax from the pool. The surplus is sold to mainly smaller businesses that haven't paid enough tax.

TMNZ has the greatest number of buyers and sellers in any tax pool – which provides the greatest liquidity of any tax pool – to settle any deal fast. The company has helped more than 20,000 small and medium sized business save over \$30 million in interest they would have otherwise have paid to the IRD – and millions more they would have paid in late penalties.

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