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Importance of financial communications growing

- *The Eurozone crisis and Basel III are making additional demands of companies*
- *At the same time, skepticism about the amount of information required by lenders is increasing*

These are the results of a new representative study of small and mid-size enterprises (SMEs) and their lenders conducted by Euler Hermes Deutschland AG in conjunction with Commerzbank AG and GE Capital Deutschland. The scientific consultants for the study were again Prof. Dr. Stephan Paul and Prof. Dr. Stefan Stein from the Department of Finance and Banking at the Ruhr University Bochum. This year marked the third time the study was performed, following earlier studies in 2005 and 2008.

As in the previous studies, this year's study reveals signs of a "communications mismatch": there is a measurable difference between the way in which companies view the quality of their own financial communications and the perceptions which lenders have. This applies to both objective aspects of financial communications and the personal component, with lenders viewing these factors more negatively than the companies themselves.

Summarizing the results of the study, Gert Schloßmacher, a member of Euler Hermes Deutschland AG's Board of Management, said: "It is more important than ever for SMEs to improve their financial communications. The survey shows that companies are severely underestimating the impact on Basel III on corporate finance. Furthermore, the threat of a credit crunch is being heightened by the vicious circle fed by the banking, sovereign debt and macroeconomic crisis."

"Good financial communications are crucial for mutual trust. Something must be wrong if there are sharp differences in terms of how their quality is perceived. Both

sides must take appropriate steps to improve the situation,” says Joachim Secker, CEO of GE Capital Deutschland.

Martin Fishedick, a member of the divisional management board at Commerzbank AG, explains improvements companies can make so relationships with their lenders are more productive and efficient: “Borrowers must ensure that they provide information swiftly and with minimum delay, and particularly without being prompted. Proactive information and communications can play a decisive role particularly during problems or crises.”

The study shows that the economic crisis has also reinforced companies’ reservations about the value of their financial communication activities; in addition to the strain on the relations between companies and their lenders caused by the Eurozone crisis, the study indicates that there is persistently strong scepticism with respect to the positive effects that active financial communications may have. This is despite the fact that, particularly in difficult times, open communications are ever more important for corporate finance especially in light of the growing requirements imposed by Basel III. There is a pronounced difference between companies and lenders in assessing the consequences: whereas a clear majority of the lenders (64%) expect more stringent credit checks, only 33% of the companies assume that this will be the case. The same discrepancy can be seen with credit costs -- 48% of lenders but only 13% of borrowers see a substantial increase checks. Credit-based finance is also viewed disparately, with approximately 50% of lenders expecting deterioration in financing possibilities.

Twenty-six percent of the companies surveyed see advantages and clear benefits in active financial communications. These companies cite the benefits of substantially improved relations with lenders and heightened security in their financing operations. At the same time, there is evidence of an appreciable improvement in lending terms. For example, just fewer than 70% of the interviewees engaging in active financial communications stated that they had been able to achieve an improvement in their rating. The keys are communications as a confidence-building measure and the ability to address the heightened lenders’ information requirements in volatile times.

The representative study surveyed around 700 small and mid-sized companies in different industries, size classes and sectors, as well as 313 lenders. The provisional results can be viewed at www.fikomm.de

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