fairpay magazine

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THEME

Businesses are ready for outsourcing

PROFILE

Old meets new in Finland and Baltic countries

EUROPE'S PAYMENT ROUTINES

Payment uncertainties are biggest obstacle to trade

DEBT ADJUSTMENT

Sweden's law has failed

Future consumers:

Can they pay and how?

Name: Anders Antonsson
Title: Director of Corporate Communications

Today's consumers have more opportunities to buy on credit than any generation before. You can purchase anything from a car to a phone card on credit. One of the consequences is evident in the form of rising debt levels in most European countries.

A debate has begun about how long we can continue this spending spree and how we will handle higher credit volumes. For today's collection companies, this will mean having to refine their services, so that they can offer advice, a wider range of specialized services and make traditional collections more efficient.

In this magazine, we use the abbreviation CMS in several places when describing collection companies of the future. This stands for *Credit Management Services* and covers the entire process from the decision to offer credit to the various methods to collect on it. We will try to describe several areas where CMS will impact our everyday lives. That goes for those who grant credits and those who are entrusted with paying after delivery.

Switzerland and Sweden provide examples where CMS is playing a role. In Switzerland, a third of young people are having problems paying their debts. To get those between the ages of 13 and 20 to think about the downside of their favorite pastime – shopping – Intrum Justitia will be arranging a competition between various schools.

If they wind up with problems paying their debt, they can get help with so-called debt adjustment. Unfortunately this process isn't working as hoped in Sweden's case. The Swedish government has requested the help of the collection industry to improve legislation.

These topics, along with how efficient credit management can help your business, are covered in this edition.

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fair pay magazine #02/03, September 2004 **Publisher** Intrum Justitia AB, ISSN 1652-5620 **Editor-in-chief** Anders Antonsson **Production** RHR CorporateCommunication **Printer** OnPaper **Subscription** info@intrum.com **Change of address** Shareholders in Intrum Justitia AB should advise their account-operating institutes. All other parties should contact the editorial desk. **Editorial desk** Fair Pay Magazine, SE-105 24 Stockholm, Sweden, info@intrum.com **Phone** +46 8 546 10 200 **Telefax** +46 8 546 10 211 **Cover** How well do young people handle their debts? Will they be able to pay their bills? Photo: Pressens Bild. Final editing of this issue: September 17, 2004. The next issue of Fair Pay Magazine will be distributed in December 2004.

IN BRIEF

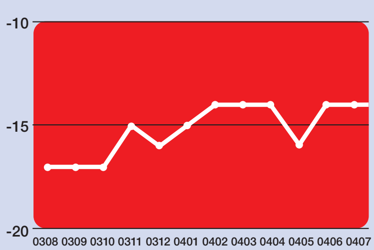
News from FENCA (Federation of European National Collection Associations)

Fenca World Congress in Rome September 29 – October 2, 2004.

Three days filled with lectures on debt collection in Europe, Russia and outside Europe; trends and developments in the U.S., the Far East, South America and South Africa; the European Law on Consumer Credits (CCL); a discussion forum on debt collection around the world; an introduction on Basel II; a European survey on money laundering laws; workshops on data protection and Basel II, and more.

Consumer confidence index remains largely unchanged

Households in the euro zone have shown little change in their confidence in economic growth. From March till June, the Consumer Confidence Index stayed at –14, with a temporary drop to –16 in May. Looked at over the longer term, consumer sentiment has risen from a low of –20 in May 2003 to –14 today.

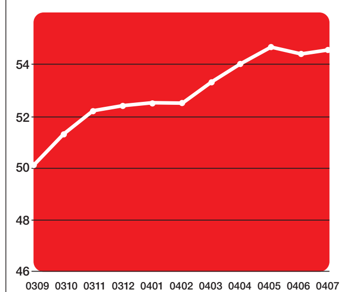


British SMEs often pay the same bills twice!

No less than 37 percent of the 3.7 million small businesses in the UK mistakenly pay the same bills twice, according to a survey by the Bank of Scotland Corporate Banking.

One in eight SMEs lost up to GBP 1,000 a year through a double payment with one in 50 having lost over GBP 5,000. Over two thirds of businesses with less than 10 employees claim they have never paid an invoice twice. For businesses with over 100 employees, double payments drop to 37 percent.

"Unless all invoices are cross-referenced before payment, there is a real danger SMEs will continue to lose thousands of pounds in a vicious circle," said Eddie Morrison, Managing Director of Bank of Scotland Corporate Banking.



European purchasing managers remain positive

The euro zone's purchasing managers' index, PMI, continues to rise. From a low of just over 46 in June 2003, the index climbed a year later to 54.4, before reaching 54.6 in July.

A figure of over 50 indicates expansion, while below 50 indicates contraction.

Consumer debt is growing problem

Consumer debt in OECD countries is on the rise. One reason is that more households now own their homes, and deregulation of the financial market has made it easier to borrow. The connection between today's very low interest rates and increased borrowing may lead to problems when interest rates eventually rise again.

Consumer debt in the UK is especially troubling, having for the first time risen above GBP 1 trillion, as much as the entire British economy. German consumer debt represents 112 percent of disposable income, against 129 percent in the UK. But German debt is rising faster. In the euro zone overall, debt has grown at a slower pace. Sweden has the highest percentage of indebted households, at 70 percent, against an average of 45 percent for Europe as a whole. But Swedes are the least worried about their debt. Only 11 percent are concerned, versus 28 percent of Frenchmen, 26 percent of Englishmen and 27 percent of Spaniards.

Rate hikes on the way

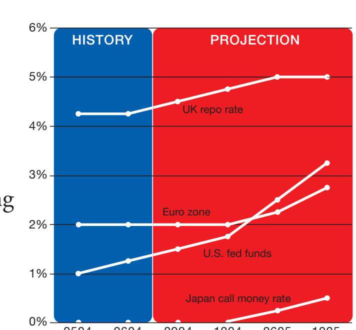
The economies in the U.S., Japan and China in particular are growing substantially. Europe is clearly showing signs of recovery, with little to indicate rising inflation. The central banks in the U.S. and Japan have been quick to stimulate demand, but now are beginning to tighten the reins.

The Bank of England is swimming against the stream, having raised its repo rate by a total of 1 percent since November 2003.

In early August the U.S. central bank, the Federal Reserve, raised its fed funds rate by 0.25 percent. It now claims that there is a close balance between sustainable growth and price stability.

Japan is forecasting zero percent inflation in 2005, and the Bank of Japan is likely to return to a more normal monetary policy. In August the call money rate was still 0 percent, however.

In China, inflation is rising but from a low level. The central bank is putting the brakes to lending and will probably raise the discount rate. Economic growth in the euro zone has been somewhat lower, and the European Central Bank therefore is not expected to begin raising rates until early next year.



Sources: ECB, SEB, KCI, international press, Eurostat, Bloomberg, etc.

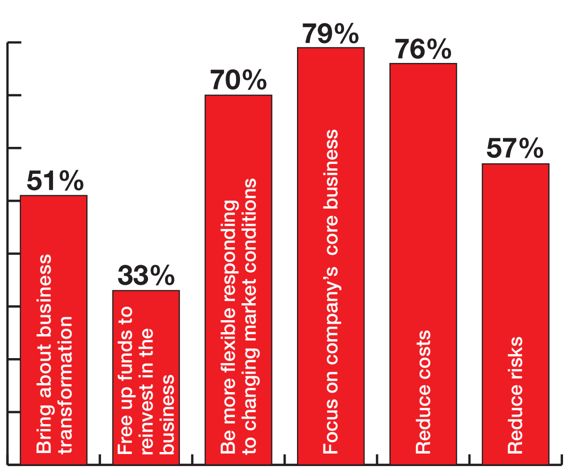
Growing competition is forcing companies to be more efficient. One way to do so is by outsourcing more of their operations. Few companies have administration as their core business and are therefore looking to outsource credit management.

(credit evaluations) ± (credit decisions) ± (invoicing) ± (sales ledger management) ± (remind

The future of CMS

The Royal Institute of Technology's Institution for Industrial Economics and Management in Stockholm has studied the European marketing of credit management, which in its survey is referred to as Receivables Management Services, RMS.

RMS is the collective name for an array of services from credit information to collections and surveillance of written-off receivables. The term RMS is familiar to potential customers interviewed in Germany, the Netherlands, France and the UK, although more companies use the more established term Credit Management Services (CMS) for the same service chain.



What companies gain from outsourcing financial services.
Source: RMS in Western Europe.

While the survey showed that respondents were familiar with the concept of CMS, there were a variety of opinions about what it actually meant. Not surprisingly, a majority of the companies interviewed are therefore interested in more information on various CMS services.

The benefits to companies from outsourcing financial services such as CMS are no different than the benefits of outsourcing other operations. Mainly they want to focus on their core business, cut costs and be less sensitive to market fluctuations.

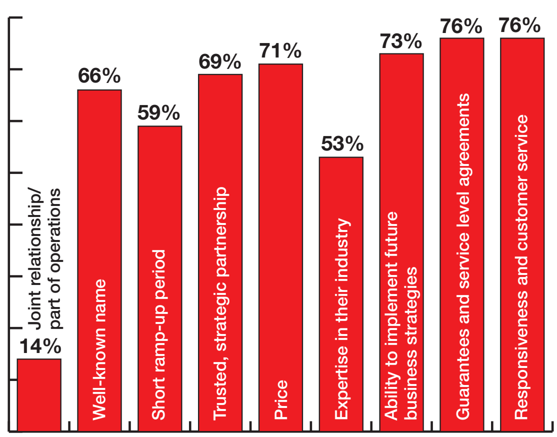
Since one of the main purposes of outsourcing is to convert fixed costs to variable costs, most companies naturally want to pay in relation to the volume of services they use.

The qualities companies demand in a CMS provider differ somewhat from what they expect from traditional outsourcing. For CMS companies, it is important to have a recognized name and be good at what they do: managing customer credits. On the other hand, CMS companies do not have to be experts in their customer's business to the same extent as in traditional outsourcing. It is also important that CMS companies maintain strong, reliable strategic relationships with customers. They have to be responsive and provide good service with guarantees and service agreements. Short ramp-up periods are also an important consideration.

About 55 percent of companies would like to outsource their CMS functions. No less than 84 percent would prefer a single supplier. So the trend is clear.

er management) ± (interest invoicing) ± (collection decisions) ± (debt surveillance) ± (surveillance of written-off receivables) = CMS

is outsourcing



What companies look for in an outsourcing relationship.
Source: RMS in Western Europe.

A number of companies interviewed would be willing to outsource large parts of their credit management right away. Not surprisingly, collections are currently the most accepted form of CMS outsourcing. As the European CMS market matures, companies will become more interested in outsourcing the entire chain of CMS services.

Four markets are pointed to as being especially receptive to CMS outsourcing: energy, telecom, housing and retail. The telecom market is the most open to the idea of outsourcing. In general, retail companies are also interested; online B2B also offers an attractive market.

Companies in the housing sector and those with a large number of customer contacts are interested in outsourcing debt collections and surveillance, while telecom companies are also interested in invoicing services and sales ledger management.

From the standpoint of credit management companies, the financial and insurance sectors, along with telecom, offer the greatest potential.

Western Europe is wide open to CMS outsourcing, with the UK setting the pace. This is due to the presence of U.S.-based companies that provide CMS services to global companies in the British market. The Netherlands and the Nordic countries are not far behind.

A good name, information and flexibility are the keys to success. Outsourcing of CMS functions has a bright future.

There is a great interest and need for information. In terms of the latter, it is important to be flexible and explain that there is a chain of services that can be purchased individually or in various combinations, not only as a whole.

Master's thesis on outsourcing

A thesis presented by Kristoffer Karlsson, a graduate student at the Royal Institute of Technology in Stockholm, discusses opportunities to market credit management services on an outsourced basis in Western Europe. (RMS in Western Europe by Kristoffer Karlsson.) Among other things, it covers potential customers, how services can be marketed, what the market looks like and familiarity with industry terms.

The thesis was prepared in cooperation with Intrum Justitia AB and is based on interviews with potential customers in Germany, the Netherlands, France and the UK, and with staff from Intrum Justitia and other CMS companies.

New information technology and growing competition in a mature credit market will transform traditional debt collection companies into financial advisers.

Photo: Kristian Pohl, Bildhuset

Mix of strategies leads to success

The changing economic environment has compelled financial service companies world-wide to test new technologies and business methods. According to a survey entitled *The Future of Collection Management*, bankcard issuers are seeing an increase in problems with delinquent payments and customer attrition, at the same time that new accounts and applications are on the decline. The survey was conducted by Bridgeforce Inc., a U.S.-based consulting firm specialized in software and technology solutions for managing account receivables and financial transactions.

Future collection channels will increasingly entail Internet solutions, e-mail, interactive voice response, traditional call centers and direct mail. Progressive financial service companies have already begun a transformation from traditional debt collectors to financial advisors with the help of new technologies and more customer-focused strategies.

New technologies facilitate the development and implementation of new credit management strategies such as current account collections, multi-channel collections and multiple product collections for the same companies.

Multi-channel collections include a mix of new and traditional technologies:

- Direct mail will still be used, but to a lesser extent.
- The Internet is growing in importance, mostly because of its cost effectiveness. Other channels such as letters and e-mail will reference this channel as an effective way for customers and creditors to manage their payments and financial issues.
- E-mail is growing in importance because of its cost effectiveness and comparable, if not better, response rates than direct mail and outbound calling.
- Interactive voice response and automated messaging will become more important to increase the effectiveness of two-way communication and managing early cycle receivables and high-risk accounts. They also serve as important channels to drive customers and creditors to more cost-effective channels such as the Internet.
- Call centers with inbound and outbound calling will always be the centerpiece of collection management operations.

Companies that are prepared for change will be more successful in the future than those that live by the motto “This is how we have always done it.”

Five recommendations for enhancing your company:

1. Embrace the Internet, e-mail, automated and interactive telephony, and even chat forums.
2. Phase in new technologies.
3. Use each interaction with customers to build your relationship and cross-sell other channels.
4. Capture as much data as possible to evaluate results and use in the decision process.
5. Employ comparative strategies such as Champion/Challenger testing to evaluate new solutions (Challenger) against the best ones already in use (Champion).

The EU directive on late payments in commercial transactions, 2000/35/EC, has been in force since August 8, 2002, but its implementation has been slow.

Slow acceptance of EU directive on late payments

Not until this year have all the EU's member states, including the ten new members, with the exception of Spain, introduced the EU's late payment directive. As yet it appears that the directive has not had much impact on the economies of these countries, despite the fact that late payment is a huge problem. Creditors are still losing EUR 23.6 billion a year on outstanding receivables due to bankruptcies caused by late payments. Payment delays on commercial transactions total EUR 90 billion a year, which translates into EUR 10.8 billion in lost interest.

The provisions of the EU directive seem to have had little effect, perhaps mostly because of a weak launch. Nonetheless, many credits and claims appear to have been based on them, since the new payment terms and penalty interest rates are increasingly being applied. Few cases have made it to court, however.

Two years after the directive entered into force, in August 2004, the European Commission was scheduled to begin evaluating whether there have been any improvements in late payments in commercial transactions. The re-evaluation has been delayed indefinitely, however. If the results eventually prove unsatisfactory, the Commission may propose amendments to the directive, including more severe penalties if there is no reduction in payment delays. This review is expected by many experts to be critical to improving the directive's application by the union's member states.

EU directive 2000/35/EC on combating late payment in commercial transactions

This directive covers commercial transactions in the public and private sectors, but does not regulate transactions between consumers. The provisions are non-compulsory; in other words, they are applicable only if the parties have not agreed otherwise.

REFERENCE PERIOD There are no rules on uniform payment periods, which are left to national legislation or the contractual parties to decide on. On the other hand, a payment delay is defined as the period after payment falls due until it is received. The reference period begins on the day the invoice or goods are received. The parties are free to agree on an extended payment period. A payment period is not enforceable, however, if it is grossly unfair to the creditor. The directive defines the benchmark payment period as 30 days.

PENALTY INTEREST Interest for late payment becomes payable automatically after the date for payment. The statutory interest rate for the euro zone is 7 percent plus the interest rate applied by the European Central Bank. For member states outside the euro zone (Sweden, the UK and Denmark), the "reference rate" is the equivalent rate set by their national central banks.

RETENTION OF TITLE The seller retains the title to the goods until payment is completed, if explicitly agreed before delivery.

RECOVERY PROCEDURES FOR UNCONTESTED CLAIMS A creditor should be able to obtain an enforceable title – i.e. a decision, judgment or order for payment issued by a court or other competent authority – irrespective of the amount of the debt. This can be done within a period of 90 calendar days of the lodging of the creditor's action or application at the court or other competent authority, provided that the debt or aspects of the procedure are not disputed.

COMPENSATION FOR RECOVERY COSTS Bank transactions not covered by late payment interest, administrative costs, procedural costs, third-party costs, etc. All these costs must be covered by the debtor if he is responsible for the delay.

Payment uncertainti are biggest obstacle

European Payment Index, which was presented in June, has received great attention and plenty of comments. Late payments are generally described as one of the biggest threats facing European businesses.

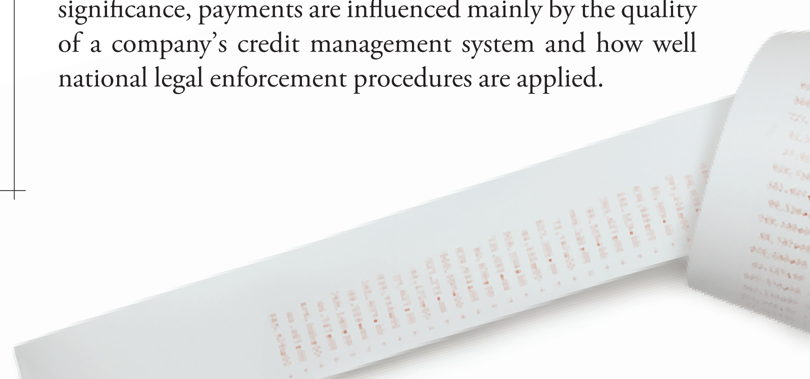
The survey is one of the most comprehensive of its kind ever undertaken in Europe. The first study, conducted in 1997, inspired the EU directive (2000/35/EC) on late payments. At the time late payments averaged 14 days, but by the end of 2003 they had increased to 16 days. The key findings of the recent study are:

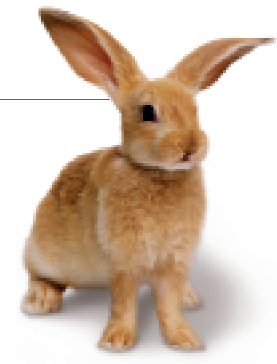
- SMEs are highly vulnerable to late payments.
- The farther north in Europe, the lower the credit risk. The highest risks are in Portugal, the Czech Republic and Lithuania.
- Regionally, risks rise from north to south.
- Late payments average about a week in the Nordic countries and two weeks in other regions, with the exception of Portugal, where delays exceed five weeks.
- The Nordic countries and Italy have the lowest credit losses, in contrast to Spain, Latvia and Belgium, which have the highest.
- Credit risks are higher for international than domestic transactions.

After analyzing the survey's results, it is hard to find one particular reason for late payments. In Italy, for example, invoices are paid late due to extremely long contractual payment terms and a cavalier attitude toward delays. Payment reliability, on the other hand, is high. In Belgium, there are two groups of payers: one who pays promptly and another who only pays after long delays or not at all. Alongside cultural influences, which appear to be of major significance, payments are influenced mainly by the quality of a company's credit management system and how well national legal enforcement procedures are applied.

Dane wins European Payment Index contest

DENMARK A contest held for participants in the European Payment Index survey was won by Bo Hansen from the company BHJ A/S in Denmark. Bo (right) recieved a certificate for a weekend with his wife Annemarie at the Hilton in Budapest, presented by Gregers Kofoed-Hansen, president of Intrum Justitia Denmark.





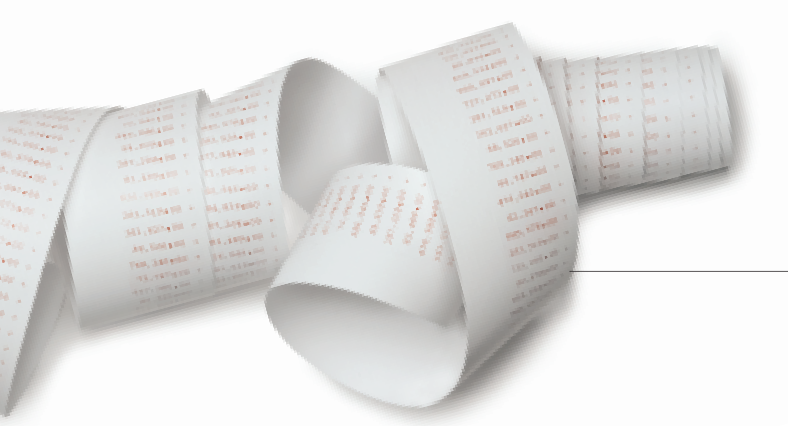
European businesses state that late payments are hampering opportunities to grow. Simpler, harmonized rules throughout the EU would help.

es to European trade

The report notes the difficulty in getting paid across borders, even within the EU. Against this background, it suggests better implementation of the EU directive on late payments in commercial transactions, which took effect in August 2002 but is not yet fully applied by all member states. The directive, which includes fixed payment terms and a statutory interest rate on late payments, is scheduled for re-evaluation in autumn 2004, which could prove instrumental in improving its application.

Enforcement procedures in the EU also have to be harmonized. Many are therefore hoping that the proposed regulation on a European order for payment procedures will be quickly adopted by the EU Parliament and Council.

The survey points to a need for foresighted leadership at a national and European level. A healthy credit system and correct payment behavior are fundamental to a prosperous business sector, cross-border trade and growth of the common market.



Comments in the press

REUTERS: Late payments are an obstacle to European growth, making it difficult for companies to do business across borders and potentially causing major disruptions.

EU BUSINESS NET NEWS: Payment delays and uncertainty are making companies think twice before doing business in another country.

AGANCE EUROPE: Companies in southern Europe are as poor at paying their bills as always in spite of the much-heralded introduction of the directive on late payments in August 2002.

THE FINANCIAL TIMES: Late payments by European businesses are worsening and are costing companies billions of pounds a year.

THE GUARDIAN: Late payments are so common that nearly half of all invoices sent out by British companies are paid late.

CREDIT TODAY: … UK businesses lose up to GBP 20 billion per year in unpaid invoices …

NEUE ZÜRCHER ZEITUNG: Poor payment habits plague Swiss companies.

LA PREMIÈRE: The number of invoices that remain unpaid has also increased. SMEs are especially vulnerable to late payments.

BØRSEN: More than half of Danish companies are displeased with the current rules and opportunities to collect on debts.

EUROPEAN payment index

The European Payment Index is a survey of European payment habits conducted by Intrum Justitia. It is the most comprehensive study of its kind in Europe, covering 22 countries and 9,000 companies. The first survey was conducted in 1997. A full report can be accessed as a PDF file at www.intrum.com.

The experience of credit management companies with written-off receivables is now being put to use by legislators in Sweden. On behalf of the Ministry of Justice, the Association of Swedish Debt Collectors elected Susanne Bruce, Vice President of Intrum Justitia Sweden, as one of the experts on the government's debt adjustment investigation, which recently reported its findings.

'The law has f

Photo: Pontus Lundahl

Sweden's debt adjustment investigation presented a draft law in early August. It proposes shorter processing times and suggests that the debt adjustment process begin as soon as the debt enforcement service has established that an applicant meets the requirements. Debtors would not have to first reach a private agreement with their creditors, as is the case today. Also, the Swedish Enforcement Administration would be able to reach a decision despite a creditor's objection.

The purpose of debt adjustment is to offer people with severe debt problems a solution that will help free them from their debts within a reasonable time. This is done in cooperation with creditors, so that they get the best possible return on their receivables. Unfortunately in Sweden's case, the debt adjustment law is not working as well as it sounds.

The objective of the debt adjustment investigation recently conducted by the Swedish government was to shorten the debt adjustment process.

Around 3,000 Swedes are granted debt adjustment each year. Statistics from Intrum Justitia show that no less than 40 percent of those who begin the process take on new debts that go to collection before their debt adjustment is completed.

"Such a high number shows that the law has failed from society's perspective," says Susanne Bruce.

Susanne Bruce feels that that the industry's experience with long-term surveillance of written-off receivables has benefited the investigation.

"I have mainly been interested in the creditors' perspective, using my knowledge of how we and our colleagues in the industry work to help simplify the decision-making process and make it more efficient," she says.

Intrum Justitia handles the majority of all debt adjustment cases in Sweden and has seen how people who reach

Photo: Joakim Roos

"The law costs a huge amount of money and has been re-evaluated many times," says Susanne Bruce, Vice President at Intrum Justitia Sweden and an expert in debt adjustment.

ailed'

voluntary settlements with their creditors take on less new debt than those who go through the statutory debt adjustment process.

"It's partly a question of motivation," Susanne Bruce states. "And it helps that voluntary installments usually stretch beyond five years, which is the limit for the statutory process."

In her opinion, the basic principle behind effective debt adjustment has to be to sell the notion of being debt-free and then in the best way help debtors reach reasonable agreements with their creditors.

"In our work, we also treat debtors as customers," she continues. "By utilizing negotiations, settlements and amortization schedules to arrive at individual solutions, we motivate debtors to cooperate and have even achieved very good results with written-off receivables. The debtor receives help to get out of a difficult situation and creditors receive the best possible returns. Basically, we try to find solutions that everyone benefits from.

"Unfortunately we can't say the same thing about the statutory debt adjustment process at this point," says Susanne Bruce. "There is a distinct risk that debtors who go through debt adjustment will wind up with debt problems all over again, since defaulted payments are cleared from the credit records. Moreover, fewer people have received debt adjustment than was hoped when the law was adopted."

Debt adjustment in various countries

The decision to grant debt adjustment based on a debtor's application is handled differently in different countries. In most of Europe, the authority to grant voluntary debt adjustment rests with the courts. Sweden, on the other hand, is the only country to allow a government authority to decide on voluntary debt adjustment.

Denmark Debt adjustment applications are filed with the probate court. If approved, the court will appoint legal aid, usually an attorney, to oversee the procedure. The decision can be appealed to the high court.

UK A debtor can apply for an Individual Voluntary Arrangement (IVA) for debts of any amount either before or after registering for bankruptcy. For debts of less than GBP 5,000 an alternative where a judgment has already been entered against the debtor by a creditor is to seek an "Administration Order" from a local court, which will then handle the debt adjustment. Both procedures will potentially allow debtors to avoid bankruptcy. The Enterprise Act 2002 introduced new procedures in relation to personal insolvency in the UK on April 1, 2004 and allows for the discharge of nearly all bankrupts after 12 months, reducing many of the restrictions imposed during the bankruptcy procedure.

Finland A debtor can apply for debt adjustment with the district court. If debt adjustment is granted, an administrator drafts a proposal for a payment program, after which the court decides whether the program should be approved.

France A debtor can initiate voluntary composition proceedings, which are then presented to a "commission administrative" in an attempt to reach a settlement with creditors. The commission consists of representatives from various government agencies. If composition proceedings fail, the court will begin debt adjustment. If a voluntary debt adjustment cannot be arranged, the court can enforce compulsory debt adjustment.

Norway Only after trying to reach a settlement with his creditors can a debtor apply for a debt adjustment with "namsmannen" (court bailiff), who is obligated to guide the debtor through the debt adjustment process. The bailiff can deny the application but cannot decide on the debt adjustment. When the case has been examined, it is passed on to the courts for an ultimate decision. After a debt adjustment decision is made, a voluntary settlement can be reached with namsmannen. If creditors object to the proposal, "namsrätten" (tribunal for execution of claim) can enforce compulsory debt adjustment.

Germany Without the consent of his creditors, a debtor can apply to Insolvency Court ("Insolvenzgericht") for debt relief ("Restschuldbefreiung") following bankruptcy. The rules are a combination of debt relief and actual bankruptcy. The application is filed with the court either at the same time or following a bankruptcy petition.

The industry is full of company names and terms such as CMS, RMS and CFM. While they mean something to collection companies and the accounting departments of major corporations, how does the rest of the world view what we call collection companies? What do these company names and various product descriptions mean to customers and debtors?

What does a brand name mean

Brands are essential, even for a debt collection company! Fair Pay Magazine has discussed brands with Lori Rosenwasser and Anders Welin from Landor, one of the world's leading branding consultancies, whose client list includes such names as *Xerox, Pepsi, Kodak* and *Microsoft*. We begin with a simple question: What is a brand?

"I am often reminded of what Landor's founder, Walter Landor, said: 'Products are made in the factory, but brands are built in the mind.' A brand is a state of mind. It is a promise of a delivery. It is the expectations people have of a company and its products," says Lori Rosenwasser.

The collection industry operates in a complex world with customers from various other industries. At the same time, relationships with debtors are also important. And relationships are built on expectations, just like brands.

"When we define a brand's target groups, we are more interested in customers' thoughts than their professions and incomes," she continues. "Only by clicking with customers' values and expectations does a brand become relevant and distinguish itself in the market. After that it is a question of reliability. Can the company deliver what the brand promises?"

LORI ROSENWASSER has worked with branding at Landor for 11 years. Since 2002 she leads Landor's global Brand Engagement operations and is an expert in long-term implementation and integration of internal and external strategies and creative visions for brands. Her clients include BP, Volvo Trucks Corporation, T-Mobile, Eli Lilly & Company and Accenture.

All collection companies should ask themselves, how are we seen by our customers and our debtors? What do we promise them? And how does this affect our business?

What is a brand really worth? Some feel that a brand is bigger than the company itself.

"Ultimately a brand's true value is that it generates business for the company," Lori says. "It gets customers to relate to the company and become loyal. It separates the company's products and services from others and makes them unique. Which means that the company can charge a higher price. A well-managed brand is without doubt a company's biggest asset. A strong brand can survive several owners."

Brands are long-term assets that must be continuously developed. That requires consistency in everything that is said and done in the brand's name.

"One of the most important things we do is define and understand what we call the 'customer's journey,'" Lori explains. "We evaluate how the customer perceives the brand from the first time he hears it mentioned and throughout his relationship with the company. With an airline, for instance, we look at everything from online ticket purchases and relationships with travel agents to what its airports look like, the service onboard and what happens after a flight. The company must leave a harmonious and coordinated impression on customers each time they interact. It is just as much a question of service as product delivery. And that includes how the staff acts."

"A company must stand by its word. That's how you build a good reputation," Anders adds.

The services a collection company sells are becoming more intricate. Just take outsourced credit management. What can you promise and how is this viewed by customers?

to a debt collection company?

How important is a brand to service companies in general?

"You could say that building a strong brand is even more important to a service company than a company that sells tangible products," Lori says. "Service companies base their businesses on relationships and service. This entails abstract concepts such as punctuality, accurate reporting and reliability. It is just as important how a service is provided as the fact that it is provided. Service companies utilize intellectual capital shared throughout the industry. The services are basically the same from company to company. This is why people are so important. They embody the brand! They are the ones with the ability to build a company's reputation and the brand's content and promise."

"Brands are of vital importance to service companies, and certainly to the debt collection industry, which has both customers and debtors to consider," adds Anders.

One brand or many? What about acquisitions and expansion?

It is easier to build one large, strong brand than fifty small ones.

"While a single brand means one promise for everyone, many local brands mean something for each customer segment," Lori says. "A company can tailor its promises to local markets. But this is much more costly, since each local brand requires it own resources. Local brands also require coordination. When it comes to a main brand with many secondary product brands, the product brands have to be harmonized with and support the main brand. Otherwise it is better to have totally independent brands."

"Acquisitions are very sensitive. The main company has to bring over staff to help in the transition to a new culture and a new brand in the acquired company," Anders says. "IT, personnel policies and other infrastructure must be brought in line with the new brand's requirements. But most importantly, everyone has to be committed to the new brand, and you have to make sure that everyone understands the opportunities and advantages of the merger. Getting people committed to the brand is one of the keys to any acquisition."

Companies that hope to succeed in their branding have to be visionaries and see beyond quarterly reports and one-year plans. Long-term visions are what drive successful brands.

ANDERS WELIN began at Landor in 2002 as a consultant in the London office. He is responsible for business development, developing marketing and communication tools, liaising with the group's Y&R and WPP agencies, and developing the Landor brand in Scandinavia. His clients include SKF and Volvo Trucks.

LANDOR is the world's leading branding and design company. Founded in 1941 by Walter Landor, it has created many of the research, design and development tools that have become global standards in the design industry. Landor takes a holistic view of design and branding, helping companies to effectively enhance their brands and communication. Landor currently has 20 offices with hundreds of clients on six continents.

'This gives us the information we need for political decisions'

Klas Eklund, Chief Economist of SE-Banken, on the European Payment Index and payment uncertainties as an obstacle to trade.

One of every four business insolvencies in Europe is caused by late payments. This contributes to the loss of around 450,000 jobs in Europe each year.

The companies that participated in Intrum Justitia's *European Payment Index* see payment uncertainties as the biggest obstacle to growth in international trade.

We asked Klas Eklund for his opinion of the *European Payment Index.*

"The biggest news in the survey is that a lack of payment discipline is cited as the most important obstacle to trade in the EU," he says. "I don't think most people understand this. The EU has high hopes for a common market for financial services. But differences in payment habits are a neglected area."

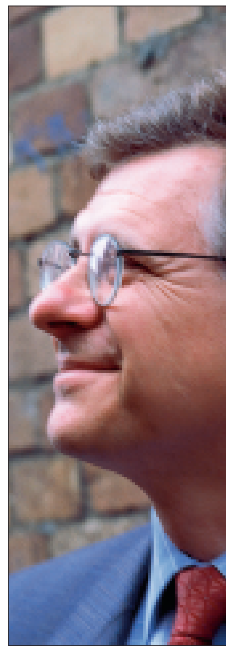
The EU has adopted a directive on late payments, but its implementation has progressed slowly. What are your thoughts on this?

"The trend toward greater harmonization in the EU will continue," Klas says. "Customs have largely been eliminated. Indirect taxes are being harmonized and transport systems coordinated. Now it's time to focus on credit management. The survey gives credence to suspicions that the differences in payment routines and habits in Europe are greater than many people had believed. This has got to sound an alarm for political decision-makers, who now may understand how serious an obstacle payment differences are. The survey should be seen as a pioneering effort. I hope it continues and that its methodology improves, so that we will be able to see trends over time."

The harmonization of credit management services in Europe will help to free up capital flows, which places greater demands on risk management by banks and credit institutions.

BASEL II

The Basel Accord on risk measurement and capital adequacy requirements for banks, securities companies and credit institutions in the EU is an outgrowth of the financial crises in the early 90's. Stringent rules affect policies, routines and IT systems. The overall objective is to create stability in the financial system, together with competitive balance and greater risk awareness. Basel II comes into effect in January 2007.



Klas Eklund

Born 1952. Chief Economist of SE-Banken since 1994 and Member of the EU Commission's Group of Economic Advisers since 2001. Received his Licentiate of Economics from the Stockholm School of Economics, where he is currently a lecturer and researcher. During the 1980's he served as Economic Policy Adviser to the Prime Minister, Deputy Under-Secretary of State in the Ministry of Finance and Secretary of the Social Democratic Party Program Commission. Chairman of the Government Commission on Productivity, 1990–91. Chief Economist, Sweden Post 1992–94 and Headmaster of Posthögskolan. Klas Eklund is also a member of the boards of a number of organizations, advisory councils and foundations. He is a widely published author and lecturer who has written, among other things, Sweden's most popular economics textbook.

"It is important to remove the remaining trade obstacles. But at the same time, banks and financial institutions have to protect themselves against higher risks."

Another result of the EU's harmonization efforts is the Basel Committee's new capital adequacy and risk management guidelines for banks and securities companies (*Basel II*). For Swedish securities companies, *Basel II* will require increases in capital to varying degrees. It may also necessitate major investments in IT. How will this impact the ability of small businesses to obtain credit in the future?

"There will be increased pressure on small businesses," says Klas Eklund. "But an internal market for financial services requires the same rules in order to work. Still, we can't judge every country in Europe alike. There are going to have to be compromises on the provisions of the Basel Accord. This is another instance where surveys such as the *European Payment Index* can be a useful catalyst to demonstrate to politicians the need for harmonization and how important it is that we respect the differences that exist."

QUICK FACTS

Intrum Justitia lis 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 and collection to debt surveillance and collection of written-off receivables. The Group has more than 80,000 clients, revenues of SEK 2.9 billion and around 2,900 employees in 21 European countries. The company was founded in 1923 in Sweden and has been listed on the O-list of Stockholmsbörsen, the Stockholm Exchange, since June 2002. The head office is located in Nacka, outside Stockholm, Sweden. President and CEO: Jan Roxendal. For more information on the Intrum Justitia Group, visit **www.intrum.com**

Intrum Justitia Group	**2003**	**2002**
Revenues, SEK M	2,865	2,775
Operating profit (EBIT), SEK M	–93.9	346.2
Cash flow from operating activities, SEK M	301.8	333.1
Collection cases in stock, million	10.6	8.2
Total collection value, SEK billion	79.3	79.9
Average number of employees	2,870	2,661

For definitions, see www.intrum.com

Analysts who cover Intrum Justitia
ABG Sundal Collier – Espen Bruu Syversen
Carnegie – Charlotte Widmark
Cazenove – Gorm Thomassen
Enskilda Securities – Monika Elling
Handelsbanken – Henrik Talborn
Morgan Stanley – E R. De Figueiredo, C Jimenez
Nordea Securities – Stefan Andersson

Financial report dates 2004

Interim report, January–September	October 27
Year-end report 2004	February 17, 2005

intrum justitia

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New board member and deputy

Intrum Justitia's Extraordinary General Meeting on August 17 approved the proposal by owners representing approximately 56 percent of share capital and votes to expand the Board of Intrum Justitia to nine members and one deputy member.

The Meeting also decided in accordance with the proposal from the same owners to elect **Lars Förberg** as a Member of the Board and to elect former Board Member Dennis Punches as a Deputy Member.

The Board of Intrum Justitia AB now consists of Bo Ingemarson (Chairman), Björn Fröling (Deputy Chairman), Lars Förberg, Gerard De Geer, Reinhold Geijer, Bo Göransson, Maria Lilja, Jim Richards, Christian Salamon and Dennis Punches (Deputy), all for the period ending at the conclusion of the next Annual General Meeting.

Lars Förberg, 38, is Managing Director and co-owner of Amaranth Capital. He was previously Chief Investment Officer at Custos and has worked for Nordic Capital. Förberg holds an MSc in Economics and Business Administration from the Stockholm School of Economics.

Amaranth Capital

Intrum Justitia of Switzerland starts nationwide competition

One third of all young people in Switzerland don't pay their debts, which average SEK 3,000. Mobile phones, clothing, cosmetics, entertainment: shopping is their favorite pastime!

No less than 17 percent of young people between the ages of 18 and 24 have big problems, and the number of shopaholics has doubled in the last ten years.

As a reaction to these growing debt problems, Intrum Justitia has started a competition for students aged 13 to 20. A class prize will be awarded for the best proposal for educational material that illustrates the various facets of young people's debt problems. An individual prize will be awarded for the best work based on a field study on the theme, "Students, debts and money." The competition begins in the third quarter of 2004, and the winners receive cash prizes.

Easier to pay in the Netherlands

Intrum Justitia has established a cooperation with the leading cash money services provider GWK (Grens Wissel Kantoor) to facilitate cash payments. GWK has 48 offices around the Netherlands, including at railway stations and airports, many of which have extended hours 7 days a week.

To make it even easier for debtors, Intrum Justitia in the Netherlands has created a website where visitors can learn about collections and find suggestions how to avoid future payment problems.

www.notpaidontime.com

Intrum Justitia raises stakes in Iceland

"Don't do nothing." The sign in a shopping center urges Icelanders to be active when it comes to their loans and debts.

With a population of around 280,000, Iceland is one of Europe's smallest markets. The country has historically been dependent on the fishing industry, but in recent decades other sectors have broadened the economic base. Banking and financial services are among the sectors that have grown in importance, in the process helping Intrum Justitia's partly owned company in Iceland to build a strong market position.

Intrum á Íslandi ehf was founded in 1995, had a turnover of approximately SEK 63 million in 2003 and has 85 employees at four offices. The Intrum Justitia Group has raised its ownership interest from 20 to 25 percent; the other owners are three Icelandic banks.

Iceland came in fourth place in the European Payment Index, just after Sweden but ahead of Norway. One of the reasons is the country's economic upswing and all the attention that has been paid to the effects of late payments. Maybe Intrum Justitia's slogan, "Don't do nothing," has helped?

Back on the fairway

It has been a year and a half since Jan Roxendal took over as President and CEO of Intrum Justitia. As head of Europe's largest CMS company, he has a good overview of the market and competition, as well as the factors affecting the industry. "Outsourcing and the growing levels of debt in society are clearly the most important," he says.

The meeting with Fair Pay Magazine took place a few days after the Group has reported its financial results for the first half of 2004, so the first question is obvious:

How would you describe the first half year?

I would say that several of our key markets are developing well with regard to sales and earnings. Our targeted concepts for specific industries make us the most efficient provider of debt collection services, which naturally benefits our customers as much as anyone. Consolidated sales were in line with the first half year of 2003. Obviously we had hoped for a better number, but some countries haven't gotten up to speed with new customer sales. But I am convinced that we will see improvements there as well.

We expect our market to have good prospects of further growth, especially in consumer collections. How much is hard to predict, however, since some countries are more highly developed than in others. In general, the debt collection market is relatively sophisticated in Northern and Western Europe, with a high degree of outsourcing and clearly defined regulations. Countries in southern parts of the continent are not as used to outsourcing and have a different tradition when it comes to handling late payments, which also shows up in our European Payment Index.

Just over a year ago you had to announce problems in your English subsidiary. What really happened?

We uncovered serious errors in the English company's accounting in the summer of 2003. Basically, the assets they had reported were exaggerated. We quickly decided to conduct a thorough investigation to find out what had happened and correct the problems. The source of the accounting inadequacies was the double-booking of revenues, and, as a result, earnings and assets had been overestimated for a number of years. It has been a difficult and extensive effort, but we have done what we had to. To put it in golf terms, we made it out of the bunker and can begin playing on the fairway.

We have invested time and resources to ensure this doesn't happen again, either in England or any other area. Most of the details are described in the report we presented in November last year. In addition, we have maintained a continuous dialogue with Stockholmsbörsen and its auditors. They have said they are satisfied with the measures we have taken.

It has been an intensive period for you and the other members of Group Management. What are your most important goals in the year ahead?

The most important thing for us is to continue to build our brand and market position. By continuously improving and strengthening our systems and processes, we can make Intrum Justitia an even better business partner. Satisfied customers are – and will remain – the most important goal for all of us who work in the Group.

What areas of the market are most interesting for Intrum Justitia?

All of them. We help around 80,000 customers in companies both large and small and in every industry. Our strength is the concepts we have developed for specific segments: telecom, public services, the media, banking & finance, housing and so on. All companies that have problems with credits and cash flow can turn to Intrum Justitia.

Where do you see Intrum Justitia's biggest opportunities to grow?

We know that there is a big market; in Europe alone we estimate that 30–40 billion invoices are sent out each year. Only a small share of them are handled by specialized companies like Intrum Justitia. We should be able to grow in this market. I hope that we will see significant growth provided, of course, we can maintain good profitability. The latter is essential if we are to continue to enhance our services in the long term.

But success requires hard work. We have to try to explain the benefits of outsourcing to our customers and their customers. One of our strongest arguments is our unique knowledge of payment patterns and the solvency of Europe's individuals and businesses. By combining this knowledge with our experience, we know when it is the right time to take certain measures. This makes Intrum Justitia more effective at collecting debts than anyone else.

Name: Jan Roxendal
Title: President and CEO, Intrum Justitia AB
Age: 51
Family: Married with two children
Interests: Family. Sports in general, but especially tennis.

The Nordic countries received good marks in the European Payment Index. What distinguishes them from other countries?

Over 9,000 customers responded to our questions on the lending risks in their countries and across borders. The Nordic countries, led by Finland, received the highest scores. I believe that a combination of factors would lead Nordic businessmen to say that credit risks there are lower than in other parts of Europe. Among the most important are a streamlined, responsive legal system and transparent debt collection rules that are easier for all the parties involved to understand.

I would also like to think that the way we work, with respect and understanding, has made it easier for companies to decide to outsource. Intrum Justitia has long adhered to a strict ethical policy we call 'Fair pay… please!' It is based on respect for everyone involved, thanks to which our customers can maintain their relationships with their customers even when the latter are having payment problems.

Payment behavior has worsened during the years Intrum Justitia has studied the trend. We know that payment losses and late payments are a serious threat to many companies and are a major contributing factor behind European bankruptcies, the result of which is the loss of many jobs.

Of all the countries where it operates, Finland is where Intrum Justitia offers the widest array of services. By listening to customers, the company has managed to reach the top position in debt collection in Finland. To meet the needs in the emerging markets of Estonia, Latvia and Lithuania, business activities have also been expanded to this region in the last eight years.

Old meets new in Finland

Established in 1910, Credit changed its name to Intrum Justitia in the 1980's. It has been always Finland's leading B2B collection company and in the 1980's also became the leader in small consumer debts. The Finnish company raised its efficiency by using IT solutions developed in Sweden and successfully introduced debt surveillance in the same decade.

Thomas Feodoroff has been regional director of Intrum Justitia in Finland, Estonia, Latvia and Lithuania since 1998. He was appointed managing director of the Finnish company in 1983.

"We're one of the oldest companies in the Intrum Justitia Group. In the early 1990's, the poor economy in Finland forced us to reorganize our operations," he says. "By 1995 this led to the highest operating margins of any Intrum Justitia company."

One reason for the turnaround was the customer care system that was introduced to retain clients while at the same time establishing new contacts. This new way of working meant standardized operations and better routines.

Intrum Justitia in Finland was the world's first collection company to receive ISO 9000 certification.

"Positive as well as negative feedback from customers forced us to take action, which led to a number of improvements," Feodoroff says. "We've followed up with around 300 companies and asked them what they thought of our services. I've also actively studied other markets to learn about good solutions. Importing other markets' best practices has worked very well."

Feodoroff believes that Intrum Justitia's main competitive asset is the comprehensive package solutions it can offer.

While collection services account for the large part of its revenues, Intrum Justitia Finland has also successfully launched credit decisions, invoicing, debt surveillance, sales ledger and reminder services.

"The market is gaining a better understanding of the advantages of all our credit management services," Feodoroff says. "By using these services, a company's cash flow can be accelerated and unwanted receivables can be prevented. We make roughly 50,000 credit decisions a year, and it is a service that offers simple and reliable support for lenders in making quick decisions."

Payment morals are generally high among companies in Finland. One reason is that many businesses have out-

VAT REFUND Intrum Justitia's VAT refund service helps companies to reclaim foreign value-added taxes. With Intrum Justitia's assistance, companies can apply for VAT refunds from all countries that offer them. In 2001 Intrum Justitia applied for refunds worth approximately EUR 11 million for its customers. Intrum Justitia also finds out whether its clients' activities in Finland require VAT registration. If so, Intrum Justitia handles registration and tax representation.

VAT refund services include: • Reclaiming of value-added taxes from 24 countries • VAT registrations • Consulting and training services.
More than 2,000 companies from 20 countries rely on Intrum Justitia's expertise in VAT refunds. Intrum Justitia is a member of the International VAT Association.

Name: Thomas Feodoroff
Age: 53
Profession: Regional Manager Finland, Estonia, Latvia & Lithuania
Family: Three children, two grandchildren.
Interests: Summer cottage, the Finnish archipelago, travel

FACTS ABOUT THE REGION

FINLAND Intrum Justitia started its operations in Finland in 1980. Through organic growth and a strategic acquisition in 1996, Intrum Justitia Finland has become the market leader in debt collection in terms of both outsourced collection cases and earnings.

ESTONIA Operations started in 1996.

LATVIA Operations started in 2002.

LITHUANIA Operations started in 2000.

MD Intrum Justitia Finland: Thomas Feodoroff.
MD Intrum Justitia Estonia: Ivar Tammemäe.
MD Intrum Justitia Latvia: Thomas Feodoroff.
MD Intrum Justitia Lithuania: Audrius Astrauskas.

SEK M	2003	2002
Revenues	283.8	246.3
Operating profit (EBITA)	106.7	97.7
Operating margin, %	37.6	39.7
Employees	282	255

and the Baltic countries

sourced their payment services. This is particularly true among Intrum Justitia's major customers, such as telecom operators, credit card companies, mail-order firms, utilities, energy companies and municipalities. Another reason is that uncollected B2B payments can be protested and published in the business press. This means that collection letters can state that if the debtor does not pay, the information will be published. This, of course, can trigger the interest of other creditors who will demand payment on their outstanding claims.

Intrum Justitia has added operations in the Baltic countries, where it saw a growing need among its clients, both Finnish and international, who were entering the emerging markets of the three countries.

"Now that the Baltic countries are part of the EU and legislation is becoming harmonized with Finland's, we will be increasing our marketing activities in the entire region," Feodoroff says.

Intrum Justitia will probably expand the VAT refund expertise and resources of the Tallinn office in Estonia, according to Feodoroff.

Since 1998 Intrum Justitia Finland has used public relations as a tool to create and maintain its reputation and grow its business.

One unconventional promotion designed to grow the business in the mature Finnish market is the "tent event" in Kauppatori, the renowned market square in Helsinki, which has been held for the last three years. In the summer of 2003, 5,000 visitors received advice on debt settlement or credit management services for their businesses.

Since 2001 Intrum Justitia has also sponsored the Finnish national ice hockey team to market the Group's motto, Fair pay…please.

Intrum Justitia – the leading CMS provider for municipalities

Vanda, Finland's second largest city, is expanding its cooperation with Intrum Justitia. As of May 2004 the company collects the city's receivables for water, dog licenses, rents and compensation for lost or damaged property, road maintenance, ground rents and ambulance services.

"It has been effective for us to outsource debt collection," says city controller Annika Suorto. "The positive experience we have had is why we are now expanding the cooperation. Our administrative staff now has more time for the work they are supposed to be doing."

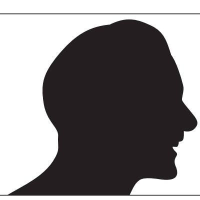
The cooperation between Vanda and Intrum Justitia dates back to 1996. Vanda was one of the first Finnish municipalities to outsource its credit management.

Intrum Justitia is the leading CMS provider to the Finnish public sector, comprising 200 municipalities and state-owned companies. The company handles 65% of all credit management that Finnish municipalities outsource.

Sender:
Intrum Justitia AB
SE-105 24 Stockholm
Sweden

commentary

The Cool Generation



Commentary: Dr. Guy Wise
Profession: Professional printer and publisher of *Now & Again*

Now & Again spreads unsolicited opinions on traditional values.

I found myself outside a store with my son, who had recently joined the ranks of teenagers. He'd shopped, gotten his change and dropped a penny. And started walking away.

"You dropped a penny," I said, being of an age that I still remember when a penny was worth something. "Aren't you going to pick it up?"

His only reply: "Scraps." In other words, it was hardly worth the effort. Of course that many words word have stretched his monosyllabic vocabulary.

I was totally shocked. In just a few years he will be a young man who will be paying for his own mobile phone, for the clothes he buys by credit card and for all the costs he runs up in front of the computer by repeatedly clicking "accept" boxes without ever reading the legal notices.

The seriousness of the situation was underscored by a news item I recently read that said that Swiss youngsters between the ages of 12 and 18 spend SEK 3.6 billion a year. But they pay for only two thirds of that. The rest becomes a huge debt burden weighed down by interest and fees that more and more of these young people can't handle.

We're talking about the Swiss here. The same people who for generations built a reputation for conservatively managing money, not to mention for the world's finest watches. And knives as big as toolboxes!

I thought it might be time for a serious father-and-son chat with my ticking debt bomb. But what do you say? We don't even speak the same language.

"Are you doing anything or can we talk for a second?"

"Just chillin'."

"Does that mean we can talk?"

"It's cool."

"I just wanted to make sure you understand all the charges you are running up on your mobile phone and the Internet."

"If you're worried about modem hijacking, don't. I won't get fooled. I don't WAP, either. It sucks."

I didn't want to show I had no idea what he wasn't doing, so I tried again: "But what about text messaging? That must cost something?"

"Forget texting! Didn't you know mom pays for my phone cards?"

"Cool," I say, pretending I understood.

The next time we stand outside a store and he loses a penny, I'll say nothing. I'll just pick it up and walk away.