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European Debt Collection Industry Report:

Key Trends for 2022

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Author

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Mark Smith

4D Contact

Global debt recovery and credit management specialists, 4D Contact can provide your business with a comprehensive suite of credit and collections services. Whether you are looking for an end-to-end outsourced solution or simply support within an individual area - we can provide you with a high-touch solution that will deliver results.

With over 30 years experience in delivering outsourced credit management solutions, the 4D Contact team have supported businesses from most industry verticals including pharmaceutical,
construction, utilities, publishing, engineering, recruitment, automotive, logistics, professional services to name but a few.

WORLDWIDE
SMART
COLLECTIONS

Travis Perkins Schindler Allergan informa
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Introduction

2022 will be a challenging year for European credit and collections teams. Remaining firmly in the corporate spotlight, they will be under pressure to maintain cash flow in an increasingly uncertain economic climate.

It is widely thought that we are still to see the full economic impact of the pandemic, as it has been hidden by the government support measures such as loans, furlough, VAT and rent deferrals, and restrictions on statutory demands and winding up petitions. As government support starts to unwind, it is widely predicted that there could be financial disaster about to unfold in 2022. As well needing to start repayments on bounce back loans, SMEs could potentially have built up additional liabilities, such as delayed tax payments, deferred rent arrears and a build-up in trade debts – all of which will need to be dealt with in 2022.

For consumers rising inflation and increases in energy costs are going to have a dramatic impact on cost of living for both lower- and middle-income households. It is an economic climate in which those who have never defaulted will potentially going to find themselves making strategic decisions on who to pay when.

Outlined in this document are an overview of the key challenges facing European businesses in 2022 and the credit and collections industry trends we believe will be seen as businesses position themselves to overcome them.

2021 ISSUES

CREDIT MANAGMENT CHANGES

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Challenging Economic Landscape

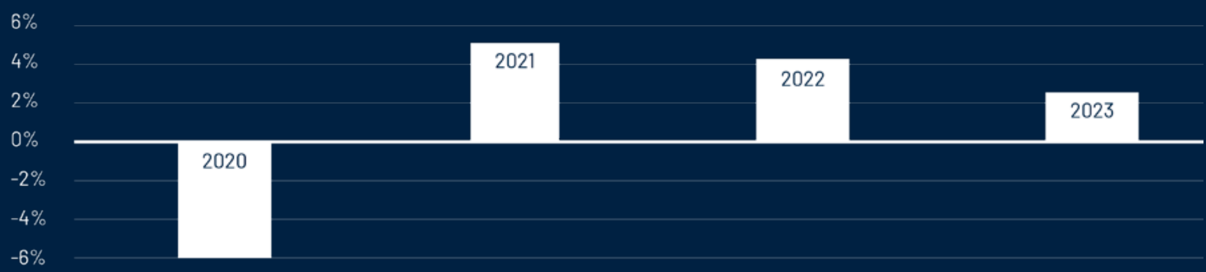
The European economy is demonstrating a strong rebound from pandemic. The effective delivery of vaccination programs and the subsequent easing of pandemic restrictions have led to strong growth in most markets.

However, there are significant challenges for business both in the short, medium, and long-term. These economic challenges along with the long-tail effects of Covid-19 suggest that European credit management techniques will need to continue to evolve in 2022 to meet the needs of a complex marketplace.

2021 / 2022 Growth Projections

2021 saw strong recovery for Europe as people responded to the relaxation of lockdown measures from Spring with a spending spree, with by summer the EU economy regaining its pre-pandemic output. The EU commissions growth projections for 2022 – 2023 very much reflect the global outlook with strong recovery forecast both in the Euro zone and overall EU.

European Economic Growth Projections 2022/2023



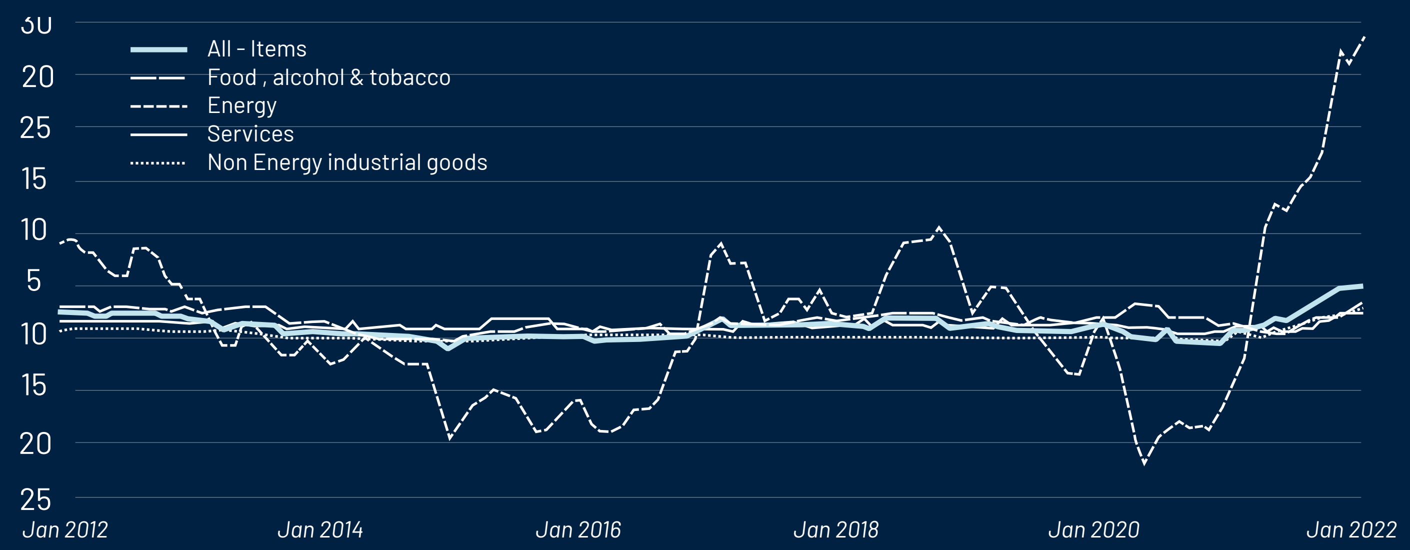
Source: https://ec.europa.eu/commission/presscorner/detail/en/ip_21_5883

However, this outlook is far from certain and will be dependent on the outcome / response to the short, medium and long-term challenges of:

1. Rising Inflation

Latest estimates put Inflation for the Eurozone at 5.1% for January, up from 5% in December.

Euro Area Anual Inlation and its main components, January 2012- January 2022 (estimated)



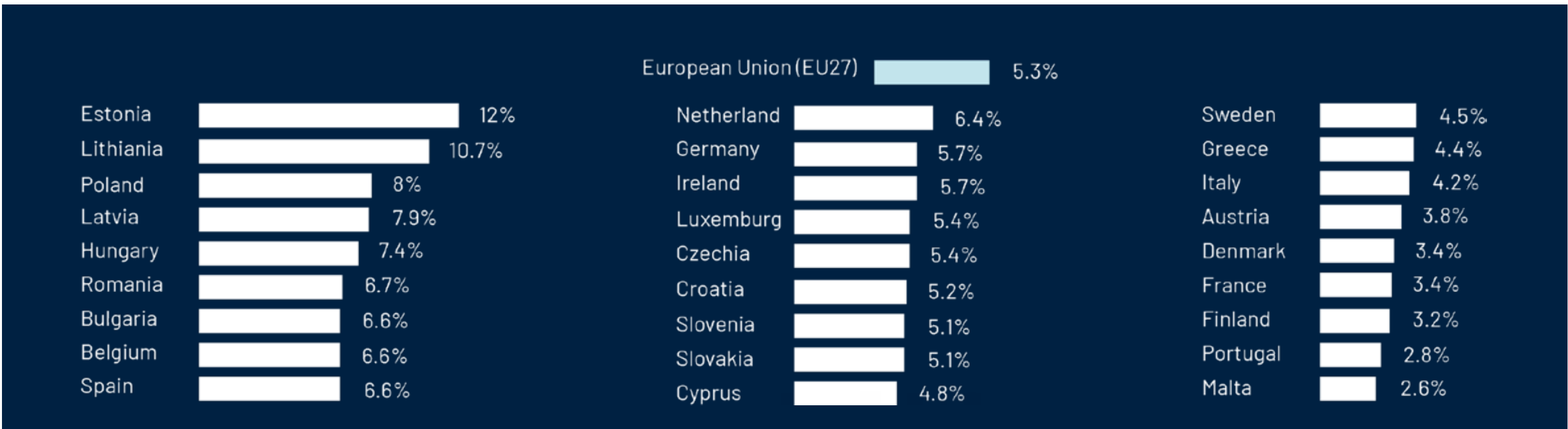
Source: Eurostat (oline data code: pc_hicp-manr)

EU Inflation December 2021	5.3 %

Estonia	12 %	**Poland**	8%	**Spain**	6.6%
Sweeden	4.5%	**France**	3.4%	**Portugal**	2.8 %

As of December 2021, the inflation rate in the European Union was 5.3 percent - higher than at any other time. There are significant differences by country ranging from 5.7% in Germany, to 3.4% in France to over 12% in Estonia.

Harmonized index of consumer prices (HICP) inflation rate of the European Union in December 2021, by country



Source: Eurostat (oline data)

Soaring energy bills have been by far the biggest driver with costs increasing 25.9 percent year-on-year. However, the price rises seen in food, alcohol, and tobacco across most countries highlight the broadening base to inflation.

There is confidence that the current levels of inflation will be a short-term phenomenon which will subside as supply difficulties and energy pressures gradually correct over the course of the year and that ECB are ready to make adjustments to policy to bring inflation under control. To quote Bank of France Governor and European Central Bank Governing Council member François Villeroy de Galhau speaking at the World Economic Forum:

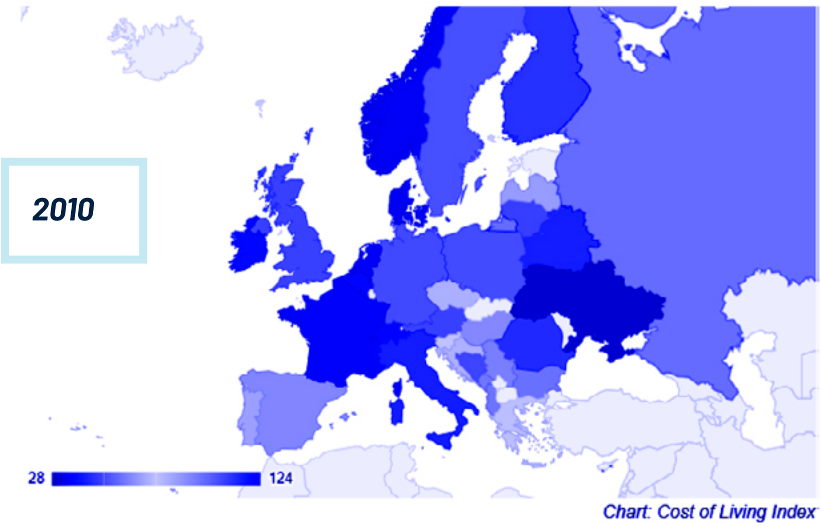
"The ECB remains very vigilant about prices and wages dynamics, and will gradually adjust its monetary policy to firmly ensure that inflation recedes soon and then stabilises around its 2% target over the medium term.

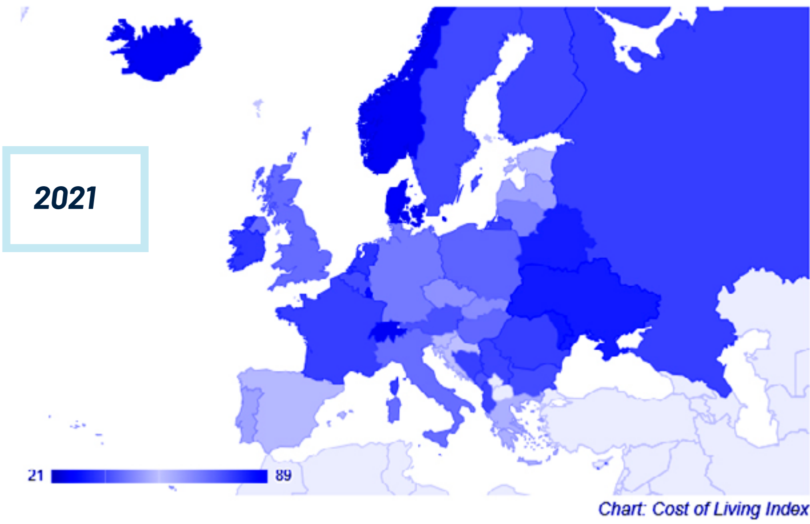
> ECB will ensure inflation stabilises around 2% over the medium term

European governments are being urged to step in and many have already started rolling out new measures to try and address the increasing cost of living for their citizens.

So, with the countries of Europe facing the same problem, how are they each responding to it? www.euronews.com

Europe: Cost of Living Index by Country 2010- 2021





Germany
The German government said it plans to scrap a surcharge on electricity bills used to support renewable power.

Spain
Spain cut several taxes to try to reduce consumer bills, originally planning to maintain the lower rates until the end of the year, before deciding in December to keep them lower until May 2022.

France
The state energy giant EDF was forced to take an €8.4 billion hit and limit energy bill hikes to 4 per cent this year in a bid to protect households from the soaring costs.

U.K
The British government announced on Thursday that millions of households will receive energy bill discounts totalling £350 (€416) to combat the impacts of the rise in energy prices.

Greece
Greece has announced a 2 per cent increase in the minimum wage and will cut property tax rates by a further 13 per cent to help households struggling with rising inflation and higher energy costs, prime minister Kyriakos Mitsotakis has said.

2. The continued dynamics of the pandemic.

As we enter 2022, there is growing acceptance that Covid-19 is here to stay. The question is no longer about containment but control as governments try to balance health and economic risks. Whilst this has brought economic optimism – with global growth forecast to return to pre-pandemic levels in the next few years - it is with a high level of uncertainty.

It is essential to achieve high level of vaccinations across all parts of Europe if the immergence of new vaccine resistant strains of the virus is to be prevented. However, vaccination rates are not even across all territories. As of February 17, 2022, 94.5 percent of adults in Ireland had been fully vaccinated against COVID-19. On the other hand, only 34.7 percent of adults in Bulgaria had been fully vaccinated.

Ireland **94.5 %**

Bulgaria **34.7 %**

This combined with the spread of the highly contagious Omicron variant has led to rising infection rates across the continent that could pose a threat to continued recovery. As of 18th Febuary 2022 an epidemiological situation of high or very high concern was observed in 25 EU/EEA Member States. However, it is important to note that considerable differences remain between countries and at present the overall picture appears to be improving, with fewer countries classified as of very high concern compared to the previous week.

At the end of week 6 2022 (week ending Sunday, 18 February), the overall epidemiological situation in the EU/EEA was characterised by a very high overall case notification rate, although this has been decreasing for two weeks. This decrease has largely been driven by a fall in rates among those under 50 years, where the rates have fallen from very high levels. Case rates among older age groups appear to have stabilised for the EU/EEA overall. However, 15 countries reported increasing trends compared to the previous week among people aged 65 years and above, which may lead to increases in severe disease in the coming weeks..” https://covid19-country-overviews.ecdc.europa.eu/

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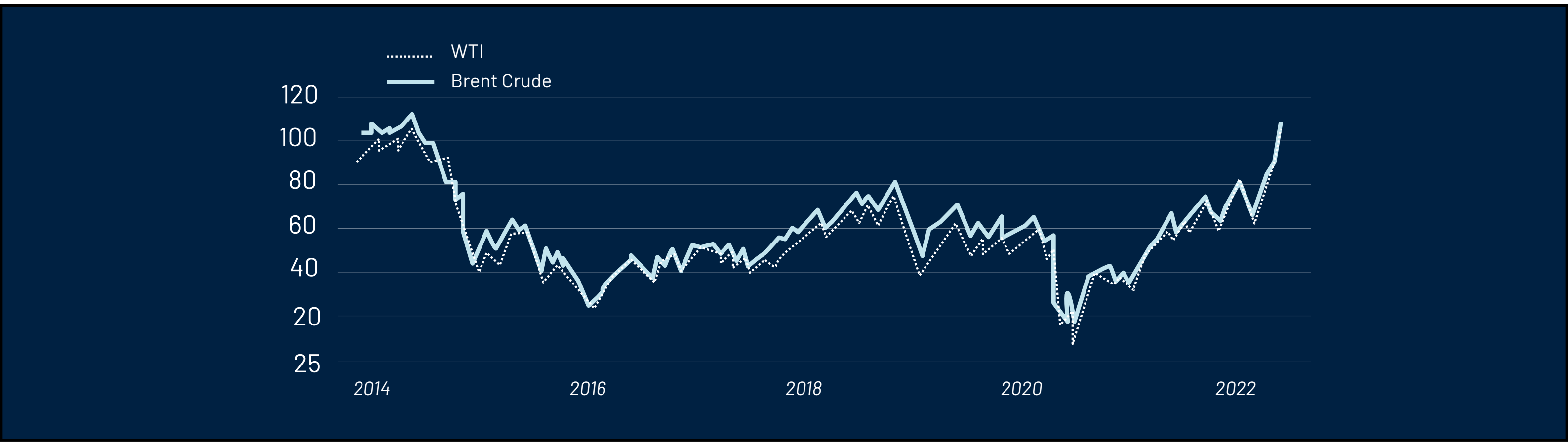
3. Rising Energy Costs

Energy prices across Europe have sky-rocketed over the past year. Low gas storage levels, high European Union carbon prices, fewer liquefied natural gas tanker deliveries due to higher demand from Asia, lower than normal Russian gas supplies and infrastructure outages have created a perfect storm driving a global surge in wholesale power and gas prices - up 300% on last year.

Brent crude and WTI oil price over 100 $,the highst sice 2014



The unfolding Ukraine crisis could lead to even greater price increases. With Europe securing nearly 50% of its gas from Russia, if Putin chooses to weaponize energy at the cost of an already unstable Russian economy, there could be exceedingly tough times ahead for gas dependant European households.

The EU Commission has outlined measures national governments can take and said Brussels would investigate longer-term options to address price shocks. Meanwhile governments have already announced measures such as subsidies, removing environmental levies or VAT from bills and price caps.

However, it is without question that these price rises will be felt both in household running costs and the cost of goods – as businesses are forced to rise prices to maintain profit margins in the face of rising costs. fewer countries classified as of very high concern compared to the previous week.

4. Climate change

Climate change will present European businesses with challenges and opportunities as the global commitment to stop rising temperatures agreed at COP26 filters down to businesses across the globe. However, since Paris, most businesses have seen the COP26 agreements on the horizon and have started independent initiatives to reduce greenhouse gas emissions ahead of legislation. There is growing understanding that those who aren't prepared will be left behind.

> ***Net zero is the next industrial revolution. And like other revolutions, those businesses who seize the opportunity can expect to thrive — those that don't, may not."***
> KPMG : COP26 reflections: Implications for businesses

Many businesses will need to invest in new production techniques / business processes to reduce carbon emissions and meet climate change targets. A global shift to greener energy will also drive increased demand on the metal commodities which are essential for green energy transition with copper, nickel, cobalt, and lithium all key to green energy technologies. Whilst demand will lead to growth opportunities for countries which have the highest level of production and reserves, this could also lead to rising prices and production costs for corporations which also need access to the same raw materials.

Need to reduce CO2

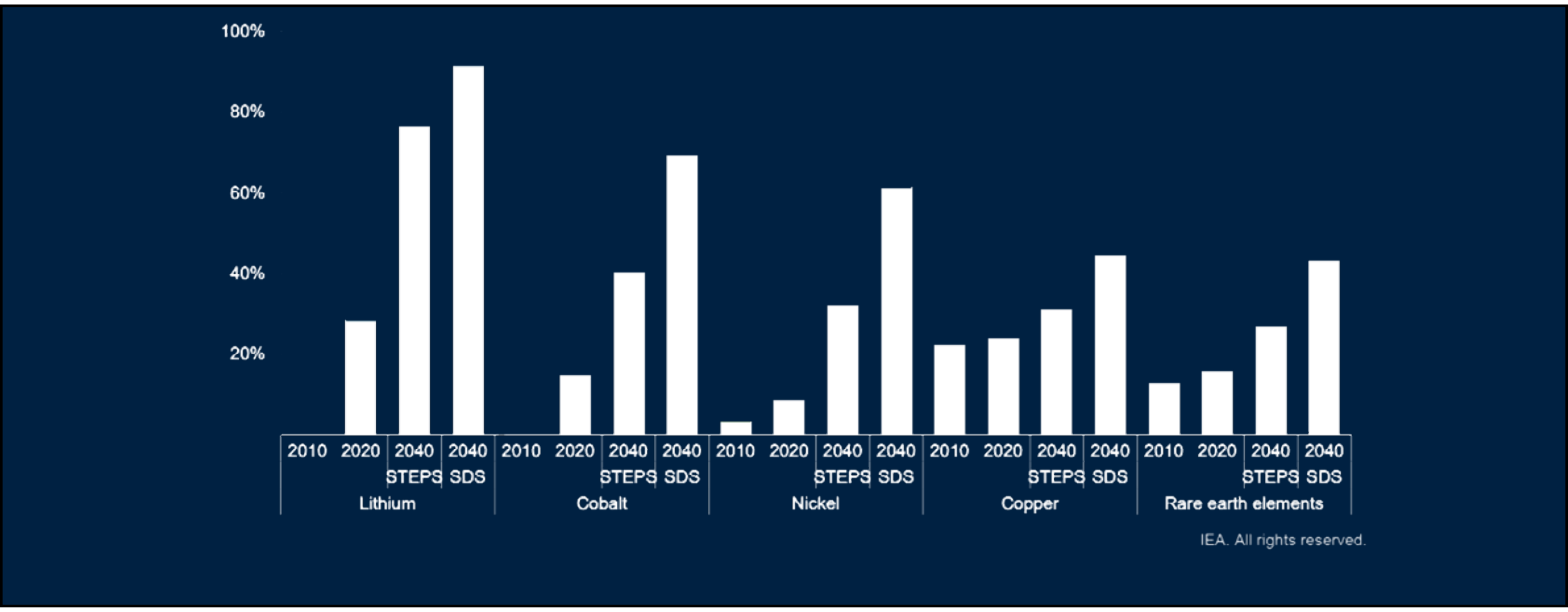
Global shift to greener energy

Driving increased demand for key metal commodities

Delivering growth opportunities for countries with highest levels of production and reserves

Risk of rising prices for key commodities

Share of clean energy technologies in total demand for selected minerals



"Net zero is the next industrial revolution. And like other revolutions, those "net-zero commitments are outpacing the formation of supply chains, market mechanisms, financing models, and other solutions and structures needed to smooth the world's decarbonization pathway.

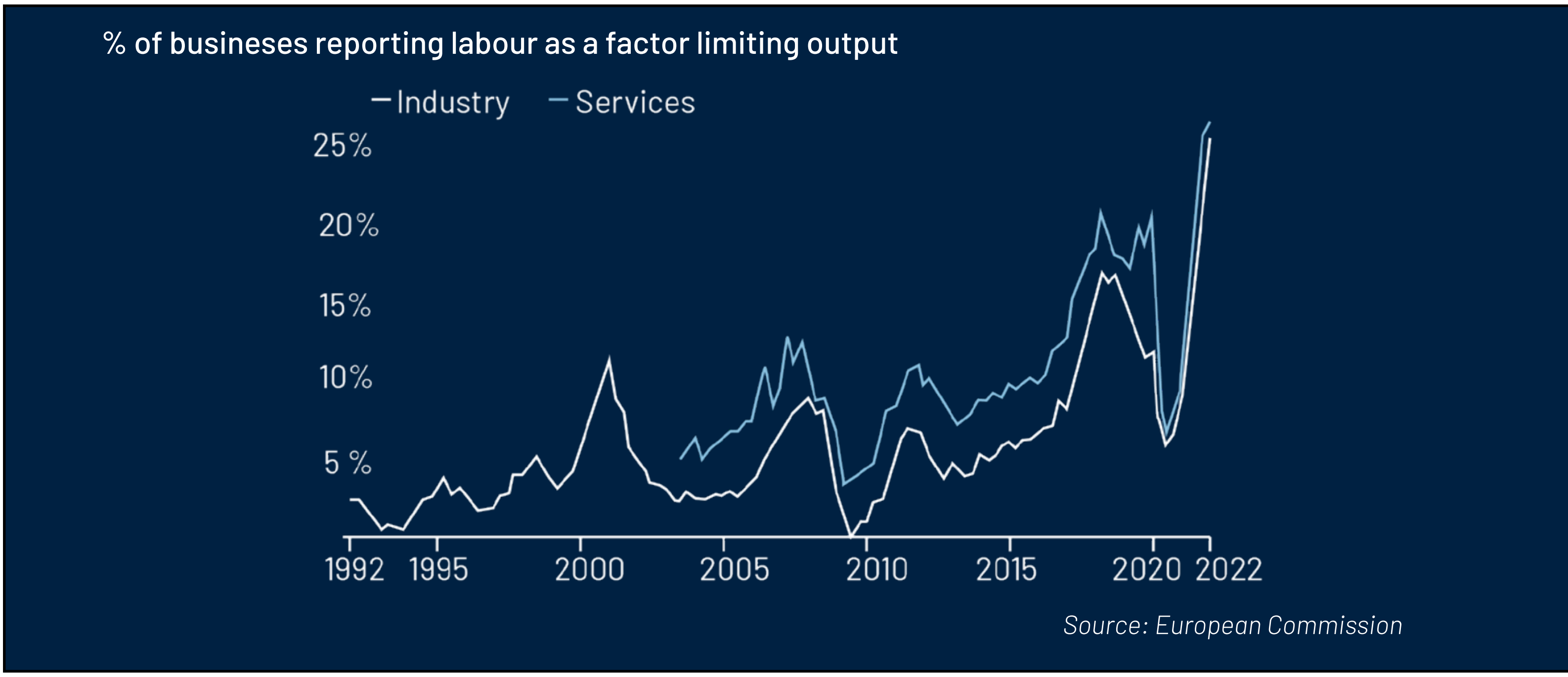
For businesses, these conditions will create opportunities to innovate and to lead coordinated action by industry peers, value-chain partners, capital providers, and policy makers. They also introduce added risk that commodity prices will spike."

MCKinsey.com: COP26 made net zero a core principle for business. Here's how leaders can act

5. Labour Shortage

As well as the above global challenges, Europe is also facing a growing labour challenge with shortages appearing across multiple sectors since the pandemic. The deficit of staff has broadened from the rapidly expanding high-paying IT and digital industries to include lower skilled sectors such as tourism, hospitality, logistics, delivery, and construction.

Eurozone businesses are facing unprecedented labour shortages



The causes vary by country, but the across the board the key driver has been the ongoing impact of the Covid-19 pandemic. Furlough benefits and part-time work schemes have been a contributing factor in some European countries. Whilst border closures and travel restrictions have disrupted the flow of seasonal and migrant workers into countries who have historically relied on these to fill vacancies. Across Europe, many migrant workers returned home to be with family and friends during the pandemic.

However, post pandemic other factors are also at play including the growing strength of Central European economies including Poland, the Czech Republic, Hungary and Slovakia. With wages rising and unemployment falling, this has led to many workers who returned home during the pandemic choosing to stay, as well as limiting the desire of other workers to move in search of employment.

This is thought to have been a major contributing factor to the shortages of lorry-drivers throughout European.

The pandemic has also driven a seismic readjustment to people's approach to the work-life balance. Lockdown gave people an insight into a different way of life and many are now rethinking the distances they are willing to commute, the hours they work and the kind of jobs they are willing to take.

In conclusion

Whilst the European economic outlook is promising, it is not without significant challenges and risks. To quote Valdis Dombrovskis, Executive Vice-President for an Economy that Works for People:

> ***"The European economy is bouncing back strongly from the recession, with a projected growth rate of 5% this year. Our measures to cushion the blow of the pandemic and to ramp up vaccinations across the EU have clearly contributed to this success. But this is no time for complacency: we continue to face uncertainty with this virus and there are some risks to contend with. Not least, we need to address bottlenecks in supply chains, as well as surging energy prices which will affect many households and companies across Europe. We also need to closely monitor inflation and adjust our policies if needed."***
>
> European Commission: Autumn 2021 Economic Forecast: From recovery to expansion, amid headwinds
> https://ec.europa.eu/

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2022 Debt Collection Industry Trends

European credit and collection teams will be hoping for an ease from the pressures of maintaining cash flow during the pandemic. However, with the economic outlook characterized by a high-level of uncertainty, 2022 looks set to be another busy year for credit and collections teams operating across Europe.

Challenging debt collection marketplace

It is widely thought that we are still to see the full economic impact of the pandemic, as it has been hidden by the government support measures such as loans, furlough, VAT and rent deferrals, and restrictions on statutory demands and winding up petitions. However, as government support starts to unwind, it is widely predicted that there could be financial disaster about to unfold in 2022. As well needing to start repayments on bounce back loans, SMEs could potentially have built up additional liabilities, such as delayed tax payments, deferred rent arrears and a build-up in trade debts – all of which will need to be dealt with in 2022.

For consumers rising inflation and increases in energy costs are going to have a dramatic impact on cost of living for both lower- and middle-income households. It is an economic climate in which those who have never defaulted will potentially going to find themselves making strategic decisions on who to pay when.

Cashflow is king

In a challenging economic marketplace, building resilience will remain top of the corporate agenda. With liquidity one of the key factors to building resilience, accounts receivables are likely to remain in the corporate spotlight for the foreseeable future.

This increased focus will provide both opportunities and challenges for credit and collections teams. There will be substantially increased pressure to improve DSO and achieve working capital targets in a challenging market. However, there is also likely to be greater investment and support in the delivery of these targets.

Outlined below are some of the key trends we believe will be seen in the European credit and collection industry in 2022.

1. Continued shift to process led business models

There is growing understanding that traditional business models made of functional rather than process focused teams are inefficient and ineffective. They deliver fragmented viewpoints, disparate data, and internal competition, which benefit neither the customer nor the company. Businesses' will need to move beyond functional team structures and reimagine processes from end to end if they are to remain competitive in the new normal and beyond.

This shift in structure has the potential to help businesses deliver significant improvements within the order-to-cash process. A process which relies on the input of multiple functional teams, optimization has historically been constrained by a siloed business model.

2. Increased digital transformation

In 2022, with an optimistic but high-risk economic outlook, it will be more critical than ever for European businesses to deliver efficient and effective cash collection. However, too many businesses still operate their collections process off vast spreadsheets – and are suffering the financial consequences of these outdated, inefficient processes.

Digital transformation is key to achieving optimal efficiency and effectiveness within the order-to-cash process. Digital transformation of the order to cash function can provide the transparency, real-time intelligence and data-based insight to deliver truly transformation results. The right solution will provide visibility over legacy processes that have previously been either inaccessible or incredibly complex to find and enable data-based decisions that will drive cost efficiencies and process improvements.

Effective realignment of supply chain, customer service, finance and credit management teams will be impossible unless issues around access to centralised, real-time data are resolved. Issues which can only be resolved through the adoption of digital solutions. Businesses that fail to transform will be left behind.

> ***"The future will belong to companies that put technology at the center of their outlook, capabilities, and leadership mandate."***
> 2McKinsey

3. Greater automation

Tied to the forecast growth in digital transformation is greater automation within the order-to-cash process. AI machine learning will enable the automation of repetitive tasks and allow the human workforce to focus on the areas where they can really add value. The critical role this will play in the future of credit and collections can be seen in the forecast growth for the market - practically doubling in size from 2019 – 2024.

4. Growing focus on customer outcomes

Businesses have become increasingly aware of the key role customer experience plays in building and maintaining market share and there is a growing focus on ensuring a positive experience at all customer touch points. With most marketplaces highly competitive, deliver a poor customer experience (CX) anywhere during the customer journey and you risk wasting valuable time and resources on customer acquisition only for them to take their business elsewhere.

Often considered to be merely a financial process to maintain cash flow, collections in fact have a critical role to play in customer relationship management. By placing customer outcomes at the heart of collections activity, collections teams can strengthen customer relationships, developing long-term loyalty which will reduce churn and secure advocacy to support growth.

5. Greater outsourcing

For those in the business of outsourcing, the need to facilitate remote working during the Covid-19 pandemic has had a fortunate consequence. Outsourcing has historically faced similar barriers to adoption to remote working. Fears over control, data security, and effective management processes have meant many businesses have resisted making the leap and continued to work solely with inhouse teams - even when this meant an accumulation of ageing ledgers and increasing DSO due to the limitations of resource.

However, the shift to remote working during the pandemic meant businesses were forced to overcome these issues to maintain business continuity. Now they have made the leap for internal teams, the step to accepting the support of external teams has shortened. With the continued pressure from the board to maintain cash flow, increased outsourcing to bridge inhouse resource gaps seems likely – and will potentially include a growing percentage of businesses which have never previously used an outsourced credit management or debt collection provider.

2022 Credit and Collections Strategies

In addition to acting as the driving force for major transformation within the industry, the uncertain economic environment will also require credit and collections teams to make shorter-term tactical strategies to secure cash flow.

Know Your Customers Credit Risk

Credit risk is often only undertaken during customer onboarding, with only a handful of businesses which have an API driven risk module built into their software system proactively reviewing their customer's financial position. Once a customer is trading, most businesses use payment behaviours rather than external data as an indicator of their customers financial health.

Whilst, this has proven to be a relatively effective method, with rising energy prices and inflation driving massive cost increases, there is potential for historically financially secure business to start to struggle. Investing time and resource in reviewing your customer bases credit-risk could give you an early indication where you might be financially exposed prior to customers starting to default. It can also enable you to prioritise credit-control and collections activity to where it will be most effective – avoiding unnecessary calls and ensuring your team make those that will really count.

Deliver pro-active credit control

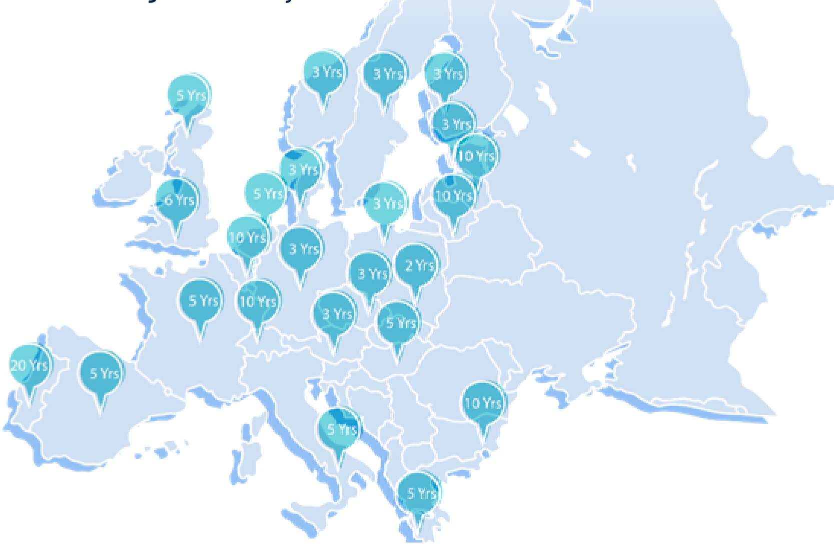
In addition to using external data, effective credit-control will also be critical to gaining an understanding of your customers' financial position.

In an ideal world you want to touch your customers before they can default and keep cash moving by ensuring your invoice has been received, reconciled and is on the payment run. This will take both time and resource – which needs to be either built into your inhouse resource planning or placed with an outsourced provider.

Access territory specific expertise

With a total of 44 countries in Europe, each with different languages, laws, payment regulations and customs, collecting a cross border debt can be both time consuming and complicated. Debt collection procedures tend to vary significantly between individual countries; they will be different if the debt is between two countries that are registered as part of the European Union, or if one, or both countries, are outside of the EU.

Debt collection limitation period Europe 2022
4DContact investigation survey



Given these complexities, employing a third-party debt collection agency to manage the process on their behalf can often work to facilitate payment. With native speaking agents on the ground, and day to day expertise in cross-border collections, they can often deliver swift results when internal efforts have drawn a blank.

Leverage EU Legislative Framework

A major benefit of being part of the EU is that business owners can use EU legislation if they are chasing payment from a customer based within it. The Late Payment Directive 2011/7/EU, European Payment Order (EPO), European Small Claims Procedure & European Account Preservation Order (EAPO) establishes clear policies regarding cross border payments and simplifies procedures to help companies easily pursue monetary claims between two member states.

When credit-control and pre-legal collections fail, it is critical to remember these exist to help.

European Payment Order Procedure

The European Order for Payment Procedure is an effective judicial procedure for international claims. It is a relatively simple procedure that works the same way in all countries. As a creditor you have to fill in **Form A of Annex I of the EEW Regulation** and send it to the court together with the supporting documents. The court will decide upon the case in writing.
The processing times for this procedure are very short, so you can quickly obtain clarity about your debt collection case. Importantly, there are few costs associated with this procedure. However, the European Order for Payment Procedure is only suitable for undisputed claims. Are you in dispute with your debtor over the outstanding invoice? If so, the procedure cannot be continued, and a different legal procedure will have to be initiated in order to find a solution to your payment dispute.

Conclusion

2022 will be a challenging year for European credit and collections teams. Remaining firmly in the corporate spotlight, they will be under pressure to maintain cash flow in an increasingly uncertain economic climate.

Without question, meeting KPI's with finite resource will remain a key challenge, Delivering the high-touch credit control necessary to identify and address cash-flow risks will stretch finance teams often already working at capacity. Many businesses will need to look to outsourced partners to deliver both the capacity and territory specific expertise required to drive results. This increase in demand, as well as rising costs and inflationary pressures has the potential to drive price-increases for outsourced credit-control and debt collection services if demand outstrips supply.

However, there is optimism that increased corporate focus will deliver greater investment in order-to-cash technological transformation and a move towards process led business structures - both critical to achieve optimization within the process.

The continued growth of the collections automation software market should lead to greater competition with more providers entering the marketplace. This in turn should drive increased innovation and competition around pricing – which has for businesses with competing digital transformation priorities often been a barrier to uptake. If the market opens to enable more firms to implement a collections software solution, 2022 could very well herald a major transformation in the efficiency of the European collections industry.

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