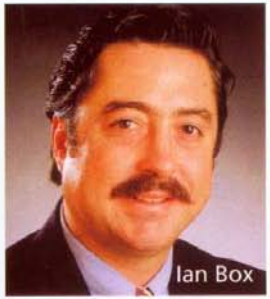
Economic growth masks looming cash crisis



Business cash flow is set to worsen considerably this year as parts of the Australian economy cool, National Credit Insurance (Brokers) Pty Ltd, a leading trade credit broker predicts.

"Insolvencies will rise this year as a direct result, especially in the manufacturing, construction and trade sectors" says Ian Box, the Joint Managing Director of National Credit Insurance (Brokers) Pty Ltd, part of the NCI Group. "Already 40% of companies are financially harmed by other businesses that are trading while insolvent, ASIC estimates. With debt levels at record highs and competitive pressures eroding margins, any increase in interest rates will have serious cash flow implications for manufacturers and subcontractors. The aging of outstanding debts is growing and we are seeing more businesses having to resort to legal recovery."

NCI's position as Australia's number one trade credit insurance broker means it is able to reliably predict insolvency and business failure trends in Australian business often in advance of other economic data.

These failures will have a domino effect on other businesses. Far too many businesses fail because of this and a significant proportion of these are smaller companies with cash flow problems caused by customers paying late or not at all.

With these trends more companies should seriously consider the way they do business. Boards, management and owners are expected to operate with transparency and accountability in all their business functions, with a strong focus on protecting the interests of their shareholders and employees.

The value of good credit risk management, integrated with a trade credit insurance programme is being increasingly used by Australian organisations. With so many unpredictable threats and changes in our business environment, all companies, small or large, need some form of financial safety net - not only from the dangers of slow paying, or insolvent customers but also to help active management and trading confidence through insurance cover for bad debts.

The NCI Group has specialised vertically in trade credit and provides a range of services offering tailored credit insurance, unique credit information and risk advice, credit management outsourcing, debt collections, training and specialised personnel placement and contracting.

Businesses can be better informed about who they are dealing with and can directly benefit from integrating more disciplined credit risk management procedures. In the event of late payment, the customer relationship need not be jeopardised and there is merit in timely and empathetic intervention by a third party. If a bad debt should occur, then cash flow and profits need not be impacted because a credit insurance policy will cover most of the debt and ensure the business does not suffer a cash crisis.

For further information, contact your local NCI office on 1300 654 500.