

FAIR PAY

THE CREDIT MANAGEMENT MAGAZINE FROM INTRUM JUSTITIA NO. 1/2008

MAGAZINE

Sell to the **RIGHT CUSTOMER**

- ▶ Know who your customers are before you sell
- ▶ Use the right tools
- ▶ Have the right mindset to make sure you get paid!

98

percent pay on time!
Intrum Justitia helps
property firm avoid
unnecessary losses

US GURU DR. GAHALA:

“We really need to tell college students credit management is exciting”



WILL THE BALTIC BUBBLE **BURST?**

Are rampant Baltic economies overheating? Fair Pay Magazine checks the temperature

LEARN MORE: THE SEVEN DEBTOR FAMILIES

A CATALYST FOR A SOUND ECONOMY



Our role is more than to collect debt, it is also to provide other credit management services that stimulate trade and facilitate business such as aiding companies to find new customers, improve the credit management process and make money move more efficiently. We help both sides to make good on a deal and we promote long-term value-creating relationships between the parties. We are here to provide solutions, strengthen relationships, increase efficiency in trade and create a sound economy for all involved – individuals, companies and society alike.

intrum  **justitia**

www.intrum.com

Editorial:

Working with people for success

Dear Reader, Intrum Justitia is more than just a credit management company. We work with people and our task is to ensure that the market economy operates both more efficiently and smoothly. Our 90,000 customers are companies – and it is their customers with whom we communicate on a daily basis in many ways.

This places great demands on us and the services we deliver. Our customers put their trust in us as we have direct contact with their customers. In order to continue our success and to strengthen our position, we must understand consumers' payment behaviour and the factors that drive it. Both now and in the future.

We are convinced that it is a question of showing understanding and solving problems, rather than being strict and bureaucratic. Of being helpful, rather than demanding. Of being quite simply the cleverest at handling situations that are characteristic of our business. Each and every day.

Intrum Justitia is Europe's leading group

for credit management services and I can confirm that the sector is growing rapidly in most of our 24 markets.

Last year we began a strategic journey to take advantage of the business opportunities of the global market. This means, among other things, that we will continue to develop our range, and to create new, attractive deals for our customers. It is with great enthusiasm that I and my colleagues at Intrum Justitia are pursuing these tasks.

Part of this strategic work is the new Fair Pay Magazine which you have in your hands right now. With a new concept and sharp design, we have made Fair Pay Magazine a modern business magazine focused on people.

Enjoy your reading!

MICHAEL WOLF,
PRESIDENT AND CHIEF EXECUTIVE
OFFICER, INTRUM JUSTITIA



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RESULTS:

BETTER
RESULTS
WITH INTRUM
JUSTITIA

- ✓ **Time to focus on core business**
- ✓ **Effective collection of new debts and credit losses**
- ✓ **Expert legal help with credit management issues**

Vesa Korhonen, Recoveries Manager at The Finnish Motor Insurers' Center, gets a firmer grip on motoring insurance debt

The Finnish Motor Insurers' Center is the umbrella organisation for motor insurance companies in Finland. Recoveries Manager, Vesa Korhonen's job is to collect premiums from owners of uninsured vehicles.

"In Finland, third party motor vehicle insurance credit losses have risen annually by about five percent. In the future, we must introduce new insurance terms and laws giving insurance companies more power to handle debtors. We also need stricter measures against uninsured driving," Korhonen explains.

With a growing number of old debts to be collected, the Finnish Motor Insurers' Center realised it needed a more efficient debt surveillance system in place and began working with Intrum Justitia in 2000. Services currently provided by Intrum Justitia include debt collection, debt surveillance and credit scoring.

"The biggest challenge facing us is the rising number of unpaid debts. Using Intrum Justitia means that we are collecting more old debts while new debts have been collected more effectively," Korhonen states.

Vesa Korhonen says mounting car insurance credit losses are driving new terms and legislation in Finland, including getting tougher with uninsured drivers.

- ✓ **Efficiency thanks to outsourcing**
- ✓ **Expanding opportunities – Intrum Justitia has offices all around Europe**

Henri de Jong and Henkjan de Krijger at Mijndomein.nl about outsourcing invoicing

A few years ago what has now become the largest domain register in the Netherlands – Mijndomein.nl in The Hague – started from zero. Today the company administers 150,000 domain names. However, it not only supplies domain names, but also offers web hosting.

“We will reach one million domain names next year,” Henri De Jong says. “We’re also expanding outside Holland with the setup of Eurehomepage.de in Germany, where we also work with Intrum Justitia. We enjoy doing things with a market leader who understands what we need in his field. For us efficiency is essential in order to be able to guaran-

tee low prices and Intrum Justitia helps us to focus specifically on that. Furthermore, they have offices in scores of European countries where we also want to gradually establish our offices.”

“Monthly we process more than fifteen thousand invoices on a fully automated basis”, De Jong continues. “This also applies to the collection orders addressed to Intrum Justitia so that they can process them promptly. Collections amount to approximately three to five percent of the monthly mountain of invoices. Together with Intrum Justitia, we are further refining several processes, including declining dubious people ‘at the door’”.



Fast growth puts a smile on the faces of the Mijndomein.nl founders, but also demands better invoicing efficiencies.

Sell to the right



customer

Knowing your customer is the key to developing the right products – the ones that meet their needs and desires, and thus will sell well. ▶

WORDS WILLIAM ROSS / ILLUSTRATION ISTOCKPHOTO



It's not just about creating a good product and getting it out to an eagerly-awaiting public. Smart companies know that their profitability also depends on getting their goods to the right people – the people who will pay. Understanding who these customers are takes today's increasingly sophisticated tools, the ability to access a lot of data and a good sense of the market in which you work.



can begin to make a statistical model of how late customers will be, and how well they will pay.

“This may sound simple, but for something like a credit card company, there are hundreds of variables that come into play.”

Conversely, Ms. Solberg says, when looking at a potential customer, different sources of information are used. Some of these – depending on the country – are publicly available; others must be actively acquired.

“You have to ask what information the customer will share. If it's a B2B situation with a small company as the prospect, you can ask for their credit history. If it's an individual, there may be some questions you want to ask, such as about their current loans. If it's something large like a mortgage, people will be more willing to share information than they would be for applying for a telephone service.”

There are also times, she stresses, when there are competitive reasons for not gathering a wide range of information from a potential customer.

“If you're selling a low-cost computer, for example, and you ask too many questions, the customer will simply go to someone else.”

Of course, any company would like to know as soon as possible in the development, marketing and sale of a product whether customers can and will pay. Data is not cheap, so companies with significant payment collection exposure are most likely to need to know how well a customer can pay before offering the product.

“Some good examples of this would be phone companies and utilities. More phone companies are looking at whether they will continue to allow monthly payments for some customers, or if they insist on prepaid cards.”

It's no small issue. US carrier AT&T saw a 9.5% drop in its stock price in January after announcing a record number of non-paying broadband and landline customers.

1

“There are three common components to decisioning across the entire product lifecycle, from marketing to managing existing customers: analytics, operationalizing those in effective software and mindset – effective strategies,” says Anna Solberg, Mana-

ger, Analytics Solutions at Fair Isaac Corporation in London. “When all three are in place, the effects are dramatic. Where our customers have implemented them, they can see double-digit improvements, in both better payment and profitability.”

Fair Isaac was founded in 1956 by William Fair and Earl Isaac, who had the concept of analyzing data and using computers to tackle tough business problems. The company today continues to use software to provide consulting services and enterprise decision-management systems, and developed the widely-used FICO® (from “Fair Isaac Corporation”) scores to measure credit risk.

Much of what allows for the prediction of a customer's ability to pay is the ability for a company to get its hands on data.

“It's about accessing the changes that occur as a person moves from being a prospect to becoming a customer. If someone is a customer, you have historical information about them – about whether they were late in making payments or exceeded a credit limit – and begin to have a pattern of behavior in each market context. With this pattern in your books, you

“IT'S ALL ABOUT ACCESSING DATA”



Anna Solberg, Manager, Analytics Solutions at Fair Isaac Corporation in London.



DID YOU KNOW THAT ...

... Studies have shown that men who have a history of buying flowers for their wives are more likely to be punctual bill payers – except in the flower-growing Netherlands, where too-common blooms apparently are not very precious.

... Those over 60 years of age in the UK are the group using checks more than any other – yet the “silver surfers” lead the market in the use of online banking.

2

“You have to accept the fact that customers are not all created equal,” says Timothy Prunk, a consultant with world-leading information firm Acxiom whose work focuses on compiling the transactional and behavioral data that can help companies better understand consumers.

“Once you realize this, you can put your efforts into identifying which of your current customers are most critical to your business. You can then analyze their purchasing propensities, and the preferences that create revenue.

“By doing this, you are much better prepared to identify other, similar people. This makes for much more efficient prospecting, helps you predict profitability better and lets you tailor your product to those high-value customers and prospects.”

In countries where they exist, credit bureaus – legally known in the US as consumer reporting agencies, in the UK as credit reference agencies – can be an important source of information. These are companies that aggregate payment behavior by receiving data from partner companies such as financial service firms, utilities and phone companies. The companies benefit by receiving information back in return for sharing into the system.

“At the point of sale, the real-time use of a credit bureau is current practice in order to facilitate a purchase,” Mr. Prunk says. “The other scenario is whether you will promote to specific consumers or not, knowing that payments will be made over time if the customer makes the purchase decision.

“The most successful approach in this case is to use a two-step approach. First, you model for a likely response. Once a target group of consumers has been identified, you can then use credit bureau and other data to model for their creditworthiness. This two-step approach will identify the most responsive customers, who are also likely to meet the company’s credit criteria.”

With existing customers, of course, you have the advantage of tracking their specific behavior with your company. This, factored along with information such as that from a credit bureau, lets a company set and modify its thresholds for risks in payment terms, interest rates and spending limits.

“Companies today are making sure that they model against updated credit data before extending payment terms. Many companies also model for behavior other than payment which may be costly, such as the likelihood of returning products. Online and catalog marketers will track the number of times a customer has returned a product, because the cost of doing this is very high. If an individual has a history of too many returns, they may be put into a ‘pander’ file – the company will no longer proactively market to them, or may even refuse their business, or increase prices to discourage them.”

While Mr. Prunk’s work focuses on the collection and application of data, he also recognizes the need to put things into a local perspective.

“In general, we can look at someone who has been living in the same house for ten years and is on a 30-year mortgage and make some assumptions that they have discretionary income and are likely to be better-paying customers. But if that is a million-dollar house in an expensive area, even a good income may not eliminate the fact that they have substantial debt. Most all regions, however, have enough data so that we can do a pretty good job of targeting.”

“CUSTOMERS
ARE NOT
ALL CREATED
EQUAL”



Timothy Prunk,
consultant with
information firm
Acxiom.

3

Gareth Lodge, Analyst, European Payment for the TowerGroup (known as the leading research and advisory

services firm focused exclusively on the global financial services industry), agrees that it is mass-product companies who most need to know about the payment ability of their customers at a very early stage of product development.

“Utility companies, including mobile phone providers, recognize that paying by direct debit not only has financial benefits for them – that is, the certainty of cash flow and reduction of bill shock – but also that it tends to make people churn less often, simply because they’re too lazy to cancel the mandate!”

However, he adds, each European country has a very different attitude toward different types of payment.

“In Germany, direct debit is assumed to be the default method of payment, while in other countries, direct debit is hardly used at all. In reality, most companies probably think that they don’t have the luxury of choosing but that they probably have to offer all



payment types to account for all behaviors.”

And, he adds, there are plenty of unexpected behaviors to be found in the European markets.

“A good example comes from the UK, where people over 60 remain the biggest users of checks. But this is also the group known as the ‘silver surfers’ because they also account for the largest growth in online banking in recent years.”

In thinking about the different strategies which need to be applied when analyzing existing customers (for whom you may/should have information in your company database) versus the prospective customer, Gareth Lodge goes a step further by thinking about what a “customer” really is.

“Undoubtedly, thinking about these two groups requires different strategies, but the trick is to ascertain what the difference is. Customers who have been won by headline price are, by definition, also more likely to be attracted away by headline prices. Price optimization software which can deliver holistic customer relationship management is a step in the right direction, but it still requires that the customer move from price

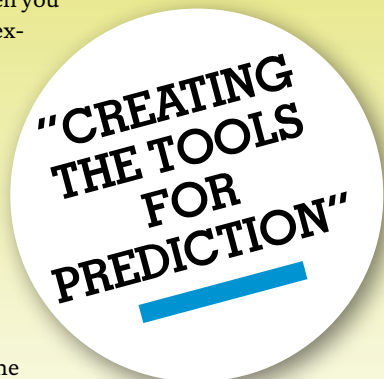


Gareth Lodge, analyst, European Payment for the TowerGroup.

4

Scoring, says Henrik Grönkvist, Manager of Scoring and Automation at Intrum Justitia, is a way of using a set of data and some tools to provide a better picture of how things will emerge in the future.

“In much of our work it is simply the prediction of whether or not a person will pay when you send them the bill. It’s exactly the same as, for example, cancer studies. You take a population of smokers and collect information on their age, weight, food, sleeping habits, education and so on. Five years later, you look at that same population to see how many have come down with cancer, and how many have not.”



“We do the same thing,” he continues. “In a classic debt collection case, you try to collect the money, then compare the results with the data you have. You can then see if the data works, or if it doesn’t, analyze what that can tell you and adjust accordingly.”

The place where this all happens has a major impact on the results. The 24 markets in which Intrum Justitia represents not only different kinds of people being scored, but very different legal systems with varying access to data. And, in the worst cases, in some countries it can be very expensive to actually bring a debtor to court.

“Our work covers everything from Iceland to Hungary, with many different cultures, authorities, legal systems, and ways of handling sensitive information. In countries like Finland, Iceland and Sweden, there are tax ID, credit card and legal systems that are all established in a way that people in general pay their bills. Because these are well-supported systems, people understand what is needed and don’t try to avoid paying. It is much more difficult to use the legal system in countries

to value in the decision-making process – and this is more of an educational issue.”

One interesting issue concerning payment is the Single Euro Payments Area, or SEPA, which, according to the European Central Bank, “...will allow customers to make non-cash euro payments to any beneficiary located anywhere in the euro area using a single bank account and a single set of payment instruments. All retail payments in euro will thereby become ‘domestic.’”

“SEPA is supposed to create a set of payment types that is uniform across Europe, but companies need to decide whether consumers are in fact uniform across Europe. It will probably help in product creation for pan-European organizations, but they will still need to take the culture behaviors of each country into consideration.”

This, Mr. Lodge says, will involve a trade-off somewhere along the line for companies.

“On the one hand they want the product to be as standard as possible, because customization for target customers costs money and adds complexity. But at the same time there is a definite move to customers demanding a product as tailored to them as possible – ‘customerization’ if you like.”



such as Germany and the UK, because information is more protected.”

These same scoring methods can be used to move higher up the process, from predicting debt collection to taking proactive action to ensure better payment results.

“The Internet provides a very good example of this. Instead of simply predicting whether someone will pay or not, banks, credit card companies and others can anticipate which people will pay with a credit card, and those who instead want to receive an invoice which they will then pay. We can use our data to tell them that the person is creditworthy enough to be invoiced, or if they should instead demand the use of a credit card.”

For Mr. Grönkvist, his job of taking the kind of modeling wanted, then creating a solution and working with IT to create the application tools and scorecards used to make this happen requires a wide range of skills – and some creative thinking.

“People in this kind of work need statistical, mathematical and analytical skills, but they also need to have a feel for the industry.”



Henrik Grönkvist,
Manager of Scoring
and Automation at
Intrum Justitia.

MICHAEL WOLF:

“CORRECT ANALYSIS FROM THE BEGINNING”



Debt collection is an important activity for Intrum Justitia. This is where the company has its origins. Despite this, you might view each debt collection case as a type of failure, says CEO Michael Wolf.

“It is better that we help our customers to make the correct analysis from the beginning. If they sell their goods to recipients who can

and want to pay, we can avoid using debt collection. Of course it is important to get the money, but such measures can also push end customers away.

“Many of the payment cases that we receive could have been avoided. On the one hand, the address details of those who have to pay are missing in between ten to fifteen per cent of cases within the consumer segment. On the other hand, we also have cases where the client is already insolvent – in other words lacks the capacity to pay.”

How then do you make the correct analysis from the beginning? Knowledge is the key. It is here, according to Michael Wolf, that Intrum Justitia has a massive knowledge base to share.

“With our broad client stock and extensive experience of debt collection, we have excellent statistics on the ability to pay within different client segments. This means that we can help companies to aim new goods and services at the correct segments. We can also go one step further and provide help when formulating sales arguments for different target groups. The basis is always the detailed statistics in our databases.

How can customers access Intrum Justitia’s knowledge?

“We are busy putting together an offer. So keep an eye out for more information from us about this. For Intrum Justitia as a company, it is about going from the reactive debt collection corner to becoming a company working with preventative activities,” says Michael Wolf.

Eviction is failure

People were paying rents late, but housing landlord MKB saw eviction as a failure. Intrum Justitia helped solve the dilemma and get payments flowing in.

WORDS PER BRINKEMO / PHOTO MARTIN OLSON



Four million Swedish Kronor. A lot of money, especially when you do not have it. “But that was what we were owed some months because of unpaid rents,” explains Lena Friberg.

She works as credit group manager for MKB Fastighets AB, Malmö’s public housing enterprise. She remembers how bad the situation became and has seen how it has improved.

MKB, a company wholly-owned by the City of Malmö with 21,500 flats, is run like any other commercial enterprise, although it pays closer attention to social issues than other commercial housing enterprises. The company is committed to matters traditionally outside the field of property management. One of the reasons is that MKB has not forgotten the lean years when it had far too many empty flats. Another reason is that forty percent of MKB’s flats are in the city’s socially vulnerable areas: Holma, Rosengård, Kroksbäck, Nydala ...

“Bad times may come again. We must look after our customers to the best of our ability – when times are good as well.”

MKB’s main office is in Rosengård, an area with a dense immigrant population, which calls for a carefully designed strategy. “In the past, we’ve suffered substantial damage, especially in Rosengård, which means we work preventively at various levels, even when it comes to evaluating tenants.”

Among other things, MKB runs businesses for women, organises leisure activities for children and operates after-school recreation centres. But regardless of the desire for good, close relationships with customers, agreements entered into must be kept. Otherwise running the company becomes untenable.

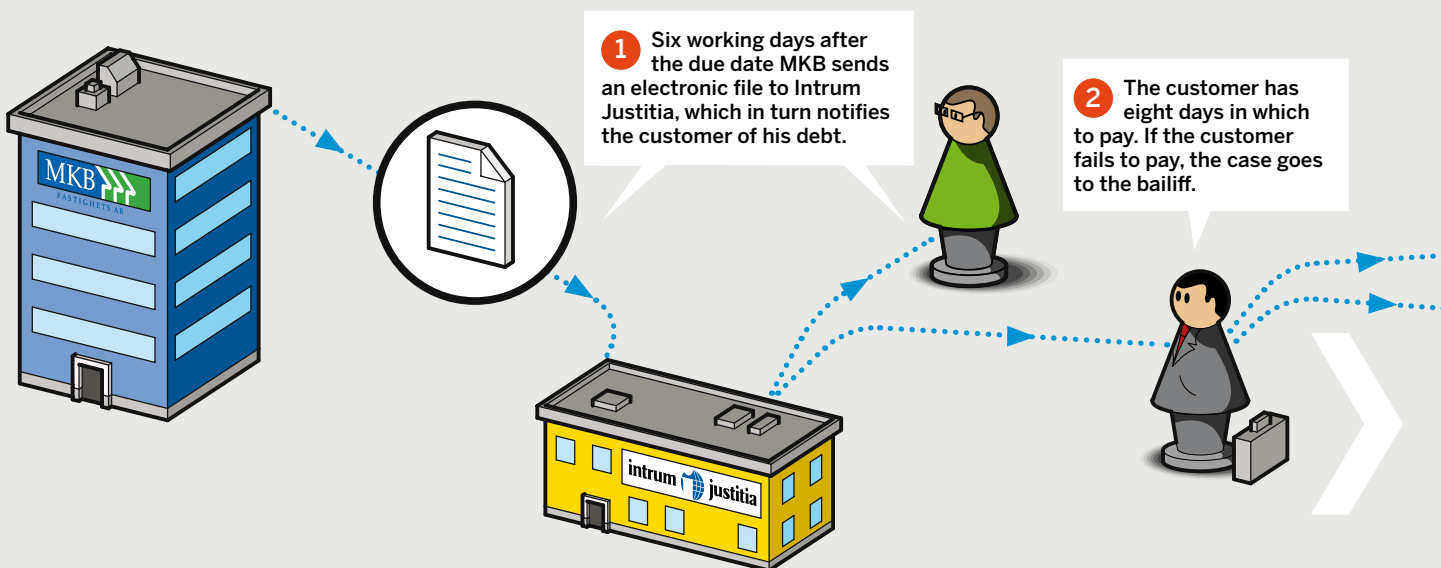
There used to be problems. That was when MKB collected debts themselves. Payment moral among many tenants was not sufficiently high. MKB had four debt collectors who sent out constant reminders to tenants who neglected payments. But rent losses just kept growing, MKB was simply not getting all the money it was due.

“You cannot run a company if you are not paid what you are owed. Tenants seemed to have no respect for MKB when we sent out reminders. People did not



Lena Friberg says working with Intrum Justitia has put a smile on her face by ensuring 98 percent of tenants pay their rent on time.

How MKB and Intrum Justitia collaborate



LIFTING PAYMENT MORALS

MKB Fastighets AB is Malmö's largest property landlord, a subsidiary of Malmö Municipality. With 21,500 flats, MKB answers for 30% of the town's rental market, with 40% in socially deprived areas.



Too many people were ignoring rental agreements to pay on time until Intrum Justitia took over.

both to pay and ignored reminders. And for our part, we simply did not work professionally enough.”

The process took too long before there were any real consequences of not paying. One issue was that the organisation was too decentralised. “And we did not live up to our own payment policy, with no clear guidelines,” recalls Lena Friberg.

It was frustrating to see how unpaid rents affected finances. “It was a great worry to have a lot of money owing to us. Some months we sent 2,000 reminders. That was nearly ten percent of our customers,” says Lena Friberg.

MKB was finally obliged to start thinking afresh. As a first step, it was decided to let Intrum Justitia take over the old claims. Tenants were informed that it would now be more costly to make late rent payments. “When Intrum Justitia took over, the money started to flood in,” says Lena.

MKB added new services, such as rent consultants who work closely with social services agencies. When a customer has a problem paying the rent, the consultant contacts them in person to find out what the problem is, either by telephone, or in the form of a home visit to evaluate the tenant’s financial situation.

“We want to have a dialogue with the customer. We know that many people who get behind are ashamed. And if you are ashamed, you are likely to hide your head in the sand. Therefore, it is important for communication to meet and talk at the customer’s home in order to find a reasonable solution. Because every eviction is a failure – for both the tenant and us.”

Lena Friberg’s experience is that most people with financial problems are relieved when they get the chance to explain why the situation is as it is. “There is always a reason of some kind, a payment picture for each customer. It is incredibly important

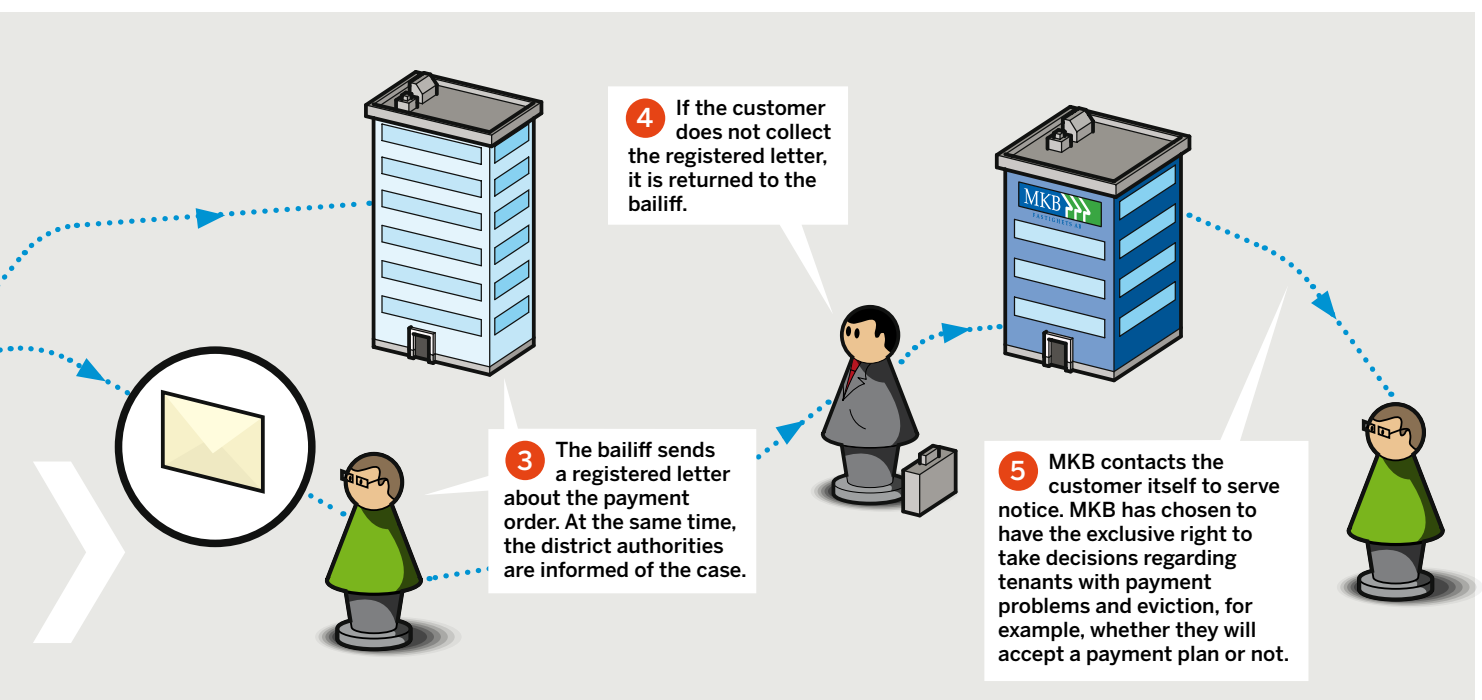


ILLUSTRATION SVENSKA GRAFIKBYRÅN

that we establish contact with the tenant before it goes too far.”

It is often the same customers who get behind. Therefore, MKB also needs to work preventively. This is done through regular contact with the company’s landlords, the various district departments and the municipality’s own rent advisers. “A guiding principle of MKB’s preventive work is to act as quickly as possible so that debts do not become too large. Both we and the tenant benefit from this.”

In January 2000, MKB appointed Intrum Justitia to take over all debt collection. “Intrum Justitia strengthens respect and this is reflected in the statistics. Today 98 percent pay on time. Between 1996-1998 customer losses were approximately SEK seven million, in 1999 they were SEK five million and thereafter SEK two million.”

If a tenant fails to pay on time, an electronic file is sent to Intrum Justitia six working days after the due date, notifying the customer of his debt. The customer then has eight days in which to pay. If the customer fails to pay, the case goes to the bailiff who sends a registered letter about the payment order. At the same time, the district authorities are informed of the case. But many customers do not collect the registered letter. It is returned to the bailiff.

“We then recommend serving notice on the party, we receive the letter here and contact the customer ourselves. Because we wish to have a dialogue, MKB has retained exclusive rights to take decisions regarding tenants with payment problems, such as whether we will accept a payment plan or not. After all, we obviously know our customers best.”

Every case is individual, Lena Friberg points out, and gives the example of a young man who was several months behind with his rent. She and her colleagues had tried in vain to contact him. “Finally we went to his workplace and served notice on him. But he did not show any feelings at all and when we asked him how he intended to solve the situation, he simply answered, ‘I will just have to rob a bank’. He did not care. But most people do care and are happy that we can try to find a solution together. When we contact them, it is as if a weight is lifted from their shoulders.”

Lena Friberg describes collaboration with Intrum Justitia as a sensible division of labour. “Intrum Justitia takes care of the ‘hard’ part, while we take care of the ‘soft’ processes. We can now focus on what we are good at. To collect debts yourself requires keeping up-to-date in the area, regarding changes and news with regard to legislation. Now we let them take care of this part completely. Of course, there can be disadvantages in outsourcing debt collection.”

“For example, there is the possible risk of losing



“Most tenants do care about paying their rent and we try to help them out of difficulties,” says Lena Friberg.

MALMÖ KOMMUNALA BOSTÄDER

MKB is a municipal housing enterprise founded in 1946.

Turnover in 2006: SEK 1,319 million

After-tax profits in 2006: SEK 129 million

Number of employees: 246

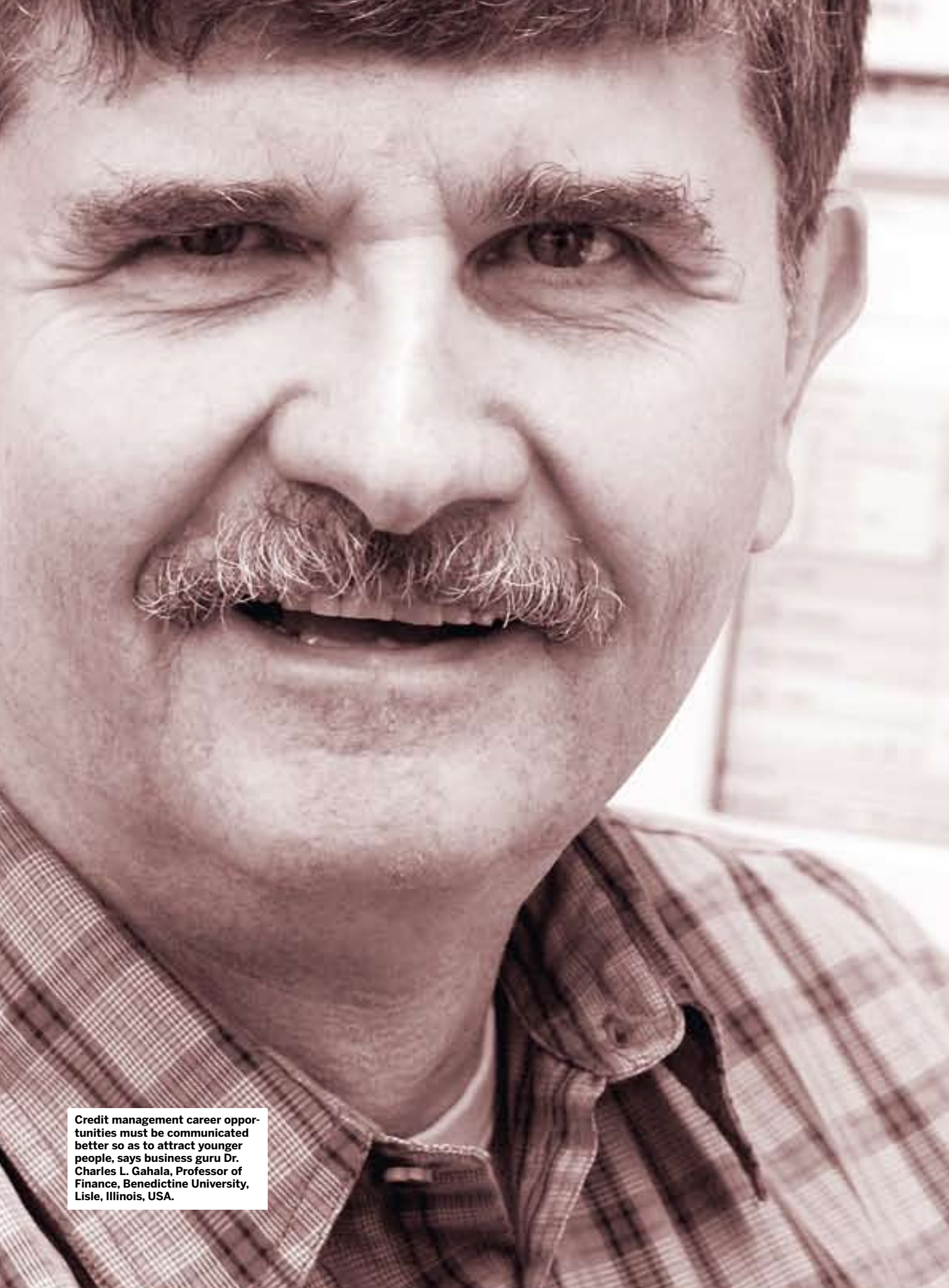


Today
98 percent
of tenants
pay on time

skills within the company by relying too heavily on Intrum. But for the most part, our collaboration has been very beneficial and we regard Intrum Justitia as a serious partner. Payment moral has risen thanks to Intrum Justitia. They also monitor old claims with the bailiff, for example, whether people start earning money or have tax returned, and then demand the money back. We have got a lot of money back in this way.”

As Lena Friberg firmly believes in local geographical knowledge, she is happy that Intrum Justitia is physically located in Malmö. “Our customer administrator Ingrid Jensen knows Malmö and understands our city’s specific character. She is our extended arm with whom we communicate constantly,” says Lena Friberg who has recommended that other companies let Intrum Justitia take over debt collection.

“Somebody asked, ‘What do you get for saying that?’, but I can only say that if we had not been satisfied, we would not have continued.”



Credit management career opportunities must be communicated better so as to attract younger people, says business guru Dr. Charles L. Gahala, Professor of Finance, Benedictine University, Lisle, Illinois, USA.

College students must be made more aware of the opportunities within the credit management business. That is the best way to raise the image of the profession says one of the world's top credit management academics, **Dr. Charles L. Gahala.**



WORDS DAVID NOBLE / PHOTO PHIL BRODZINSKY

“The accidental occupation”

What needs to be done to attract more young creative brains into the credit management business?

“One of the keys is to communicate more with college students to raise awareness that the occupation has both opportunities and challenges. Students need to be made aware that the range of tasks faced by credit managers has the potential to be as challenging as any other business related occupation.”

Why has the industry not been an attractive career option in the past?

“Credit management is the accidental occupation with a history of not being promoted. Accounting, finance, marketing and management are often considered the four functional areas of business. Very few finance faculties have adequate experience or knowledge concerning business credit management. Both credit managers and college faculties need to work more closely together to stimulate interest in credit management as a career.”

Would you describe credit management as an art or a science?

“The very nature of science is methodological in the approach that is used to solve problems. Some routine tasks performed by credit managers may be rooted in a methodological approach, such as financial statement analysis. However, there are many other tasks that are anything but routine.”

“The nature of the arts requires the use of intuitive skills. Credit management involves many situations that require the use of

considerable judgment. The skills to foster cooperation from customers to garner commitments, from internal management to garner support for credit department needs, and from sales personnel to garner full cooperation each require a considerable amount of judgment.”

“Credit management skills tend to unfold gradually. Early in careers certain skills may draw more from science. However, once careers progress, I can challenge Fair Pay Magazine’s readers to name one business related occupation that mandates more of the use of judgemental skills.”

What do you view as the major challenges facing the business credit management business over the next decade?

“Resource allocation is a key challenge. Companies are focusing on the bottom line so credit managers will need to demonstrate that they can justify positions and resources. Another challenge will be staying current with changes that shape credit decisions. Finally, complications due to the expansion of international trade will place enormous demands upon credit professionals. Currency risk, the use of various payment mechanisms, and country risk each provide unique complications.”

What will a credit management business, or corporation with a credit management function, need to do to survive successfully in the future?

“Credit managers will need to continue to do more than justify their existence. With the credit crunch in the United States, the

need for sound credit skills is receiving a high amount of visibility. This could be an opportunity in disguise. Professionalism coupled to sound skills should place credit managers in the limelight, and provide a genuine opportunity to elevate the status of credit management. Sound credit skills need to be touted.” ▶

DR GAHALA'S TOP 5

1. Work closely with marketing.

There will always be a need for credit minded sales managers and sales minded credit managers.

2. Expect times to be busy but also expect lulls to occur.

If you can find a way to work hard when times are not so busy then, when the real crunch time occurs, the job will become more manageable.

3. Keep abreast with change.

The one constant in credit management is that there will be changes.

4. Give back to the credit profession.

Write articles or make presentations so that others can benefit from your expertise.

5. Keep a balance in life.

The ups and downs of credit decision-making can take a toll on credit managers. Have other interests! Sports, family, and friends can provide the balance that will be a blessing along the way.

THE BALTIC

– will it burst?

The Baltic has been responsible for many positive financial innovations in recent years. Exceptional growth and reduced credit risk are just some of them. The question is whether this is just a bubble. Fair Pay Magazine has tried to find out the answer – and what this means for all investors.

WORDS MIKAEL LIPPMAN / ILLUSTRATION DAVID LINDER

The Baltic economies have taken off in recent years – two-figure growth figures have been nothing unusual. According to Kenneth Orchard, a senior analyst at Moody’s, the credit rating institute, Estonia, Latvia and Lithuania have followed the trend although possibly with a certain distinction in their trade cycle position.

“From our perspective, these countries are extremely similar to one another, even if they like to emphasise their differences when you are there. But the financial growth pattern has been the same, chiefly driven by domestic demand,” he says.

In short, this has meant rapid credit growth, a large trade deficit and increased inflation, which Kenneth Orchard thinks has created significant imbalances.

“When a correction is made after such a period, history has shown that this is often painful. There is no doubt that 2008 will

be a tough year for the Baltic States. Even if growth is reduced to three or four percent, it will feel like a recession.”

At the same time he stresses that precisely this is unusually difficult to predict. The reason is that there is nothing to compare with – this is the first recession since a sound financial system took shape in the region.

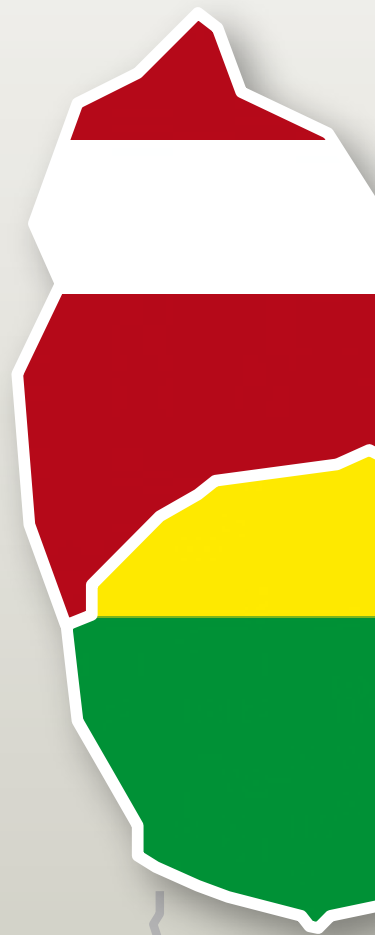
Kenneth Orchard still says that he is not one of those who imagine a hard landing in the Baltic. There are many positive variables which may compensate, above all improvements in the export sector and increased EU subsidies.

This comparatively optimistic view is supported by Maris Lauri, chief analyst at Swedbank-owned Hansabank in Tallinn.

“We anticipate that the extremely rapid growth of the Baltic economies will end up at a more normal level. In some quarters it is quite possible that the growth rate will be fairly small. But all three countries still continue to have high potential growth, we expect 6-7 percent per annum,” she says. ▶



There is no doubt that 2008 will be a tough year for the Baltic States



R.S.F.S.R

Poland

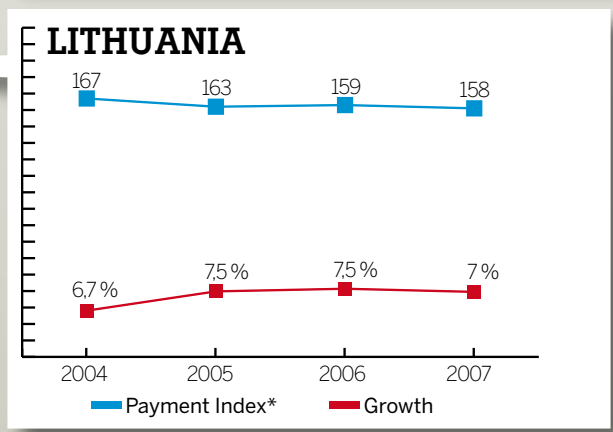
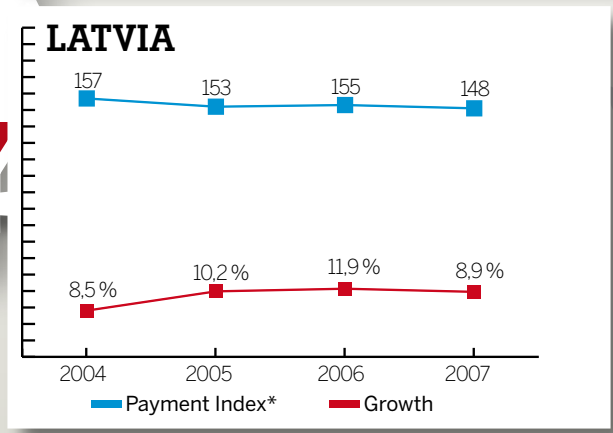
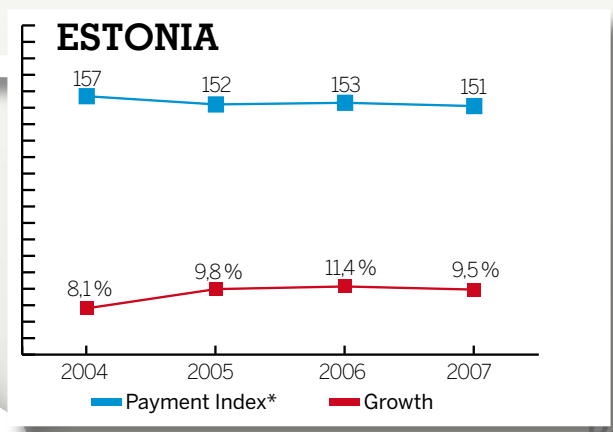


BUBBLE



Belarus

Russia



*PAYMENT INDEX:

A value of 100 means that there is no underlying credit risk. 101 – 124 points means that one should be cautious and implement control mechanisms. From 125 points measures to reduce the risk profile become increasingly more important, while from 175 points this is a total necessity.

SOURCE: EUROPEAN PAYMENT INDEX



One effect of the boom we have had until now is that the credit risk has dropped throughout the Baltic, albeit from a very high level. This is indicated by the European Payment Index, Intrum Justitia's major study of credit risks in Europe, in which thousands of companies were interviewed in 25 countries.

The results are in line with an overall trend which is thought to be due to the generally good economy on the continent. Better cash flow quite simply leads to better payment patterns.

"What is worrying is that the credit ledger is not as well developed in the Baltic as in Western Europe. With a growth rate of 30-40 percent per annum, we know that it is not just a case of good loans," says Kenneth Orchard.

He believes that loans may become something of a problem, in part for property speculators and in part for consumers. According to a study, people expect salary increases in the region of 30 percent experienced in the last year to continue – this is impossible.

"If people have calculated their outgoings on such a premise, they may end up in difficulties. They will also feel poorer and consume less. But at any rate, one thing we

can point out is that the culture is fairly similar to that of the Nordic countries. Therefore we do not expect any extensive renegeing on payments. People will do their utmost to meet their commitments," says Kenneth Orchard.

Although the banks maintain that they have better risk models than before, he says that they still lend too much when business activities are at their peak. And too little when they are at their lowest – this financial trend now appears to apply to the Baltic troika.

"There are strong indications that the Scandinavian banks have become more cautious. We can see a weakening of credit growth, which indicates that the banks feel overexposed," he says.

At the same time he expresses a certain uneasiness that they will withdraw too quickly, which if they do could presage a recession.

On the other hand, Maris Lauri is not concerned about the sector's activities,

"The banking sector already started to reduce lending a year ago and is now keeping a watchful eye on the whole process. The



The credit market is as strictly regulated as in the Euro Zone

risks have become more scattered. The volume of bad loans is and has been extremely low. The financial market is at least as strictly regulated as in the Euro Zone," she says and stresses that both legislation and business practice are improving considerably in the Baltic.

She does not believe that it is just a question of good times having improved the desire to pay.

"Perhaps the region's businessmen are ready to take somewhat higher risks than in Western Europe, but the differences are diminishing rapidly. The whole financial environment is becoming more and more like that of the older EU States."

Maris Lauri thinks that the real risk is whether local businesses can adapt themselves to a changing business world, for example, with rapid wage increases.

"But they have done so successfully for 17 years, during worse conditions, so I think they will manage it."

The initial question therefore seems to have been answered in the negative. It is not so much a bubble that is bursting but more of a blip in a positive trend. Both with regard to growth and credit risk. ▀



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IN BRIEF:

QUICK UPDATES FROM THE WORLD OF CREDIT MANAGEMENT

WORDS DAVID NOBLE, PIA SKAERBAK

Massive Fraud Risk

Millions of people in the UK face the threat of fraud after the British government lost discs containing the personal information of 25 million individual recipients of child benefit. The information included names, addresses, dates of birth, and bank account details.

Tax cheating acceptable

Some 46 percent of Spanish business owners think tax fraud is acceptable, according to a 2006 survey by Spain's Fiscal Studies Institute (IEF), reports Spanish business daily El Pais. The IEF, a branch of the Economy Ministry, said nearly half of respondents said it is alright to cheat on tax forms if faced with a 'critical' personal situation.

How To Spot A Liar

Professor Laurence Alison from the Centre for Critical Incident Research at Liverpool University says research shows liars often depend on chronological detail to hold a story together. So one way to catch out a liar is to make a point of disrupting the suspect's account; "Get them to retell a story from a week earlier than their choice of start date – it will disrupt the suspect's cognitive load," according to Professor Alison.

\$ 9.1 TRILLION ...
... the current level of US national debt, according to website usdeficit.com

Cashing in by leveraging market expertise

Intrum Justitia France has used an innovative new approach to map the behaviour of private and business customers debtors that defines the best solutions to optimise payment.

A more efficient way to identify the reasons for late payment, the mapping study was carried out during the autumn of 2007 based on the four million customer debtors managed by IJ France.

The study was based on the insight that to convince someone to pay a debt, it is key to have a deep understanding of his behaviour – and distinguish the real reasons for non-payment. The bottom line reason behind the map was to spotlight new ways of finding the right arguments and channels that encourage a person or business to pay bills more rapidly.

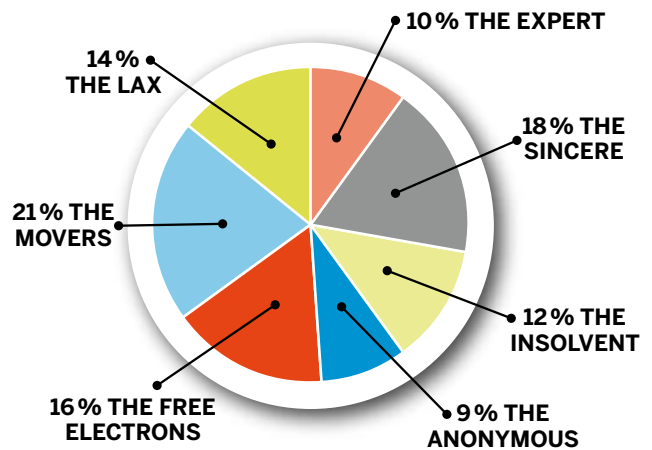
The mapping process underscored the importance of treating each customer debtor as if he or she is unique with an approach that personalises the relationship with the debtor and increases the efficiency of the contact.

This was achieved by Intrum Justitia France by using differentiated marketing techniques such as scoring and customer segmentation to segment private debtors and business debtors into seven core 'families', each with specific, individual characteristics.

For example, private debtors comprised families such as 'The sincere' who are victims of a dispute they have not created or 'The experts', who put a non-payment strategy in place. The business debtors are split into 'families' such as 'The dominator', who puts suppliers in a position of dependency, 'The disorganised', someone unable to properly manage reminders, and 'The insolvent', who cannot pay.

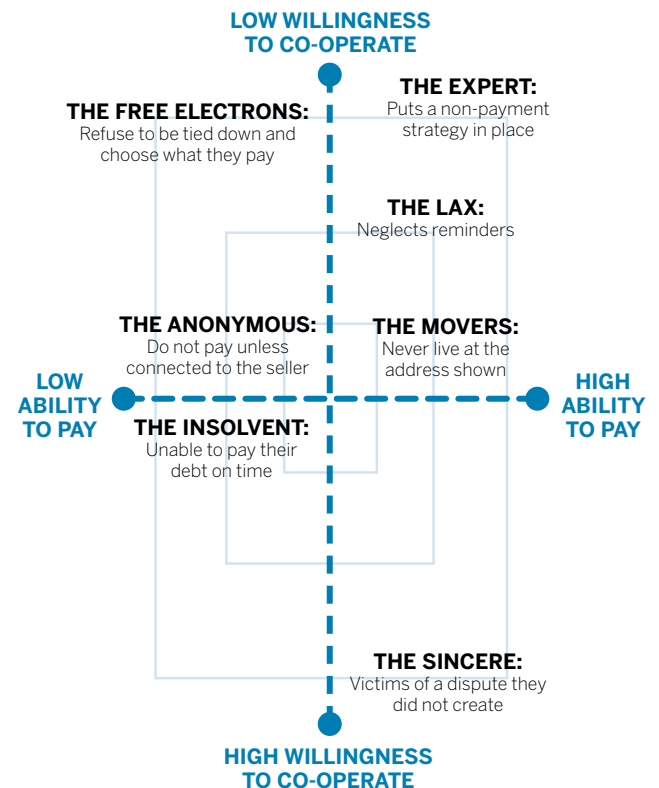
In all cases, the behaviour payment analysis helps create a unique, five-step, solutions-driven process that speedily explains the context of the debt, delivers a positive picture of the debtor, places the debtor into a specific category, identifies the reason for non-payment and provides a solution.

SEVEN PRIVATE DEBTOR FAMILIES



INTRUM JUSTITIA FRANCE HAS USED DIFFERENTIATED MARKETING TECHNIQUES TO SEGMENT PRIVATE DEBTORS AND BUSINESS DEBTORS INTO SEVEN CORE 'FAMILIES', EACH WITH SPECIFIC, INDIVIDUAL CHARACTERISTICS.

THEIR WILLINGNESS TO PAY



\$ 35 BILLION ...

...the amount companies in the Standard & Poor's 15-member supercomposite homebuilding index have lost in market value due to the slump in US home sales this year, according to the International Herald Tribune

Massive Debt Mountain In UK

▶ Total UK debts amounted during the third quarter of 2007 to a massive GBP 1.38 trillion, according to British Bankers' Association figures. Debt enquiries to the Citizen Advice Bureaux in England and Wales were up by a record 20 percent to a total 1.7 million in 2006/2007 compared to the preceding year.

Austrian debt portfolio acquired

▶ Intrum Justitia and French investment bank Calyon S.A. have jointly acquired an Austrian portfolio of written-off receivables with an aggregate outstanding principal of EUR 640 million from Bank Austria Creditanstalt. Two thirds of the portfolio comprises nonperforming bank loans, while the remainder is bank loans granted against collateral in the form of real estate property or a real estate share.

30 % rise in home repossessions

▶ The number of people who had their homes repossessed, after being unable to maintain their mortgage, rose by almost 30 per cent during the first half of 2007, according to figures published by the UK's Independent newspaper. UK government figures also showed a 7.7% increase in personal insolvencies during the second quarter of the year, compared with the same period in 2006.

NEW CONTRACT

Credit management outsourced by Finnish firm



Partnering with Intrum Justitia allows Arto Kaikkonen to spend more time online with his customers.



A 'big breakthrough' is how Petri Willman describes the contract.

Finnish telecommunications firm, DNA Palvelut, has outsourced a large credit management services unit to Intrum Justitia Finland. Intrum Justitia will take over responsibility for DNA's credit decisions, invoicing, sales ledger, reminders and collections as well as the nine employees currently handling the functions.

The main benefits for DNA Palvelut will be streamlining its processes and providing even better

customer service. "Good customer service is vital to us in all situations. We have outsourced these operations to a partner with the necessary know-how and experience in this area," says Arto Kaikkonen, Managing Director, DNA Palvelut.

The new contract demonstrates how Intrum Justitia's new strategy is being realized. It is one step on the company's way to becoming a true customer-focused service provider

providing solutions that help clients to accelerate their profitability and manage their customer relationships.

"This is Intrum Justitia's final break-through into the Finnish outsourcing market," says Petri Willman, Head of Sales Ledger Services, IJ Finland.

DNA Palvelut is part of DNA Group, which provides customers competitive, nationwide mobile telecoms services.

EU Set To Enable Cross-Border Credit Information Exchange

The upcoming European Union White Paper on integrating EU mortgage markets is expected to include measures aimed at aiding cross border exchange of credit information.

The EU views access to and availability of credit data as an important factor in promoting competitive retail financial services markets. Customers seeking to take out a loan with another institution (be it in the domestic market or cross-border) may face higher prices or be denied access to credit because of the lender's inability to access complete information on the consumer, which reduces customer mobility and choice. Inability to

access complete credit data may also make it harder for new credit providers - be they domestic or foreign - to compete for customers. The ultimate aim is to allow for a smooth lender access to loan applicants' credit histories, and to ensure that the data available is accurate.

An expert group representing all relevant stakeholders will be created this year to assist the Commission in the identification and analysis of adequate measures to ensure the smooth circulation of credit data. The EU-wide consumer credit market is worth around EUR800 billion annually, says the European Central Bank.

EU prioritizes financial education

The EU Commission has recognised the increasing importance of financial education, according to an EU protocol adopted in December. The protocol acknowledges that,

- ▶ Individuals find financial matters difficult to understand.
- ▶ Individuals often overestimate their understanding of financial services.
- ▶ Many individuals fail to plan ahead or choose products that meet their needs.

The EU protocol also highlights the overall benefits for society and the economy of increased financial education by stressing that education contributes to financial stability, such as lower default rates. Likewise, it points out that citizens who become confident in investing can provide additional liquidity to capital markets, which can be fed through to small business financing in the EU, a key element in supporting growth and jobs.

The EU itself has developed a number of activities in financial education, and says it "can play a supporting role to stakeholders". The EU activities include Dolceta where one of the modules addresses budgeting, consumer credit and home loans, means of payment and investment. Another initiative is the Europa Diary, a booklet distributed to secondary level students that covers money and debt, explaining such things as the dangers of excessive borrowing.

"Too many consumers lack a basic understanding of financial products and services. They do not choose the products that best meet their needs or make financial provision for the future. Financial education is a key element in empowering our citizens to take more appropriate financial decisions. I strongly encourage Member States, consumer organisations, the financial industry and other stakeholders to take action to educate citizens on financial matters. The European Commission will



The EU protocol on financial education is a product of the Commission's Internal Market department, headed by EU Commissioner Charlie McCreevy.

particularly strong in some Member States, including the UK, Germany, Austria, the Netherlands



The EU says more effort is required to improve consumer financial education across Europe.

PHOTO ISTOCKPHOTO

also play its role", says EU Commissioner Charlie McCreevy.

The protocol refers to two studies covering financial literacy schemes and research in the 27 EU Member States. These studies highlight the very uneven provision of financial education within the EU. The provision of financial education seems to be

and Italy. In others, including Greece, Bulgaria and Latvia, there is limited activity.

The Commission strongly encourages member states and private actors to organise financial education events, and makes it clear that it can provide sponsorship and EU Commission participation. The Commission will develop an online database of financial education schemes. It will give information on projects with regard to their geographical base, the subject matter covered, the target audience, and the contact details of the providers.

Read more about Dolceta: www.dolceta.eu

EU Late Payment Directive delay

The EU Commission has acknowledged that certain aspects of the Late Payment Directive must be improved as it has only had a very limited impact on the overall late payments situation in Europe and its effectiveness is modest at best.

Following a review to assess the Directive's effectiveness in 2006, the Commission has now moved on to examine the suggestions made to

improve the Directive. Suggestions for amending the Directive are expected to be published in September 2008, which will also be the starting point for a public consultation of how to modify it. After the conclusion on the consultation, in which Intrum Justitia has been asked to participate, the Commission will put forward a proposal for Directive amendments.

However, as a new Commission

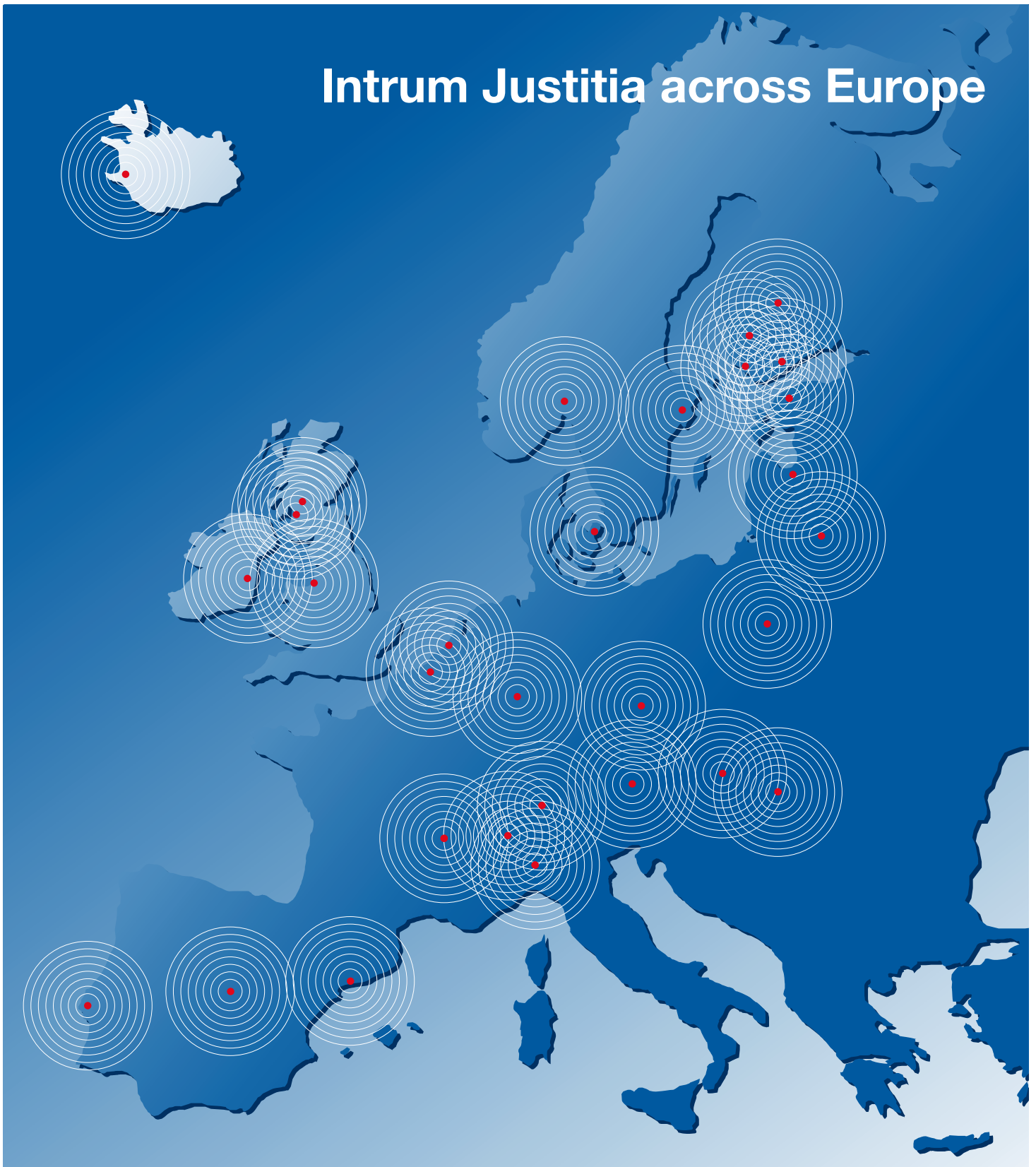
will be installed in late 2009 and new elections to the European Parliament are also taking place in the same year, it is unlikely the amendment proposal will be addressed until early 2010. Consequently, a new improved Directive will most likely not be put in place until 2011/2012.

Most of the points put forward by Intrum Justitia to improve the Directive have been accepted by the

Commission and are likely to feature in its proposed revision.

There is pressure from within the Commission to set a good example of paying on time. It is increasingly understood by the Commission that good payment behaviour is a benchmark for good quality, something yet to be recognised by the Member States, according to the Commission.

Intrum Justitia across Europe



EVER HEARD OF DRAGAN?

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