

# More SMEs now risk insolvency

Jane Searle

Small businesses have so far escaped the insolvency woes of highly-leveraged large companies, but insolvency practitioners forecast a darkening outlook if slower economic conditions persist.

Large companies have dominated insolvency activity over the past year, as the liquidity shortage and poor sentiment has hit firms with large borrowings and complex structures.

By contrast, lowly-geared small businesses have been supported as consumers continue to spend and employment remains healthy, Insolvency Practitioners Association president Paul Cook said.

"Small firms have not been impacted yet, but it depends how tight credit becomes," he said. "If they want to expand or refinance, the old days of getting an easy low-doc loan are over."

IPA chief executive Denise North said there had been a pickup in insolvency reported by members over the past six to 12 months. "There's been a general upturn across the board in insolvency activity. The increase has been at the large end and is concentrated in the finance, property and property development sectors."

She said the proportion of externally appointed administrations had risen slightly in the past three to four months, from 60 to 64 per cent to 67 to 68 per cent.

Statistics from the Australian Securities and Investments Commission show an 11 per cent lift in companies entering external administration for the three months to

## KEY POINTS

- Insolvency practitioners say they are beginning to deal with more small businesses.
- The credit squeeze is making it harder for SMEs to refinance when they face financial difficulties.

August, compared with the same period last year.

Minter Ellison insolvency practitioner Garry Hamilton said the firm had worked with about 50 small companies since October, compared with fewer than 10 for the same period a year earlier.

"We've engaged several new solicitors recently and are busy across the board," Dr Hamilton said.

"If SMEs [small and medium-sized enterprises] had fallen into financial difficulty before the credit crunch they simply changed banks or refinanced, but now that merry-go-round has stopped."

He predicted a drawn-out period of liquidations. "In the early '90s there were lots of receiverships for about two years, then it was all over. This time will be much more protracted because we are more interlinked to America's economy and the problems they are having."

Accountant Woodgate & Co has experienced a 25 per cent lift in insolvency activity since August for smaller companies.

"For the past six years most SME failures have been due to poor investments," partner Giles Woodgate said. This contrasted with well-run firms which had run into cashflow problems over the previous year and subsequently fallen into administration, he said.

Mr Woodgate said several SMEs found it difficult to reduce overhead costs, which had been priced against a strong economic backdrop.

"A year ago the banks would keep a very close eye on your progress as an administrator, but today they're so busy they leave the decisions to you and take a look every three or four weeks."

John Evans, lead partner of Henry Davis York's insolvency group, said: "We're quite surprised that we've yet to see a rush of SMEs, but we certainly expect it to happen."

"You constantly hear about weaker consumer sentiment, so it's just a question of timing."

## GOING BROKE

### Companies entering administration

#### 2008

Aug .....	765
July .....	843
June .....	761
May .....	780
April .....	680
Mar .....	668
Feb .....	706
Jan .....	372

#### 2007

Dec .....	598
Nov .....	673
Oct .....	633
Sept .....	557

Source: ASIC