

fair pay

CONSUMER HABITS

Private payment sector going for broke

CUSTOMER CASE

Hilti benefits from Intrum Justitia knowhow

PETER EICHHORN:

“Outsourcing would benefit municipalities”

73%
deny their debts!



Good companies DO BETTER

Firms showing social responsibility build brand and loyalty



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Prevention is always better than cure

Collecting bad debt is rarely easy, whether it's from individuals or businesses. And there are times when it feels as if things are stacked against you, especially when financial markets get wobbly and interest rate hikes increase the risk of defaults.

But, as shown by our article on Intrum Justitia's approach to predicting payment – or 'Scoring' – there are tried and tested ways to help you stay safe when collecting what your are owed. Our Scoring methodology shows the best action required to collect a debt, delivering tangible results.

Naturally, the private sector is not alone in suffering credit management problems. As German business authority Professor Eichhorn notes in talking to us, German municipalities could quickly improve their local economies by outsourcing debt collection to professional organisations like Intrum Justitia.

Our survey of payment habits across Europe featured in this issue underlines how deep-rooted changes in the way Europeans live their lives is shaping society and changing payment behaviour. Not only are consumers living an 'I want it now' lifestyle, but they also feel less intimidated about the threat of debt.

At business-to-business level, we confirm prevention is proving better than cure when it comes to debt management by talking to one of our local customers, Hilti.

Naturally, every company faces its own unique challenges. But as companies like Switzerland's BASF and Spain's Telefonica told us, it also pays to assume the mantle of corporate responsibility – and there are many benefits to be had by striving to be both fair and profitable at one and the same time.

contents



4 • 2007

News	3
<i>Trends and events shaping the industry.</i>	
Being nice pays off	4
<i>What is the benefit for companies trying to be forces for good in society?</i>	
Customer case: Hilti	8
<i>Improved customer relations is one major benefit of Hilti's decision to outsource bad debt management.</i>	
Swiss debtor index	10
<i>Swiss citizens prefer to pay other bills before their tax.</i>	
Scoring	11
<i>Applying proven scientific analysis methodology helps IJ forecast likelihood of debt payments.</i>	
Consumer habits	12
<i>Pan-European survey reveals private payment habits in a downwards spiral.</i>	
Municipalities should outsource	14
<i>Professor Eichhorn, top business academic, explains how Germany's municipalities can boost finances.</i>	
Making trade simple, safe and faire	16
<i>IJ CEO Michael Wolf outlines path to being a top credit management services provider.</i>	

fair pay magazine no. 4, November 2007 **Publisher** Intrum Justitia AB, ISSN 1652-5620 **Publisher** Anders Antonsson **Editor-in-chief** Meri Mäkkylä **Assistant editors** Tidningskompaniet **Production** Tidningskompaniet **Printer** Trydells **Subscriptions** info@intrum.com **Change of address** Intrum Justitia shareholders should advise their account-operating institutes. Others should contact the editorial desk. **Editorial desk** Fair Pay Magazine, SE-105 24 Stockholm, Sweden, info@intrum.com **Phone** +46 8 546 10 200 **Fax** +46 8 546 10 211 **Cover:** Illustration: Calle Enström. The next issue of Fair Pay Magazine will be published in March 2008. © Intrum Justitia AB 2007. All rights reserved. You are welcome to quote us, but please cite the source. The editorial staff is not responsible for any unsolicited material sent to Fair Pay Magazine. Fair Pay Magazine existe également en version française. Fair Pay Magazineist auch auf Deutsch erhältlich. Fair Pay Magazine finns även på svenska. Fair Pay Magazine hay en español también.

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IN BRIEF



1 400 000

That's how many collection letters just one out of eight Finnish domestic collection teams sent out last year. They received collection of over 400 000 cases and answered 60 000 customer calls. One team has 4–20 people who manage the customer service functions related to the amicable collection. These numbers give a very good idea of how much time it takes to collect overdue payment – it is efficient to outsource.

Uncertainty freezes eurozone interest rates

The European Central Bank in early September put eurozone interest rate rises on hold for the immediate future. However, Jean-Claude Trichet, ECB president, did not rule out the need for further rises in borrowing costs on the back of “strong fundamentals” in the eurozone economy. But he made clear that due to a “high level of uncertainty” amid financial market volatility, the bank would wait before acting.

UK businesses owed billions in late payments

BUSINESSES ACROSS the UK are owed £128bn in late payments, according to business credit information firm, Creditsafe. It claimed that two-thirds of UK companies are owed money that had not been paid within the period set out in their terms and conditions, at an average of £28,000 each. Companies operating in London have the highest outstanding debts, followed by the north of England.

Payment monitoring service available in the Baltic countries

Intrum Justitia's Payment monitoring service is often used by Nordic clients and can now even be subscribed to in the Baltic countries. It's a service where Intrum Justitia takes care of the following elements of a clients' operational customer management:



invoicing, sales ledger, reminders,

additional actions when needed and related customer service across all these elements.

By outsourcing these functions, customer companies streamline their credit management process, decrease amount of bad debt and benefit from cost savings.



Debt counselling tent in Helsinki Market Square

Intrum Justitia Finland set up a debt counselling tent at Helsinki Market Square every weekday during the summer. For the sixth summer in a row, the customer advisors met thousands of clients, customers and regular passers-by at the tent, informing about Intrum Justitia and how to handle debt.



Lennart Laurén, regional managing director, Intrum Justitia, Sweden.



Hello Lennart Laurén!

Intrum Justitia Sweden participated in pulling together the ‘Study of Long-term Payment Periods’ presented to the Swedish trade minister Maud Olofsson in early September.

Why was the study implemented?

“We were asked to study whether long-term payment periods were a problem, and what solutions were possible. Payment periods vary from country to country. In Sweden they are relatively short. Swedish exporting

firms often meet late payment problems.”

What was the key thing you agreed on?

“We saw that there is large amounts of money that is paid late. Most are slow paying, waiting at least a week and that costs a lot!”

What is the solution?

“As there is lack of legislation, we can only suggest proposals to tackle the problem. But one solution is to differentiate collection costs – today it costs too little to pay late and it's the same low charge regardless of the invoiced amount. We want to place heavier demands on hyphenation external accounts where it's stated how one pays. We'd like to increase information to firms so all are aware how much it costs not to be paid on time.”

being nice pays off

Good companies

A new trend is sweeping the business world – being good. Businesspeople do not refer to it as such; they talk about CSR. But where is the profit in an abbreviation standing for Corporate Social Responsibility?



do better

Karolina Windell has a PhD in economics and has researched the CSR concept. She asked herself why we had begun to talk so much about companies' responsibilities over the last ten years. Similar ideas have actually been around since the 1950s, but until now shareholders remained the primary focus.

"Naturally, there are several explanations, but one big factor was the number of large business scandals that surfaced around the start of the new millennium, such as Enron and World Com. At the same time, the anti-globalization movement got a lot of media attention," she told us.

This all led to the issues surrounding the role of companies in society being placed on the agenda. Both the UN and the EU adopted various CSR initiatives, the press wrote more and more on the subject, and consultants picked up on the idea.

"Many companies have also been proactive, perhaps because they wanted to participate in setting the order of business. There has been a swing away from anti-globalization criticism toward rhetorical talk about profitability – that CSR is good for business. It is not quite the done thing in business to say we do things out of goodness, but rather we are good because it is the profitable thing to be," says Karolina Windell.

She says there are two general arguments as to why CSR pays. One contends that companies reflect on their social responsibilities and by so doing always stay one step ahead. In this way, a company can avoid criticism damaging to its reputation and – in the long run – to its profitability. The other argument is that it makes it easier to recruit good employees.

"Both are connected to a company's reputation. The first is about not letting a reputation be weakened, and the second is about strengthening a reputation. And yes, I do believe that reputation is important, especially in knowledge-based industries," says Karolina Windell.

However, trying to find out which companies do their best and work the most with CSR is not so easy. Karolina



Photo: Johanna Hanno

Karolina Windell: "Business is saying we are good because it is the profitable thing to be."

Windell believes the concept is vague; there is no uniform standard – which is a big reason why it has become so popular.

Fair Pay let two companies with explicit CSR philosophies tell us themselves how they work. Both have top positions in The Good Company list compiled by, among others, the auditing giant Deloitte. The list was presented at the World Economic Forum earlier this year.

In first place is Germany's BASF, one of the world's largest chemical companies. Manager of Sustainability Tanja Castor says that CSR has long been a part of the company strategy. It is used to minimize risks and promote both existing and future business areas.

"CSR is definitely not about charity; it is about guaran-

being nice pays off



Tanja Castor says BASF is seeking business opportunities that arise from its CSR commitment.

teeing the company's long-term success. In other words, there is no contradiction in being both good and profitable," she says.

As an example, Tanja Castor mentions the fact that BASF helps its employees to combine career and family life and assists with further education. The company also participates in social and cultural activities

in those communities where it is established. These activities provide a great contact network and contribute to BASF's good reputation. Tanja Castor describes them as being nothing less than crucial success factors.

"We also try to find business opportunities in issues which arise in connection with CSR work. We integrate these experiences into the new products and services we offer, such as by developing products that are extra-friendly to the environment."



Alberto Andreu says Telefónica's goal is to win the trust of all stakeholders through CSR.

In fifth place on The Good Company list is the Spanish telecom company Telefónica. Telefónica owns – among others – the operator O2 and has a significant presence in South America. Alberto Andreu, Managing Director on Reputation, Brand, CSR and Sustainability at Telefónica, believes that all multinational companies wishing to do lasting business

must work for social, economic and technological progress – everywhere.

"Being a good company creates value for us. We do not look on it as a 'plug-in', but as a way of life which guides us through our day-to-day business," he says.

He also says Telefónica work with CSR by establishing goals, evaluating results and making corrections. Again and again. They listen carefully to what external CSR experts have to say about them, including the Dow Jones Sustainability Index.

"Every company is responsible for ensuring that what it does, it does well. Our goal is to win the trust of all stakeholders."

And by stakeholders, Alberto Andreu means everyone who is affected by his company's activities, not just its owners. He feels that Telefónica's business activity contributes in itself to social progress – telecommunications strengthen social participation and sustainable development.

Does all this sound too good to be true? Yes, say its detractors, for whom CSR is nothing but a cynical quirk of fashion. Some go so far as to say that it interferes with the free market and makes companies lose sight of their mission: maximizing shareholder earnings.

But defenders of CSR think it is better that the issues are on the agenda rather than off it. And besides, it is no intrusion into the free market as long as there is customer demand for it.

And to quote Pippi Longstocking: "He who is strong must also be good."

Mikael Lippman

FIVE MORE GOOD COMPANIES



Ben & Jerry's – Ice cream makers involved in social and environmental issues; run their own climate campaign on the internet.



The Body Shop – Best-known for its opposition to experimentation on animals, and also other social involvement.



Google – Famous for its good working environment and the motto: Don't be evil.



Patagonia – Environmentally conscious clothing company that has given away a total of \$25 million to charity.



Salesforce – One percent each of the profits, the employees' time and dividends from shares goes to charity.

More professional customer relations

– Hilti benefits from Intrum Justitia knowhow

Four years ago Hilti turned to Intrum Justitia to improve its process for the management of bad debts in the Baltic states. A better process meant increased control over its cash flow position and debts, leading to a more professional relationship with customers.

Two years ago, construction equipment company Hilti decided to strengthen its relationship with Intrum Justitia by adding two new services – reminder letters for late payments and an internet database of registered enterprises. This has freed up resources for Hilti, meaning it has more time to concentrate on its core business rather than contacting customers for late payments.

According to Regional Manager Ridas Bloze, these services have greatly improved Hilti's internal efficiency in the Baltic States. "It helps to reduce Days Sales Outstanding and to manage a systematic approach to administering payments and bad debts," he says.

The former Eastern Bloc countries may once have had a reputation for poor payment habits and high risk credit customers, but times have changed and credit conditions have dramatically improved. "Payment habits in Lithuanian companies are improving significantly compared to a few years ago," Bloze remarks. In turn, customers are becoming more flexible and aware of the importance of reminder letters. "It is now becoming a natural procedure to notify your customer immediately about due payments."

The construction sector is easily influenced by cyclical and seasonal changes, and is a fragmented sector with many small

players Bloze explains. "The ups and downs of the financial position of our customers in this sector affects suppliers such as us, so control is essential to avoid having a negative cash flow position. Working with Intrum Justitia means that our payment control administration is more organized which helps to improve customer relationships."

Hilti now has a full cycle in place for professional payment control. However, Bloze feels it is necessary to move toward prevention of bad debts in order to avoid potential problems at an early stage. "It's much easier to eliminate the possibility of bad debts arising in the early stages rather than waiting until they escalate into a huge problem. I think this is better for us and for our customers. If we work more on prevention, then in the long-term it will help us to have a better relationship with our customers as misunderstandings and disagreements should not arise," he says.

3 MOST IMPORTANT BENEFITS

from working with Intrum Justitia

- Successful collection of money
- Outsourcing debt management means Hilti can focus on its core business
- Having a professional payment system in place ensures good customer relations

Bloze is satisfied with the achievements of the last four years but believes there is always room for improvement. "Credit management doesn't sound very challenging but I see very big opportunities to automate the credit limit setting process. We are starting to discuss this possible implementation with Intrum Justitia," he concludes.

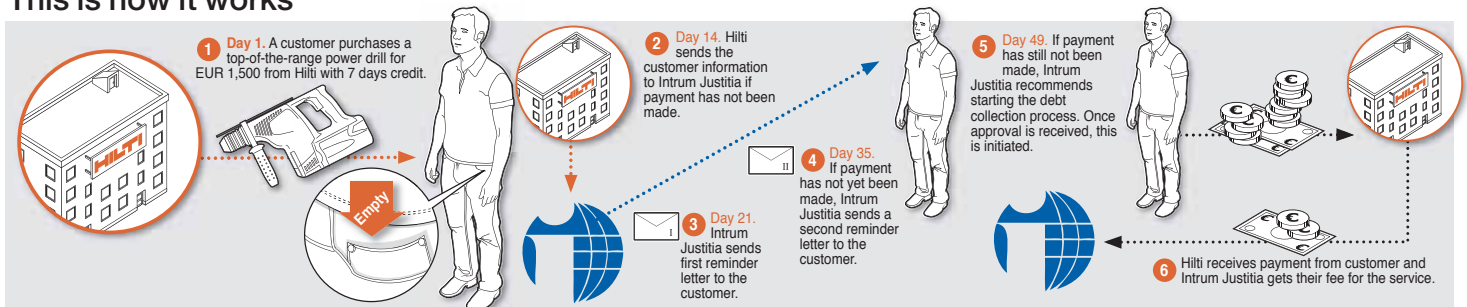
Alannah Eames



Hilti Regional Manager Ridas Bloze says working to prevent bad debts pays off for both customers and Hilti.

Photo: Gediminas Zilinskas

This is how it works



SVENSKA GRAFIKBYRÅN

DEBT! WHAT DEBT?

Debtors rarely want to admit their problems. In a survey, 73 percent of the swiss debtors questioned denied having gone into debt.



Illustration: Istockphoto

Debtors rarely want to admit they have problems. In an anonymous survey, 73 percent of debtors questioned denied having gone into debt over the past twelve months. Yet amazingly groups at risk from debt, such as youngsters or people from the French part of Switzerland often acknowledge their debts faster than groups less at risk.

The Debtor Index also reveals that the average Swiss pays his or her tax almost last – there are other priorities. Most important are the bills relating to basic necessities. Topping the list are rent, health insurance and doctor's bills. Credit cards and telephone bills are paid less reliably, and often late. Paying tax ranks second-to-last place on the priority list. Last are bills from mail order companies.

Certain residential districts seem to attract people with money problems. Statistics show that the number of unpaid bills is higher in districts with large numbers of non-ethnic Swiss. When the proportion of foreigners rises above 35 percent, payment morality falls appreciably with the incidence of indebtedness reaching almost double the average. This could be established for the first time using the Swiss Debtor Index. It's not only foreigners who do not pay their debts:

the figures reveal that even Swiss nationals living in such areas more often find themselves in difficulties.

In another survey in spring 2007, Intrum Justitia analyzed debtor management in all Swiss Cantons, cities and municipalities. At the time of the survey, the combined total of Swiss certificates of loss stood at around CHF 1.7 billion. Every year, sums amounting to millions are lost through unpaid bills. If every citizen paid his tax bill on time, millions could be saved annually, which could result in taxes being reduced by around 1.6 percent.

Swiss municipalities often wait far too long (52.4 days) before sending their first payment reminder. In Intrum Justitia's experience, this just does not make sense because the chances of recovering outstanding demands are greater the sooner reminders are sent. Written reminders still rank the most used by Swiss municipalities. Many are reluctant to exploit modern communications methods such as SMS and e-mail, although payment ratios could be quickly improved by using modern technologies.

Jason Glanzmann, Marco Dannacher

For details on both studies, visit www.intrum.ch/studien

73%
denies their debts

QUICK FACTS



Intrum Justitia is Europe's leading Credit Management Services (CMS) group. Its objective is to measurably improve clients' cash flows and long-term profitability by offering effective services and high quality in relation to both clients and debtors in each local market. Intrum Justitia's services cover the entire CMS chain, from credit information via invoicing and reminder management to debt surveillance and collection of written-off receivables. The group has more than 90,000 clients, revenues of SEK 2.9 billion and around 2,900 employees in 24 markets. The company was founded in 1923 in Sweden and has been listed on Stockholmsbörsen, the Stockholm Exchange, since June 2002. The head office is located in Nacka, outside Stockholm, Sweden. President and CEO: Michael Wolf. For more information on the Intrum Justitia Group, visit www.intrum.com.

Intrum Justitia Group	2006
Revenues, SEK M	2,939.6
Operating profit (EBITA), SEK M	156.7
Cash flow from operating activities, SEK M	463.7
Collection cases in stock, SEK M	15.4
Total collection value, SEK billion	89.4
Average number of employees	2,954

For definitions, see www.intrum.com

Analysts who cover Intrum Justitia
 ABG Sundal Collier – R Henze & J E Gjerland
 Carnegie – Mikael Löfdahl
 Cheuvreux – Joakim Ahlberg
 Handelsbanken – Peter Grabe
 Kaupthing – Nina Glibberg
 SEB Enskilda – Stefan Andersson
 Standard & Poor's – Joakim Ström

Financial report dates 2007/2008
 Interim Report (Jan–Sep) 8 November
 Full-year report 2007 Beginning of February

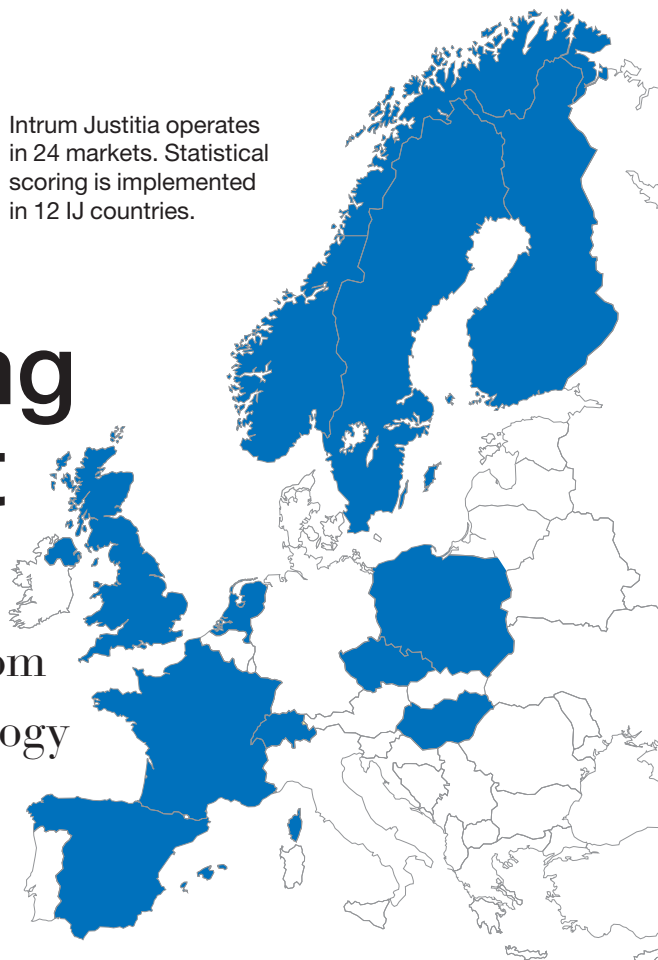
intrum  **justitia**



Intrum Justitia operates in 24 markets. Statistical scoring is implemented in 12 IJ countries.

Predicting payment

Intrum Justitia's customer benefit from advanced methodology for forecasting the likelihood of payment.



Scoring, the IJ approach resembles a scientific experiment as it involves statistical modelling based on internal and/or external information, experience, evaluation potential, reproducibility and delivering one figure from the output.

Henrik Grönqvist, Manager, Automation & Scoring, says Intrum Justitia's 'scoring' methodology delivers clients tangible benefits.

"It shows the best action required to collect a debt from either an individual or a business," he says. "The result is higher and improved collection results, greater predictability concerning collection rate and the ability to forecast collection results."

Grönqvist says scoring makes it possible to compare and understand

collection results in a variety of different collection while ensuring decisions are based on proven result-driven methodology.

"Scoring merges different data and transforms it into information enabling automated, speedy response choices. It aids the development of action networks because the score is used for selecting debt collection and surveillance action networks, while with credit application the scoreboard is used to decide approval or rejection," Grönqvist says.

Scoring methodology has proven so efficient that since its launch in Sweden in 1998 it is now running in 12 European countries – encompassing 54 scorecards across 24 business processes.

David Noble

Private payment habits

Intrum Justitia's European payment survey shows how consumer payment habits have changed during recent years. Several thousand companies across Europe participated in European Payment Index, which highlighted a few surprising trends.

The results show how payment behavior in private households have changed in recent years. Fifty percent of the companies surveyed said that the time needed to handle accounts receivable from private households remains unchanged during the last three years. However, 41 percent complained about an increase in credit-related expenditure. A modest 9 percent were more optimistic about the situation saying that the situation had improved. Negative trends in society's values and selective payment behaviour were listed as the main causes.

Surprisingly, the traditionally reliable German-speaking countries (Germany, Austria and Switzerland) have slackened in their payment habits. In comparison, the prospering Baltic States accounted for almost balanced development figures – 20 percent of the respondents reported an increase, and 19 percent confirmed a decrease, in the length of time needed to receive payment.

When asked for the reasons behind the current trends, the companies said a general change in society's values, for the worse, was the main cause. In second place was selective payment behavior. European consumers are

showing favoritism when making their payments, paying some suppliers punctually and making others wait. The customer-supplier relationship plays a large role here – the greater the personal relationship between the two, the greater the chances of the supplier being paid promptly.

Increasing living costs also play a role in changing payment behavior. Consumers who find themselves bankrupt or with a severe cash flow problem, are either slow, or unable to meet their payment obligations. Even if they may not have the financial means to buy a product, research shows that consumers are increasingly giving priority to satisfying a desire or need over financial possibilities.

Consumers are not as intimidated or threatened by overdue bills as in the past. Reminders and court notes to pay debts are increasingly regarded as less important offences. Due to its scoring experience Intrum Justitia is able to predict different consumer behavior regarding debts and hence can offer more effective in debt collection measures than its competitors.

Alannah Eames

Three consumers on how they pay bills



Lars Lindmark,
freelance writer
and photographer,
62, Stockholm,
Sweden

"As a former banker, I am used to paying bills on time! I use credit cards for my expenses

and pay received invoices by internet and autogiro. This process works very well and prevents me from overspending or being late with payments. I can't remember the last time I was late paying a bill."



Sheila Garvey,
director, 34, Dublin,
Ireland

"I pay my bills manually by Visa card. But, often when things are really hectic at work I put the bill aside and forget to pay it. I'm

always late with my phone bill because I know I can get away with paying it when I get the reminder letter. I have direct debits set up for some payments so these payments are always on time. But it would be good to get reminders about overdue bills by sms on my cell phone."



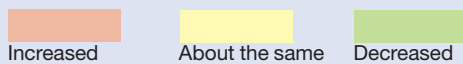
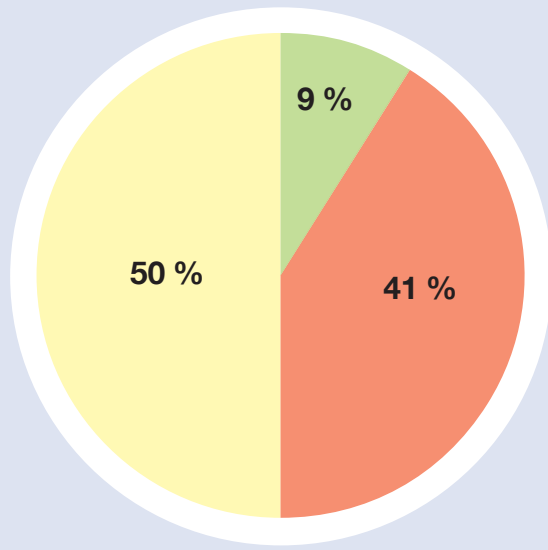
Thomas Volz,
sales and marketing
representative, 28,
Schweinfurt,
Germany

"Usually I get billed by post a few days after making a purchase. As I'm an online

banking customer, I pay as soon as I have internet access. This may take a few days, but not longer than one week after I receive the bill. I've only been late once with my payments – when I was on vacation with no internet access. Usually, in Germany we have two weeks to pay the bill so it's more than enough time."

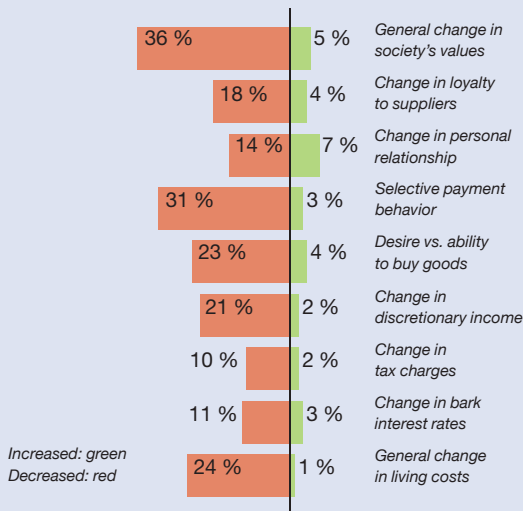
in a downward spiral

Companies' time needed to handle household accounts



Change during the last three years.

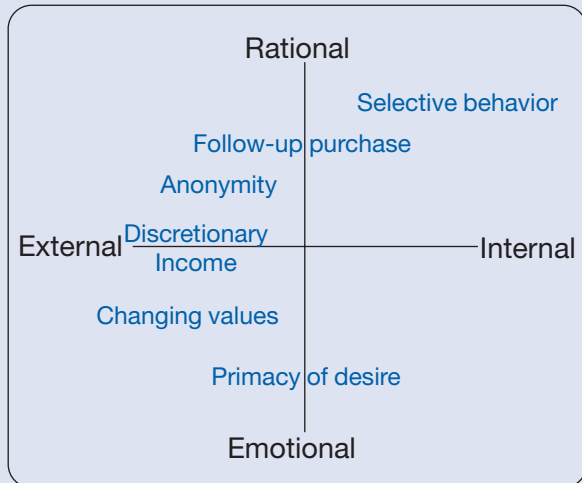
Why payment intention has increased or decreased



Increased: green
Decreased: red

The percentage figures show answer figures (possibility of multiple answers) in relation to the number of companies surveyed.

Reasons behind payment behavior change



Changing values Reminders, court notices and even enforcement proceedings are increasingly regarded.

Follow-up purchase The less necessity there is for the purchase, the more bills tend to be paid with huge delays.

Anonymity The smaller the personal link between the vendor and the purchaser, the more bills tend to be paid with delays.

Selective behavior For example, invoices from one supplier are always paid punctually while those from another are not.

Primacy of desire A product or a service is often purchased without a clear understanding of the cost-related consequences.

Discretionary income Increasing inability to pay through no fault of one's own.



Source: Intrum-Justitia European Payment Index

Photo: Istockphoto

Professor Eichhorn believes greater outsourcing of credit management will help solve the financial problems of Germany's municipalities.

PETER EICHHORN:

“Outsourcing will boost revenue”

One in two German municipalities has problems paying bills in time because debtors are slow paying them. A solution is to outsource claims management to specialised firms, says Peter Eichhorn, Business Management Professor at the University of Mannheim.

What fiscal claims exist in municipalities regarding citizens, enterprises and other organisations?

“On the one hand, there are claims under civil law, encompassing the right to demand payment from another party resulting from a civil law contract or relating to obligations stemming from such items as sales, rentals and leases. There are also public claims arising from unpaid taxes, community charges and other similar revenue streams. While claims under civil law are regularly administered by municipal courts of law, it is usually the city treasury (finance department) which is responsible for enforcing public claims.”

In Germany, a changeover from cameral accounting to double-entry bookkeeping is currently in progress. What challenges does this present municipalities with?

“Actual municipal assets, finances and revenues will become manifest and transparent to outsiders. One of the challenges will be the identification and evaluation of assets under ‘assets and liabilities’ in the opening balance sheet. If local tax claims are not realizable, then allowances must be made within the scope of the preparation of the opening balance. This will result in additional personnel costs in the form of manhours, especially for the finance department.

How can municipal claims management be improved?

“One useful step would be to tackle interface problems between individual departments and the municipal treasury; frequently, different claims against the same debtor co-exist within various departments, each of which tries individually to recover a debt even though bundling by the municipal treasury would be more appropriate. This is one area where using a specialist would be beneficial. Also, outdated software is resulting in underutilization of data processing potential, which is clearly another area with potential for improvement.”

What potential private collection agency applications do you see as useful in the municipal field?

“Necessary adjustments could be made within the framework of individual or flat-rate value readjustments, by establishing a local tax summary in co-operation with a private agency. Moreover, a private collection agency, on the strength of its databases and its debt-collection know-how, could provide cost estimates. Professional claims management enables better liquidity planning and reveals which outstanding debts are feasibly collectable, and to what level. If the level of an open tax claim bears no economical relation to the costs involved in its recovery, an external private agency could carry out the collection on the municipality’s behalf.

“However, this all depends on whether or not the debt is outstanding under civil or public law. While private agencies already act on behalf of municipalities in collecting debts subject to civil law, municipalities reserve the right to execute the forcible collection of debts subject to public

law. Likewise, a collection agency may provide administrative support through most of the process from the first written reminder notice, telephone collection

attempts, negative verification and long-term debtor monitoring. A private collection agency can support a municipality by advising how claims management can be reorganized along professional lines.”

“Because of their specialization, private agencies are in a position to collect outstanding debts more quickly and with a higher success rate ...”

What are the advantages to municipalities in outsourcing claims management?

“It would certainly lead to a significant workload reduction for administration staff, which would reduce personnel costs. Because of their specialization, private agencies are in a position to collect outstanding debts more quickly and with a higher success rate and ensure realization ratios. This would lead to noticeable, additional revenue for the public exchequer, which in turn could collect its own outstanding debts more rapidly.” *Diana Thiele*

Making trade simple, safe and fair

Intrum Justitia intends to be so much more than it is today – the company will transform from being a debt collection agency to a catalyst for a sound economy.

That was the message from Intrum Justitia President and CEO Michael Wolf in his keynote address at the 2007 Capital Markets Day conference in Helsinki, Finland.

In what amounted to a clarion call for change to Intrum Justitia's employees and shareholders, Michael Wolf said Intrum Justitia must rise to the challenge and meet current and future requirements of its clients. Noting that 90 percent of the credit management services is still performed inhouse, IJ's CEO said the figure revealed the huge potential for growth.

"Customers will benefit from our financial solutions that stimulate trade and facilitate business such as aiding companies to find new customers or to make money move more efficiently," Wolf told his audience.

Michael Wolf also said Intrum Justitia needs to improve penetration in the B2B market – a market that is expected to grow as a consequence of the increased focus on the companies credit situation.

"To be really successful in Europe, we will mainly focus



Intrum Justitia
President and
CEO Michael Wolf.

sustaining and building our success in the top five European economies – France, Germany, Italy, Spain and the UK," he said.

"With 90,000 well-diversified clients and an 88 percent client retention rate, we have a unique footprint in Europe," Wolf added. "Now we need to build on that through strong teamwork and a common business model."

David Noble