

International Debt Collection: the 2018 edition of collection complexity

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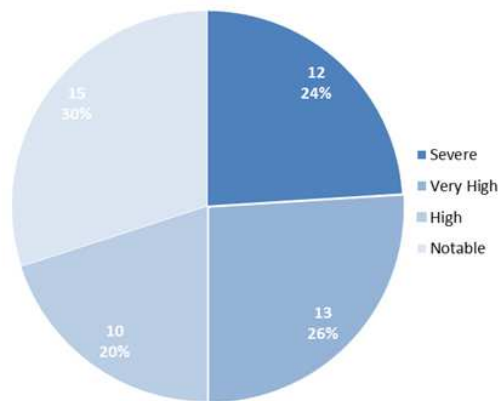
Executive Summary

- The Euler Hermes Collection Complexity Score and Rating provides a simple assessment of debt collection procedures in each country, helping to support decisions and manage expectations when trading internationally. The first edition, on 44 countries, was released in December 2014 ([Euler Hermes Collection Complexity Special Report](#)). This second edition adds 6 countries to the panel: Benin, Cameroon, Kazakhstan, Senegal, South Africa and Togo. The 50 countries of our panel now represent 90% of global GDP and more than 85% of global trade.
- Sweden, Germany and the Netherlands take the lead, while Malaysia, the United Arab Emirates and Saudi Arabia are still lagging behind when it comes to simplifying the life of companies trying to recover their dues. International debt collection is three times more complex in Saudi Arabia than in Sweden, but the latter is not without complexities in terms of international collection.
- There is a divide between advanced economies and emerging markets. Yet, the latter fully comes from Western Europe since 13 out of 16 Western Europe countries stand at the less severe level of collection complexity ('Notable'), while the U.S. and Canada both post a 'Severe' rating. On average, Middle-East, North America and Latin America are the top three most complex regions.
- Largest economies, most dynamic markets, less vulnerable countries (in terms of country risk) do not necessarily entail more conducive a business environment. Pockets of collection complexity exist in all countries: Local payment practices, in particular, are a source of complexity in most countries. Court-related and Insolvency-related complexities are slightly less frequent but each occurrence is definitely more challenging. On average, half of the collection complexity comes from the insolvency proceedings.

1. Global overview by country and region

At a global level the Euler Hermes Collection Complexity score stands at 51 on our 0-100 scale which corresponds to a 'High' level of complexity (see our methodology page 9). This global average is unchanged from the 2014 Edition, but the 2018 Edition takes into account 6 more countries. Without this change in perimeter the 2018 score posts a small increase in complexity (from 51 to 52) and a slightly wider dispersion, with a highest share of countries at either a 'Notable' or a 'Severe' rating (54% to compare with 52% in 2014).

Figure 1: Breakdown of countries by rating (in number and % of countries)



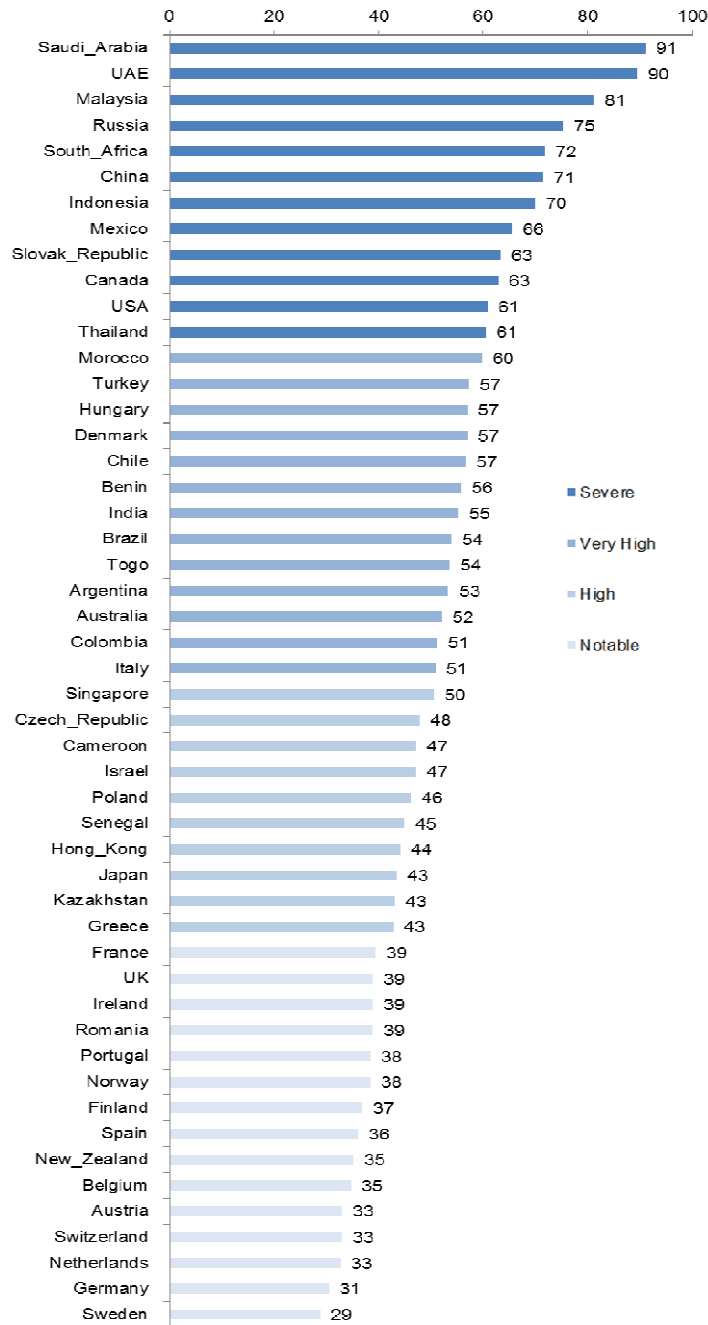
Source: Euler Hermes

The collection complexity proves to be 'Notable' in 3 out of 10 countries. Most of them are located in Western Europe, the two exceptions being Romania and New-Zealand. Sweden remains the best in class for the second consecutive time, ahead of Germany and the Netherlands.

At the opposite of the spectrum, Saudi Arabia, the United Arab Emirates and Malaysia are the three most complex countries when it comes to international debt collection. They belong to the 'Severe' rating, the later totaling almost 1 out of 4 countries and at least one country of each region, except in Western Europe. APAC has the highest number of countries standing at this rating, with Malaysia, Thailand, China and Indonesia. The Middle-East (Saudi Arabia, UAE) and Eastern Europe (Russia, Slovakia) both feature two countries. North America is in the same situation since both the US and Canada present a Severe level of in collection complexity. The 'Very High' level of collection complexity appears to be a standard in Latin America and, to a lesser extent, in Africa. The former includes 4 out of 5 countries of the region: Brazil, Chile, Colombia and Argentina. Africa includes 3 countries: Morocco and 2 new countries of our panel, Benin and Togo. Yet, this 'Very High' level of collection complexity remains visible in almost all the other regions, with several countries identified in APAC (Australia, India), Eastern Europe (Turkey, Hungary) and Western Europe (Italy, Denmark).

Finally, we have 10 countries registering a 'High' level of collection complexity, notably in APAC (Japan, Hong-Kong and Singapore), Africa (Senegal and Cameroon).

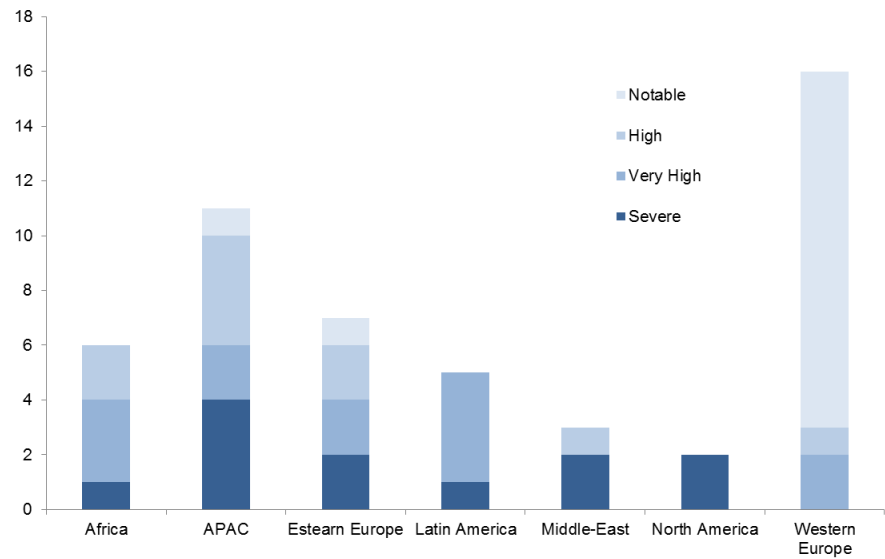
Figure 2: : Collection Complexity Score and Ratings



Source: Euler Hermes

All in all, Western Europe presents the highest number and share of countries at a 'notable' collection complexity, while Latin America, and more importantly, North America and the Middle-East record the highest complexity in average. The situation is more diversified in Africa, Eastern Europe and APAC. However they all register a majority of countries at 'Very High' and 'Severe'.

Figure 3: Breakdown of countries by rating and region (in number of countries)

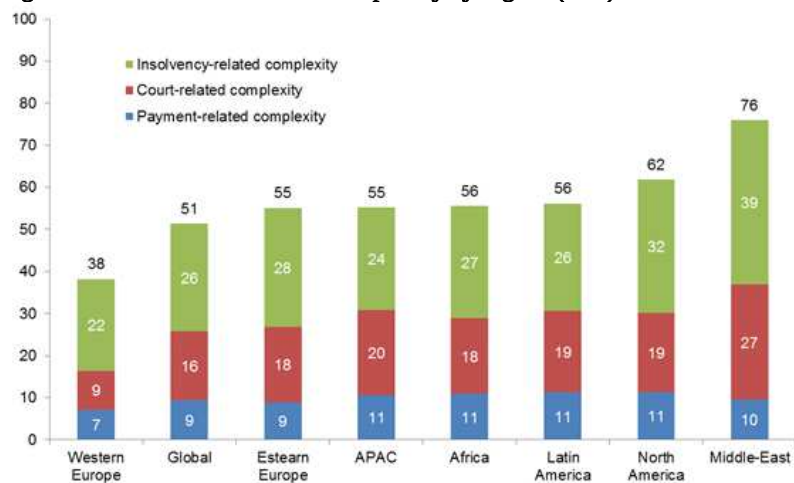


Source: Euler Hermes

2. Global overview by source of complexity

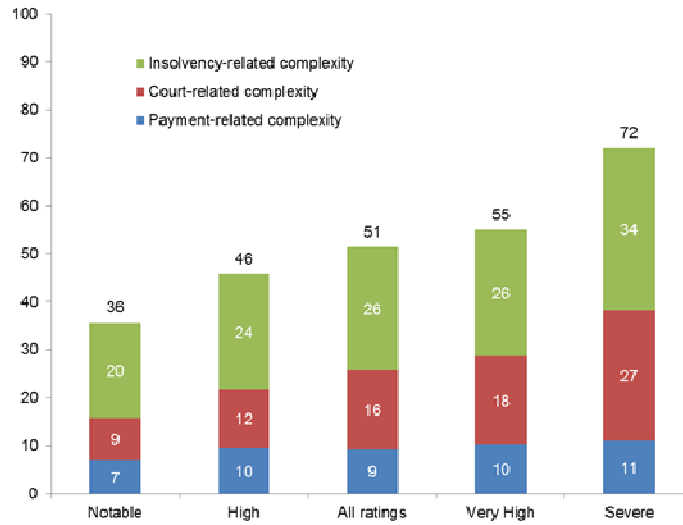
From one country to another, international debt collection is never the same and its complexity depends on many different factors. Our score gives a harmonized cross country comparison by benchmarking local practices through objective indicators relating to the same set of core issues on payment practices, local court proceedings and local judicial proceedings.

Figure 4: Sources of collection complexity by region (in %)



Source: Euler Hermes

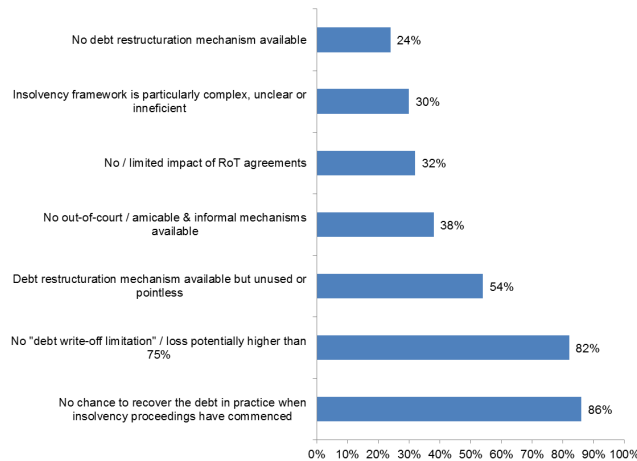
Figure 5: Sources of collection complexity by rating (in %)



Source: Euler Hermes

At a global level, our score reveals that the key factor of complexity in international debt collection is by far the local insolvency proceedings with no outstanding differences by region (see chart 4) nor by rating (see chart 5). On average, they contribute to half of the collection complexity of countries. Yet, in absolute terms, it is definitely more of a challenge in the Middle-East than in Western Europe. The most frequent issue, mentioned for more than 8 out of 10 countries, is the low probability to recover a debt in practice when the proceedings have commenced.

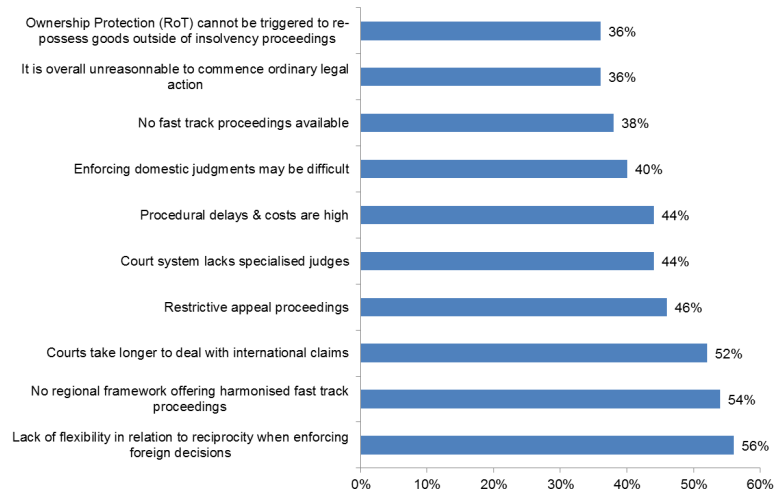
Chart 6: Insolvency-related complexity
TOP difficulties for collection (number of countries in %)



Source: Euler Hermes

Court-related issues represent the second source of complexity (32% on average) for all the countries, but with more importance in APAC and the Middle-East, in relative as well as in absolute terms. Interestingly, those issues are the key additional factor of complexity for the countries at 'Very High' (34%) and 'Severe' (38%) ratings. The most frequent issue is the lack of flexibility in relation to reciprocity when enforcing a foreign decision.

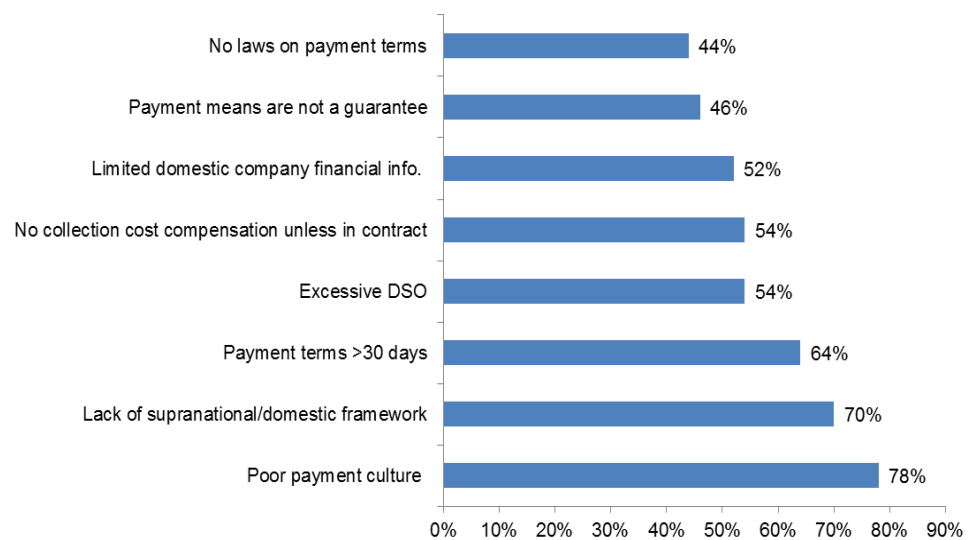
Chart 7: Court proceedings-related complexity
TOP difficulties for collection (number of countries in %)



Source: Euler Hermes

The local payment context and practices are also often a factor of complexity, despite a much less significant importance in relative terms. Most complex practices occurred notably in South Africa, Argentina and Kazakhstan. The most frequent issue is the low level of payment culture, in almost 8 out of 10 countries.

Chart 8: Payment-related complexity
TOP difficulties for collection (number of countries in %)



Source: Euler Hermes

3. Special focus on Retention of Title

The comparison of retention of title (RoT) agreements by country is relevant to collection issues because the way a RoT clause is admitted and enforced could have a significant impact on whether or not a debt could be recovered. First, numerous countries (such as the U.S., GCC countries, Russia, Mexico) would simply not give force to RoT agreements. Second, other countries would give power to RoT agreements. However, they would discard their ability to repossess goods (thus essentially recognizing their ability to grant creditors a priority over other debts during insolvency proceedings) or they would give little importance to priority issues (Israel for instance). Thus each giving a de facto primacy to banks (as secured creditors) against unsecured creditors. Having said this, if ownership protection clauses play a significant role in obtaining payment (or in repossessing goods), it should be recalled that registration may be necessary (Poland, Portugal, New Zealand, Israel, etc.) while, unless the debtor agrees to avoid proceedings, having the clauses enforced by courts remains a prerequisite.

Chart 9: Retention of Title practise

Enforced as standard practice	Australia, Austria, Belgium, China, France, Germany, Netherlands, Portugal, Russia, UK.
Not commonly enforced	Brazil, Czech Republic, Greece, Hungary, Japan, Slovakia, South Africa, Switzerland, Turkey, Nordics (Denmark, Finland, Norway, Sweden), Romania
Never enforced	Canada, Hong Kong, Italy (only for goods subject to a Public Register), Morocco, Singapore, Spain, UAE, US
RoT does not exist	Chile, Mexico, KSA, Qatar

Source: Euler Hermes

4. Appendix: Overview of ranking, score, ratings and sub-ratings

Collection Complexity Ranking (1:most complex)	Country	Overall complexity score (100: most complex; 0: least complex)	Overall complexity rating	Payment-related complexity	Court-related complexity	Insolvency-related complexity
1	Saudi_Arabia	91	Severe	\$\$\$\$	\$\$\$\$	\$\$\$\$
2	UAE	90	Severe	\$\$	\$\$\$\$	\$\$\$\$
3	Malaysia	81	Severe	\$\$\$	\$\$\$\$	\$\$\$\$
4	Russia	75	Severe	\$\$\$\$	\$\$\$\$	\$\$\$\$
5	South_Africa	72	Severe	\$\$\$\$	\$\$\$\$	\$\$\$\$
6	China	71	Severe	\$\$\$\$	\$\$\$\$	\$\$\$\$
7	Indonesia	70	Severe	\$\$\$\$	\$\$\$\$	\$\$\$
8	Mexico	66	Severe	\$\$\$\$	\$\$\$\$	\$\$\$\$
9	Slovak_Republic	63	Severe	\$	\$\$\$	\$\$\$\$
10	Canada	63	Severe	\$\$\$	\$\$\$	\$\$\$\$
11	USA	61	Severe	\$\$\$\$	\$\$\$	\$\$\$
12	Thailand	61	Severe	\$\$\$	\$\$\$\$	\$\$
13	Morocco	60	Very High	\$\$\$\$	\$\$\$	\$\$\$
14	Turkey	57	Very High	\$\$\$	\$\$\$\$	\$\$
15	Hungary	57	Very High	\$\$\$	\$\$	\$\$\$\$
16	Denmark	57	Very High	\$\$	\$\$	\$\$\$\$
17	Chile	57	Very High	\$\$\$\$	\$\$\$	\$\$\$
18	Benin	56	Very High	\$\$	\$\$\$	\$\$\$
19	India	55	Very High	\$\$\$\$	\$\$	\$\$\$
20	Brazil	54	Very High	\$\$\$	\$\$\$	\$\$
21	Togo	54	Very High	\$\$	\$\$\$	\$\$\$
22	Argentina	53	Very High	\$\$\$\$	\$\$\$	\$\$
23	Australia	52	Very High	\$\$\$\$	\$\$\$	\$\$
24	Colombia	51	Very High	\$\$\$	\$\$\$	\$\$
25	Italy	51	Very High	\$\$	\$\$\$	\$\$
26	Singapore	50	High	\$\$\$	\$\$\$	\$\$
27	Czech_Republic	48	High	\$	\$\$	\$\$\$
28	Cameroon	47	High	\$\$\$\$	\$\$	\$\$
29	Israel	47	High	\$	\$	\$\$\$\$
30	Poland	46	High	\$	\$	\$\$\$\$
31	Senegal	45	High	\$\$\$\$	\$\$	\$\$
32	Hong_Kong	44	High	\$\$\$\$	\$	\$\$
33	Japan	43	High	\$	\$\$	\$\$
34	Kazakhstan	43	High	\$\$\$\$	\$\$	\$
36	Greece	43	High	\$\$\$	\$\$	\$\$
35	France	39	Notable	\$	\$\$	\$\$
37	UK	39	Notable	\$\$	\$	\$\$
38	Ireland	39	Notable	\$\$	\$	\$\$
39	Romania	39	Notable	\$\$	\$\$\$	\$
40	Portugal	38	Notable	\$\$	\$\$	\$
41	Norway	38	Notable	\$	\$\$	\$\$
42	Finland	37	Notable	\$	\$	\$\$
43	Spain	36	Notable	\$\$	\$\$	\$
44	New_Zealand	35	Notable	\$\$\$	\$\$	\$
45	Belgium	35	Notable	\$\$	\$	\$\$
46	Austria	33	Notable	\$	\$	\$\$
47	Switzerland	33	Notable	\$\$	\$	\$
48	Netherlands	33	Notable	\$	\$	\$\$
49	Germany	31	Notable	\$	\$	\$\$
50	Sweden	29	Notable	\$	\$	\$

Source: Euler Hermes

5. Methodology

The Euler Hermes score is a measure of the level of complexity relating to international debt collection procedures within each given country from 0 (least complex) to 100 (most complex). To simplify cross-country comparisons, we summarized the level of complexity in a four-modality rating system: Notable (score below 40), High (score between 40 and 50), Very High (50 to 60) and Severe (above 60). The score and rating are combining expert judgment by Euler Hermes' Collection specialists worldwide and over 40 objective indicators relating to three areas:

- **Local payment practices:** The local payment habits and regulatory framework overseeing payments. Based on the availability of financial information, payment methods, payment terms, days sales outstanding figures, local payment behavior and the legal framework relating to late payment interest and collection costs.
- **Local court proceedings:** The complexity and efficiency of court proceedings - measure of the regulatory environment, chances of success, fast-track proceedings, default judgments, the formal legal action process, ownership protection and alternative dispute resolution methods.
- **Local insolvency proceedings:** The existence of effective insolvency proceedings - taking into account insolvency proceedings, priority rules and cancellation of prior transactions.

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